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

GLOBAL OFFERING

Global Coordinator, Bookrunner, Lead Manager and Sponsor

BNP PARIBAS
CORPORATE & INVESTMENT BANKING

Financial Adviser

ROTHSCHILD

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Huiyin Household Appliances (Holdings) Co., Ltd.
汇银家电(控股)有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**319,800,000 Shares comprising 250,000,000 New Shares and 69,800,000 Sale Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**31,980,000 Shares (subject to adjustment)**
Number of International Placing Shares	:	**287,820,000 Shares comprising 218,020,000 New Shares and 69,800,000 Sale Shares (subject to adjustment and the Over-allotment Option)**
Offer Price	:	**Not more than HK$1.69 per Offer Share payable in full on application, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%**
Nominal value per Share	:	**US$0.001**
Stock code	:	**1280**

Global Coordinator, Bookrunner, Lead Manager and Sponsor

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Global Coordinator (on behalf of the Underwriters), and our Company (for itself and on behalf of the Selling Shareholders) on the Price Determination Date, which is expected to be on or around Friday, 19 March 2010 and, in any event, not later than Wednesday, 24 March 2010. The Offer Price will be not more than HK$1.69 per Offer Share and is currently expected to be not less than HK$1.29 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$1.69 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price should be lower than HK$1.69. If, for any reason, the Offer Price is not agreed by Wednesday, 24 March 2010 by the Global Coordinator (on behalf of the Underwriters) and our Company (for itself and on behalf of the Selling Shareholders), the Global Offering will not proceed and will lapse.

The Global Coordinator (on behalf of the Underwriters) may, with consent of our Company (for itself and on behalf of the Selling Shareholders), reduce the indicative Offer Price range and/or the number of Offer Shares below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website at *www.hyjd.com* and the website of the Stock Exchange at *www.hkexnews.hk* not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors of the Offer Shares should note that the Global Coordinator has the right, in its sole and absolute discretion, on behalf of the Hong Kong Underwriters, to terminate the Hong Kong Underwriting Agreement by notice in writing to our Company upon occurrence of any of the events set forth in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offer — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the day that trading in the Offer Shares commences on the Stock Exchange. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. State Securites Laws. The Offer Shares are being offered and sold only (i) the United States to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (ii) outside of the United States in offshore transactions in reliance on Regulation S.

12 March 2010

We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offer.

	2010 [1]
Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website at ***www.hkeipo.hk***[4]	11:30 a.m. on Wednesday, 17 March
Application lists of the Hong Kong Public Offer open [2]	11:45 a.m. on Wednesday, 17 March
Latest time to lodge **WHITE** and **YELLOW** Application Forms [2]	12:00 noon on Wednesday, 17 March
Latest time to give **electronic application instructions** to HKSCC via CCASS [3]	12:00 noon on Wednesday, 17 March
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 17 March
Application lists of the Hong Kong Public Offer close [2]	12:00 noon on Wednesday, 17 March
Price Determination Date [5]	Friday, 19 March
Announcement of : (i) the Offer Price; (ii) indication of level of interests in the International Placing; (iii) the level of applications in the Hong Kong Public Offer; and (iv) the basis of allotment of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before	Wednesday, 24 March
Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see "How to apply for Hong Kong Offer Shares — Results of allocations")	Wednesday, 24 March

	2010 [1]
Results of allocations in the Hong Kong Public Offer will be available at ***www.tricor.com.hk/ipo/result*** with a "search by ID" function	Wednesday, 24 March
Despatch of refund cheques and HK eIPO White Form e-Auto Refund payment instructions in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications under the Hong Kong Public Offer on or before [(6) & (8)]	Wednesday, 24 March
Despatch of the share certificates of the Offer Shares or deposit of certificates of the Offer Shares into CCASS in respect of wholly or partially successfully applications pursuant to the Hong Kong Public Offer on or before [(6), (7) & (8)]	Wednesday, 24 March
Dealings in Shares on the Stock Exchange expected to commence on	Thursday, 25 March

Notes:

(1) All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 17 March 2010, the application lists will not open on that day. Further information is set out in the paragraph headed "Effect of bad weather on the opening of the application lists" under each of the subsections headed "Applying by using a WHITE or YELLOW Applications Form", "Applying by giving electronic application instructions to HKSCC" and "Applying through HK eIPO White Form" in "How to apply for Hong Kong Offer Shares" in this prospectus. If the application lists do not open and close on Wednesday, 17 March 2010, the dates mentioned in this section headed "Expected timetable" may be affected. A press announcement will be made by us in such event.

(3) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the paragraph headed "How to apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC" in this prospectus.

(4) You will not be permitted to submit your application through the designated website at *www.hkeipo.hk* after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(5) The Price Determination Date is expected to be on or about Friday, 19 March 2010, and in any event no later than Wednesday, 24 March 2010. If, for any reason, the Offer Price is not agreed on or before Wednesday, 24 March 2010, the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.

(6) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application. All refunds will be paid by e-Auto Refund payment instruction or a cheque crossed "Account Payee Only" made out to you, or if you are joint applicants, to the first named applicant on your Application Form. Part of your Hong Kong identity card number/passport number or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

(7) Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects; and (ii) the Underwriting Agreements have not been terminated in accordance with their terms before 8:00 a.m. on the Listing Date, which is expected to be Thursday, 25 March 2010. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid do so entirely at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.

(8) Applicants who have applied on WHITE Application Forms or through HK eIPO White Form service for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer and have indicated in their applications that they wish to collect any refund cheques and share certificates in person, may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 24 March 2010. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Tricor Investor Services Limited at the time of collection. Applicants who have applied on YELLOW Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates which will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for YELLOW Application Form applications are the same as those for WHITE Application Form applicants. Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed "How to apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC" in this prospectus for details. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant applications. Further information is set out in the section headed "How to apply for Hong Kong Offer Shares — Applying by using a WHITE or YELLOW Application Form — Despatch/collection of share certificates, e-Auto Refund payment instructions and refund cheques" in this prospectus.

You should read carefully the sections headed "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" in this prospectus for details relating to the structure of the Global Offering and how to apply for Hong Kong Offer Shares.

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This prospectus is issued by Huiyin Household Appliances (Holdings) Co., Ltd. solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Global Coordinator, the Sponsor, the Bookrunner, any of the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

Please note that the totals set forth in the tables in this prospectus may differ from the sum of individual items in such tables due to rounding.

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This summary aims at giving you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors". You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the section headed "Definitions" in this prospectus.

OVERVIEW

We are a retail chain operator and distributor of quality home appliances and consumer electronic products, with a proven operating history of close to 15 years. Our business focuses on retail, bulk distribution (including sales to our franchisees) and after-sales services which are complementary to each other. With headquarters in Yangzhou, Jiangsu province, our sales and after-sales network (which includes our Self-operated Stores, Self-operated Service Centres, Franchised Stores and Authorised Service Centres) covers more than 360 points of presence in 27 cities/districts*(Note 1)* across Jiangsu and Anhui provinces.

Our strategic business focus enables us to add value to the supply chain between manufacturers and customers of home appliances and consumer electronic products, and distinguishes us from our competitors in the same market. We are proactively expanding the geographical coverage of our sales network in China. Apart from establishing new Self-operated Stores in the existing regions, which remains our main strategy, we plan to expand into new regions and to identify and pursue new acquisition opportunities in a prudent and selective manner. We will also continue to employ the franchise model to maintain and sustain our expansion and penetration in the targeted markets. In addition, our Directors plan to further develop our bulk distribution business to complement our retail and franchise operations.

The revenue generated from our retail operation (through our Self-operated Stores) accounted for approximately 48.3%, 33.4% and 35.3% of our revenue for the three years ended 31 December 2007, 2008 and 2009, respectively, and the revenue generated from our bulk distribution accounted for approximately 50.4%, 65.7% and 64.0% of our revenue for the same period, respectively. Our revenue derived from bulk distribution operation includes sales to our franchisees and distribution to other third parties. Our Franchised Stores offer the merchandise sourced from us to their retail and wholesale customers, and their respective revenue is not recorded as part of our revenue. Whilst the revenue derived from our after-sales services only accounted for an insignificant percentage of our total revenue during the Track Record Period, we believe that our capability to offer quality maintenance services coupled with our wide and strategic network of Service Centres helps boost the confidence of our customers in the quality and reliability of our retail chain.

Note 1: The 27 cities/districts include (i) cities/districts in Jiangsu province, namely, Yangzhou, Jiangdu, Baoying, Gaoyou, Yizheng, Hanjiang, Taizhou, Xinghua, Jingjiang, Jiangyan, Taixing, Nanjing, Zhenjiang, Danyang, Dantu, Yangzhong, Changzhou, Yancheng, Binhai, Huishan, Jiangyin, Huaian, Binhu and Lianyun; and (ii) cities/districts in Anhui province, namely, Tianchang, Chuzhou and Ningguo.

We experienced robust growth in our revenue during the Track Record Period. Our revenue grew from approximately RMB500.5 million in 2007 to approximately RMB1,247.8 million in 2009, representing a CAGR of approximately 57.9%. Our revenue is principally derived from sales of merchandise, which includes revenue from retail sales of products directly to end-users through our Self-Operated Stores and sales of products through our bulk distribution operation to our franchisees and Independent Third Parties, such as household electronics retailers and corporate customers. Our growth in revenue during the Track Record Period was principally attributable to the expansion of our sales network and franchise model, including the increase in the number of our Self-operated Stores and Franchised Stores and expansion of our bulk distribution operation through, among others, acquisitions of authorised bulk distribution rights from our suppliers. During the Track Record Period, we made large amounts of prepayments to our suppliers in order to enhance our business relationships with these suppliers and to increase the likelihood of our securing additional authorised distribution rights and higher amounts of supplier rebates. Our revenue grew from approximately RMB500.5 million in 2007 to approximately RMB988.2 million in 2008. In particular, a significant growth of our revenue generated from our bulk distribution operation to our franchisees and other third parties for the year ended 31 December 2008 was principally due to (i) our acquisition of a 90% equity interest in Changzhou Keyi, which enabled us to obtain the authorised distribution rights for selected types of Gree products within the prescribed territories primarily in Changzhou and (ii) our obtaining of the authorised distribution rights for selected types of Midea products within the prescribed territories. The growth in revenue for the year ended 31 December 2009 was also positively impacted by the favourable government policies promulgated by the PRC Government.

The following table sets out our revenue by operation categories during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of total revenue*	*RMB ('000)*	*% of total revenue*	*RMB ('000)*	*% of total revenue*
Revenue						
(i) Retail Operation	241,605	48.3	330,417	33.4	440,331	35.3
(ii) Bulk Distribution Operation						
Franchisees	154,978	31.0	285,342	28.9	373,294	29.9
Other third parties	97,406	19.4	363,783	36.8	425,086	34.1
(iii) Service Income						
Maintenance income	2,263	0.5	3,366	0.3	2,405	0.2
Installation income	4,231	0.8	5,306	0.6	6,709	0.5
Total	500,483	100.0	988,214	100.0	1,247,825	100.0

We offer over 16,000 types of merchandise through our Self-operated Stores and broadly divide our products into five product categories: air conditioners, TV sets, refrigerators, washing machines and others. We derive a substantial portion of our revenue from the sales of air conditioners, either through our retail operation or bulk distribution (including sales to our franchisees). For the three years ended 31 December 2007, 2008 and 2009, our revenue derived from the sales of air conditioners accounted for approximately 57.7%, 71.8% and 67.7% of our total revenue derived from the sales of merchandise, respectively.

The following table sets out our revenue derived from sales of merchandise through our retail and bulk distribution operations by product categories during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of revenue derived from sales of merchandise*	*RMB ('000)*	*% of revenue derived from sales of merchandise*	*RMB ('000)*	*% of revenue derived from sales of merchandise*
Air conditioners	285,077	57.7	703,230	71.8	838,566	67.7
TV sets	82,999	16.8	114,221	11.7	195,756	15.8
Refrigerators	57,548	11.6	83,532	8.5	88,164	7.1
Washing machines	20,979	4.2	33,565	3.4	47,008	3.8
Other small appliances	47,386	9.7	44,994	4.6	69,217	5.6
Total	493,989	100.0	979,542	100.0	1,238,711	100.0

Our overall gross profit margin decreased from approximately 16.9% for the year ended 31 December 2007 to approximately 12.2% for the year ended 31 December 2008, which was mainly due to a higher percentage increase in sales through our bulk distribution operation (under which our products are generally sold at lower prices than the same products sold through our retail operation) compared to sales through our retail operation (under which our Directors believe that our products are generally sold at higher prices) and the relatively poor market conditions for household appliances in China in 2008. Our overall gross profit increased from approximately 12.2% for the year ended 31 December 2008 to approximately 16.5% for the year ended 31 December 2009, principally due to improved market condition for household appliance sales in China in 2009 and an increase in sales volume of merchandise covered under the Rural Appliance Rebate Program and the Change of the Old for New Program. For detailed discussion on the fluctuations of our gross profits and gross profit margins, please refer to the section headed "Financial information — Period to period comparison of results of operations" of this prospectus.

The following table sets forth our gross profit margins by operation categories during the Track Record Period:

	Year ended 31 December		
	2007	**2008**	**2009**
	%	%	%
(i) Retail Operation	21.7	17.9	22.8
(ii) Bulk Distribution Operation	11.3	9.1	12.8
Franchisees	13.4	10.7	14.1
Other third parties	8.1	7.8	11.7
(iii) Service Income	56.6	28.3	34.7
Overall	16.9	12.2	16.5

Please refer to the section headed "Financial information — Principal income statement components" in this prospectus for further details in this regard.

Business operation

We believe our early-mover advantage and strategic focus in the third and fourth-tier markets in eastern China, covering a massive population of more than 450 million, allow us to capture the mass-market growth opportunities in these areas, including those brought by the Rural Appliance Rebate Program and the Change of the Old for New Program.

We pride ourselves not only on our successful establishment of one of the renowned retail suppliers of home appliances and consumer electronic products in Jiangsu province and the nearby regions, but also our strategic focus in the third and fourth-tier markets in these regions. Our "*汇银 (Huiyin*)*" brand was accredited by 江蘇省工商行政管理局 (Jiangsu Administrative Bureau of Industry and Commerce*) as 江蘇省著名商標 (Jiangsu Famous Trademark*) in 2008 and was accredited by 江蘇省揚州工商行政管理局 (Administrative Bureau of Industry and Commerce of Yangzhou, Jiangsu province*) as 揚州市知名商標 (Yangzhou Well-known Trademark*) for period between 2003 and 2006. Jiangsu province ranked fifth among 31 PRC provinces, autonomous regions and municipalities in 2008 in terms of per capita net income of rural households according to the National Bureau of Statistics of China. Its population reached approximately 76.8 million, and approximately 45.7% of which were considered rural as at 31 December 2008. The per capita net income of rural households in Jiangsu province increased from approximately RMB4,239.26 in 2003 to RMB7,356.47 in 2008, representing a CAGR of 11.7%, whilst the per capita living expenditure of rural households in Jiangsu province increased from approximately RMB2,704.37 in 2003 to approximately RMB5,328.37 in 2008, representing a CAGR of 14.5%. We believe our targeted markets have thus far been less developed than the urban markets in the primary PRC cities, which present a significantly lower level of competition for large-scale suppliers and retailers of home appliances and consumer electronic products and at the same time offer an even higher potential for rapid growth in demand for such products as the per capita net income in our targeted markets continues to increase and the consumers in these markets continue to modernise their lifestyles and upgrade their living standards. We are one of the first retail chains to target the development of the third and fourth-tier markets in Jiangsu province and we believe this early-mover advantage gives us a competitive edge over our present and future competitors.

We have adopted a strategy of first establishing a Self-operated Store in a targeted municipal market, whereby such Store is usually larger in terms of Gross Floor Area and located in an area with higher commercial activity level, to promote the "*汇银 (Huiyin*)*" brand awareness, which is then followed by the opening of Franchised Stores in the more populated surrounding rural areas to expand our chain coverage and reach. This expansion strategy allows us to obtain market penetration in our targeted markets with a shorter ramp up time, minimal capital outlay and hence reduced operational risks. We believe that this strategy can lend itself to other third and fourth-tier markets outside Jiangsu province and Anhui province, and we plan to replicate this strategy in our targeted markets.

In order to prevent competition and cannibalisation among our Self-operated Stores and Franchised Stores, we generally conduct an evaluation on the population size, living standards and the spending powers of the residents in a targeted market before we open new Stores in that market. Please refer to the paragraph headed "Store opening" under the section headed "Our Business — Management and operations" of this prospectus for further details.

We set out below summary of our business by operations.

Retail operation through our Self-operated Stores

As at the Latest Practicable Date, we have 30 Self-operated Stores, most of which are operated under our registered brand of "*汇银 (Huiyin*)*" (except for most of our dedicated brand retail Stores and our four shop-in-shop Stores which are operated within department stores). The "*汇银 (Huiyin*)*" retail brand is marketed in 24 cities/districts in Jiangsu province and three cities/districts in the neighbouring Anhui province.

We operate our Yangzhou flagship store and 16 general stores which offer a comprehensive range of products and brands in 11 cities/districts. We also operate four retail outlets in department stores in Jiangsu province operated by Golden Eagle Retail Group Limited, which is one of the most established department store chains in the PRC, selling mainly higher-end home appliances and consumer electronics, such as liquid crystal displays, and nine specialty air conditioner or dedicated brand retail Stores to satisfy the special market demand in different localities. Our Self-operated Stores are managed and operated by our employees under the supervision of our management team.

We are the retailer of over 50 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens(*Note 2*). Our retail chain provides a large selection of merchandise, including air conditioners, TV sets, refrigerators and washing machines, small home appliances, mobile communications products, I.T. digital products, and audio-video systems. Through our Self-operated Stores, we cover approximately 16,000 product model types.

Franchise operation

Our business operation is characterised by the presence of a significant number of Franchised Stores, most of which are operated under our registered brand of "汇银 *(Huiyin*)*" within our chain.

Our first Franchised Store was set up in 2003. Since then, our retail franchise operation has expanded into an extensive network of 220 Franchised Stores as at the Latest Practicable Date.

All of our Franchised Stores are established, financed and operated by Independent Third Parties under our registered "汇银 *(Huiyin*)*" brand name. Substantially all of our current franchisees are our former customers or former employees. We enter into annual franchise agreements of standard terms with our franchisees, where one of the key features is that all our Franchised Stores are required to source their merchandise exclusively from us or our approved channels, except for those small electronic products and electrical accessories which we do not offer. Under this arrangement, our Franchised Stores are the key patrons of our bulk distribution business. Our franchise agreements also contain provisions requiring our franchisees to comply with the standards, rules and procedures specified by us from time to time.

In addition to the requirement that our franchisees shall source their merchandise exclusively from us, other major terms of the franchise agreements include:

- Use of brand name - We authorised our franchisees to use our brand name in relation to the franchise operation. Our franchisees shall not allow any third party to use our logo and brand name. They shall cease to use our logo and brand name and arrange for change of company name if any of their names contains our brand name after the expiry or termination of the franchise agreements.

- Support - We provide various training and marketing supports to our franchisees.

Note 2: The sales of products of the above-mentioned seven brands amounted to approximately 66%, 82% and 83% of our total revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

- Operating regions - The operations of our franchisees are restricted to the regions as set out in the respective franchise agreements and are non-exclusive in nature.

- General management - Our franchisees are required to comply with the standards, rules and procedures in relation to the franchise arrangement.

We also manage our franchise operations in the following respects:

- Price - Our Franchised Stores can set their own prices within the range we prescribe, taking into account factors including the income level of the local consumers, the prices charged by our competitors and the general market conditions.

- Marketing and promotion - Our franchisees are required to use our standard marketing materials and to comply with our other marketing and advertising standards and procedures. We conduct special promotional or marketing activities for our franchisees. Since our Franchised Stores are generally of smaller scale and lack of resources and expertise in organising promotional and marketing activities; and promotion and marketing activities are normally of less importance to stimulate sales in rural markets due to the lower level of market competition, our Franchised Stores normally rely on the activities and campaigns we organise and conduct for them.

- Fees - While we imposed a royalty fee (the amount of which was set based on our estimated revenue and profit of the individual Franchised Stores) on our franchisees during the Track Record Period, we waived a number of our franchisees from payment of royalty fees for the year ended 31 December 2008. We have not charged such royalty fee on our franchisees since 1 January 2009 for the purpose of boosting the development of our franchise operations. We received an aggregate royalty fee in the sum of approximately RMB9.9 million, RMB4.7 million and nil for the three years ended 31 December 2007, 2008 and 2009, respectively.

- Minimum purchase amount - During the Track Record Period, we had not set any general minimum purchase requirements on any Franchised Store.

- Return of goods - Our Franchised Stores can return the goods with serious quality problems to us. For the three years ended 31 December 2007, 2008 and 2009, goods returned to us by our franchisees and other customers amounted to approximately RMB0.10 million, RMB0.11 million and RMB0.89 million, respectively. Our Directors confirmed that there was only a very minimal amount of goods returned to us by our Franchised Stores during the Track Record Period.

- Store size - Subject to our approval on a case by case basis, the size of our Franchised Stores is expected to be at least 100 sq. m., depending on the locations of the Franchised Stores.

- Others - Our Franchised Stores are also required to observe other rules, such as our standard requirements for staff uniforms and other items that carry our "汇银 *(Huiyin*)*" trademark, and the submission of the information about the Gross Floor Area of the Franchised Store along with the franchise applications.

We may terminate a franchise agreement if the franchisee (i) breaches its covenants or obligations under the agreement and fails to rectify such breach after a notice of breach is served to it; or (ii) fails to implement our brand building marketing plan. Our Directors confirm that there was no early termination of franchise agreement during the Track Record Period.

We provide a large selection of merchandise, including air conditioners, TV sets, refrigerators, washing machines and small home appliances through our franchise operation to the ultimate customers in the third and fourth-tier markets. Our Franchised Stores generally cover more than 700 product model types. Our revenue derived from the sales to our Franchised Stores is categorised as our revenue derived from our bulk distribution operation as described below.

Bulk distribution (including sales to our franchisees)

In support of our retail operation, we distribute as a supplier to our Franchised Stores as well as other Independent Third Parties, mainly household electronics retailers and our corporate customers. We are currently one of the bulk distributors of selected types of home appliances and consumer electronic products, principally air conditioners, refrigerators and TV sets, for over 20 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens*(Note 3)*, within the areas surrounding our Stores. We have obtained 23, 21 and 31 distribution rights of various kinds of branded products for the three years ended 31 December 2007, 2008 and 2009.

We believe our appointment as a bulk distributor for these branded home appliances and consumer electronic products is attributable to our proven retail experience in Jiangsu and Anhui provinces, including our in-depth understanding of local consumer preferences as well as our large sales network in and sustained penetration into our targeted markets in the PRC. In addition, unlike most major household appliance and electronics retailers in China, in addition to making prepayments to certain of our suppliers, we have adopted a business strategy of sourcing our supplies predominantly on a COD or a very short-term credit basis, which we believe adds to our creditworthiness and is a significant driver of our good relationships with our suppliers. Our suppliers also benefit from our distribution logistics, from delivery to warehousing to account management, without the need to establish physical presence in our targeted markets.

Note 3: The sales of products of the above-mentioned seven brands amounted to approximately 66%, 82% and 83% of our total revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

Our bulk distribution operations complement our retail operations by providing a stable and reliable source of supply for our Stores, whilst the exclusive supplier status established with our Franchised Stores ensures that our bulk distribution operations benefit from a steady revenue stream.

After-sales services

In line with our business philosophy, we place a heavy emphasis on customer service and therefore maintain a quality after-sales service network. We currently operate and manage 126 Service Centres, comprising seven Self-operated Service Centres (six of which are located inside our Self-operated Stores) and 119 Authorised Service Centres, giving a ratio of one Service Centre to approximately 2.0 Stores and which are strategically located within close proximity to our Stores and our target customers. Our after-sale services are also easily accessible, as we offer a hotline to handle enquiries and orders for after-sale services. Our Service Centres offer a broad range of installation and maintenance services for the products purchased from us or from other third party vendors. We are the authorised after-sales service provider for more than 15 branded electronics suppliers, such as Gree, Midea and Sharp, in most of the areas in which our Service Centres are located and we have provided such authorised after-sales services to most of the branded electronic suppliers for more than three years. We generally provide our after-sales services for the relevant branded electronics suppliers through both our self-operated Service Centres and Authorised Service Centres.

After-sales maintenance is particularly important to the customers in our targeted markets, who are typically less inclined to replace their appliances with new models within a short period of time. We believe that timely and quality after-sales maintenance is one of the key factors that our target customers take into consideration in making purchases from an electronics retailer. Our Directors further believe that our capability to offer quality maintenance services coupled with our wide and strategic network of Service Centres helps boost the confidence of our customers in the quality and reliability of our retail chain.

Favourable government policies

We believe our strategic focus on the third and fourth-tier markets in eastern China has been the right business direction to take, particularly in view of the recent promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program by the PRC Government.

Rural Appliance Rebate Program

The Rural Appliance Rebate Program was promulgated by the PRC Government in December 2007. We are one of the first four home appliances and electronics retail chain operators which were appointed as an authorised distributor under the Rural Appliance Rebate Program in Jiangsu province since the Rural Appliance Rebate Program was launched in Jiangsu province in February 2009. In addition, we also assist our Franchised Stores which can meet the relevant requirements in applying for the status as one of our 備案銷售網點 (registered points of sale*) under the Rural Appliance Rebate Program. As at the Latest

Practicable Date, 67 out of our 220 Franchised Stores are eligible to sell merchandise under the Rural Appliance Rebate Program. Although a number of our Franchised Stores has not yet obtained the registered point-of-sale status under this program, we will continue to assist our Franchised Stores in applying for such status.

This program helps manufacturers to sell household electrical appliances in rural areas by the government subsidising 13% of the eligible merchandise price directly to rural consumers. Each rural household is entitled to receive a rebate for the purchase of any two program-eligible items. The Rural Appliance Rebate Program is applicable to nine categories of products, including TV sets, refrigerators (including freezers), mobile phones, washing machines, computers, air conditioners, water heaters (solar, gas and electric), microwave ovens and induction cookers. Whilst we are obliged to sell the eligible merchandise at a price not exceeding the ceiling price specified under the program, our suppliers are also obliged to supply the eligible merchandise to us at a price not exceeding the ceiling price specified under the program.

Change of the Old for New Program

We are one of the home appliance and electronics retail chain operators which were appointed as authorised sales enterprises and authorised recycling enterprises in August 2009 under the Change of the Old for New Program in Jiangsu province which was promulgated in June 2009. Our Franchised Stores have not yet obtained the authorised distributor status under the Change of the Old for New Program due to the uncertainty of the implementation rules about this program.

We believe that our status as an authorised distributor under the Rural Appliance Rebate Program and as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program has placed us in an advantageous position to capture the vast potential customer base eligible to participate in these programs. Our appointment as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program and authorised distributor under the Rural Appliance Rebate Program will continue until the expiry of the relevant programs unless we are in serious breach of our duties thereunder.

We believe that both the Rural Appliance Rebate Program and the Change of the Old for New Program will continue to strongly incentivise the residents in the PRC rural communities to purchase new home appliances and consumer electronic products, which will impact positively on all of our retail, distribution and after-sales services businesses. We believe that our authorised distributor status under the Rural Appliance Rebate Program and our authorised sales enterprise and authorised recycling enterprise status under the Change of the Old for New Program help attract potential franchisees who intend to develop electronics retail business in our targeted markets.

Since the appointment as an authorised distributor under the Rural Appliance Rebate Program in February 2009 and the appointment as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program in August 2009, approximately 6.0% of our revenue for the year ended 31 December 2009 was generated from the sale of merchandise eligible under the Rural Appliance Rebate Program, and approximately 8.4% of our revenue for the year ended 31 December 2009 was generated from the sale of merchandise under the Change of the Old for New Program. However, the Rural Appliance Rebate Program is a short term government incentive policy which is expected to expire in the first quarter of 2013. The Change of the Old for New Program is also a short term incentive policy which was implemented from June 2009 on a trial basis for one year, and it is expected to expire in May 2010 should the PRC Government decide not to further implement the program.

Financial track record

The following tables set forth summary consolidated financial information of our Group. We have derived the summary consolidated financial information for the three years ended 31 December 2007, 2008 and 2009 and as of 31 December 2007, 2008 and 2009 from our audited consolidated financial information set forth in the Accountant's Report in Appendix I to this prospectus. The summary consolidated financial information should be read together with the consolidated financial information in Appendix I to this prospectus, including the accompanying notes.

Our consolidated financial information was prepared in accordance with HKFRSs.

Consolidated income statements

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Revenue	500,483	988,214	1,247,825
Cost of sales	(415,794)	(867,423)	(1,041,737)
Gross profit	84,689	120,791	206,088
Other income	13,199	8,616	11,647
Other gains/(losses) — net	—	170	(52)
Selling and marketing expenses	(28,163)	(41,763)	(51,226)
Administrative expenses	(15,900)	(38,494)	(41,339)
Operating profit	53,825	49,320	125,118

SUMMARY

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Finance income	3,162	6,887	4,736
Finance costs	(4,438)	(392)	(2,936)
Finance (costs)/income — net	(1,276)	6,495	1,800
Profit before income tax	52,549	55,815	126,918
Income tax expense	(9,131)	(17,248)	(34,291)
Profit for the year	43,418	38,567	92,627
Attributable to:			
— Equity holders of the Company	43,418	38,197	91,477
— Minority interests	—	370	1,150
	43,418	38,567	92,627
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
— Basic	2.17	1.91	4.57
— Diluted	2.17	1.90	4.51

Consolidated balance sheets

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Land use rights	11,264	10,991	18,664
Property, plant and equipment	69,346	72,585	116,587
Investment properties	33,196	27,311	24,728
Intangible assets	1,190	5,043	3,303
Deferred income tax assets	8,442	11,750	11,169
	123,438	127,680	174,451
Current assets			
Inventories	73,617	161,200	163,096
Trade and bills receivables	44,240	33,660	102,604
Prepayments, deposits and other receivables	198,190	265,475	352,896
Restricted bank deposits	134,910	97,925	134,347
Cash and cash equivalents	120,682	81,684	18,150
	571,639	639,944	771,093
Total assets	695,077	767,624	945,544
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	—	142	142
Reserves	443,281	481,336	572,813
	443,281	481,478	572,955
Minority interests in equity	—	1,408	2,508
Total equity	443,281	482,886	575,463
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	5,708	17,930	39,352
Current liabilities			
Trade and bills payables	175,874	177,933	196,167
Accruals and other payables	39,899	72,200	60,889
Borrowings	21,290	—	70,000
Current income tax liabilities	9,025	16,675	3,673
	246,088	266,808	330,729

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Total liabilities	251,796	284,738	370,081
Total equity and liabilities	695,077	767,624	945,544
Net current assets	325,551	373,136	440,364
Total assets less current liabilities	448,989	500,816	614,815

Cash flow

As at the Latest Practicable Date, we received an aggregate gross proceeds of approximately US$50 million from our financial investors, which was used mainly as working capital for our business expansion including opening of new Stores and making prepayments to our suppliers. Please refer to the section headed "History and Business Development — Information on the financial investors in our Company" of this prospectus for further details.

We experienced significant cash outflow from operating activities amounting to approximately RMB130.9 million, RMB45.7 million and RMB101.5 million, respectively, for the three years ended 31 December 2007, 2008 and 2009. The major factor which contributed to the net cash outflow from operating activities was the increase in our prepayments, deposits and other receivables as a result of prepayments made to the suppliers, in particular the suppliers of Midea and Gree air conditioners, due to rapid expansion of our business operation, to secure authorised distribution rights for selected types of products and to enhance our relationships with our suppliers. The increase in our restricted bank deposits, as a result of our increased use of bank acceptance notes to settle amounts owed to our suppliers, also contributed to the said net cash outflow from operating activities. Further, we experienced cash outflow from investing activities for the two years ended 31 December 2007 and 2009, primarily due to our payment for purchase of property for our business operation. Please refer to the section headed "Financial Information — Liquidity and capital resources — Cash flow" of this prospectus for more detailed discussion on our cash flow positions.

Supplier rebates

Most of our supply agreements provide for rebates to be given by suppliers primarily based on our purchase volume in specific periods. The rates of supplier rebate are to be negotiated by us with our suppliers on a case by case basis. Our cost of sales principally consists of cost of merchandise, which is net of provision for supplier rebates. Our gross profit margins, accordingly, is affected by the amount of supplier rebates we received from our suppliers. For the three years ended 31 December 2007, 2008 and 2009, our supplier rebates recognised as a reduction in the cost of sales sold amounted to approximately RMB97.0 million, RMB161.1 million and RMB269.0 million, respectively, representing approximately 19.0%, 15.7% and 20.6% of our cost of merchandise sold (before deducting supplier rebates), respectively. Our Directors confirm that it is a norm to receive supplier rebates in our industry.

In the foreseeable future, our Directors expect that we will continue to receive supplier rebates from our suppliers. Based on the discussion with our suppliers, the Sponsor understands that it is a norm to receive supplier rebates in our industry. In the event of any unfavourable changes in relation to the rebate arrangements with our suppliers, our cost of sales and thereby our gross profit margins could be materially and adversely affected.

Please refer to the paragraph headed "We may not be able to maintain the rebate arrangements with our suppliers" under the section headed "Risk Factors — Risks relating to our business" and the paragraph headed "Cost of sales" under the section headed "Financial Information — Principal income statement components" of this prospectus for further details of the supplier rebate arrangements.

General

We believe that the improving living standards of rural households in China, together with the macroeconomic policies and economic stimulus packages including in particular the promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program, China's home appliances and consumer electronics business will continue to grow steadily in the foreseeable future. Our management also believes that with our positioning as one of the most established chains and an early entrant in our targeted markets, our participation in the Rural Appliance Rebate Program, our community-based and customer-oriented offering of quality and value-for-money merchandise, our bulk distribution (including sales to our franchisees) and after-sales services business model, and our comprehensive logistics and distribution systems, we have substantial competitive edge against our competitors. To maintain our competitiveness, we intend to continue to expand our sales and after-sales outreach in the third and fourth-tier markets in the PRC, through organic growth and/or acquisitions, and to secure further bulk distributorships, in order to maximise our market share.

OUR COMPETITIVE STRENGTHS

We believe that our success to date and our potential for future growth are attributable to a combination of our competitive strengths, including:

- Strategic business focus on the third and fourth-tier markets within or near Jiangsu province
- Our strategic business focus on our targeted markets has better positioned us to capture the market opportunities created by the recent favourable government policies
- Effective business model comprising of retail, distribution and after-sales services
- Proven development strategy
- Effective Store franchising and Service Centre authorisation management

- Early mover in strategic locations and remarkable insights of our experienced and stable management team

- Strong supplier relationships

OUR BUSINESS STRATEGIES

We endeavour to maintain sustainable growth and to leverage our competitive strengths to achieve a leadership in each regional market we enter. We aim to maximise shareholder value and pursue the following business strategies:

- Expand our retail sales network through organic growth and selective acquisitions

- Improve the sales and profitability of our Stores

- Further strengthen our relationships with our suppliers

- Enhance the operating standards and financial contribution of Franchised Stores

- Further improve our information technology systems

GLOBAL OFFERING STATISTICS

	Based on an Offer Price per Share of HK$1.29	**Based on an Offer Price per Share of HK$1.69**
Market capitalisation of the Shares [(1)]	1,290 million	1,690 million
Historical price earning multiples calculated based on:		
Unaudited pro forma earnings per Share [(2)]	12.4	16.3
Unaudited pro forma diluted earnings per Share [(3)]	13.1	17.1
Unaudited pro forma adjusted net tangible assets value per Share [(4)(5)]	HK$0.93	HK$1.02

Notes:

(1) The calculation of market capitalisation is based on the Offer Price and 1,000,000,000 Shares in issue following the completion of the Global Offering and the Capitalisation Issue, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or the options granted under our Pre-IPO Option Scheme or the options which may be granted under our Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them.

(2) The calculation of historical price-earning multiple is based on unaudited pro forma earnings per Share for the year ended 31 December 2009 of HK$0.104 per Share as set out in the section headed "Unaudited pro forma earnings per Share" in Appendix II to this prospectus at the respective Offer Price of HK$1.29 and HK$1.69 per Offer Share.

(3) The calculation of historical price-earning multiple is based on the unaudited pro forma diluted earnings per Share for the year ended 31 December 2009 of HK$0.099 per Share as set out in note 3 to the section headed "Unaudited pro forma earnings per Share" in Appendix II to this prospectus at the respective Offer Price of HK$1.29 and HK$1.69 per Offer Share.

(4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments as set out in note (2) to the section headed "Unaudited pro forma statement of adjusted net tangible assets" in Appendix II to this prospectus and on the basis that 1,000,000,000 Shares were in issue assuming the Global Offering and the Capitalisation Issue had been completed on 31 December 2009, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under our Pre-IPO Option Scheme or the options which may be granted under our Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them. The unaudited pro forma adjusted net tangible asset per Share is converted into Hong Kong dollars at the rate of RMB1.00 to HK$1.135.

(5) No adjustment has been made to reflect any trading results or other transaction (including the declaration of a one-off and non-recurring dividend of approximately HK$47.0 million payable to the existing Shareholders of our Company as of 6 March 2010 on the condition that the Listing is completed) of our Group entered into subsequent to 31 December 2009.

DIVIDEND POLICY

Our Company declared a one-off and non-recurring dividend of approximately HK$47.0 million, which is conditional upon the Listing, to the existing Shareholders, namely China Ruike, Pope, Dalton, ARC Huiyin and China Fund in March 2010, which our Company plans to pay after having obtained the necessary approvals from SAFE and other governmental authorities and fund the payment of such dividend by using our internal resources. The persons becoming Shareholders after the Listing will not be entitled to such dividend. We will disclose in our interim report and annual report regarding the status of payment of the relevant dividend until such dividend is paid. Save for the above, no dividend has been paid or declared by our Company since the date of its incorporation. You should note that historical dividend distributions are not indicative of our future dividend distribution policy.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. The payment and the amount of any dividends will be at the discretion of our Board and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law, including (where required) the approval of Shareholders.

Subject to the availability of our cash, distributable reserves, cash flow and working capital requirements, the Board aims to declare and recommend dividends which would amount in total to not less than 15% of the net profit of our Company according to HKFRSs for the year ending 31 December 2010 and in respect of each financial year thereafter by way of dividends. **Such intention does not amount to any guarantee or representation or indication that our Company must or will declare and pay dividend in such manner and pay any dividend at all.**

USE OF PROCEEDS

The aggregate net proceeds from the Global Offering accruing to our Company (assuming an Offer Price of HK$1.49 per Share, being the mid-point of the proposed Offer Price range of HK$1.29 to HK$1.69 per Share) are estimated to be approximately HK$328.5 million (approximately RMB289.4 million). We currently intend to use the net proceeds from the Global Offering to our Company as follows:

- up to approximately HK$156.5 million (approximately RMB137.9 million), representing approximately 47.6% of the net proceeds from the Global Offering to our Company for expansion of our retail network through the establishment of new Self-operated Stores and Franchised Stores:

  (i) of which up to approximately HK$120.0 million (approximately RMB105.7 million), representing approximately 36.5% of the net proceeds from the Global Offering to our Company, will be used for the opening of up to 16 new Self-operated Stores in Jiangsu and Anhui provinces with an aggregate Gross Floor Area of approximately 29,000 sq. m. by the end of 2011, including as working capital for the new Self-operated Stores and for renovating the new Self-operated Stores, purchasing new facilities, organising marketing and promotional activities and as operational funds;

  (ii) of which up to approximately HK$36.5 million (approximately RMB32.2 million), representing approximately 11.1% of the net proceeds from the Global Offering to our Company, will be used for the development of our franchise network in Jiangsu and Anhui provinces by opening up to 50 new Franchised Stores by the end of 2011, including as operational funds for us to make additional inventory procurement as a result of expected increase in demand by our Franchised Stores;

- up to approximately HK$112.0 million (approximately RMB98.7 million), representing approximately 34.1% of the net proceeds from the Global Offering to our Company, will be used for potential acquisitions of home appliances and electronics retail enterprises in eastern China which target at the third and forth-tier markets (however, no such target had been identified up to the Latest Practicable Date). Please refer to the paragraph headed “Store opening” under the section headed “Our business — Management and operations” for details of our selection criteria for acquisition targets and our management decision process in deciding on acquisition targets;

- up to approximately HK$55.0 million (approximately RMB48.4 million), representing approximately 16.8% of the net proceeds from the Global Offering to our Company, will be used for expansion of our existing distribution and logistics centre in Jiangsu province. Please refer to the paragraph headed "Owned properties" under the section headed "Our business — Properties" of, and the description of property no.3 as set out in Appendix III to, this prospectus for further details of this expansion plan; and

- up to approximately HK$5.0 million (approximately RMB4.4 million), representing approximately 1.5% of the net proceeds from the Global Offering to our Company, will be used for improving our existing information and management systems, including but not limited to improving our ERP System and establishing a franchise store information management system.

If the Over-allotment Option is exercised in full, the net proceeds of the Global Offering would increase by up to approximately HK$68.5 million (approximately RMB60.3 million) (based on the mid-point Offer Price of HK$1.49 per Share). We intend to apply up to 50% of the net proceeds derived from the exercise of the Over-allotment Option for potential acquisitions, and apply the remaining portion as our general working capital.

If the Offer Price is determined at the highest point of the stated range, the net proceeds to our Company would be increased by approximately HK$47.0 million (approximately RMB41.4 million). We intend to apply such additional net proceeds for potential acquisitions, while the amounts to be applied for other purposes would remain unchanged.

If the Offer Price is determined at the lowest point of the stated range, the net proceeds to our Company would be decreased by approximately HK$47.0 million (approximately RMB41.4 million). In such event, the net proceeds that may be applied for investment in potential acquisitions will be reduced accordingly.

To the extent that the net proceeds from the Global Offering to our Company are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interests. We will also disclose the same in the relevant annual report.

No proceeds from the sale of Sale Shares under the Global Offering will accrue to our Company.

Should we decide to re-allocate the intended use of proceeds to other business plans and/or new projects to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

RISK FACTORS

Our Directors consider that there are risks and uncertainties relating to our Group's business industry, the PRC and the Global Offering:

Risks relating to our business

- We may not be able to continue to grow at a rate comparable to our historical growth rate
- Expiration of, or changes to, certain favourable government policies applicable to us may have a material adverse effect on our operation results or may obstruct our expansion plan in our targeted markets
- Prepayments made to our suppliers involve credit risks
- We derive a very substantial portion of our revenue from sales of air conditioners
- We currently conduct a very significant part of our operations in, and derived a very significant portion of our revenue from, Jiangsu province
- A breakdown of transportation and communication infrastructure may interrupt our business operations
- We rely on our Franchised Stores and Authorised Service Centres to expand our retail network and after-sales services in the third and fourth-tier markets
- We do not control our Franchised Store and Authorised Service Centre operators
- We may encounter difficulties in entering into new markets and implementing our expansion plans
- Lack of official statistics in the third and fourth-tier markets may affect our expansion plans
- We depend on our suppliers to grant us authorised distribution rights and after-sales service provider status on an annual basis in connection with our bulk distribution business and after-sales services
- We depend heavily on our relationship with the suppliers
- We experienced significant net cash outflow for the two years ended 31 December 2008 and 2009. If we are unable to maintain a sufficient level of cash flow for our

operating activities, and if we are unable to secure sufficient banking facilities in due course, we may not be able to meet our debt and other payment obligations as they become due, and our financial condition and results of operations will be materially and adversely affected

- Our gross profit margins may continue to decrease affecting further profitability
- Sales of our key product, air conditioners, are subject to seasonality
- We may not be able to maintain the rebate arrangements with our suppliers
- Sales to our Franchised Stores may not present actual growth in sales to their ultimate customers
- Maintaining and expanding our business operation requires substantial expenditures, for which we may not have adequate or readily available financial resources
- We may not be able to secure or renew existing locations for Self-operated Stores on favourable rental terms
- We rely heavily on a few key management personnel and may not be able to retain and attract talented personnel
- We failed to obtain certain required certificates, licenses and permits on time
- We may fail to foresee and provide attractive goods to satisfy customer tastes and demand
- Our business would be materially and adversely impacted if we fail to have an effective inventory control system
- Our insurance coverage may not be sufficient to cover all losses
- Our business operations may be materially and adversely affected by any information technology system failure
- We may be required to relocate certain of our existing Stores due to lease defects or encumbrances in land title or building ownership rights of our lessors

Risks relating to the PRC retail industry

- We rely on our intellectual property rights
- We may face liabilities for infringement of intellectual property rights of third parties

- Our sales may decline if we fail to effectively market and promote our Stores

- We may face product liability claims

- We face intense competition in the PRC retail industry

- The recent global financial crisis and economic downturn did and may continue to materially and adversely affect our business, results of operations and financial condition

- We may fail to successfully respond to changes in consumer preferences and/or purchasing power

- If we fail to obtain or maintain all required licences, permits and approvals, or if we are required to take actions to obtain such licences, permits and approvals which are time-consuming or costly, our business operations may be materially and adversely affected

Risks relating to the PRC

- Changes in the PRC economic, political and social conditions and the PRC Government policies can affect our business

- Changes in foreign exchange regulations may adversely affect our results of operations

- Fluctuation in the value of Renminbi may materially and adversely affect your investment

- Interpretation of PRC law and regulations involves uncertainty

- Our operating cost may be increased due to the provision of staff benefits as required by the PRC Government

- It may be difficult to effect service of process upon our Directors or executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts

- A newly enacted PRC tax law may affect tax exemptions on dividends received by our Company and Shareholders and increase our enterprise income tax rate

- Expiration of, or changes to, certain preferential treatments applicable to our subsidiaries under PRC tax laws may have a material adverse effect on the operating results

- Payment of dividends by our operating subsidiaries in the PRC is subject to restrictions under PRC law

- We may be subject to acts of God, acts of war and epidemics or pandemics which are beyond our control and which may cause damage, loss or disruption to our business

Risks relating to the Global Offering

- There has been no prior public market for the Shares and an active trading market may not develop

- The trading volume and share price of the Shares may fluctuate

- Future sales of substantial amounts of the Shares in the public market could adversely affect the prevailing market price of the Shares

- Shareholders' interests in our Company may be diluted in the future

- Dividends paid in the past may not be indicative of the amount of future dividend payments or our future dividend policy

- Forward-looking information included in this prospectus may not be accurate

- There can be no guarantee as to the accuracy of facts and other statistics contained in this prospectus with respect to the economies and the industry in which we operate

- You should not rely on any information contained in press articles or other media regarding our Company and the Global Offering

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Administrative Measures"	外商投資商業領域管理辦法 (Administrative Measures on Foreign Investments in Commercial Sectors*) promulgated on 16 April 2004 and becoming effective on 1 June 2004
"AIM"	the AIM market of the London Stock Exchange
"Anti-Monopoly Law"	中華人民共和國反壟斷法 (Anti-Monopoly Law of the People's Republic of China*) promulgated on 30 August 2007 and becoming effective on 1 August 2008
"Application Form(s)"	**WHITE**, **YELLOW** and **HK eIPO WHITE** application form(s), or where the context so requires, any of them, used in the Hong Kong Public Offer
"ARC"	ARC Capital Holdings Limited, a limited liability company incorporated on 27 July 2005 under the laws of Cayman Islands and a Substantial Shareholder
"ARC Huiyin"	ARC Huiyin Holdings Limited, a limited liability company incorporated on 7 May 2008 under the laws of BVI and wholly owned by ARC and a Substantial Shareholder
"Articles of Association" or "Articles"	the articles of association of our Company, conditionally adopted on 5 March 2010, a summary of which is set forth in Appendix IV to this prospectus
"associates"	has the meaning ascribed to it under the Listing Rules
"Authorised Service Centres"	after-sales service centres providing installation, repair and maintenance services for home appliances and consumer electronic products which are operated and managed by our authorised service providers pursuant to the relevant authorisation arrangements
"BNP Paribas", "Global Coordinator" or "Sponsor"	BNP Paribas Capital (Asia Pacific) Limited, acting as the Global Coordinator, Sponsor, Bookrunner and Lead Manager of the Global Offering, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"Board"	the board of Directors
"BVI"	the British Virgin Islands

"Capitalisation Issue"	the issue of 730,000,000 Shares to be made upon capitalisation of part of the share premium account of our Company upon completion of the Global Offering referred to in the paragraph under "Further information about our Company — (C) Written resolutions passed by our Shareholders" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general cleaning participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Change of the Old for New Program"	以舊換新, a program launched by the State Council in June 2009 and is expected to continue until 31 May 2010. Pursuant to this program, a 10% rebate or a fixed amount of subsidy, subject to cap, on the retail price will be granted to qualified consumers who replace their selected old home appliances for new ones
"Changzhou Keyi"	常州可意空調銷售有限公司 (Changzhou Keyi Air-Conditioner Sales Co., Ltd.*), a limited liability company established in the PRC on 26 August 2003 and a 90% indirectly-owned subsidiary of our Company
"chief executive"	the chief executive (as defined in the SFO) of our Company
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of China and Taiwan
"China Fund"	means The China Fund, Inc., a corporation incorporated on 28 April 1992 under the laws of the State of Maryland in the United States and a Substantial Shareholder
"China Houde"	China Houde Investment Co., Ltd., a limited liability company incorporated under the laws of BVI

"China Huiyin"	China Huiyin Group Pte. Ltd, a limited liability company incorporated in the Republic of Singapore on 6 December 2005 and dissolved on 20 October 2009 and which was wholly owned by Mr. Cao before the dissolution
"China Ruike"	China Ruike Investment & Development Co., Ltd. (中華瑞科投資發展有限公司), a limited liability company incorporated on 21 April 2008 under the laws of BVI and wholly owned by Mr. Cao, and a Substantial Shareholder
"COFTEC"	中華人民共和國的對外貿易經濟合作廳 (Commission for Foreign Trade and Economic Cooperation of the People's Republic of China*) at provincial level
"Companies Law"	the Companies Law (2009 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Huiyin Household Appliances (Holdings) Co., Ltd. (汇银家电(控股)有限公司) (previously known as China Yinrui Investment Holding Co., Ltd. (中华银瑞投资控股有限公司) prior to 8 December 2009), a limited liability company incorporated in the Cayman Islands on 5 February 2008
"Competition Law"	中華人民共和國反不當競爭法 (Law Against Improper Competition of the People's Republic of China*) promulgated and becoming effect on 2 September 1993
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules
"Consumer Protection Law"	中華人民共和國消費者權益保護法 (Law on Protection of Consumer Rights of the People's Republic of China*) promulgated on 31 October 1993 and becoming effective on 1 January 1994
"Dalton"	Dalton Greater China (Master) Fund, a limited liability company incorporated on 18 November 2004 under the laws of the Cayman Islands
"Director(s)"	the directors of our Company
"E2-Capital"	E2-Capital International Limited, an Independent Third Party

"Franchised Stores"	retail stores of home appliances and consumer electronic products which are operated and managed by our franchisees pursuant to the relevant franchise arrangements
"Franchising Operations Regulations"	商業特許經營管理條例 (Regulations for the Administration of Commercial Franchising Operations*) promulgated on 6 February 2007 and becoming effective on 1 May 2007
"Global Offering"	the Hong Kong Public Offer and the International Placing
"Group" or "our Group" or "We"	our Company and its subsidiaries and, in respect of the period before our Company became the holding company of such subsidiaries, the entities which carried on the business of the present Group at the relevant time
"Hengxin Air-Conditioner"	揚州恒信空調銷售有限公司 (Yangzhou Hengxin Air-conditioner Sales Co., Ltd.*), a limited liability company established in the PRC on 27 August 2004 and a 99% legally owned subsidiary of our Company (which is 100% beneficially owned by our Company)
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HK eIPO White Form"	the application for the Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of HK eIPO White Form at ***www.hkeipo.hk***
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of China
"Hong Kong Offer Shares"	the 31,980,000 New Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offer (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus)

"Hong Kong Public Offer"	the issue and offer of the Hong Kong Offer Shares to members of the public in Hong Kong for subscription (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) for cash at the Offer Price and on the terms and conditions described in this prospectus and the related Application Forms
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offer listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the conditional underwriting agreement dated 11 March 2010 relating to the Hong Kong Public Offer and entered into between, among others, the Global Coordinator, the Sponsor, the Hong Kong Underwriters, Mr. Cao and our Company, as further described in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offer"
"Huaian Huiyin"	淮安滙銀家電有限公司 (Huaian Huiyin Household Appliances Co., Ltd.*), a limited liability company established in the PRC on 2 March 2009 and a wholly-owned subsidiary of our Company
"Huide Electronics"	揚州滙德電器營銷有限公司 (Yangzhou Huide Electronics Distribution Co., Ltd.*), a limited liability company established in the PRC on 23 October 2006 and a 99% legally owned subsidiary of our Company (which is 100% beneficially owned by our Company)
"Independent Third Parties"	persons or companies which are independent of and not connected with any of our Directors, chief executive of our Company, our Substantial Shareholders and the directors and shareholders of any other member of our Group and our respective associates, and "Independent Third Party" means any of them

"International Placing"	the conditional placing of the International Placing Shares for and on behalf of our Company and the Selling Shareholders outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S and to QIBs in the United States in reliance on Rule 144A, subject to adjustment and the exercise of the Over-allotment Option as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Placing Shares"	the 287,820,000 Shares (comprising 218,020,000 New Shares and 69,800,000 Sale Shares) initially offered by us and the Selling Shareholders for subscription and sale under the International Placing, subject to adjustment and the exercise of the Over-allotment Option as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Placing as listed in the section headed "Underwriting — International Underwriters" in this prospectus
"International Underwriting Agreement"	the conditional underwriting agreement relating to the International Placing expected to be entered into on or about the Price Determination Date, between, among others, our Company, Mr. Cao, the Selling Shareholders, the Global Coordinator and the International Underwriters, as further described in the section headed "Underwriting — Underwriting arrangements and expenses — International Placing" in this prospectus
"Issuing Mandate"	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information on which is set forth in the paragraphs under "Further information about our Company — (C) Written resolutions passed by our Shareholders" in Appendix V to this prospectus
"Jiangsu Gree"	江蘇格力中央空調工程有限公司 (Jiangsu Gree Central Air-Conditioner Engineering Co., Ltd.*), a limited liability company established in the PRC on 22 June 2007
"Jiangsu Huadong Huiyin"	江蘇華東滙銀家電有限公司 (Jiangsu Huadong Huiyin Household Appliance Co., Ltd.*), a limited liability company established in the PRC on 1 November 2009 and a wholly-owned subsidiary of our Company

"Jiangsu Huiyin"	江蘇滙銀電器連鎖有限公司 (Jiangsu Huiyin Electronics Chain-Stores Co. Ltd.*) (previously known as 揚州滙澤電器營銷有限公司 (Yangzhou Huize Sales Co., Ltd.*) from July 2006 to August 2006 and 揚州美德電器營銷有限公司 (Yangzhou Meide Electronics Sales Co., Ltd.*) from its establishment to July 2006), a limited liability company established in the PRC on 15 May 2006 and a wholly-owned subsidiary of our Company
"Jiangsu Kuanrui"	江蘇寬瑞物流貿易發展有限公司 (Jiangsu Kuanrui Logistics Trade Development Limited*), a wholly foreign invested enterprise established in the PRC
"Latest Practicable Date"	4 March 2010, being the latest practicable date for the inclusion of information in this prospectus prior to the printing of this prospectus
"Law of Foreign-invested Enterprises"	中華人民共和國外資企業法 (Law of the People's Republic of China on Foreign-invested Enterprises*), promulgated on 12 April 1986 and amended on 31 October 2000
"LIM Asia"	LIM Asia Arbitrage Fund Inc., an Independent Third Party
"Listing"	listing of the Shares on the Main Board of the Stock Exchange
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date on which dealings of the Shares on the Main Board of the Stock Exchange first commence, which is currently expected to be on or around 25 March 2010
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time
"L.K. Ang"	L.K. Ang Corporate Pte Ltd., an Independent Third Party
"M&A Rules"	關於外國投資者併購境內企業的規定 (Rules on Acquisition of Domestic Enterprises by Foreign Investors in the PRC*) promulgated on 8 August 2006 and becoming effective on 8 September 2006, and which was amended on 22 June 2009
"Main Board"	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

"MCP International"	MCP International Limited, an Independent Third Party
"Ministry of Commerce" or "MOFCOM"	中華人民共和國商務部 (Ministry of Commerce of the PRC*)
"Mr. Cao"	Mr. Cao Kuanping (曹寬平先生), a Substantial Shareholder and our Chairman and an executive Director
"Nanjing Huize"	南京滙澤電器銷售有限公司 (Nanjing Huize Electronics Sales Co., Ltd.*), a limited liability company established in the PRC on 24 July 2006 and a wholly-owned subsidiary of our Company
"New Asia"	New Asia Partners Investment Holdings Limited, an Independent Third Party
"New Dame"	New Dame Limited, a limited liability company incorporated in Hong Kong on 24 October 2007
"New Fellow"	New Fellow Holdings Limited, a limited liability company incorporated in Hong Kong on 24 October 2007
"New Shares"	250,000,000 new Shares being offered by us for subscription under the Global Offering
"Ningguo Huiyin"	寧國滙銀家電銷售有限公司 (Ningguo Huiyin Household Appliance Sales Co., Ltd.*), a limited liability company established in the PRC on 23 September 2009 and a wholly-owned subsidiary of our Company
"Offer Documents"	this prospectus, the Application Forms, and documents published or issued by or on behalf of us or the International Underwriters for the purposes of or in connection with the Global Offering, including any offering circular in connection with the International Placing and any supplement or amendment in relation thereto, and any press announcement, notice and marketing materials in connection with the Global Offering
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed or purchased pursuant to the Global Offering and to be determined on or before the Price Determination Date, which price will not be higher than HK$1.69 per Offer Share and is currently expected to be not less than HK$1.29 per Offer Share

"Offer Shares"	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares to be issued by our Company pursuant to the exercise of the Over-allotment Option
"Original Investment Agreement"	the investment agreement entered into among China Huiyin, Mr. Cao, Mr. Mao Shanxin, Pope, E2-Capital and L.K. Ang on 20 December 2005
"Over-allotment Option"	the option to be granted by our Company to the Global Coordinator, exercisable in whole or in part at any time from the date of the Price Determination Agreement until 30 days after the date of this prospectus, to require our Company to issue and allot up to an aggregate of 47,970,000 additional Offer Shares representing approximately 15% of the initial number of the Offer Shares, at the Offer Price, to cover, among other things, over-allocations in the International Placing, if any
"Paradigm"	Paradigm Capital Limited, an Independent Third Party
"PBOC"	中國人民銀行 (the People's Bank of China), the central bank of the PRC
"Pope"	Pope Investments LLC, a limited liability company incorporated on 15 December 2005 under the laws of State of Delaware of the United States, and a Substantial Shareholder
"Pope Asset Management"	Pope Asset Management, LLC, a limited liability company incorporated on 28 September 2001 under the laws of the State of Tennessee of the United States, and a Substantial Shareholder
"PRC Company Law"	中華人民共和國公司法 (Company Law of the People's Republic of China*)
"PRC Government" or "State"	the central government of the PRC including all government subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"PRC Legal Advisers"	Beijing Zhonglun Law Firm, our legal advisers as to PRC law
"PRC GAAP"	generally accepted accounting principles in the PRC

"Pre-IPO Option Scheme"	the pre-IPO option scheme conditionally adopted by our Company on 5 March 2010, a summary of its principal terms is set forth in the paragraph headed "Pre-IPO Option Scheme" in Appendix V to this prospectus
"Pre-IPO Options"	the options granted under the Pre-IPO Option Scheme
"Price Determination Date"	the date, expected to be on or around Friday, 19 March 2010 but no later than Wednesday, 24 March 2010, on which the Offer Price is fixed for the purposes of the Global Offering
"Pricing Law"	中華人民共和國價格法 (Pricing Law of the People's Republic of China*) promulgated on 29 December 1997 and becoming effective on 1 May 1998
"Product Quality Law"	中華人民共和國產品質量法 (Law on Product Quality of the People's Republic of China*) promulgated on 22 February 1993 and becoming effective on 1 September 1993 and which was subsequently amended on 8 July 2000
"QIBs"	qualified institutional buyers within the meaning of Rule 144A
"Queenbury"	Queenbury Investments Limited, a limited liability company incorporated under the laws of BVI on 18 October 2007
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing, further information on which is set forth in the section headed "History and business development — Reorganisation" in this prospectus
"Restated Investment Agreement"	the restated investment agreement entered into among Mr. Cao, Mr. Mao Shanxin, China Huiyin, Pope, L.K. Ang, MCP International, New Asia on 26 September 2006
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Repurchase Mandate"	the general unconditional mandate granted to our Directors by our Shareholders in relation to the repurchase of our Shares, further information on which is set forth in the paragraphs under "Further information about our Company — (C) Written resolutions passed by our Shareholders" in Appendix V to this prospectus

"Rural Appliance Rebate Program"	家電下鄉 (Home Appliances Go Rural*), a program launched by the Ministry of Finance and the Ministry of Commerce in December 2007, and implemented across the entire country for a period of four years since 1 February 2009 aiming at boosting rural consumption on home appliances and consumer electronic products and narrowing the gap between the rural areas and the cities in terms of home electronics generalisation
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	中華人民共和國國家外滙管理局 (State Administration of Foreign Exchange of the People's Republic of China*), the PRC governmental agency responsible for matters relating to foreign exchange administration
"SAFE Circular No. 75"	國家外滙管理局關於境內居民通過境外特殊目的公司融資及返程投資外滙管理有關問題的通知 (The SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment through Overseas Special Purpose Vehicles) promulgated on 21 October 2005 and becoming effective on 1 November 2005
"Sale Shares"	69,800,000 Shares to be offered for purchase by the selling Shareholders at the Offer Price under the International Placing
"SBI E2-Capital"	SBI E2-Capital (HK) Limited, an Independent Third Party
"Second Investment Agreement"	the investment agreement entered into among China Huiyin, Mr. Cao, Mr. Mao Shanxin, Pope, Dalton and LIM Asia on 21 March 2007
"Self-operated Service Centres"	after-sales service centres providing installation, repair and maintenance for home appliances and consumer electronic products which are operated by us
"Self-operated Stores"	retail stores selling home appliances and consumer electronic products which are operated by us, which expression shall include any points of sale in department store chains
"Selling Shareholders"	Pope and Dalton
"Service Centres"	Self-operated Service Centres and Authorised Service Centres
"SFC"	the Securities and Futures Commission of Hong Kong

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares of our Company with a nominal value of US$0.001 each
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 5 March 2010, a summary of its principal terms is set forth in the paragraphs under "Share Option Scheme" in Appendix V to this prospectus
"Shareholder(s)"	holder(s) of Shares
"sq.m."	square metre(s)
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into between China Ruike and the Global Coordinator pursuant to which the Global Coordinator may borrow up to an aggregate of 47,970,000 Shares from China Ruike for the purpose of covering over-allocations in the International Placing
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Stores"	Self-operated Stores and Franchised Stores
"subsidiary(ies)"	has the meaning ascribed to it under section 2 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Substantial Shareholders"	the substantial shareholders of our Company immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option, or any options granted under the Pre-IPO Option Scheme and options which may be granted under the Share Option Scheme or upon the exercise or surrender of the Warrants), namely Mr. Cao, China Ruike, Pope, Pope Asset Management, Mr. William P. Wells, ARC, ARC Huiyin and China Fund
"Supplemental Investment Agreement"	the supplemental investment agreement to the Original Investment Agreement entered into among China Huiyin, Mr. Cao, Mr. Mao Shanxin, Pope, E2-Capital, L.K. Ang, MCP International, SBI E2-Capital and Paradigm on 30 December 2005

“S$”	Singapore Dollar, the lawful currency of Singapore
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Tianchang Huiyin”	天長市滙銀家電有限公司 (Tianchang Huiyin Household Appliance Co., Ltd.*), a limited liability company established in the PRC on 6 April 2006 and a wholly-owned subsidiary of our Company
“Track Record Period”	the period comprising the three financial years ended 31 December 2007, 2008 and 2009
“Underwriters”	collectively, the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“USD” or “U.S. dollars” or “US$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Warrants”	the warrants issued by our Company to Pope and Dalton respectively on 8 July 2008, further information of which is set forth in the paragraph headed “Convertible loans, options and Warrants — 2008 release of obligations — Warrants” under the section headed “History and Business Development” in this prospectus
“WTO”	World Trade Organisation
“Wuhu Yinrui”	蕪湖市銀瑞家電銷售有限公司 (Wuhu Yinrui Household Appliance Sales Co., Ltd.*), a limited liability company established in the PRC on 11 March 2009 and a wholly-owned subsidiary of our Company
“Xinghua Huiyin”	興化市滙銀家電有限公司 (Xinghua Huiyin Household Appliance Co., Ltd.*), a limited liability company established in the PRC on 13 August 2007 and a wholly-owned subsidiary of our Company

"Yangzhou Hanshang Huiyin"	揚州邗上滙銀家電有限公司 (Yangzhou Hanshang Huiyin Household Appliance Co., Ltd.*), a limited liability company established in the PRC on 22 June 2009 and a wholly-owned subsidiary of our Company
"Yangzhou Huihou"	揚州滙厚電器銷售有限公司 (Yangzhou Huihou Electronics Sales Co., Ltd.*) (previously known as 揚州滙銀時代家電有限公司 (Yangzhou Huiyin Shidai Household Appliances Co., Ltd.*) prior to 17 June 2009), a limited liability company established in the PRC on 23 August 2004 and a wholly-owned subsidiary of our Company
"Yangzhou Huiyin"	揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) (previously known as 揚州滙銀對外貿易有限公司 (Yangzhou Huiyin Foreign Trade Company*) prior to June 2003), a wholly-foreign owned enterprise established in the PRC with limited liability on 27 May 2002 and a wholly-owned subsidiary of our Company
"Yangzhou Huiyin Yuankun"	揚州滙銀元坤專業電器銷售有限公司 (Yangzhou Huiyin Yuankun Professional Electronics Sales Co., Ltd.*), a limited liability company established in the PRC on 8 January 2008 and a wholly-owned subsidiary of our Company
"Yangzhou Jiaojiadian"	揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*), an enterprise established under the PRC law on 28 May 1999
"Yinrui HK"	China Yinrui (HK) Investment Holding Company Limited (中華銀瑞(香港)投資控股有限公司), a limited liability company incorporated in Hong Kong on 14 March 2008 and a wholly-owned subsidiary of our Company
"Zhenjiang Huize“	鎮江滙澤電器銷售有限公司 (Zhenjiang Huize Household Appliance Sales Co., Ltd*), a limited liability company established in the PRC on 26 December 2006 and a wholly-owned subsidiary of our Company
"2005 Equity Transfer Agreement"	the equity transfer agreement entered into between Mr. Cao, Mr. Mao Shanxin and China Huiyin on 28 December 2005 pursuant to which Mr. Cao and Mr. Mao Shanxin transferred all of their equity interests in Yangzhou Huiyin to China Huiyin

"2006 Deed of Release"	a deed of release, substitution and amendment entered into among China Huiyin, Pope, E2-Capital, L.K. Ang, SBI E2-Capital, MCP International, Paradigm, Yangzhou Huiyin, Mr. Ong Tiang Lock, Mr. Cao and Mr. Mao Shanxin on 29 September 2006 pursuant to which, among others, the then existing parties to the Original Investment Agreement and the Supplemental Investment Agreement were released and discharged from all and any duties, obligations and liabilities under or in connection with the Original Investment Agreement (as supplemented by the Supplemental Investment Agreement) and the related ancillary documents (except the confidentiality obligation)
"2007 Equity Transfer Agreement"	the equity transfer agreement entered into between China Huiyin and China Houde on 9 October 2007 pursuant to which China Huiyin transferred all of its equity interest in Yangzhou Huiyin to China Houde
"2007 Subscription Agreement"	the subscription agreement entered into among China Houde, New Fellow and New Dame on 16 November 2007 pursuant to which New Dame and New Fellow injected US$10,374,000 and US$11,688,000, respectively, and China Houde contributed an additional US$15,938,000 (US$14,355,000 of which was China Houde's contribution to the increased amount of the registered capital of Yangzhou Huiyin and the remaining US$1,583,000 of which was the balance amount required to be contributed by China Houde to the required capital of Yangzhou Huiyin before such capital increase) to the registered capital of Yangzhou Huiyin
"2008 Deed of Release"	a deed of release and termination entered into among, among others, China Huiyin, Pope, L.K. Ang, Dalton, LIM Asia, MCP International, New Asia, Yangzhou Huiyin, Mr. Cao and Mr. Mao Shanxin on 30 June 2008 pursuant to which the rights, claims, duties, liabilities, obligations, undertakings, indemnities and breaches of the relevant parties under the Original Investment Agreement, the Supplemental Investment Agreement, the Restated Investment Agreement, the Second Investment Agreement and the related ancillary documents were discharged

"2008 Equity Transfer Agreement"	the equity transfer agreement entered into among Yinrui HK, China Houde, New Fellow and New Dame on 3 April 2008 pursuant to which Yinrui HK acquired the entire equity interests in Yangzhou Huiyin from each of China Houde, New Fellow and New Dame
"2008 Subscription Agreement"	the subscription agreement entered into among our Company, Yinrui HK, China Houde, New Fellow and New Dame on 3 April 2008 pursuant to which each of China Houde, New Fellow and New Dame subscribed for 10,493,999 Shares, 5,036,000 Shares and 4,470,000 Shares, respectively, representing 52.47%, 25.18% and 22.35% of the then issued shares of our Company
"%"	per cent.

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

For the purpose of illustration only and unless otherwise specified in this prospectus, amounts denominated in RMB and USD have been translated into HK$ at the rate of RMB1.0 = HK$1.135 and USD1.0 = HK$7.8. No representation is made that the RMB and USD amounts could have been, or could be, converted into HK$ at such rates or at any other rate on such date or on any other date.

Unless otherwise specified, all references to any of our shareholdings assume no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this prospectus in connection with our Group. As such, these terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“CAGR	compound annual growth rate
“COD”	cash on delivery
“ERP System”	the enterprise resource planning system, a comprehensive software designed to integrate business processes and functions, by permitting the sharing of common data and practices in a real-time environment
“GDP”	gross domestic product
“Gross Floor Area”	the area of title of the buildings recorded in the building ownership certificates
“GRP”	gross regional product
“Internet”	an international network that links together computers and allows data to be transferred between each computer. These computers are called the servers and individual users can use a modem to connect to the server computer and have access to the international network
“I.T.”	information technology
“POS”	Point(s) of Sale, the cashier system that uses swiping and reading record cards or credit cards for payment of products and services in retail shops or restaurants
“third and fourth-tier markets”	third-tier and fourth-tier markets in the PRC, comprising county-level cities, townships and rural areas. As there is no official industry classification, such classification is adopted based on our Directors’ knowledge and experience as well as market information. Please refer to the section headed “Industry overview — The retail industry for household appliances in PRC” in this prospectus for details of the third and fourth-tier markets in the PRC
“3C”	computer, communication and consumer electronics

You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that our Group's principal operations are conducted in the PRC and are governed by a legal and regulatory environment that differs from that prevailing in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We may not be able to continue to grow at a rate comparable to our historical growth rate

Our revenue grew significantly over the last few years. For the three years ended 31 December 2007, 2008 and 2009, our revenues were approximately RMB500.5 million, RMB988.2 million and RMB1,247.8 million, respectively, which represented a growth rate of approximately 97.4% and 26.3%, respectively. The historical increase in our revenue was principally the result of the growth in the number of our Self-operated Stores and Franchised Stores, increase in revenue generated from our Self-operated Stores, increase in revenue generated from our bulk distribution business, the acquisition of Changzhou Keyi in 2008, growth in the number of product categories for which we have obtained authorised distribution rights, and the effects of new government incentive programs introduced in 2009. As part of our business strategy to continue to grow our business, we intend to continue to increase the number of our Self-operated Stores and Franchised Stores in the third and fourth-tier markets and possibly identify suitable acquisition targets to continue to increase our revenue and expand the geographical coverage of our Stores.

While we intend to continue to grow our business, we cannot assure you that our growth can continue or will result in profitability or that the revenue will continue to grow in the future at the same rate as we have grown in the past years. The success of our business and growth strategies significantly depends on our ability to maintain strong relationships with our existing suppliers and to establish relationships with new suppliers. We have in the past implemented a strategy of making substantial prepayments to certain of our suppliers in order to obtain authorised distribution rights and obtain favourable supplier rebate terms, among others. If we cannot continue to make such prepayments for any reason, our suppliers may not choose to continue to offer us favourable terms or to maintain our status as an authorised distributor of certain products, which would adversely affect our business operations. In addition, if the recently promulgated government incentive programs are allowed to expire and new incentive programs aimed at encouraging consumer spending, particularly for household appliances and consumer electronic products, are not enacted, we may not be able to sustain our historical growth rate.

Additionally, our ability to continue to grow our business will depend on a number of other factors, including:

- the continued consumer demand for the products we sold;
- our ability to add Self-operated Stores and attract new franchisees to operate as Franchised Stores;
- our ability to compete with international and domestic home appliances and consumer electronic products retailers;
- our ability to maintain existing and obtain new bulk distributorship and after-sales services status;
- the existence of government incentives programs such as Rural Appliance Rebate Program and the Change of the Old for New Program by the PRC Government;
- our ability to identify and secure acquisition targets for growth;
- the hiring, training and retention of skilled personnel for our Self-operated Stores and Franchised Stores;
- the existence and availability of suitable locations for our Self-operated Stores and Franchised Stores; and
- the existence and availability of adequate managerial, operational and financial resources to support our growth.

Expiration of, or changes to, certain favourable government policies applicable to us may have a material adverse effect on our operation results or may obstruct our expansion plan in our targeted markets

Our business strategy of focusing our retail operations in the third and fourth-tier markets has allowed us to benefit significantly from the recent promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program by the PRC Government. We are one of the first four home appliances and electronics retail chain operators appointed as an authorised distributor under the Rural Appliance Rebate Program in Jiangsu province since the Rural Appliance Rebate Program was launched in Jiangsu province in February 2009. We also assist our Franchised Stores to try to meet the relevant requirements to obtain the status as one of our 備案銷售網點 (registered points of sale*) under the Rural Appliance Rebate Program. As at the Latest Practicable Date, 67 out of 220 Franchised Stores are eligible to sell merchandise under the Rural Appliance Rebate Program. As advised by our PRC Legal Advisers, according to《家電下鄉操作細則》(Detailed Operation Rules for Home Appliances Going to the Rural Areas*), we are responsible for the conduct of our registered points of sale, including those franchisees who are our registered points of sale. We are obliged to strengthen our supervision over our registered points of sale by (i) dedicating personnel responsible for supervising the operation of the relevant registered points of sale and (ii) compiling the standard procedures for selling home appliances under the Rural Appliance Rebate Program, with a view to preventing non-compliance such as false promotion. Although we have implemented certain measures including site visits and telephone interviews to oversee compliance by our registered points of sale, as our Franchised Stores are operated by our franchisees independently, we have limited control over its operation. There is no assurance that we may be able to supervise our franchisees effectively so as to comply with the relevant regulations under the Rural Appliance Rebate Program. In the event that there is a breach of the regulations under the Rural Appliance Rebate Program by our franchisees, who are our registered points of sale, we may lose our status as an authorised distributor under the Rural Appliance Rebate Program.

In addition, we are one of the home appliances and electronics retail chain operators which were appointed as authorised sales enterprises and authorised home appliances recycling enterprises under the Change of the Old for New Program in Jiangsu province in August 2009. We believe that our status as an authorised distributor under the Rural Appliance Rebate Program and as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program has placed us in an advantageous position to capture the vast potential customer base underlying these programs. Our Franchised Stores have not yet obtained the authorised sales enterprise status under the Change of the Old for New Program due to uncertainty of the implementation rules about this program.

Since the promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program, approximately 6.0% of our revenue for the year ended 31 December 2009 was generated from the sales of merchandise eligible under the Rural Appliance Rebate Program, and approximately 8.4% of our revenue for the year ended 31 December 2009 was generated from the sales of merchandise under the Change of the Old for New Program.

In the event that we fail to maintain our status either as an authorised distributor under the Rural Appliance Program or as an authorised sales enterprise the Change of the Old for New Program, or that we fail to assist our Franchised Stores to obtain the status as registered points of sale under the Rural Appliance Rebate Program, we may lose a certain number of our franchisees, who may choose to cooperate with other entities who are authorised distributors, which would adversely affect our business or authorised sales enterprises (as the case may be) under the relevant programs.

In addition, the Rural Appliance Rebate Program is a short term government incentive policy which is expected to expire in the first quarter of 2013. The Change of the Old for New Program is also a short term incentive policy which was implemented from June 2009 on a trial basis for one year by the PRC Government. We cannot assure you that the PRC Government will extend such program after the expiration of the trial period or implement other programs with similar intended benefits. We may not be able to sustain the same growth rate in our targeted markets after the expiration of the Rural Appliance Rebate Program and the Change of the Old for New Program. As a result, our business and financial performance expansion plans may be materially and adversely affected.

Prepayments made to our suppliers involve credit risks

Prepayments made to our suppliers amounted to approximately RMB110.6 million, RMB207.0 million and RMB328.3 million as at 31 December 2007, 2008 and 2009, respectively. As at 31 January 2010 (the latest practicable date for financial information in this prospectus), prepayments made to our suppliers amounted to approximately RMB379.6 million. A substantial portion of the prepayments during the Track Record Period were made to the suppliers of Midea and Gree air conditioners. For the three years ended 31 December 2007, 2008 and 2009, approximately 81.0%, 67.1% and 83.9%, respectively of our total prepayments made to the suppliers were made to the suppliers of Midea and Gree air conditioners. As part of our past and present practice and arrangement with the suppliers of Midea and Gree air conditioners, payments for Midea and Gree air conditioner purchases are usually made in entirety by prepayments. Our Directors understand that our suppliers of Midea and Gree air conditioners were associated with Midea or Gree, both of which companies are listed on the Shenzhen Stock Exchange. Although we regularly review the financial statements of Midea and Gree and believe that both companies are financially sound, and we have not experienced any defaults by the suppliers of Midea and Gree air conditioners to whom we made prepayments during the Track Record Period, we are subject to credit risk that our suppliers will not honour their obligations after we have prepayments. There is no assurance that our suppliers will continue to deliver merchandise as agreed. In the event that any of our suppliers goes into financial difficulty or defaults on obligations to us, we may not be able to realise all or part of the prepayments made to it. Our business, financial condition and results of operation may be materially and adversely affected.

We derive a very significant portion of our revenue from sales of air conditioners

We derive a very significant portion of our revenue from sales of air conditioners, either through our retail operation or bulk distribution (including sales to our franchisees). For the three years ended 31 December 2007, 2008 and 2009, our revenue derived from sales of air conditioners accounted for approximately 57.7%, 71.8% and 67.7% of our total revenue derived from sales of merchandise, respectively. Accordingly, our financial performance depends heavily on the sales of air conditioners. We cannot assure you that demand for our air conditioner products will continue to grow or even remain at current levels and that we will be able to sustain our sales of air conditioners in the future. In addition, we may fail to renew the existing authorised distribution rights from our air conditioner suppliers and replace such rights with additional authorised distribution rights for comparable products. Any decrease in our sales of air conditioners may materially and adversely affect our business and financial performance.

We currently conduct a very significant part of our operations in, and derived a very significant portion of our revenue from, Jiangsu province

We derived a very significant portion of our revenue from Jiangsu province during the Track Record Period. Our Directors believe that we are one of the leading household appliances enterprises in the third and fourth-tier markets in eastern China. 24 out of our 30

Self-operated Stores, 216 out of our 220 Franchised Stores and 120 out of 126 of our Service Centres (including our Self-operated Service Centres and Authorised Service Centres) are located in Jiangsu province. Over 90% of our total revenue for the three years ended 31 December 2009 was generated from our operations in Jiangsu province.

We have been focusing our business operation on the third and fourth-tier markets within Jiangsu province and its neighbouring province, Anhui province. Jiangsu province ranked fifth in 2008 among 31 PRC provinces, autonomous regions and municipalities in terms of per capita net income of rural households according to the National Bureau of Statistics of China. The revenue that we generate from our Jiangsu operation will highly depend on whether our targeted markets in Jiangsu province can continue to sustain the same economic growth rate, whether the competitive environment becomes more intense and whether our targeted markets in Jiangsu province may become saturated. Our operations and financial performance are also vulnerable to, and may be adversely affected by, any unfavourable changes in the economic environment of Jiangsu province, such as changes in local government policies, any occurrences of natural disasters, earthquakes, epidemics, fire, water damage, or the imposition of new legal restrictions, which may lead to a decline in demand for home appliances and consumer electronic products or an increase in our operating costs.

A breakdown of the transportation and communication infrastructure may interrupt our business operations

We have been focusing our business operations on the third and fourth-tier markets within Jiangsu and Anhui provinces. 20 out of our 30 Self-operated Stores and a significant number of our Franchised Stores are located in the third and fourth-tier markets. According to our Directors' understanding, the third and fourth-tier markets in the PRC comprise of county-level cities, townships and rural areas, which are still undergoing social and economic development. The transportation and communication infrastructure in the third and fourth-tier markets is still in a preliminary stage of development. In the event that there is a breakdown of such transportation and communication infrastructure in the third and fourth-tier markets, we may not be able to deliver our merchandise to our Self-operated Stores or Franchised Stores located in those regions on a timely basis, and our reputation may be adversely affected. We may also not be able to effectively communicate with our Self-operated Stores or Franchised Stores located in those regions, which could interrupt and have an adverse impact on our business operation.

We rely on our Franchised Stores and Authorised Service Centres to expand our retail network and after-sales services in the third and fourth-tier markets

Our future success is dependent on the growth of our retail network and after sales services. Our retail operation and after-sale services are characterised and supplemented by the presence of a significant number of Franchised Stores and Authorised Service Centres, all of which are independent from us. We have adopted a strategy of first establishing a Self-operated Store in a targeted municipal market, which is then followed by the opening of Franchised Stores in the relatively more populated surrounding rural areas to expand our retail chain coverage and reach. It is also our strategy to locate our Service Centres in the vicinity of our Stores and our target customers. We achieve such strategies by entering into franchise or service authorisation arrangements with third party service providers. We believe that the franchise model and the service authorisation arrangement allow us to obtain market penetration in rural areas with a shorter ramp up time and lower capital outlay. For the three years ended 31 December 2007, 2008 and 2009, our revenue generated from sales to our franchisees amounted to approximately RMB155.0 million, RMB285.3 million and RMB373.3 million, respectively, whilst our gross profit from sales to our franchisees amounted to approximately RMB20.7 million, RMB30.6 million and RMB52.8 million, respectively. Please refer to the section headed "Financial Information" of this prospectus for further details.

To allow us with more flexibility on the franchise and authorisation models, we enter into franchise or authorisation agreements with our franchisees or service providers on annual basis. In the event that any of our franchisees or service providers decide not to renew their arrangements with us upon expiry of the existing arrangements, we may not be able to find suitable replacements within a short period of time. There is no assurance that we will be able to attract third party retailers and service providers to join our chain as our franchisees or service providers or that we will be able to identify suitable retailers in desired markets and locations to join our chain, so that we will be able to extend the geographic coverage of our retail operations to the surrounding rural areas. Our ability to expand our retail network and after-sales services through retaining existing Franchise Store and Authorised Service Centre operators is essential to our growth and expansion strategy. Our failure to expand our retail network and after-sales services could materially and adversely affect our business, financial condition and results of operations.

We do not control our Franchised Store and Authorised Service Centre operators

All of our Franchised Stores and Authorised Service Centres are established, financed and operated by Independent Third Parties. Substantially all of our current franchisees are our former customers or former employees. As these franchisees and authorised service providers are independent operators, they have significant flexibility and discretion in running their operations. Their employees are not our employees. Although the franchise and authorisation agreements contain provisions requiring our franchisees and authorised service providers to comply with the standards, rules and procedures specified by us from time to time and to grant access to monitor their operations for ensuring ongoing compliance, independent business decisions made by our franchisees and authorised service providers and other factors are beyond our control. Consequently, we are unable to ensure that these respective franchisees and authorised service providers successfully operate the Franchised Stores or Authorised Service Centres and adhere to our standards and requirements. Further, in the event that our franchisees or authorised service providers fail to obtain all the necessary approvals, permits, licences, certificates and tests for conducting their businesses, including but not limited to fire inspection tests, their business operation may be interrupted, which may in turn affect our business operation. While we ultimately can decline to renew the relevant arrangements with franchisees or authorised service providers that do not comply with our standards, we may not be able to identify problems and take action in a timely manner and, as a result, our image and reputation may suffer. If any of our franchisees and Authorised Service Centre operators fails to adhere to our standards and requirements, our brand reputation and consumers' perception of our retail chain could be negatively impacted, which could materially and adversely affect our business, financial condition and results of operations.

We may encounter difficulties in entering into new markets and implementing our expansion plans

We have adopted a strategy of focusing on establishing a Self-operated Store in the municipal markets, which is usually larger in terms of Gross Floor Area and located in an area with higher concentration of commercial activity, to promote "*汇银 (Huiyin*)*" brand awareness, which would be followed by Franchised Store openings in the relatively more populated surrounding rural areas to expand our chain coverage and reach. We intend to continue to employ such an expansion strategy when entering new markets in the foreseeable future.

In the event that we fail to adequately promote the "*汇银 (Huiyin*)*" brand in our targeted markets, we may not be able to attract potential franchisees and/or Authorised Service Centre operators to join our retail network and/or after-sales service taskforce. As a result, our expansion plan may not be successful.

The successful implementation of such plans may also be influenced by various other factors, including the availability of sufficient resources such as funding and manpower, the identification of suitable sites and the negotiation of acceptable terms or leases for these sites, the adaptation of logistics and other operational and management systems to an expanded network, the ability and willingness of merchandise suppliers to supply on a timely basis at competitive prices and to provide us with various forms of support in the new markets. These essential factors are beyond our control.

We may not be able to achieve our planned expansion, or to effectively integrate any new Stores into our existing chain. In particular, our newly opened or acquired Stores may not achieve the desired sales and profitability levels, and the opening of additional Stores in new geographic markets could present challenges different from those we currently or previously faced within our existing geographic markets. As we enter new markets, we may not be able to accurately assess and adjust to the consumer tastes, spending patterns, preferences and demands in the relevant markets, and we may incur higher costs in lease, administration, distribution, logistics and advertising associated with the opening of new Stores, which may adversely impact our working capital available for our operations in existing markets. In addition, our expansion will continue to strain our management, manpower, operational, financial and other resources.

Our expansion plans into new markets may also be subject to changing and/or new state and local government regulations, policies and development plans. In the event that the economies of these regions do not develop in accordance with our expectations, we may incur losses from opening new Stores before the local economy can sustain them, as a result of which our results of operations and financial conditions may be materially and adversely affected.

Lack of official statistics in the third and fourth-tier markets may affect our expansion plans

We are proactively expanding the geographical coverage of our retail network in select regions in eastern China. When evaluating any prospective region for network expansion, our management typically evaluates the development potential of a region by making reference to the estimated size of the market for home appliances, level of competition, level of support by our suppliers and sufficiency of our resources. In addition, we may also plan to open new Self-operated Stores or procure the opening of new Franchised Stores in our existing operating regions. Prior to the opening of such new Stores, we will study the local market conditions of the relevant operating regions. However, given that the third and fourth-tier markets in China are still undergoing development, we are not aware of any official, reliable and authoritative statistics or information containing detailed analyses of such markets. We rely purely on our own informal market research on some regions, and our management's industry and business experience to assess the feasibility and development potential of such regions. In the event that our own informal market research fails to identify and assess potential problems in our targeted markets or its findings turn out to be incorrect, the newly opened Stores may not achieve the desired sales and profitability levels. Further, if we fail to accurately assess the local market conditions, in particular the spending powers of the region's residents, the newly opened Stores may cannibalise sales from existing Stores, thereby adversely affecting our financial performance. We cannot assure that we will have sufficient information about any particular market or region that we assess as an expansion target. In the event that we fail to adequately estimate and assess a market's potential for household appliances and consumer electronics, our business, financial condition and results of operations may be materially and adversely affected.

We depend on our suppliers to grant us authorised distribution rights and after-sales service provider status on an annual basis in connection with our bulk distribution business and after-sales services

We are currently one of the bulk distributors of selected types of home appliances and consumer electronic products, principally air conditioners, washing machines, refrigerators and TV sets, for over 20 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens, within the areas surrounding our Stores. We are also an authorised after-sales service provider for a number of branded electronics suppliers in most of the areas in which our Service Centres are located. We enter into distribution and after-sales services arrangements with such suppliers on an annual basis.

During the Track Record Period, our revenue from sales of merchandise through our bulk distribution operation increased by approximately 157.2% from approximately RMB252.4 million for the year ended 31 December 2007 to approximately RMB649.1 million for the year ended 31 December 2008, primarily due to the fact that we acquired additional authorised distribution rights for selected types of Gree and Midea products through our acquisition of

Changzhou Keyi and our enhanced relationships with certain suppliers. Revenue from sales of merchandise through bulk distribution operation increased by approximately 23.0% from RMB649.1 million for the year ended 31 December 2008 to RMB798.4 million for the year ended 31 December 2009, primarily as a result of an increase in sales volume due to an expansion of our distribution network and the increased demand resulting from the Rural Appliance Rebate Program. During the Track Record Period, we voluntarily made prepayments for certain inventory purchases in order to enhance the relationships with our suppliers and to increase the likelihood of securing additional authorised distribution rights.

In the event that our suppliers determine not to renew our existing authorised distribution rights and after-sales service provider status for any reason or we are unable to obtain additional authorised distribution rights or after-sales service provider status for similar products in new markets or new products in existing markets, we may not be able to maintain or grow our revenue and, in turn, our business, financial condition and results of operations may be materially and adversely affected.

We depend heavily on our relationship with the suppliers

The success of our business and growth strategy depends heavily on our relationships with merchandise suppliers. We have maintained stable business relationship with our top five suppliers for more than four years. In particular, we managed to maintain our business relationship with most of our top five suppliers for more than seven years. For each of the three years ended 31 December 2009, our top five suppliers, in aggregate, accounted for approximately 69.1%, 74.7% and 76.7%, and our single largest direct supplier accounted for approximately 39.3%, 36.3% and 33.4% of our total purchases, respectively. For the three years ended 31 December 2007, 2008 and 2009, approximately 81.0%, 67.1% and 83.9%, respectively of our total prepayments made to the suppliers were made to the suppliers of Midea and Gree air conditioners, two of our top five suppliers. We believe that making such prepayments helps to strengthen relationships with our top five suppliers in order to secure authorised distribution rights and favourable terms on our supply arrangements. Save and except for Sony with which we entered into a supplier agreement for two years, we generally enter into supply agreements with our top five suppliers on an annual basis. If we are unable to continue to maintain good relationships with our existing merchandise suppliers, or develop and maintain our relationships with new merchandise suppliers for new products that suit our customers, we may not be able to secure desired products or competitive terms. Our cost of sales will increase if we cannot secure products in demand on competitive pricing and terms. We cannot assure that our suppliers will not consolidate their businesses, such that they will be in a stronger bargaining position in their supply contract negotiations with us. In addition, we may not be able to continue to make significant prepayments for merchandise in the future. If we are unable to maintain our existing supply arrangements such that we source merchandise on commercially acceptable terms, our costs of sales will increase, and our profitability may be adversely affected.

Furthermore, our ability to set up additional Stores in the existing markets and to penetrate new markets depends on the willingness and ability of our suppliers to supply current and new products on favourable terms to the new Stores to satisfy consumer demand. As we continue to expand into new markets, the unwillingness and inability of our suppliers to supply some of or all of their products to us at acceptable prices could lead to a decrease in our revenue and profits.

In addition, our market image depends to a certain extent on major brand suppliers. We enter into contracts with major brand suppliers typically for a term of one year. Competition is intense among retail outlets of home appliances and consumer electronic products for popular brands and products. In the event that any major brand suppliers terminate their contracts or relationship with us for any reason and we fail to find other suitable suppliers as replacements, or the supply to us is not on terms commercially favourable to us, our market image and business results could be materially and adversely affected.

We experienced significant net cash outflow for the two years ended 31 December 2008 and 2009. If we are unable to maintain a sufficient level of cash flow for our operating activities, and if we are unable to secure sufficient banking facilities in due course, we may not be able to meet our debt and other payment obligations as they become due, and our financial condition and results of operations will be materially and adversely affected

We experienced significant cash outflow from operating activities amounting to approximately RMB130.9 million, RMB45.7 million and RMB101.5 million, respectively, for the three years ended 31 December 2007, 2008 and 2009. The major factor which contributed to the net cash outflow from operating activities for these periods was high amounts of prepayments, deposits and other receivables as a result of increased prepayments made to our suppliers, in particular suppliers of Midea and Gree air conditioners, due to the rapid expansion of our business operation, to secure authorised distribution rights for selected types of products, to enhance our relationships with suppliers and to increase the likelihood of being able to secure additional authorised distribution rights. Further, we experienced cash outflow from investing activities for the year ended 31 December 2007 and the year ended 31 December 2009, primarily due to purchases of property, plant and equipment relating to the expansion of our business operations. We cannot give any assurance that we will record positive operating cash flow in the future or that we will always be able to raise the necessary funding to refinance our short-term borrowings upon maturity or finance our capital commitments and expenditures. Our liquidity and financial condition may be materially and adversely affected should our future operating cash flow continue to be negative. If we resort to alternative financing sources to generate additional cash, we may incur additional financing costs and we cannot guarantee that we will be able to obtain financing on terms acceptable to us or at all. In such circumstances, our business operations, liquidity, financial position and prospect may be materially and adversely affected.

Our gross profit margins may continue to decrease affecting further profitability

Our gross profit margin decreased from approximately 16.9% to 12.2% from 2007 to 2008 principally due to (i) a higher percentage increase in sales volume of our bulk distribution operation (under which our products are generally sold at lower prices with lower gross profit margins) when compared to our retail operation (under which our products are generally sold at higher prices with higher gross profit margins) and (ii) deteriorating market conditions.

Our gross profit margin increased from approximately 12.2% in 2008 to approximately 16.5% in 2009 and the gross profit margin of our retail operation and bulk distribution operation has increased from approximately 17.9% and 9.1%, respectively, in 2008 to approximately 22.8% and 12.8%, respectively, in 2009 principally due to an increase in sales of merchandise covered under the Rural Appliance Rebate Program (under which our Directors believe that such products are generally sold with higher gross profit margins) and an increase in overall demand from the relatively poor market conditions for household appliances in China in 2008. However, there is no assurance that the effect of the positive factors occurring in 2009 can continue to outpace the impact of other negative factors mentioned above on gross profit margin. As a result, our financial conditions and results of operations may be adversely affected by any further decrease in gross profit margin.

Sales of our key product, air conditioners, are subject to seasonality

Sales of our key product, air conditioner, are subject to seasonality. Revenue generated from sales of air conditioners accounted for approximately 57.7%, 71.8% and 67.7% of our total revenue derived from sales of merchandise for the three years ended 31 December 2007, 2008 and 2009, respectively. During the Track Record Period, a higher proportion of our sales is typically recorded around or prior to the summer season. For the three years ended 31 December 2007, 2008 and 2009, sales generated between May and July of each year accounted for approximately 37.3%, 36.2% and 31.7% of the aggregate annual sales, respectively. Due to these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. Further, we may suffer a material and adverse impact on our revenue and profitability if our operations are disrupted or affected by infectious disease outbreaks and other unpredictable events taking place in around or prior to the summer season.

We may not be able to maintain the rebate arrangements with our suppliers

Under most of our supply agreements, our suppliers are obliged to provide rebates to us if we achieve certain milestones, including without limitation, achieving purchase targets. The rebates are usually settled on a monthly, quarterly, semi-annual and annual basis, in accordance with agreed rates with the relevant suppliers. In addition, rebates may also be provided by suppliers to compensate us for any adjustments our suppliers may make to the retail prices of their merchandise, the amount of which would be confirmed with the suppliers during the settlement process. The rates of supplier rebates are negotiated by us with our suppliers on a case by case basis.

Supplier rebates are accrued as earned and reliably estimated and are credited as a reduction in inventory with a subsequent reduction in cost of sales when the related merchandise is sold. For the three years ended 31 December 2007, 2008 and 2009, our supplier rebates amounted to approximately RMB97.0 million, RMB161.1 million and RMB269.0 million, respectively. Our Directors confirm that it is customary to receive supplier rebates in our industry. In the foreseeable future, our Directors expect that we will continue to receive supplier rebates from our suppliers. In the event of any unfavourable changes in relation to the rebate arrangements with our suppliers, our cost of sales and thereby our gross profit margins and results of operations could be materially and adversely affected.

Sales to our Franchised Stores may not present actual growth in sales to their ultimate customers

We distribute as a supplier to our Franchised Stores. Our revenue generated from sales to our Franchised Stores accounted for approximately 31.0%, 28.9% and 29.9%, respectively, for the three years ended 31 December 2007, 2008 and 2009. As our franchisees operate independently from us, we generally do not require our franchisees to provide us with any information on their sales and inventory level. We do not have absolute control over our Franchised Stores. We could not assure you that products purchased from us by our franchisees are ultimately sold to their customers. Although our Directors believe that our Franchised Stores may not accumulate stock, there is no assurance that they purchase the merchandise in quantities matching the actual needs of their sales operation. The growth in sales to our Franchised Stores may not represent actual growth in sales to their ultimate customers.

Maintaining and expanding our business operation requires substantial expenditures, for which we may not have adequate or readily available financial resources

To maintain and expand our chain, we need to incur substantial capital expenditure from time to time, including expenditure on construction or expansion of the distribution and logistics centre. For the three years ended 31 December 2007, 2008 and 2009, our capital expenditure amounted to approximately RMB12.0 million, RMB10.8 million and RMB61.4 million, respectively. Our capital expenditure increased significantly from 2008 to 2009, principally relating to our new distribution and logistics centre. Our expansion plan, whether through new store establishment or acquisition, will also require us to make substantial capital expenditures. We may also need to incur additional financial resources from time to time to maintain the daily operation of our newly established or newly acquired stores. Our competitors, particularly national home appliances and consumer electronic products retailers, may have stronger financial resources than us, which may give them an advantage in competing for convenient or strategic locations or acquisition targets. In addition, we may need to continue to contribute additional capital to a newly established or acquired Store after its commencement of operation within our chain, if the Store is not as profitable as we anticipate. We may need to raise additional funds through bank borrowings or the issuance of debt or equity securities to finance these capital expenditures. However, our ability to obtain additional financing in the future is subject to a variety of uncertainties, including (i) our future financial condition, results of operations, cash flows and borrowing levels; (ii) general market conditions for capital raising activities by retail and similar companies; and (iii) economic, political and other conditions in China and elsewhere.

We may be unable to obtain additional or any financing in a timely manner or on acceptable terms. Furthermore, the terms and amount of any additional capital raised through issuance of equity securities may result in significant shareholder dilution. Further financing activities or the remittance of the proceeds into the PRC may also require PRC regulatory approvals, which may not be granted in a timely manner or at all. If adequate funding is not available, our ability to develop and expand our business may be materially and adversely affected.

We may not be able to secure or renew existing locations for Self-operated Stores on favourable rental terms

Our business depends significantly upon our ability to secure strategic locations with relatively higher commercial activity and easy accessibility for our Self-operated Stores. These strategic locations are in high demand and are scarce. There is no assurance that we will be able to renew them or to obtain additional strategically advantageous locations. Currently, most of our Self-operated Stores are operated on properties leased by us from Independent Third Parties, exposing us significantly to the rental market. For the three years ended 31 December 2007, 2008 and 2009, the cost of operating leases of our Self-operated Stores amounted to approximately RMB5.7 million, RMB9.0 million and RMB11.8 million, respectively. Most tenancies of our leased stores are negotiated on a mid to long term basis of typically three to 12 years. Among these leases, in addition to the three leases which will expire in 2010, 11 of them will expire in the next three years, three of them will expire in the next five years. Investments are made in the external and internal decorations and improvements of our Stores. Before expiry of the lease agreement for each of our existing leased properties occupied by our Self-operated Stores, we must re-negotiate the terms and conditions on which such lease agreement may be renewed. If we are unable to renew such lease agreements on favourable terms and conditions, in particular the rental charges, we may be required to relocate to alternative premises (which can potentially be a less desirable location), and we will incur additional and potentially significant costs in doing so. Considering the scarcity of such locations and their relatively high rental rates, there is no assurance that we will be able to secure or obtain alternative sites at a suitable location or leased on favourable terms. For more information on the payment terms of our leases, please refer to the section headed "Property valuation" in Appendix III to this prospectus.

In addition, given the robust demand in the property market as a result of economic growth in the third and fourth-tier markets of the PRC, the market rental rates for retail shops in Jiangsu province have increased approximately 3.2% during the Track Record Period. Our Directors anticipate that the rental costs of our existing leased Stores will continue to increase in the future. Failure to establish or maintain our Stores successfully in such strategic locations on favourable terms may lead to reduced sales and/or increased operating costs of the business carried out at such locations which may in turn have a material adverse effect on our overall financial position and future growth potential.

We also plan to expand our retail operations further into our targeted markets. Our Directors believe that supply of good retail locations in such areas will be scarce, thereby the competition to secure prime properties will be intense. If we are unable to secure desirable properties, we may not be able to achieve our expansion plans as scheduled, and our revenue and growth prospects may be materially and adversely affected.

We rely heavily on a few key management personnel and may not be able to retain and attract talented personnel

We maintain an experienced and stable management team, most of whom have been with us since inception and have extensive experience working in the China home appliances and consumer electronic products retail market. Due to the characteristics of the third and fourth-tier markets, our success has been, and will continue to be, heavily dependent upon the strategies and vision of our key management team, including Mr. Cao, Mr. Mao Shanxin and Mr. Mo Chihe. Most of them have played a pivotal role in our daily operations and are responsible for formulating strategies to deal with the changing market environment. Each of our executive Directors has entered into a service agreement with our Company for an initial fixed term of three years commencing from the Listing Date. If one or more of our key management personnel or other members of our senior management team were unable or unwilling to continue in their present positions, we may be unable to identify and recruit suitable replacements in a timely manner, or at all. In addition, if any member of our senior management were to join a competitor or forms a competing company, we may lose some of our know-how and business relationships.

Recruiting and retaining capable executives and experienced personnel are vital to our business and expansion plans. Although we try to provide competitive compensation package to our key management personnel, there is no assurance that we will be able to manage our expansion by retaining our existing executives and other experienced personnel and/or by recruiting additional appropriate employees, as competition for such personnel is and is likely to continue to be intensive. If we are unable to attract and retain qualified employees, key management personnel and senior management, our business, results of operations and financial condition may be materially and adversely affected.

We failed to obtain certain required certificates, licenses and permits on time

Pursuant to 中華人民共和國消防法 (Fire Protection Law of the PRC*), which was promulgated in 1998 ("**Old Fire Protection Law**") and was then amended in 2009 ("**New Fire Protection Law**"), all businesses established in places of public gathering, such as shopping centres, are required to apply to the relevant local authorities to undertake fire inspection tests, and may only commence their operations after passing the requisite tests. As at the Latest Practicable Date, 17 out of our Self-operated Stores (excluding our four shop-in-shop stores which are operated within department stores) have not undertaken and completed fire inspection tests. As advised by our PRC Legal Advisers, given that 12 of such Self-operated Stores commenced their business prior to the implementation of the New Fire Protection Law, the Old Fire Protection Law shall apply. The Old Fire Protection Law did not expressly specify the exact penalty for non-compliance. However, 江蘇省消防條例 (Rules of Fire Protection of the Jiangsu Province*) stipulated that, based on article 40 of the Old Fire Protection Law, a business is subject to fines in an amount between RMB 10,000 to RMB100,000 for failure to undertake the inspection tests. Further, 安徽省實施〈中華人民共和國消防法〉(Implementation of Fire Protection Law in Anhui province*) stipulated that, based on article 40 of the Old Fire Protection Law, a business shall be ordered to pay fines in an amount between RMB4,000 and RMB100,000. Five of such Self-operated Stores commenced their business after the implementation of the New Fire Protection Law and are therefore subject to the New Fire Law. As advised by our PRC Legal Advisers, the New Fire Protection Law stipulated that a business shall be ordered to cease its business operation and pay fines in an amount between RMB30,000 and RMB300,000. In the event that the relevant fire inspection criteria are not met, a business could be required to make necessary adjustments in order to comply with the relevant criteria within a prescribed period. Any failure to make such adjustments within a prescribed period could, in turn, result in the imposition of penalties, including an order to stop utilising the premises and cease operations and to pay fines. The maximum possible penalty that may be imposed on us is expected to be in an amount of RMB2,700,000.

Although we are applying for fire inspection tests at our non-compliant Self-operated Stores, we cannot assure you that we will be able to obtain the relevant fire inspection approvals from the relevant PRC authorities. In the event that we fail to obtain the relevant approvals, we may have to relocate some of our Self-operated Stores if we are found not to meet the relevant fire inspection requirements and we may be penalised for non-compliance with the relevant PRC law. If we are forced to relocate any of our Self-operated Stores to alternative premises, we may not be able to find premises that are suitable to our operations or on commercially acceptable terms, which will adversely affect our sales and result in additional costs on our part.

In the event of an occurrence of fire in any of our Self-operated Stores, which results from our failure to conduct the required fire inspection tests, we may be subject to a similar penalty as disclosed in the above paragraph. Besides, if there are any loss or injury suffered by third parties as a result of our failure to conduct fire inspection tests, we may be subject to civil liability under the PRC law.

During the Track Record Period, save and except for those as disclosed in this prospectus, we have obtained all relevant certificates, licenses and permits required for our operations. For further details of our non-compliance, please refer to the section headed "Our Business — Litigation and legal compliance" in this prospectus.

We may fail to foresee and provide attractive goods to satisfy customer tastes and demand

Consumers in our targeted markets, particularly those in the rural areas within close proximity to our Stores, are generally more price-sensitive and are more concerned with the basic features and the continuing maintenance costs of the products. We have been successful in supplying an appropriate range of value products corresponding to the local consumption patterns in our targeted markets. Our Directors believe that our success in sustaining business growth depends, in part, on our ability to both maintain a suitable selection of reasonably priced home appliances and consumer electronic products and at the same time anticipate and respond in a timely manner to customer demands and preferences and accurately foresee changing consumer demands and provide relevant services accordingly. As one of the first electronics retail chains targeting the developing third and fourth-tier markets, we understand our targeted customers' tastes of and demand for different types of home appliances and consumer electronic products, as well as their spending patterns. However, as the economic conditions of our targeted markets continue to improve and households continue to modernise their lifestyles and upgrade their living standards, we may not be able to predict our targeted customers' tastes and demands and thus fail to adjust our product mix accordingly. The success of our operations depends in part on our continued ability to select products from the suppliers, or secure concession merchandise, that meet customer tastes and demand, and our ability to make available sufficient quantities of attractive, popular merchandise to satisfy consumer demand in time. If we fail to accurately foresee or quickly adjust to the general trends of consumer demand and preference and to provide new and attractive goods, our operation and financial performance will be materially and adversely affected.

Our business would be materially and adversely impacted if we fail to have an effective inventory control system

Unlike most major household appliance and electronics retailers in China, as far as direct purchases from suppliers are concerned, we have adopted a business strategy of sourcing from our suppliers principally on a COD or a very short-term credit basis in addition to making prepayments to certain of our suppliers. As at 31 December 2009, we had inventory of approximately RMB163.1 million. Our provision for obsolescence as at 31 December 2007, 2008 and 2009 amounted to approximately RMB0.3 million, RMB0.8 million and RMB0.5 million, respectively. The stock turnover days for each of the three years ended 31 December 2007, 2008 and 2009 were 52 days, 49 days and 56 days, respectively. Our stock represented approximately 10.6%, 21.0% and 17.2% of our total assets as at 31 December 2007, 2008 and 2009, respectively. In the event that we under-stock inventory, our ability to meet consumer demand and our operational results could be adversely affected. If we over-stock inventory or we wrongly make a forecast on consumer demand, our operations and financial performance may be materially and adversely affected. Warehousing stock involves costs. Moreover, if such stock becomes obsolete, we may have to write-off such stock, which may increase our cost of sales. In addition, in the event that our stocks are damaged (for example by fire), this may disrupt our business and may affect our profitability adversely. Our business and profitability may further be materially and adversely affected if we cannot fully recover our losses from our insurers.

Our insurance coverage may not be sufficient to cover all losses

Although we have obtained insurance coverage for the operation of our business that our Directors believe is customary in the PRC retail industry, covering risks such as loss as a result of fire, theft or occurrence of certain natural disasters, we do not carry insurance in respect of certain risks such as product liability claims. If we incur substantial losses or liabilities that are not covered or compensated by our insurance coverage fully or at all, our business, financial condition and results of operations may be materially and adversely affected.

Our business operations may be materially and adversely affected by any information technology system failure

We maintain a computerised information system which integrates the function of merchandising, stock replenishment, procurement and distribution, sales, and financial management. All of our Self-operated Stores are equipped with a standard management information system which enables our headquarters to analyse and record sales details, and to track inventory on a timely basis. Any system failure or inadequacy that causes interruptions to the input, retrieval and transmission of data, or increases the response time of our networks, could disrupt our normal operation, and thus reduce customer satisfaction. In the event that there is a failure in internet operation and/or the associated information technology systems, our computerised information system may be interrupted or suspended leading to adverse effects to our business operation. Although our Directors believe that the disaster recovery plan adopted by us to handle a failure of the information technology systems is adequate, there is no assurance that this disaster recovery plan can be effectively carried out and that we will be able to restore our operation within a sufficiently short time frame to avoid our business being adversely affected.

Further, there may also be inherent risks to the use of new software in systems in the future, including our ability to integrate them successfully with the existing network systems. If our current or future information technology systems do not function properly to meet our specific needs as a retail operator, our performance and profitability may be adversely affected.

We may be required to relocate certain of our existing Stores due to lease defects or encumbrances in land title or building ownership rights of our lessors

As at 31 December 2009, we leased 43 properties with a total Gross Floor Area of approximately 55,901.74 sq.m. in China. They are used either as retail shops, office units, a wholesale unit, after-sales units, warehouses or dormitories.

As at 31 December 2009, with respect of 10 of our leased properties, the relevant lessors have not provided us with the relevant title ownership certificates or documents evidencing that they have requisite titles or rights to lease the properties to us. These 10 properties have an aggregate Gross Floor Area of approximately 9,259.94 sq.m. Four of these leased properties are occupied for office or retail uses (including a Gross Floor Area of 269.94 sq.m. which is used for ancillary office and storage purpose only), another four of them are occupied for storage use and the remaining two are occupied for office and dormitory use. We are dedicating significant effort to obtaining the relevant title ownership certificates, or other documents evidencing the authorisation of the property owners to lease such properties to us, from our lessors of those properties. As advised by our PRC Legal Advisers, a lessor's failure to duly obtain title to the property it has leased to us might potentially invalidate our lease agreements. We cannot assure you that no third party will seek to assert their ownership rights against these lessors in the future. Should disputes arise due to encumbrances on the title of these lease properties, we may encounter difficulties in continuing to lease the properties. In this event, we will be required to relocate and we may incur additional costs relating to such relocations as well as business interruption. Furthermore, we may not be able to find suitable alternative premises and our business may be adversely affected if we relocate to less desirable locations.

For details of the properties leased by us, please refer to the paragraph headed "Leased properties" under the section headed "Our business — Properties" in this prospectus and the property valuation report prepared by American Appraisal China Limited contained in Appendix III to this prospectus.

RISKS RELATING TO THE PRC RETAIL INDUSTRY

We rely on our intellectual property rights

We consider our trademark to be a valuable asset. All our Stores and Service Centres are operated under the well-known brand of "*汇银 (Huiyin*)*" (except for most of our dedicated brand retail Stores and our four shop-in-shop Stores which are operated within department stores). Our trademark of "*汇银 (Huiyin*)*" has been registered in the PRC under the categories of, *inter alia*, installation and maintenance of electronic equipment. "*汇银 (Huiyin*)*" has also been registered as the company name of Yangzhou Huiyin and some of its subsidiaries. In order to protect our goodwill for our retail business, we also registered our "*汇银 (Huiyin*)*" brand under the category of advertising. The trademark of "*汇银 (Huiyin*)*" was awarded "揚州市知名商標 (Yangzhou Famous Trademark*)" by 揚州工商行政管理局 (Yangzhou Administrative Bureau of Industry and Commerce*) for the years between 2003 and 2006 and "江蘇省著名商標 (Jiangsu Administrative Bureau of Industry and Commerce*) for the years between 2008 and 2011.

Pursuant to the Competition Law, a company is not permitted to use its competitor's company name in its business operation if such use of company name may mislead the customers to believe that the customers are buying products or services from its competitors. However, since relevant PRC trademark law has not expressly provided for registration of categories such as retail business, we may not able to register the trademarks so as to protect our goodwill for our retail business. There is no assurance that third parties will not copy or otherwise obtain and use our intellectual property rights without authorisation or use our intellectual property in a proper manner. Should we fail or be unable to assert on defend our rights over intellectual property, there may be a material adverse impact on our business and marketing plans. In enforcing third parties' infringements of our intellectual property rights, we may incur additional cost and expend significant management time in any intellectual property infringement claims initiated by us which may have a material adverse impact on our business reputation and profitability.

Furthermore, although both our franchise and authorised service agreements contain provisions restricting our franchisees and authorised service providers from assigning or otherwise assisting unauthorised third parties in using our trademark and trade name, we may not be able to identify problems and take action in a timely manner and, as a result, our image and reputation may suffer.

We may face liabilities for infringement of intellectual property rights of third parties

Although we have adopted measures to minimise potential infringement of intellectual property rights of third parties and there has not been any claim by any third party against us for alleged infringement of intellectual property rights, it is possible that we may inadvertently infringe the intellectual property rights of others and face liabilities for such infringements in the course of carrying on our business or that third parties may initiate litigation against us claiming infringement of third party intellectual property rights. It is difficult to predict how such disputes would be resolved. The defence and prosecution of intellectual property rights are costly and will divert management attention from the normal operations of our business. Our reputation and financial condition may be adversely affected should there be any future litigation cases against us for infringement of intellectual property rights of third parties. We may not prevail in any such litigation. Any adverse decision with respect to any litigation against us, resulting in a finding of infringement by us, whether or not advertent, may result in the imposition of monetary penalties on us or requirements to cease or modify the alleged infringing activity.

In addition, we allow our franchisees to source from third parties and sell certain electronic products which we do not offer. In the event that our franchisees sell products that infringe intellectual property rights of third parties, which is beyond our control, we may face liabilities for infringement by our franchisees and our image and reputation may suffer.

Our sales may decline if we fail to effectively market and promote our Stores

We have been launching and organising promotional events since we commenced our retail businesses. Our Directors believe that our promotional and marketing events have not only increased our revenue but have also promoted and enhanced the brand name and market image of our Stores. There is no assurance that we will be able to continue to design, develop and organise promotional events that are popular among and appealing to our target customers. Accordingly, our competitors may imitate us by organising similar events or developing more attractive activities. Consequently, our efforts in marketing and promotional events may not be effective in the future. In particular, major marketing campaigns that do not produce a favourable outcome and incur material costs may negatively impact upon our revenues and results of operations. As a result of any of the foregoing, we may suffer from increased expenses and/or a decreased profit margin, which would materially and adversely affect our financial performance.

We may face product liability claims

As a retailer, our business is exposed to the risk of product liability claims. Under prevailing PRC law and regulations, manufacturers and vendors who produce or sell defective goods in the PRC are liable in relation to product liability for loss or injury caused by such products. Pursuant to the General Principles of the Civil Law of the People's Republic of China (《中華人民共和國民法通則》) (“**PRC Civil Law**”) which took effect in 1987, defective products leading to any property damages or physical injuries to any person may expose the manufacturer or vendor of such product to civil liability. In 1994, the Consumers Protection Law was put into effect which accords further protection to the legal rights and interests of consumers in connection with the purchase or use of goods and services. Further, upon the promulgation and implementation of the Product Quality Law, consumers or other victims who suffer from injury or property losses due to product defects may demand compensation from the manufacturer, as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer and vice versa. At present, all business entities must observe and comply with the Consumers Protection Law and Product Quality Law in providing goods and/or services for sale.

We source our products from third party merchandise suppliers. Notwithstanding the quality controls adopted on sourcing products, if any of our customers suffer any damages resulting from products bought in any of our Stores, those customers may make product liability claims against us.

Our Franchised Stores are operated by Independent Third Parties under our registered “*汇银 (Huiyin*)*” brand name through a franchise arrangement. All of our Franchised Stores are required to source their merchandise exclusively from us or our approved channels such as through our specified Franchised Stores, except for those small electronic products and electrical accessories which we do not offer. Although our franchise agreements contain provisions allowing us to monitor the operations of our Franchised Stores, we may not be able to exercise our control over the products sold by them or the services provided by them in a timely manner. As advised by our PRC Legal Advisers, we are not liable for any conduct of our franchisees, who are independent from us. However, in order to maintain our reputation, in the event that we face product claim from customers of our franchisees, we may need to settle the compensation, then recover the same from our suppliers. As a result, we may face a risk of product liability claims from customers due to the fault of our franchisees.

As there is no PRC law compulsively requiring us to maintain insurance for product liability, we do not maintain any such product liability insurance. In the event that a customer lodges product liability claims against us, regardless of merit, our reputation may be adversely affected. Currently, we do not have any contractual right to be compensated by our some suppliers or manufacturers. Our financial position may also be materially and adversely affected as a result of us settling and paying for such claims. In addition, although we are entitled to claim compensation from our some suppliers or manufacturers in the event that the responsibility lies with them, there is no assurance that we shall be able to successfully claim any compensation from such suppliers or manufacturers or they may have sufficient financial resources to pay for the compensation or that any such recovered sum will be sufficient to cover our exposure to the relevant product liability claims.

We face intense competition in the PRC retail industry

The retail industry in the PRC is highly competitive, in particular following the country's accession to the World Trade Organisation in December 2001, and the consequent opening of the PRC retail market.

We face strong competition from both domestic and international operators of home appliances and consumer electronic products retailers. In particular, foreign home appliances and consumer electronic products retailers typically have strong brand recognition, extensive capital resources, strong operational experience, global purchasing and sales networks, high-technology logistics management systems and high-quality services concepts.

Aside from foreign entrants to the PRC market, we compete with other domestic home appliances and consumer electronic products retailers in the PRC, some of which may carry out cross-territory expansions and supply chain integration with a view to overcoming competition from foreign competitors. In addition, the opening of specialty stores in the PRC, especially the entrance of internationally-renowned brands in the form of chain specialty stores and franchises, increases competition generally and gives the concessionaires, some of whom are internationally-renowned brands, a new retail avenue that they could pursue. Our business was strategically focused on the third and fourth-tier markets in order to avoid intense competition from both domestic and international large-scale operators of home appliances and consumer electronic products retailers. However, the competition in the third and fourth-tier markets has become more intense in the recent years, as some of the large-scale home appliances retailers started to increase their presence in the third and fourth-tier markets. Some of our existing and potential competitors may have greater financial and other resources than we do. Such competitors may also have greater brand recognition, more established distribution networks or larger customer bases, all of which can provide them with competitive advantages with respect to negotiating with suppliers for authorised distribution rights and/or favourable terms for the purchase of merchandise or in acquiring suitable locations to open new stores. There is no assurance that our strategies will remain competitive or that they will continue to be successful in the future. If we are unable to compete successfully with existing or new competitors, our business, financial condition and results of operations may be materially and adversely affected. Our sales and profitability may be adversely affected as a result.

The recent global financial crisis and economic downturn did and may continue to materially and adversely affect our business, results of operations and financial condition

The home appliances and consumer electronic products retail industry is very sensitive to general economic trends as retail purchasing power of the consumers, in particular demand for durable products, tends to decline during recessionary periods. Substantially all of our annual revenue during the Track Record Period was derived from sales made in the PRC and from after-sales services earned in the PRC. The global economic downturn has caused economic growth in China to slow down and has adversely affected demand for household appliances which in turn negatively affected the gross profit margins of our sales made through our bulk distribution operation for the year ended 31 December 2008. Although in recent years the economy in the sub-urban rural areas of eastern China has maintained rapid growth, and increases in GDP and per capita disposable income have strengthened consumers' spending power and enhanced their demands for home appliances and consumer electronic products, such growth was adversely affected by the global financial crisis that began around September 2008.

The global capital and credit markets have been experiencing extreme volatility and disruption in the recent periods. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining residential real estate market in the U.S. and elsewhere have contributed to unprecedented levels of market volatility and diminished expectations for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. These events have led to a slowdown in the PRC economy which a number of economists predict could be significant and protracted. Although the PRC's economy continues to grow more quickly than most developed economies, its real GDP growth rate declines from approximately 13.0% in 2007 to 9.0% in 2008. A number of factors have contributed to this slowdown, including the appreciation of Renminbi, which has adversely affected China's exports, and the PRC government's tightening macroeconomic measures and monetary policies aimed at preventing overheating of the PRC's economy and controlling China's high level of inflation. The slowdown has been further exacerbated by the challenging global economic conditions in the financial services and credit markets, which in recent years has resulted in extreme volatility of the global credit and capital market. The slowdown of the PRC economy could lead to decrease in consumer spending powers and thereby materially and adversely affect our business, financial condition and results of operations.

In addition, the availability of credit to entities, such as our Group, operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the cost or availability of funding for entities within any of these markets, including our Group. Since the second half of 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads, lack of price transparency in credit markets and a reduction in available financing. It is difficult to predict how long these conditions will exist and the extent to which we may be affected. We have not received notices regarding withdrawal or early repayment of banking facilities, cancellation of orders, bankruptcy or default from any customers or suppliers as at the Latest Practicable Date. Prolonged disruptions to the global credit markets could limit our ability to borrow funds in the future, if necessary, which could materially and adversely affect our liquidity, results of operations, financial condition and prospects.

It has been recognised that there is a correlation between the property market and the home appliances and consumer electronic products retail industry in the PRC. It is also our strategy to ally with property developers for the marketing and promotion of homes appliances and consumer electronic products sold by us. The global financial crisis and the PRC Government's recent policies on property development have adversely affected the property market, which in turn, has adversely affected the home appliances and consumer electronic products retail industry.

Should the global financial crisis have a significant and protracted effect on the PRC economy, it could have a material adverse effect on both the PRC property market and the household appliances and consumer electronics industries. As a result, consumer demand for the products that we sell may significantly decrease, thereby materially and adversely affecting our business, results of operations and financial condition.

We may fail to successfully respond to changes in consumer preferences and/or purchasing power

The performance of our retail businesses depends primarily on the customers' preferences for electrical appliances and consumer products, disposable income, levels confidence in the economy and many other factors beyond our control. There can be no assurance that our customers will continue to purchase from our stores in the future. If customers' purchasing habits change in the future and we do not respond in a timely manner or at all, our business and financial results may be adversely affected. In addition, although the PRC has experienced rapid economic growth in recent years, there can be no assurance that such a rate of growth can be sustained in the future. A prolonged period of slow economic development or economic recession in the PRC or, more specifically, in Jiangsu and Anhui provinces, may lead to a reduction in spending by the customers in these regions, which may in turn have a material adverse impact on our overall financial results.

If we fail to obtain or maintain all required licences, permits and approvals, or if we are required to take actions to obtain such licences, permits and approvals which are time-consuming or costly, our business operations may be materially and adversely affected

Retail operations such as ours are subject to a significant number of licences, permits and approvals, such as those relating to fire prevention and public health. Our ability and the ability of our franchisees to continue to operate existing and new stores, and to successfully implement our expansion strategies into new businesses and locations is dependent upon our or our franchisees obtaining, maintaining and renewing (where necessary) the relevant regulatory approvals under PRC law. If we are unsuccessful in obtaining and maintaining such approvals, we may be prohibited from continuing our operations, and we may have to expend considerable time and costs in order to sustain our business. Further, should any of our franchisees be prohibited from continuing operations due to their failure to obtain or maintain such approvals, our results of operations may be adversely affected and we may not be able to expand as planned.

RISKS RELATING TO THE PRC

Changes in the PRC economic, political and social conditions and the PRC Government policies can affect our business

We derive all of our revenue from our operations in the PRC. Accordingly, our business, financial condition or results of operations are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC is different from the economies of most developed countries in many respects, and has been transitioning from a planned economy to a market-oriented economy. Nevertheless, the PRC Government exercises significant control over the PRC's economic growth. The PRC Government has implemented certain economic reform measures which emphasise utilisation of market forces in the development of the economy of the PRC. These reforms may have a positive effect on the PRC's overall and long-term development, but there is no assurance that changes in the PRC economic, political and social conditions, laws, regulations and policies will not have any adverse effect on our current or future business and financial conditions.

Changes in foreign exchange regulations may adversely affect our results of operations

The PRC Government regulates the conversion between Renminbi and foreign currencies. Over the years, the government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions, payment of dividends and service of foreign debt. However, foreign exchange transactions under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, SAFE. It is expected that our subsidiaries in China may pay dividends in foreign currencies to our Company, which is outside the PRC, by complying with certain procedural requirements. Shortages in foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

In addition, under the current foreign exchange regulations in China, subject to the relevant registration with the SAFE, we are able to pay dividends in foreign currencies, without prior approval from the SAFE, by complying with certain procedural requirements. However, there can be no assurance that the current PRC foreign exchange policies regarding debt service and payment of dividends in foreign currencies will continue in the future. Changes in PRC foreign exchange policies might have a negative impact on our ability to distribute dividends to the Shareholders in foreign currencies.

Fluctuation in the value of Renminbi may materially and adversely affect your investment

The value of the Renminbi against other currencies may be affected by, among other things, changes in the PRC's economic, financial and political conditions and supply and demand of Renminbi in the local market. Under the current unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC, which are quoted daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of Renminbi to Hong Kong and US dollars have generally been stable. However, with effect from 21 July 2005, the PRC Government reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the Renminbi appreciated against the Hong Kong and US dollars by approximately 2% on the same date. On 23 September 2006, the PRC Government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. It is uncertain if the exchange rates of Hong Kong dollars and US dollars against Renminbi will further fluctuate. In the event of significant changes in the exchange rates of Hong Kong and US dollars against Renminbi, to the extent we decide to convert Renminbi to Hong Kong dollars for purposes of making dividend payments. The Hong Kong dollar value of any dividend payments in foreign currencies may be adversely affected.

Interpretation of PRC law and regulations involves uncertainty

We conduct our business within the PRC and our operations are governed by PRC law and regulations. The PRC legal system is a codified system with written statutes, and prior court decisions can only be cited as reference but have limited precedential value.

The PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance and taxation, with the aim to developing a comprehensive system of commercial law. However, interpretation and enforcement of PRC laws and regulations is subject to a degree of uncertainty as some of these laws and regulations are recently enacted and are relatively new, and there are limited volumes of published court decisions which are non-binding in nature. In addition, litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

Our operating cost may be increased due to the provision of staff benefits as required by the PRC Government

Since inception we have provided certain basic insurance (namely, pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance) for the employees pursuant to the employee insurance implementation plans formulated by local governments. The rate of our required contribution towards such pension insurance, medical insurance, unemployment insurance, injury insurance, maternity insurance and housing reserve fund ranges from 36.0% to 45.0% of the wages of such employees respectively. Should the local governments further expand the scope of employee insurance plans, our operating cost would increase thereby affecting our competitiveness and profitability.

It may be difficult to effect service of process upon our Directors or executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts

All of our operations are conducted in the PRC. As at the Latest Practicable Date, all of our executive Directors and senior management personnel reside within the PRC, and substantially all of our assets and of such persons are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon such persons in the PRC or to enforce against our Company or such persons in the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of the United Kingdom, the United States or most other western countries. Therefore recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be impossible. On 14 July 2006, the PRC and Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matter by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned". However, investors are reminded that only monetary awards granted by Hong Kong courts are recognised by PRC courts.

The PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("**New York Convention**") which had historically permitted reciprocal enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries. On 18 June 1999, an arrangement was made between Hong Kong and the PRC for mutual enforcement of arbitration awards. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000.

A newly enacted PRC tax law may affect tax exemptions on dividends received by our Company and Shareholders and increase our enterprise income tax rate

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiaries through a Hong Kong company. A new law, the PRC Enterprise Income Tax Law and its implementation rules were enacted on 16 March 2007 and 6 December 2007, respectively, both of which have become effective as at 1 January 2008. If our Company is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to our Company, unless our Company is entitled to reduction or elimination of such tax, including by tax treaties. According to the tax treaties between PRC and Hong Kong, dividends paid by a foreign-invested enterprise in China to its shareholder(s) in Hong Kong will be subject to withholding tax at a rate of no more than 5% if the Hong Kong company directly holds a 25% or more interest in the PRC enterprise.

In addition, the new laws provides that, if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income. Substantially all members of our management are located in the PRC, we may be deemed a PRC tax resident enterprise and therefore subject to an enterprise income tax rate of 25% on our worldwide income, which excludes the dividends received directly from another PRC tax resident. As a result of these changes described above, our historical operating results will not be indicative of our operating results for future periods and the value of the Shares will be adversely affected. Further, dividends payable to the corporate Shareholders outside the PRC may be subject to withholding tax a rate of 10%.

Expiration of, or changes to, certain preferential treatments applicable to our subsidiaries under PRC tax laws may have a material adverse effect on the operating results

Given that Yangzhou Huiyin was treated as a newly established employment serving enterprise (a newly established enterprise with more than 60% of its employees being previously unemployed), Yangzhou Huiyin obtained approvals for a full exemption from PRC national enterprise income tax in 2004, 2005 and 2006 and a 50% reduction of the PRC national enterprise income tax in 2007. Since the annual taxable income of Yangzhou Huihou is less than RMB100,000 but over RMB30,000, Yangzhou Huihou enjoyed a preferential tax rate of 27% for the year ended 31 December 2007. Further, as advised by our PRC Legal Advisers, given that the amount of tax payable for the year ended 31 December 2007 by Nanjing Huize was below RMB30,000, Nanjing Huize was only subject to a tax rate of 18%. The PRC Enterprise Income Tax Law, which came into effect on 1 January 2008, provides for a uniform enterprise income tax of 25% to all domestic and foreign enterprises in the PRC. Due to the expiration of the preferential income tax periods of Yangzhou Huiyin since 2008, the effective income tax rate that may be applied to us may be higher than those applicable during the Track Record Period. As a result, our profitability and financial condition will be adversely affected.

Payment of dividends by our operating subsidiaries in the PRC is subject to restrictions under PRC law

Under PRC law, dividends may be paid only out of distributable after-tax profits, less any recovery of accumulated losses and allocations to statutory funds as required. Any distributable profits that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP is different from the calculation under HKFRSs in certain aspects. As a result, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for the year as determined under HKFRSs. Since we derive all of our funds and profits from our operating subsidiaries in the PRC, we may not have sufficient funds to pay dividends to the Shareholders.

Furthermore, the PRC Government imposes restrictions over converting Renminbi into foreign currencies, which will limit our transactions involving foreign currencies and adversely affect our Company's ability to transfer funds to and receive dividends from our PRC subsidiaries. Because we generate all of our revenues in Renminbi, our PRC subsidiaries need to convert a portion of their revenues into foreign currencies to pay for imported merchandise and equipment and pay dividends to our Company. Under the existing foreign exchange regime in China, conversion of Renminbi into foreign currencies for payment of dividends is subject to SAFE procedural requirements. Any foreign exchange transactions for capital expenditures on equipment or merchandise require prior approvals from SAFE. If we are not able to obtain such approvals, our capital expenditure plans and, consequently, our ability to grow our business, could be affected. Moreover, changes in the PRC's foreign exchange regulations may adversely affect our ability to transfer funds to and receive dividends from our PRC subsidiaries.

We may be subject to acts of God, acts of war and epidemics or pandemics which are beyond our control and which may cause damage, loss or disruption to our business

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics or pandemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought. For instance, a severe snowstorm hit southern China near the Yangtze River Delta in January and February of 2008, resulting in breakdown of transportation system in southern China and loss of agriculture products in the said areas. In May and June 2008, a serious earthquake and its successive aftershocks hit Sichuan, leading to tremendous loss of lives and injury and destruction of assets in the region. In April 2009, H1N1 swine influenza broke out in Mexico and spread globally, resulting in the loss of lives and widespread fear. Our business, operating results and financial condition may be adversely affected in a material respect if such natural disasters occur. Certain areas of China, including Jiangsu and Anhui provinces, are susceptible to epidemics, such as SARS or swine or avian influenza. A recurrence of SARS, an outbreak of swine or avian influenza, or any epidemic, in Jiangsu and Anhui provinces or other areas of China, could result in material disruptions to our operations or a slowdown of China's economy, which could materially and adversely affect our business, financial condition and results of operations. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our facility, disrupt our distribution channels and destroy our markets, any of which could materially impact our sales, costs, overall financial condition and results of operations. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict. Our business, financial condition and results of operations may be materially and adversely affected as a result.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares and an active trading market may not develop

An active trading market for the Shares may not develop and the trading price of the Shares may fluctuate significantly. Prior to the Global Offering, there has been no public market for the Shares. The Offer Price range has been determined through negotiation between our Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters) and the final Offer Price may not be indicative of the price at which the Shares will be traded following the completion of the Global Offering. In addition, there can be no assurance that an active trading market for the Shares will develop, or, if it does develop, that it will be sustained following completion of the Global Offering, or that the trading price of the Shares will not decline below the Offer Price.

The trading price of the Shares may also be subject to significant volatility in response to, among others, the following factors:

- variations in our operating results;
- changes in the analysis and recommendations of securities analysts;
- announcements made by us or our competitors;
- changes in investors' perception of our Group and the investment environment generally;
- developments in the home appliances and consumer electronic products retail industry;
- changes in pricing made by us or our competitors;
- the liquidity of the market for the Shares; and
- general economic and other factors.

The trading volume and share price of the Shares may fluctuate

The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices for the merchandise sold at our stores could cause large and sudden changes in the volume and price at which the Shares will trade. In addition, the Stock

Exchange and other securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

Future sales of substantial amounts of the Shares in the public market could adversely affect the prevailing market price of the Shares

Except for the Shares issued in the Global Offering, our Company has agreed with the Global Coordinator not to issue any of the Shares or securities convertible into or exchangeable for the Shares during the period beginning from the date of this prospectus and continuing through the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, except with the prior written consent of the Global Coordinator. Further, the Shares held by Mr. Cao, Pope, Dalton, China Fund and ARC Huiyin are subject to certain lock-up undertakings for a period commencing from the Listing Date and ending on the date which is 12 months from the Listing Date. The Global Coordinator may, in its discretion, waive or terminate these restrictions to the extent permitted by the Stock Exchange or under the Listing Rules. In the event that either of Mr. Cao, Pope, Dalton, China Fund and ARC Huiyin places or dispose of any of the Shares held by it with prior written consent of the Global Coordinator (to the extent permitted by the Stock Exchange or under the Listing Rules), the market price of the Shares may fluctuate significantly. In addition, after these restrictions lapse, the market price of the Shares could decline as a result of future sales of substantial amounts of the Shares or other securities relating to the Shares in the public market, the issuance of the new Shares or other securities relating to the Shares, or the perception that such sales or issuances may occur. Our ability to raise capital in the future at a time and at a price we deem appropriate may be materially and adversely affected. Please refer to the paragraphs headed "Hong Kong Public Offer — Undertakings" and "Other arrangements" under the section headed "Underwriting — Underwriting arrangements and expenses" of this prospectus for details of arrangement among our Company, our existing Shareholders and the Global Coordinator.

Shareholders' interests in our Company may be diluted in the future

Our Company issued the Warrants to Pope and Dalton. Under the terms of the Warrants, Pope and Dalton were entitled to subscribe up to 182,280 Shares and 121,520 Shares at a purchase price of US$7.90 per Share or, instead of exercising the Warrants for cash, receive a reduced number of Shares by surrender of the Warrants to our Company prior to the Listing, subject to adjustment pursuant to the terms of the Warrants in respect of the Capitalisation Issue. Pope and Dalton indicated to our Company that they will surrender their Warrants in full prior to the Listing and intend to receive a reduced number of Shares by such surrender of Warrants. Based on the Offer Price of HK$1.69, being the highest point of the stated Offer Price range, our Company will issue and allot 223,374 Shares and 148,916 Shares, representing approximately 0.02% and 0.01%, respectively of the issued share capital of our Company immediately upon the completion of the Capitalisation Issue and the Global Offering (without taking into account such 223,374 Shares and 148,916 Shares, and also without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment

Option, or the option granted under the Pre-IPO Option Scheme or any options which may be granted under the Share Option Scheme), to Pope and Dalton, respectively, prior to the Listing. If the Offer Price is determined at HK$1.63 or less, the Warrants will have no value pursuant to the terms thereof and our Company will not be required to issue any Shares to Pope and Dalton upon their surrender of the Warrants.

Our Company has also granted options to certain Directors and staff under the Pre-IPO Option Scheme in respect of a total of 50,000,000 Shares representing 4.76% of the enlarged share capital of our Company as at the Listing Date assuming the Warrants are not exercised nor surrendered and these options are exercised in full. Our Company may issue additional Shares pursuant to the Over-allotment Option or the options which may be granted under the Share Option Scheme. In addition, we may need to raise additional funds in the future to finance business expansion, whether related to existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

Dividends paid in the past may not be indicative of the amount of future dividend payments or our future dividend policy

Our Company declared a one-off and non-recurring dividend of approximately HK$47.0 million, which is conditional upon the Listing, to the existing Shareholders (namely China Ruike, Pope, Dalton, ARC Huiyin and China Fund) in March 2010 and persons becoming Shareholders after the Listing will not be entitled to such dividend. Our Company plans to distribute such dividend by using our internal resources after having obtained the necessary approvals from SAFE and other governmental authorities. Subject to the availability of our cash, distributable reserves, cash flow and working capital requirements, our Board aims to declare and recommend dividends which would amount in total to not less than 15% of the net profit of our Company according to HKFRSs for the year ending 31 December 2010 and in respect of each financial year thereafter by way of dividends. The one-off and non-recurring dividend and the above stated intention do not amount to any guarantee, representation or indication that our Company must or will declare and pay any dividend in such manner in the future or declare and pay any dividend at all. Particulars of the dividend policy to be adopted by our Group following the Listing are set out in the sub-section headed "Dividend policy" under the section headed "Financial information" of this prospectus. There can be no assurance and in fact it is not expected that the amount of dividend declared by our Company in the future, if any, will be at the level declared and paid by our Company immediately prior to Listing.

Forward-looking information included in this prospectus may not be accurate

This prospectus contains certain forward-looking statements and information relating to our Group that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “anticipate”, “believe”, “consider”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “should”, “plan”, “seek”, “will”, “would”, and similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the other risk factors described in this prospectus. The risks and uncertainties which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our future debt levels and capital needs;
- our strategy, plans, objectives and goals;
- general economic conditions;
- changes in regulatory and operating conditions of the markets in which we operate;
- our ability to reduce costs;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in the section headed “Financial information” in this prospectus with respect to trends in prices, volumes, operations, overall market trends, risk management and exchange rates; and
- other statements in this prospectus that are not historical fact.

Investors should note that one or more of these risks or uncertainties may materialise, or one or more of the underlying assumptions may prove incorrect.

There can be no guarantee as to the accuracy of facts and other statistics contained in this prospectus with respect to the economies and the industry in which we operate

Certain statistics, industry data or other information in this prospectus relating to the PRC, Jiangsu province, Anhui province, their respective economies and the industry in which we operate have been derived from various official government publications or official sources that are publicly available as well as research reports published by Access Asia Limited and International Monetary Fund. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors, officers, affiliates, advisers or representatives, or any other party involved in the Global Offering. Therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the official government statistics and unofficial statistics referred to or contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other publications or purposes and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts or statistics.

You should not rely on any information contained in press articles or other media regarding our Company and the Global Offering

Prior to the publication of this prospectus, there may be certain press and media coverage regarding our Company and the Global Offering which may include certain financial information, industry comparisons, profit forecasts and other information about our Company that does not appear in this prospectus. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to subscribe for the Shares.

We have applied to the Stock Exchange for a waiver from strict compliance with certain requirements under the Listing Rules as follows:

MANAGEMENT PRESENCE IN HONG KONG UNDER THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

Our principal place of business, offices and our Stores are primarily located, managed and conducted in the PRC, and our senior management members are and will therefore continue to be based in the PRC. We do not and will not in the foreseeable future have two executive Directors residing in Hong Kong for the purposes of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules. In order to maintain regular communication with the Stock Exchange, our Company will put in place the following measures:

(i) our Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. Our Company has appointed Ms. Ngai Kit Fong, the company secretary of our Company, who is ordinary resident in Hong Kong, and Mr. Cao Kuanping, an executive Director, as the two authorised representatives of our Company. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(ii) both the authorised representatives of our Company will have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters.

(iii) to enhance the communication between the Stock Exchange, the authorised representatives and the Directors, our Company will implement a policy whereby (a) each executive Director will have to provide his respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the authorised representatives; (b) each executive Director will endeavour to provide valid phone number or means of communication to the authorised representatives when he is travelling; and (c) each Director will provide his mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange;

(iv) our Company shall promptly inform the Stock Exchange of any changes on the authorised representatives; and

(v) our Company has appointed a compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will act as an additional channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46(2) of the Listing Rules.

In addition, all Directors (including the independent non-executive Directors) who are not ordinarily resident in Hong Kong have confirmed that they possess or is applying for valid travel documents to visit Hong Kong prior to the Listing and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

In light of the above arrangements, our Company believes that all members of the Board can be promptly informed of any matters raised by the Stock Exchange and that there is an effective communication channel with the Stock Exchange.

ISSUE OF ANNUAL REPORT AND ACCOUNTS AND PUBLICATION OF ANNUAL RESULTS UNDER THE LISTING RULES

Pursuant to Rule 13.46(2) of the Listing Rules, an issuer is required to send a copy of its annual report and accounts or summary financial report to its shareholders within four months after its financial year-end. In addition, pursuant to Rule 13.49(1) of the Listing Rules, an issuer is required to publish its annual results within the time prescribed in the Listing Rules.

Our Company has included in this prospectus the financial information in respect of the year ended 31 December 2009; and is not in breach of the Articles or laws and regulations of the Cayman Islands or other regulatory requirements regarding its obligation to publish annual results announcements and distribute annual reports and accounts. In addition, our Company has included in this prospectus a short statement as to whether we intend to comply with the Code on Corporate Governance Practices ("**Code**") in Appendix 14 to the Listing Rules after the Listing and, if not, reasons for our proposed departure from the Code. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the annual results for the year ended 31 December 2009. Please also refer to the section headed "Directors, Senior management and Staff — Corporate governance" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- there are no other matters the omission of which would make any statement in this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

The Global Offering comprises the International Placing and the Hong Kong Public Offer. Details of the structure and conditions of the Global Offering are set out in the section headed "Structure of the Global Offering" in this prospectus.

The Global Offering is sponsored by the Sponsor, and the Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters, and the International Placing is expected to be fully underwritten by the International Underwriters. Full information relating to the Underwriters and the underwriting arrangements, is set out in the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Global Coordinator (on behalf of the Underwriters) and our Company (for itself and on behalf of the Selling Shareholders) on or around Friday, 19 March 2010 (Hong Kong time), or such later time as may be agreed between the Global Coordinator (on behalf of the Underwriters) and our Company (for itself and on behalf of the Selling Shareholders), and in any event, no later than Wednesday, 24 March 2010 (Hong Kong time).

If, for any reason, the Offer Price is not agreed between the Global Coordinator (on behalf of the Underwriters) and our Company (for itself and on behalf of the Selling Shareholders) on or around Friday, 19 March 2010, or such later time as may be agreed between the Global Coordinator (on behalf of the Underwriters) and our Company, and in any event, no later than Wednesday, 24 March 2010, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the U.S, except in compliance with the relevant laws and regulations of each such jurisdiction.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. So far as the Global Offering is concerned, no person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Selling Shareholders, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or any other parties involved in the Global Offering.

Each person acquiring Offer Shares will be required to, or be deemed by his acquisition of Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares, in circumstances that contravene any such restrictions.

Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which fall to be issued pursuant to the exercise or surrender of the Warrants, and the exercise of the Over-allotment Option, the options granted under the Pre-IPO Option Scheme and the options which may be granted under the Share Option Scheme. No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by the Stock Exchange.

HONG KONG REGISTER AND STAMP DUTY

Our Company's principal register of members will be maintained by its principal registrar, Butterfield Fulcrum Group (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited in Hong Kong. Dealings in the Shares registered on our Hong Kong Share Registrar will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, and dealing in our Shares, or exercising rights attached to them. None of us, the Selling Shareholders, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time which will begin on the Listing Date, and is expected to expire on Friday, 16 April 2010, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer, to retard and, if possible, prevent a decline in the initial market price of the securities below the offer price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Global Coordinator or its affiliates or any person acting for it, as stabilising manager, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Global Coordinator, its affiliates or any person acting for it to conduct such stabilisation. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the Global Offering, our Company has granted to the Global Coordinator the Over-allotment Option, which will be exercisable in whole or in part by the Global Coordinator at any time from the date of the Price Determination Agreement until 30 days after the date of this prospectus. Pursuant to the Over-allotment Option, our Company may be required to issue and allot at the Offer Price up to an aggregate of additional 47,970,000 Shares, representing 15% of the initial Offer Shares, at the Offer Price to cover, among other thing, over-allocations in the International Placing, if any and/or the obligations of the Global Coordinator to return securities borrowed under the Stock Borrowing Agreement.

For further details with respect to stabilisation and the Over-allotment Option are set out in the paragraph headed "Over-allotment Option" under the section headed "Structure of the Global Offering — International Placing" and the section headed "Stabilising" in this prospectus.

STOCK BORROWING ARRANGEMENT

For the purpose of covering over-allocations in the International Placing, the Global Coordinator may borrow up to 47,970,000 Shares from China Ruike, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement on the following conditions in compliance with Rule 10.07(3) of the Listing Rules:

(i) such stock borrowing arrangement will only be effected by the Global Coordinator for settlement of over-allocations of Shares in connection with the International Placing;

(ii) the maximum number of Shares which may be borrowed from China Ruike by the Global Coordinator under the Stock Borrowing Agreement must not exceed the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;

(iii) the same number of Shares so borrowed must be returned to China Ruike or its nominees, as the case may be, on or before the third business day following the earlier of:

  (a) the last day on which the Over-allotment Option may be exercised; and

  (b) the day on which the Over-allotment Option is exercised in full;

(iv) the borrowing of Shares under the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and

(v) no payments or other benefits will be made to China Ruike by the Global Coordinator in relation to such stock borrowing arrangement.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, government authorities, institutions, natural persons or other entities included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed herein are due to rounding.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Cao Kuanping (曹寬平先生) *(Chairman)*	Block 13, Qi Yue Yuan No. 438, Wang Yue Road Hanjiang District Yangzhou, Jiangsu Province PRC	Chinese
Mr. Mo Chihe (莫持河先生)	Room 506, Block 101 Kangtai Yuan No. 155, East Qiuyu Road Weiyang District Yangzhou, Jiangsu Province PRC	Chinese
Mr. Mao Shanxin (茅善新先生)	Room 404, Block 9 Lai Fu Garden Yangzhou, Jiangsu Province PRC	Chinese
Mr. Wang Zhijin (王志瑾先生)	Room 1002, Block 148 No.100, Zhongtan Road Putuo District, Shanghai PRC	Chinese
Non-executive Directors		
Mr. Li Jung-Hsing (李榮興先生)	Flat 905, No. 23 South Qin Zhou Road 8th Nong Shanghai PRC	Taiwanese
Mr. Ke Shifeng (柯世鋒先生)	Flat 601, Building 52 Jinxiu Road 333 Nong Shanghai PRC	Chinese

Name	Residential address	Nationality
Independent non-executive Directors		
Mr. Li Fei (李飛先生)	Unit 4, Floor B-2 Yi Cheng Dong Yuan Haidian District Beijing PRC	Chinese
Mr. Zhou Shuiwen (周水文先生)	No. 15 883 Nong, Shuicheng Road, Shanghai PRC	Chinese
Mr. Tam Chun Chung (譚振忠先生)	Flat B, 6th Floor, Tower 3 Residence Oasis 15 Pui Shing Road Tseung Kwan O New Territories, Hong Kong	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sponsor	BNP Paribas Capital (Asia Pacific) Limited 59th to 63rd Floors Two International Finance Centre 8 Finance Street Central Hong Kong
Global Coordinator, Bookrunner and Lead Manager	BNP Paribas Capital (Asia Pacific) Limited 59th to 63rd Floors Two International Finance Centre 8 Finance Street Central Hong Kong
Financial adviser	N M Rothschild & Sons (Hong Kong) Limited 16th Floor, Alexandra House 18 Chater Road Central Hong Kong
Legal advisers to our Company	*as to Hong Kong law* Richards Butler in association with Reed Smith LLP 20th Floor Alexandra House 16-20 Chater Road Central Hong Kong *as to PRC law* Beijing Zhonglun Law Firm 36th to 37th Floor SK Tower 6A Jianguomenwai Avenue Beijing 100020 the PRC *as to Cayman Islands law* Maples and Calder 53rd Floor The Center 99 Queen's Road Central Hong Kong

Legal advisers to the Sponsor and the Underwriters	*as to Hong Kong law* Deacons 5th Floor Alexandra House 18 Chater Road Central Hong Kong
	as to United States law Dorsey & Whitney Suite 3008 One Pacific Place 88 Queensway Hong Kong
	as to PRC law Beijing Jun He Law Offices 20th Floor 8 Jianguomenbei Avenue Beijing the PRC
Auditor and reporting accountant	PricewaterhouseCoopers *Certified Public Accountants* 22nd Floor, Prince's Building Central Hong Kong
Property valuer	American Appraisal China Limited Room 1506-10,15th Floor Dah Sing Financial Centre 108 Gloucester Road Wan Chai Hong Kong
Receiving banker	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong

Registered office in the Cayman Islands	Scotia Centre 4th Floor P.O. Box 2804 George Town Grand Cayman KY1-1112 Cayman Islands
Principal place of business and head office in China	Huiyin International Commercial Building No. 277 Wenchang Zhong Road Yangzhou Jiangsu Province PRC
Place of business in Hong Kong registered under Part XI of the Companies Ordinance	Level 28, Three Pacific Place 1 Queen's Road East Hong Kong
Company's website	www.hyjd.com *(Information on this website does not form part of this prospectus)*
Company secretary	Ms. Ngai Kit Fong *(ACIS, ACS)*
Authorised representatives	Mr. Cao Kuanping Block 13, Qi Yue Yuan No. 438, Wang Yue Road Hanjiang District Yangzhou, Jiangsu Province PRC
	Ms. Ngai Kit Fong 8B, Bonanza Court 3 Bonham Road Hong Kong
Audit committee of our Board	Mr. Tam Chun Chung (Chairman) Mr. Li Fei Mr. Zhou Shuiwen
Remuneration committee of our Board	Mr. Zhou Shuiwen (Chairman) Mr. Cao Kuanping Mr. Li Fei

Nomination committee of our Board	Mr. Li Fei (Chairman) Mr. Mo Chihe Mr. Zhou Shuiwen
Principal share registrar and transfer office in the Cayman Islands	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Share registrar and transfer office in Hong Kong	Tricor Investor Services Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Compliance adviser	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Principal bankers	Bank of Communications (Yangzhou Branch) No. 2 Wenhe Bei Lu Yangzhou City Jiangsu Province PRC Agricultural Bank of China (Runyang Sub-branch) No. 47 Hanjiang Lu Yangzhou City Jiangsu Province PRC China Merchant Bank (Yangzhou Branch) Haiguan Building, West Wing No. 12 Wenchang Xi Lu Yangzhou City Jiangsu Province PRC China Citic Bank (Yangzhou Branch) No. 171 Weiyang Lu Yangzhou City Jiangsu Province PRC

This section contains certain statistics, industry data or other information relating to the industry that are derived from various government or official sources that are publicly available as well as research reports published by Access Asia Limited and International Monetary Fund.

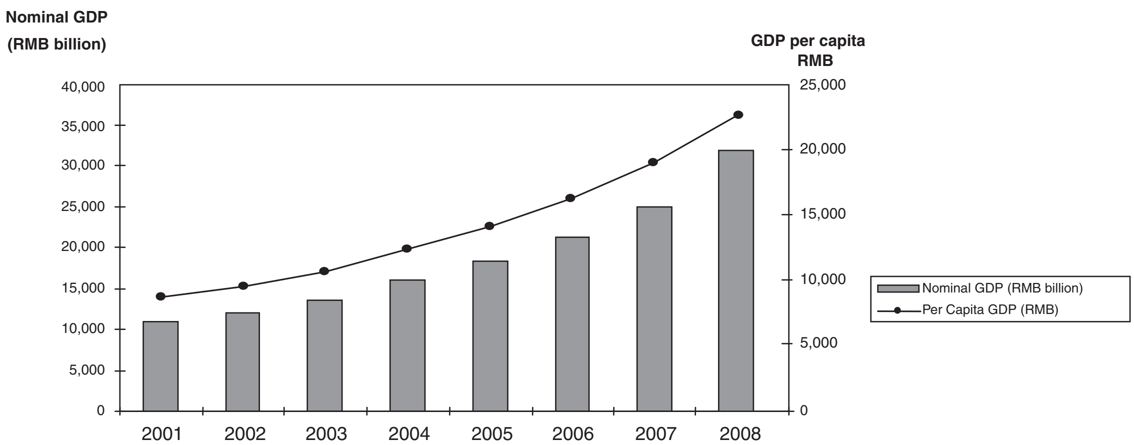
We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors, officers, affiliates, advisers or representatives, or any other party involved in the Global Offering and no representation is given as to its accuracy.

THE ECONOMY IN PRC

Economic growth

China is one of the fastest growing economies in the world. The last few decades have witnessed the significant growth of its economy. According to the National Bureau of Statistics of China, the PRC's GDP has grown from RMB10,965.5 billion in 2001, to RMB30,067.0 billion in 2008, representing a CAGR of 15.5%, with GDP per capita increasing from RMB8,622.0 to RMB22,698.0 at a CAGR of 14.8% during the same period. The following chart illustrates the nominal GDP and GDP per capita of the PRC in each of the years from 2001 to 2008.

Annual nominal GDP and GDP per capita (2001-2008)



Source: National Bureau of Statistics of China

The International Monetary Fund recorded a 13.0% and 9.0% inflation adjusted GDP, or the real GDP growth rate, of the PRC for 2007 and 2008, respectively, and also forecasted that the PRC's real GDP annual growth rates will be 8.5% in 2009 and 9.0% in 2010, which are lower than its previous performance, yet still far higher than most of other economies in the world during the global financial crisis. The table below sets out the International Monetary Fund's estimated GDP growth rate of major economies in the world for the year 2009 and 2010.

Real GDP growth rate (Forecast)
(2009 and 2010)

	2009	2010
	(%)	*(%)*
China	8.5	9.0
Emerging Asia	5.0	6.8
Singapore	-3.3	4.1
Japan	-5.4	1.7
Hong Kong SAR	-3.6	3.5
Euro Area	-4.2	0.3
United States	-2.7	1.5

Source: International Monetary Fund, World Economic Outlook Database, October 2009 edition

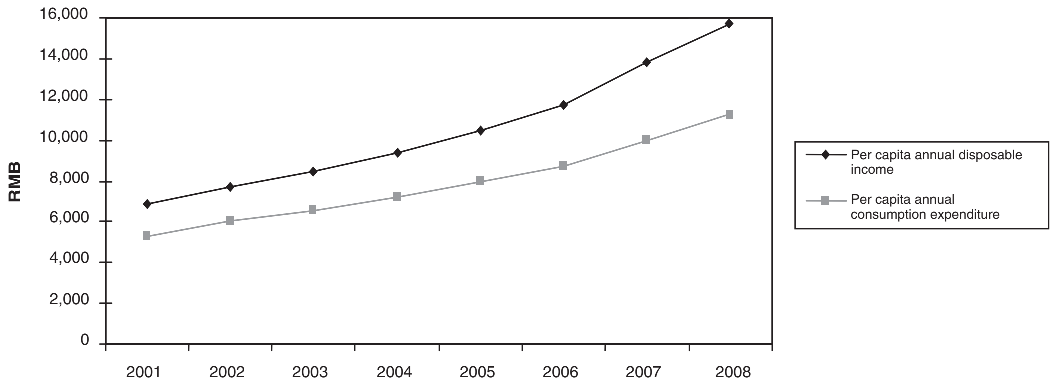
Growth in consumers' spending power

The wealth of the people in the PRC has grown along with the economic growth of the country. According to National Bureau of Statistics of China, the per capita annual disposable income of urban households in the PRC rose from around RMB6,859.6 in 2001 to around RMB15,780.8 in 2008, at a CAGR of approximately 12.6% over the period. The per capita annual net income of rural households in the PRC rose from around RMB2,366.4 in 2001 to around RMB4,760.6 in 2008, at a CAGR of approximately 10.5% over the period.

The improvement of personal wealth has fuelled the people's desire to improve their living standards. According to National Bureau of Statistics of China, the per capita annual consumption expenditure of urban households in the PRC rose from around RMB5,309.0 in 2001 to around RMB11,242.9 in 2008, at a CAGR of approximately 11.3% over the period. The per capita annual consumption expenditure of rural households in the PRC rose from around RMB1,741.1 in 2001 to around RMB3,660.7 in 2008, at a CAGR of approximately 11.2% over the period.

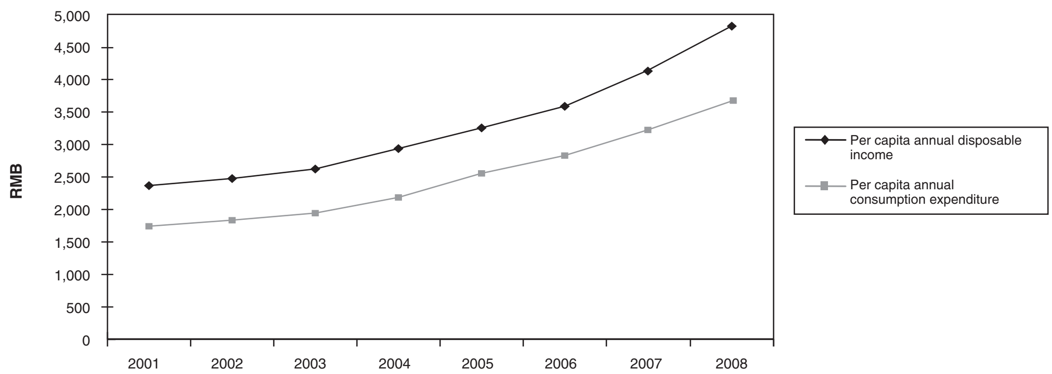
Below are the charts demonstrating the increase in per capita annual disposable income and consumption expenditure of urban and in per capita annual net income and consumption expenditure of rural households in China in each of the years from 2001 to 2008.

Per capita annual disposable income and consumption expenditure of urban households in China (2001-2008)



Source: National Bureau of Statistics of China

Per capita annual net income and consumption expenditure of rural households in China (2001-2008)

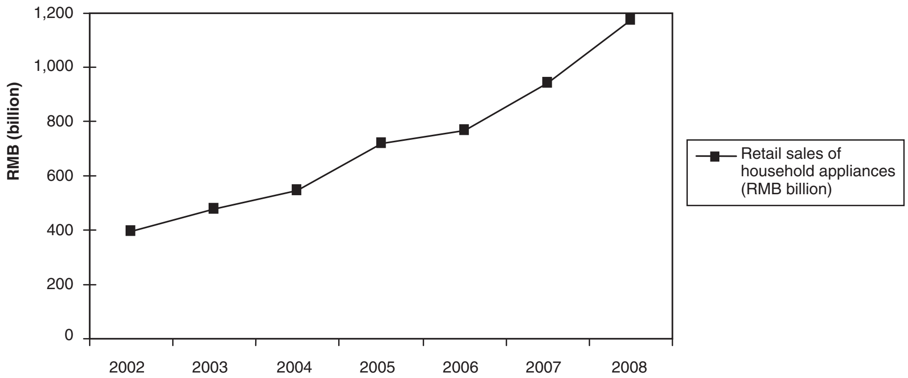


Source: National Bureau of Statistics of China

Retail sales of household appliances in PRC

Since 2002, retail sales of household appliances in China, including consumer electronics, white goods, small electrical appliances and telecom equipment have seen dramatic growth. The value of retail sales increased from around RMB398.0 billion in 2002 to around RMB1,176.0 billion in 2008, representing a CAGR of 19.8% for the period according to Access Asia.

Retail sales of household appliances*
(2002-2008)



* Household appliances include consumer electronics, white goods, small electrical appliances and telecoms equipment.

Source: Access Asia

THE RETAIL INDUSTRY FOR HOUSEHOLD APPLIANCES IN PRC

We believe that the PRC household appliances and consumer electronics markets can be generally classified in terms of size of markets as set out below:

First-tier: Municipalities and capitals of provinces in the PRC

Second-tier: prefecture-level cities, and regions of equivalent status in the PRC

Third and fourth-tier: county-level cities, townships and rural areas in the PRC. Our Directors believe that in general, county-level cities usually have a population of approximately 1 million and townships usually have a population of approximately 20,000 to 70,000.

We believe that there is no official (i.e. government) industry classification for the different tiers of markets in the PRC household appliances and consumer electronics industry. Accordingly, the above classifications have been determined based on our Directors' knowledge and experience in China as well as market information.

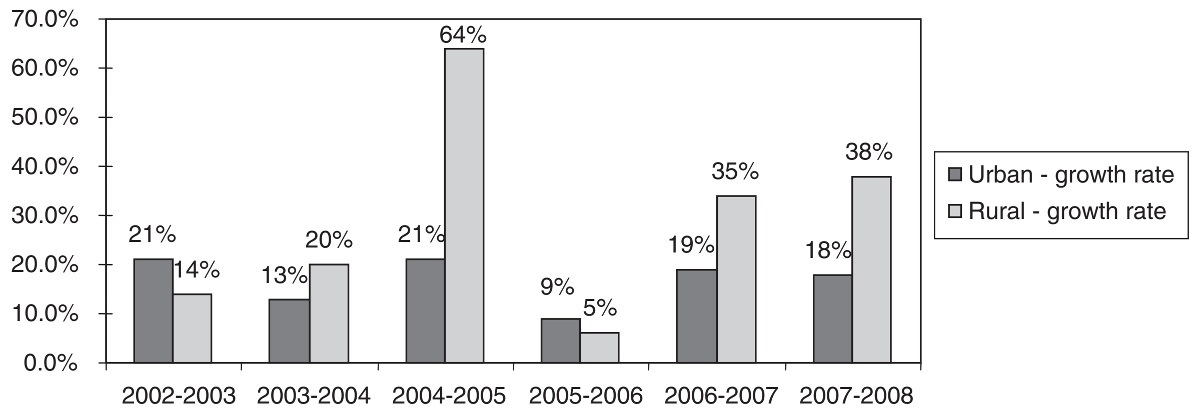
With headquarters in Yangzhou, Jiangsu province, our sales and after-sales network covers more than 360 points of presence in 27 cities/districts across Jiangsu and Anhui provinces. Based on the experience and industry knowledge of our Directors, save and except for the following 10[(Note 1)] Self-operated Stores which are located in the second-tier markets, our Self-operated Stores are located in the third and fourth-tier markets:

- Yangzhou: Yangzhou Golden Eagle Store, Yangzhou Store, Ziteng (Sony) Store and Yunhe Store;
- Taizhou: Taizhou Golden Eagle store;
- Zhenjiang: Zhenjiang Huize Store;
- Yancheng: Yancheng Golden Eagle Store;
- Huaian: Huaian Golden Eagle Store and Huaian Store; and
- Chuzhou: Chuzhou Store.

Retail sales of household appliances

The rural market has shown great growth potential in the retail sales of household appliances [(Note 2)] in the past few years. According to Access Asia, the annual rural sales value has surged from approximately RMB90.7 billion in 2002 to RMB398.4 billion in 2008, representing a CAGR of approximately 28.0%, more than 10% higher than the CAGR of urban retail sales of household appliances. Although the spending power per capita in the rural market has been increasing rapidly in the past few years, it is still far lower than the spending power per capita in the urban market.

Urban and rural retail of household appliances sales growth (2002-2008)



Source: Access Asia

Note 1: One of our Self-operated Store is located in Liuhe district, Nanjing, a market that our Directors believe that it is within the third and fourth-tier markets.

Note 2: The household appliances include consumer electronics, white goods, small electrical appliances and telecom equipment.

Penetration of household appliances in China

Despite the rapid increase in sales, there is still considerable room for further market growth, especially in the rural area. According to National Bureau of Statistics of China, in 2008, the urban ownership rate of washing machines, refrigerators, air conditioners and TV sets per 100 households was approximately 94.65, 93.63, 100.28 and 132.89 units, respectively, while the rural ownership rate of the same products per 100 households was much lower at approximately 49.11, 30.19, 9.82 and 109.01 units, respectively. The following tables set out the respective penetration rates of selected products of rural and urban households.

Rural and urban ownership of durable goods (per 100 households)

	2000		2005		2006		2007		2008	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Washing machines	28.58	90.50	40.20	95.51	42.98	96.77	45.94	96.77	49.11	94.65
Refrigerators	12.31	80.10	20.10	90.72	22.48	91.75	26.12	95.03	30.19	93.63
Air conditioners	1.32	30.80	6.40	80.67	7.28	87.79	8.54	95.08	9.82	100.28
TVs	101.71	116.60	105.85	134.80	106.88	137.43	106.52	137.79	109.01	132.89

Source: National Bureau of Statistics of China

PRC GOVERNMENT INITIATIVES TO ENCOURAGE SPENDING ON HOME APPLIANCES AND CONSUMER ELECTRONIC PRODUCTS

Change of the Old for New Program

Background

For the purpose of stimulating domestic spending and improving the efficiency of energy consumption, 國務院辦公廳關於轉發發改委等部門促進擴大內需鼓勵汽車家電以舊換新實施方案的通知 (國辦發 [2009] 44號) (Notice on Change of the Old for New Program in Motor Vehicle and Home Appliances Industry to Boost Domestic Consumption issued by the State Council of the PRC on behalf of PRC National Development and Reform Commission (No. 44 of 2009 of the Office of State Council of the PRC)*) was promulgated on 1 June 2009 by the five government departments at the central level in the PRC Government, which was followed by the issuance of 家電以舊換新實施辦法 (Implementation Rules on the Home Appliances Change of the Old for the New Program*) ("**Implementation Rules on Change of the Old for New Program**") on 28 June 2009.

Pursuant to the Implementation Rules on Change of the Old for the New Program, the policy will be provisionally implemented in Beijing, Tianjin, Shanghai, Jiangsu province, Zhejiang province, Shandong province, Guangdong province, Fuzhou and Changsha between

1 June 2009 and 31 May 2010. Based on the news published on the websites of 中央人民廣播電台 (China National Radio*) and 人民網 (People's Daily Online*), our Directors expect that the PRC government will extend the Change of the Old for New Program after the expiration of the trial period.

Under the program, eligible citizens in those areas may enjoy rebates or fixed amounts of subsidies from the government for exchanging their old home appliances for new ones.

All home appliances recycling enterprises that are successful bidders and have acquired old home appliances from eligible buyers and have delivered and sold the same within the stipulated period of time for dis-assembly and treatment purposes to designated enterprises that dis-assemble and treat the same shall be entitled to freight subsidies. With respect to such subsidies, subject to the category and model of the products, as well as the delivery distance, a fixed amount of subsidies is paid according to the quantity of old home appliances delivered and sold by the recycling enterprises.

Categories of products

Eligible citizens may enjoy either a 10% rebate or a fixed amount of subsidies in respect of five categories of home appliances (whichever is lower):

Maximum amount of subsidies for purchase under the Change of the Old for New Program

Item	Price
	(RMB)
Air conditioner	350
TV	400
Refrigerator	300
Washing machine	250
Personal computer	400

Eligibility of authorised sales enterprises

Set out below are the major criteria for selection of authorised sales enterprises as set out in《家電以舊換新實施辦法》(Implementation Measures under the Change of the Old for New Program of Household Appliances*):

- comprehensive sales network
- technological capability of linking its information system with the relevant information system of the Change of the Old for New Program
- stronger capacity in warehousing and logistics

- capability of providing comprehensive after-sales services
- good sales and credit record in the past three years

Major duties and rights of authorised sales enterprises

Authorised sales enterprises are required to sell their products at normal market prices. By presenting evidence showing the delivery of old appliances to the relevant home appliances recycling enterprises, eligible citizens are entitled to purchase new home appliances from authorised sales enterprises at a price equivalent to the selling price after deduction of the rebate. Authorised sales enterprises are entitled to reimbursement of the amount of such rebates from the relevant authorities. Other major duties of authorised sales enterprises include:

- To comply with the relevant regulations under the Change of the Old for New Program
- To offer sales of all five types of products, namely, air conditioner, TV, refrigerator, washing machine and personal computer
- To undertake promotional and sales activities
- To ensure the products are sold at normal price and to provide good after-sales and delivery services
- To provide access to the relevant authorities to the sales outlets and information in relation to the program
- To be responsible for problems that may arise during the sales process
- To make a refundable deposit of RMB300,000

Result/effect of the program

According to the Administration System of the Change of the Old for New Program, since the implementation of the program from June 2009 to October 2009, approximately 361,000 TV sets, 127,000 refrigerators, 111,000 washing machines, 86,000 air conditioners and 83,000 personal computers were sold under the program, recording a sales amount of over RMB3,034 million. As at 2 February 2010, approximately 588,915 TV sets, 200,285 refrigerators, 249,387 washing machines, 308,874 air conditioners and 218,241 personal computers were sold under the program in Jiangsu province recording a sales amount of over RMB5,974 million.

Rural Appliance Rebate Program

Background

The Rural Appliance Rebate Program is aimed at boosting rural consumption and supplying the rural market with reliable and affordable household electrical appliances and consumer electronics. This program is increasingly important to stimulate domestic PRC consumption and demand in view of the global economic crisis that began around September 2008. Manufacturers in China are turning to the domestic market as the export market weakens.

This program helps manufacturers sell household electrical appliances in rural areas by subsidising 13% of the eligible merchandise price paid by rural consumers. Generally, the central government covers 80% of the rebate, and the local government is responsible for the remaining 20%, while in a small number of areas, the central government is responsible for all of the rebate.

Launched in December 2007, the pilot scheme covered Henan province, Shandong province (including Qingdao) and Sichuan province. According to National Bureau of Statistics of China, the three provinces have the largest rural populations in China, accounting for 22.50% of the total national rural population in 2007. The duration of the program was supposed to last from 1 December 2007 to 31 May 2008. However, the PRC Government decided on 26 May 2008 to extend the program to 31 December 2008.

In October 2008, the PRC Government included Inner Mongolia, Liaoning province (including Dalian), Heilongjiang province, Anhui province, Hubei province, Hunan province, Guangxi province, Chongqing and Shaanxi province to the program to bring the total number of participating provinces, municipalities and autonomous regions to 14. Based on the information set out in the National Bureau of Statistics of China, the 14 regions accounted for more than half of the national rural population in 2007.

From 1 February 2009, the Rural Appliance Rebate Program was implemented across the entire country for a period of four years.

Pursuant to 加大家電下鄉政策實施力度的通知(財建 [2009] 48號) (Notice on Intensifying the Implementation of the Policy of Home Appliances Going to the Rural Areas (No. 48 of 2009 of the Ministry of Finance)*) promulgated on 26 February 2009 by the Ministry of Finance, the Ministry of Commerce and the Ministry of Industry and Information Technology, the PRC Government determined that rebates for consumers in rural areas for each of the following categories would be uniformly implemented nationwide. Previously, each province (or region or municipal) had the autonomy to select two categories from among motorbikes, personal computers, water heaters and air conditioners as being eligible for this program. On 16 April 2009, the Ministry of Finance together with the Ministry of Commerce, the Ministry of Industry Information Technology, the National Development and Reform Commission and other members of Joint Meeting of Home Appliances Going to the Rural Areas promulgated 家電下鄉操作細則 (Detailed Operation Rules for Home Appliances Going to the Rural Areas*).

Categories of products

The Rural Appliance Rebate Program is applicable to nine categories of products, including TVs, refrigerators (including freezers), mobile phones, washing machines, computers, air conditioners, water heaters (solar, gas and electric), microwave ovens and induction cookers. Each rural household is entitled to receive a rebate for the purchase of any two program-eligible items.

Maximum price for purchase under the Rural Appliance Rebate Program

Item	Price
	(RMB)
TV	3,500
Refrigerator (including freezer)	2,500
Mobile phone	1,000
Washing machine	2,000
Computer	3,500
Air conditioner	
Wall mounted type	2,500
Floor standing type	4,000
Water heater	
Electric	1,500
Gas	2,500
Solar	4,000
Microwave oven	1,000
Induction cooker	600

As advised by our PRC Legal Advisers, the maximum purchase price as set out under the Rural Appliance Rebate Program is independent and separate from the Pricing Law.

Eligibility of authorised distributors

Set out below are the major criteria for selection of authorised distributors under the 《<家電下鄉試點工作實施方案>的通知》(Notice Concerning Implementation Measures under the Rural Appliance Rebate Program*):

- good sales performance
- good credit record
- comprehensive delivery network
- strong sales network and after-sales network

Major duties and rights of authorised distributor

Being an authorised distributor under the Rural Appliance Rebate Program, an enterprise is authorised to sell the home appliances and electronic products approved under this program. The major duties of authorised distributors include:

- To ensure the products sold, the product instructions and packages are in compliance of the relevant regulations under the Rural Appliance Rebate Program

- To ensure the retail prices of the products are set lower than the approved selling price

- To input updated data and information in relation to procurement, sales and delivery under the program into the prescribed information system

- To display the standard logo and purchase guidance in prominent areas of the sales outlets

- To provide access to the relevant authorities to the sales outlets and information in relation to the procurement, sales, delivery and after-sales services under the program

- To be responsible for problems that may arise during the sales process

- To make a deposit of RMB300,000

Result/effect of the program

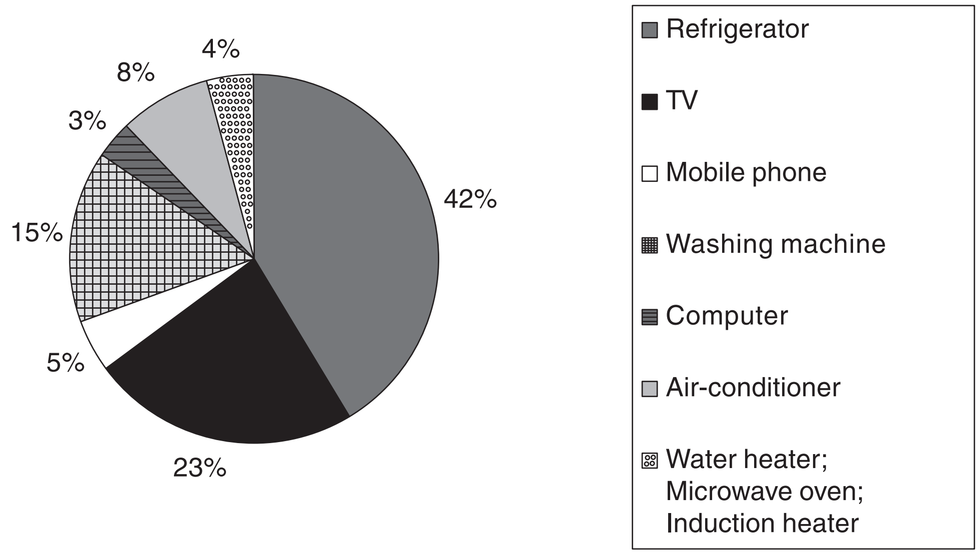
According to the Information Administration System of the Rural Appliance Rebate Program, the aggregate sales volume of home appliances under this program as at 31 December 2009 amounted to approximately 37.7 million units, registered sales of over RMB69 billion. The top ten provinces in terms of sales under this program constituted approximately 27.4 million units sold under the program as at 31 December 2009, or approximately 72.7% of the entire amount sold under the program.

Sales under the Rural Appliance Rebate Program (Top 10 provinces) (As at 31 December 2009)

	Province	Sales volume (million units) (Percentage among other provinces)	Sales amount
			(RMB billion)
1.	Henan	6.0 (15.9%)	10.0
2.	Shandong	4.8 (12.8%)	8.5
3.	Sichuan	4.7 (12.5%)	7.8
4.	Hunan	2.2 (5.9%)	4.0
5.	Hubei	1.9 (5.2%)	3.9
6.	Anhui	1.9 (5.0%)	3.8
7.	Hebei	1.8 (4.8%)	3.8
8.	Jiangsu	1.6 (4.3%)	3.4
9.	Jiangxi	1.3 (3.3%)	2.6
10.	Guangxi Zhuang Autonomous Region	1.2 (3.1%)	2.2

Source: Information Administration System of the Rural Appliance Rebate Program

Percentage of sales under the Rural Appliance Rebate Program (by product category) (As at 31 December 2009)



Source: Information Administration System of the Rural Appliance Rebate Program

The PRC Government expects the four-year Rural Appliance Rebate Program to achieve sales of nearly 480 million units and stimulate consumption by RMB920 billion.

Registered points of sale

According to《關於做好家電下鄉推廣工作有關問題的通知》(Notice on issues concerning better implementation of the Rural Appliance Rebate Program*), which was promulgated by Ministry of Finance and Ministry of Commerce on 23 October 2008, any registered points of sale of the authorised distributor under the Rural Appliance Rebate Program shall file with the county level commerce department of the place at which such registered points of sale is located. In order to become one of the registered points of sales under the Rural Appliance Rebate Program, the relevant applicant must fulfil the following basic conditions:

(1) shall be a self-operated, franchised or authorised network of the relevant authorised distributor under the Rural Appliance Rebate Program;

(2) the scale of sales and service standard of such applicant shall be ranked as one of the best in the region where the applicant is located, and shall possess the capacity such as delivery, installation and maintenance capacity;

(3) shall be qualified to issue invoice;

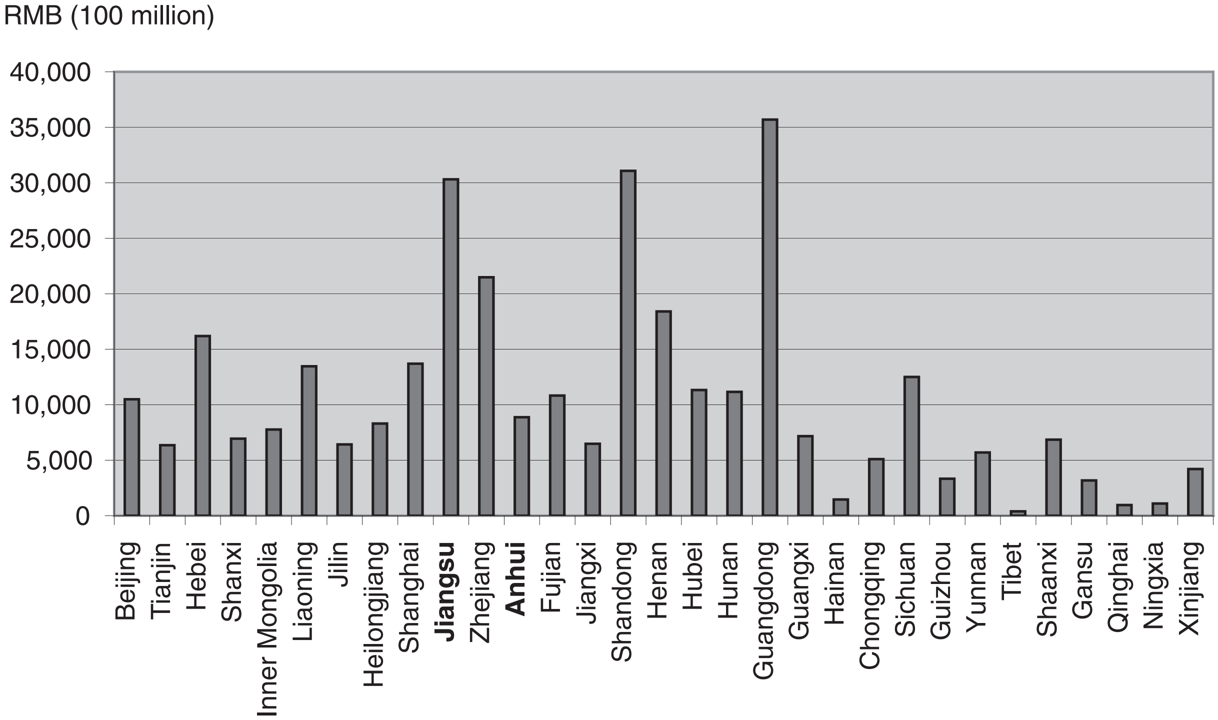
(4) shall possess computer system and networking equipment, together with the relevant technicians.

《家電下鄉操作細則》(Detailed Operation Rules for Home Appliances Going to the Rural Areas*) which was promulgated on 16 April 2009 also endorsed the above.

REGIONAL INFORMATION OF PRC

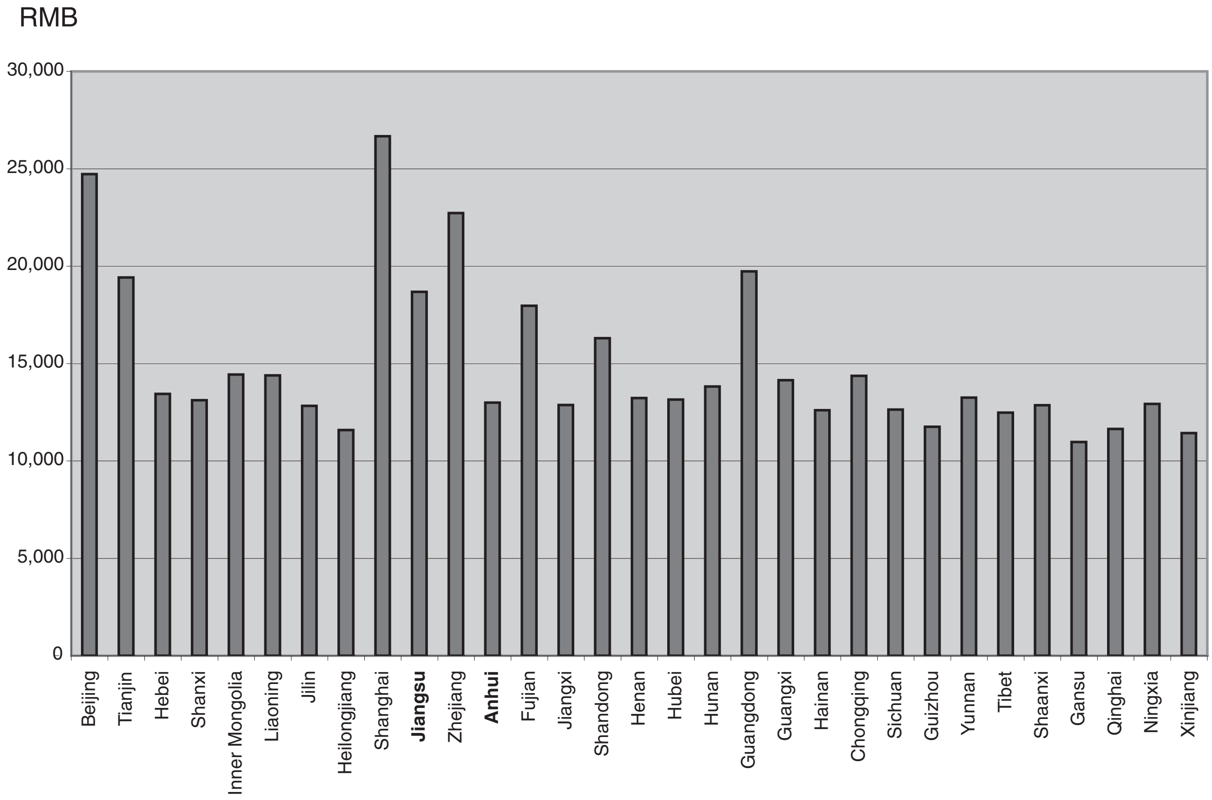
Set out below are the GRP of China and the per capita disposable income of urban households and the per capita net income of rural households of China by region in 2008 according to the National Bureau of Statistics:

China GRP (2008)



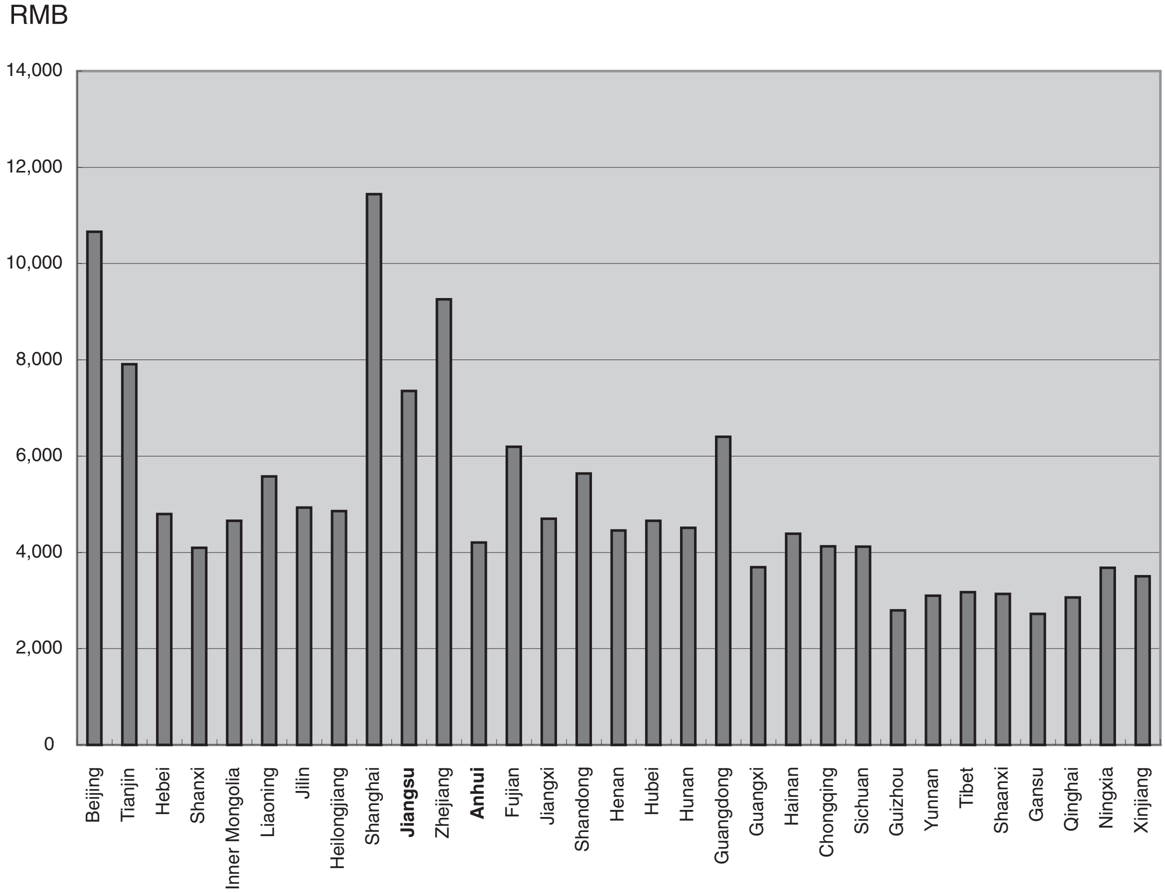
Source: National Bureau of Statistics of China

Per capita disposable income of urban households of China by region (2008)



Source: National Bureau of Statistics of China

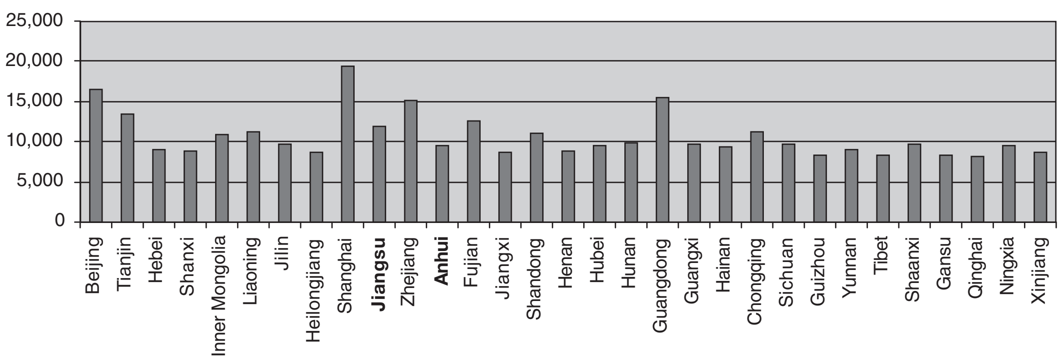
Per capita net income of rural households of China by region (2008)



Source: National Bureau of Statistics of China

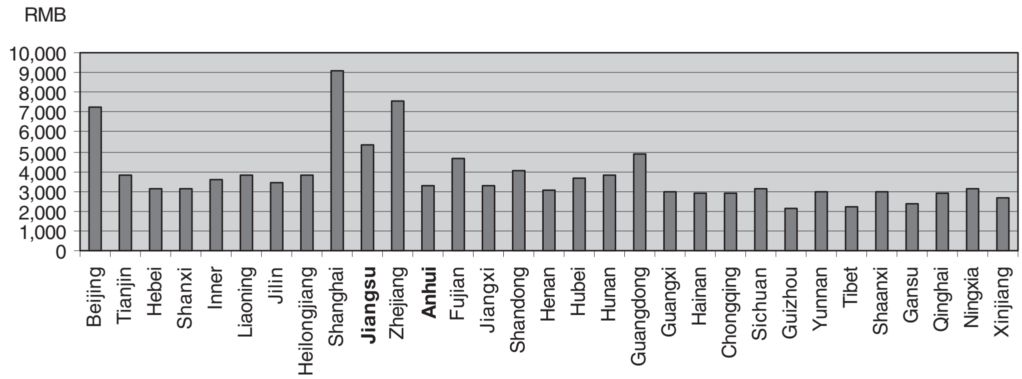
Set out below are the per capita expenditures of urban and rural households of China by region in 2008 according to the National Bureau of Statistics:

Per capita expenditure of urban households of China by region (2008)



Source: National Bureau of Statistics of China

Per capita expenditure of rural households of China by region (2008)



Source: National Bureau of Statistics of China

ACCESS ASIA

Access Asia, based in the United Kingdom, Malaysia and China, has been acting as an independent provider of market intelligence for companies and institutions seeking reliable information upon which to establish or develop their presence in Greater China and Southeast Asia since 1997. According to Access Asia, it has provided research and analysis services to its global leading clients in a broad spectrum of market sectors, including restaurants, cosmetics, household appliances, sportswear and others.

It has been agreed by Access Asia that (i) information contained in the Access Asia's Report can be used in this prospectus; and (ii) in relation to any information quoted from the Access Asia's Report, Access Asia will be referred to as the information source.

INTERNATIONAL MONETARY FUND

The International Monetary Fund is an organisation of 186 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

LAWS AND REGULATIONS RELATING TO CHINA'S RETAIL SECTOR

The principal PRC law and regulations governing foreign investment in retail enterprises are the Law of Foreign-invested Enterprises the Administrative Measures, the Franchising Operations Regulations, the Competition Law, the Anti-Monopoly Law, the Pricing Law, the Consumer Protection Law and the Product Quality Law. As we are conducting retail and franchise businesses in the PRC, we are subject to these laws and regulations which are summarised in this section.

Law of Foreign-invested Enterprises

According to the Law of Foreign-invested Enterprises, any application for establishment of a foreign-invested enterprise shall be submitted for examination and approval to the department under the State Council in charge of foreign trade and economic cooperation, or to any other agency authorised by the State Council. In the event of a split, merger or other major change, a foreign-invested enterprise shall report to and seek approval from the relevant authorities.

Pursuant to 中華人民共和國外資企業法實施細則 (Rules for the Implementation of the Law of Foreign-invested Enterprises*), which was amended on 12 April 2001, any increase or assignment of the registered capital of a foreign-invested enterprise shall be subject to the approval by 中華人民共和國對外貿易經濟合作部 (Ministry of Foreign Trade and Economic Cooperation of PRC*) ("**MOFTEC**") or the people's government at provincial level.

外商投資企業投資者股權變更的若干規定 (Provisions on the Alteration of the Equity Interests in the Foreign-invested Enterprises*), which was promulgated on 28 May 1997, further provides that an "alteration of equity interests" in foreign-invested enterprises refers to any alteration of capital contribution or equity interests in Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures and foreign-invested enterprises in the PRC. The department to examine and approve the alteration of the equity interests by an investor shall be the examination and approval department which has originally approved the establishment of this enterprise. In the event that an alteration of equity interests of the relevant investor is as a result of increase in the registered capital of the foreign-invested enterprise, and the increased registered capital and the total investment amount of such enterprise surpass the authorised limit permitted by the original approval authority, such alteration in equity interests of the investor shall be reported for examination and approval to a senior examination and approval department in line with the power delegated to the relevant authority and in accordance with the applicable regulations.

Pursuant to 外國投資者併購境內企業暫行規定 (Merger with and Acquisition of Domestic Enterprises by Foreign Investors Tentative Provisions*) promulgated on 7 March 2003, which was amended and restated as 關於外國投資者併購境內企業的規定 (Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors*) on 8 August 2006, defines the term "merger with and acquisition of domestic enterprises by foreign investors" as (i) a purchase by a foreign investor of the equity interests held by the shareholders of a non-foreign-invested enterprise in China ("**Domestic Company**") by agreement or subscription of the capital increase of a Domestic Company, so as to convert the Domestic Company into a foreign-invested enterprise ("**Equity Merger and Acquisition**"); (ii) the establishment by a foreign investor of a foreign-invested enterprise, through which the foreign investor purchases by agreement and operates the assets of a domestic enterprise; or (iii) a purchase of the assets of a Domestic Enterprise by agreement by a foreign investor who establishes a foreign-invested enterprise to operate the assets ("**Asset Merger and Acquisition**").

Establishment of foreign-invested enterprises by foreign investors by way of merger with and acquisition of domestic enterprises shall be subject to the approval of MOFCOM or the department in charge of foreign trade and economic cooperation at provincial level ("**Examination and Approval Authority at Provincial Level**").

If a foreign-invested enterprise established upon merger and acquisition is of such a particular type or industry that requires examination and approval of MOFTEC according to the provisions of laws, administrative regulations and departmental rules, the Examination and Approval Authority at Provincial Level shall forward the application documents to MOFTEC for examination and approval, and MOFTEC shall decide to approve or disapprove the application in accordance with the law. As a foreign-invested enterprise, Yangzhou Huiyin shall obtain approvals from the Examination and Approval Authority at Provincial Level for any change in its shareholding and registered capital.

Regulations relating to foreign investment in retail sectors

Given that our subsidiaries incorporated in the PRC are regarded as foreign-invested and foreign-reinvested enterprises and that we are conducting retail and franchising businesses, we are generally required to comply with and observe the relevant laws and regulations relating to foreign investment in the retail sector in the PRC.

Administrative Measures

The principal legal provisions governing foreign investment in the commercial sector are set out in the Administrative Measures which were promulgated on 16 April 2004 and implemented with effect from 1 June 2004.

China started to open its retail industry (to foreign investment) in the early 1990s. In 1992, the State Council introduced qualifications and conditions for foreign investment in commercial retail enterprises with the promulgation of 關於商業零售領域利用外資問題的批覆 (Approval and Reply Concerning the Use of Foreign Investment in the Commercial Retail Sector*). In 1999, the former PRC State Economic and Trade Commission and the former PRC Ministry of Foreign Trade and Economic Cooperation jointly promulgated 外商投資商業企業試點辦法 (Interim Measures on Foreign Investment in Commercial Enterprises*). According to the said interim measures, foreign companies or enterprises and domestic companies or enterprises were able to set up sino-foreign equity joint ventures or sino-foreign co-operative joint ventures ("**Joint Ventures**") in the designated experimental areas within the territory of the PRC, but wholly foreign-owned enterprises were not allowed to be established in the industry at that stage. The areas for establishment of Joint Ventures were stipulated by the State Council, which were restricted only to the capital cities of provinces and autonomous regions, municipalities under the central government, cities under direct planning of central government, and the special economic zones. Moreover, the establishment of Joint Ventures had to comply with commercial development planning rules in the relevant area. To gain access to the PRC market, non-PRC retailers had to apply for permission from the PRC Government in accordance with the said interim measures, which had high market entry barrier for foreign investment enterprises.

Following China's accession to the WTO and in fulfillment of its WTO commitments, the PRC Government promulgated the Administrative Measures which reduced the conditions for joint venture partners and removed the geographic restrictions provided in previous regulations. The Administrative Measures allows establishment of wholly foreign-owned commercial enterprises to engage in commission agency, wholesale distribution, retail and franchising businesses.

According to the Administrative Measures, a foreign-invested commercial enterprise shall meet the following requirements:

- its minimum registered capital shall comply with the relevant provisions of the PRC Company Law and complies with the relevant provisions on the registered capital and total investment of foreign-invested enterprise; and

- the operation period of a foreign-invested commercial enterprise shall not exceed 30 years in general, and not exceeding 40 years in general in the case of a foreign-invested commercial enterprise established in central and western China.

In addition, a foreign-invested commercial enterprise intending to open stores shall meet the following requirements:

- where an application is made for the establishment of a store at the same time as the application for the establishment of a commercial enterprise, it shall comply with the relevant provisions on city development and urban commercial development; and

- where the application for the establishment of a store is made by a foreign-invested commercial enterprise whose establishment has been approved, it shall, in addition, have completed the joint annual examination on foreign invested enterprises and shall have fully paid up its registered capital.

According to the provisions of the Administrative Measures, any application for the establishment of a foreign-invested commercial enterprise and its opening of a store shall be submitted to the competent provincial-level commerce department of the place of registration of the foreign-invested commercial enterprise. The application will then forward the same to MOFCOM for records, provided that the business scope of such foreign-invested commercial enterprise does not involve the sale on television, by telephone, by mail order, through internet sale or automated vending machines or the sale of certain specified merchandise, including books, newspapers, periodicals, motor vehicles, pharmaceutical products, pesticides, chemical fertilisers, processed oil, crude oil, and agricultural by-products, and if such foreign-invested enterprise satisfies either of the conditions set out below:

- the business area of a single store does not exceed 3,000 sq.m., the number of stores does not exceed three and the total number of stores of the same kind operated in China by the foreign investor through established foreign-invested commercial enterprises does not exceed 30; or

- the business area of a single store does not exceed 300 sq.m., the number of stores does not exceed 30 and the total number of stores of the same kind operated in China by the foreign investor through established foreign-invested commercial enterprises does not exceed 300.

On 9 December 2005, MOFCOM issued 關於委託地方部門審核外商投資商業企業的通知 (商資函[2005]94號) (Notice on Entrusting Local Authorities with the Examination and Approval of Commercial Enterprises with Foreign Investment (No. 94 of 2005 of MOFCOM)*), which came into effect on 1 March 2006. This notice amended the conditions of the Administrative Measures in respect of examination and approval by the competent commerce department at the provincial level. Any foreign-invested commercial enterprises which purports to open stores in provinces of their registration may apply for examination and approval by a competent local government, and report the applications to MOFCOM for records, provided that either one of the following conditions is satisfied:

- the business area of a single store does not exceed 5,000 sq.m., the number of stores does not exceed three and the total number of stores of the same kind operated in China by the foreign investor through foreign-invested commercial enterprises does not exceed 30; or

- the business area of a single store does not exceed 3,000 sq.m., the number of stores does not exceed five and the total number of stores of the same kind operated in China by the foreign investor through foreign-invested commercial enterprises does not exceed 50; or

- the business area of a single store does not exceed 300 sq.m.

Following the promulgation of 商務部關於下放外商投資商業企業審批事項的通知 (Circular on Delegating Matters Concerning the Examination and Approval of Foreign-invested Commercial Enterprises*) by MOFCOM on 12 September 2008, save and except for application for establishment of enterprises engaging in sales without physical shops through means such as television, telephone, mail order, internet and automated vending machines, and enterprises engaging in wholesale of audio and video products or the sale of books, newspapers and periodicals, which shall still be subject to examination and approval by MOFCOM, establishment of commercial enterprises by foreign investors and any changes to the existing foreign-invested commercial enterprises shall be subject to examination and approval by the provincial-level commerce departments.

Regulations relating to Promotion of the Development of Chain Operation

On 27 September 2002, the State Council announced the promulgation of 關於促進連鎖經營發展若干意見的通知 (Notice concerning Certain Opinions on Promotion of the Development of Chain Operation*) by the China Economics System Reform Office and the State Economic and Trade Commission of the PRC. Under the opinions, chain operation is defined as a modern distribution method through self-operated stores, franchise stores and free chain stores by implementing centralised procurement, distribution sales and standardised operation, with a view to achieving economy of scale. Implementing centralised procurement, centralised distribution and delivery, uniform trademarks, uniform business philosophy, uniform service standards and uniform pricings are considered as the fundamental standards and the intrinsic requirements for retail chain operations. Enterprises engaging in retail chain operation are encouraged to operate through parent and subsidiary operations to expand its geographical coverage and networks, or through franchising arrangement by uniforming their product mix, brand name, trademarks, logistics and distribution and store management. The government also encourages those chains with quality capital and assets, quality operation and management system and strong growth potential to float their shares on stock exchanges.

Regulations relating to circulation industry

On 9 June 2005, the State Council published 國務院關於促進流通業務發展的若干意見 (Certain Opinions of the State Council on Boosting the Development of Circulation Industry*). Under such opinions, the relevant departments within the State Council and the relevant financial institutions shall support the circulation enterprises to grow stronger and bigger when making arrangements such as the foreign trade development funds and the treasury bonds of the PRC central government, establishing financial companies, shares and bonds offering and providing financial services. Besides, the opinions requires the local governments to encourage retail chain operations, in particular in establishing sales network in the urban communities and rural areas, through financial subsidies and land use rights policies.

Regulations relating to the sales promotion activities of retailers

On 13 July 2006, MOFCOM passed 零售商促銷行為管理辦法 (Measures for the Administration of Sales Promotion Activities of Retailers*) with the consensus of the National Development and Reform Commission, the Public Security Bureau, State Administration of Taxation and State Administration for Industry and Commerce of the PRC, which came into effect on 15 October 2006. The measures aims to strengthen the supervision of retailers by stipulating basic compliance principles, security management measures, and rules relating to promotion and propaganda, pricing during promotional period, product quality guarantee and special promotional formats, and the legal liability for non-compliance thereof.

Regulations for the Administration of Commercial Franchising

Upon the implementation of 商業特許經營管理條例 (Regulations for the Administration of Commercial Franchising*) on 1 May 2007, a franchisor that wishes to engage in franchising activities shall have at least two stores that it operates directly and shall have been in business for more than one year. A franchisor shall, within 15 days from the date of entering into its first franchise agreement, carry out record filing procedures with the department in charge of commerce in accordance with the regulations. If the franchisor is to engage in franchising activities within a province, an autonomous region or a municipality directly under the central government, it shall carry out record filing procedures with the department in charge of commerce of the province, autonomous region or municipality directly under the central government where it is located. If the franchisor is to engage in franchising activities across provinces, autonomous regions and/or municipalities directly under the central government, it shall carry out record filing procedures with MOFCOM.

A franchisor and a franchisee shall enter into a written franchise agreement when engaging in the franchise operation. A franchisor shall provide the franchisee with a franchise operation handbook and also provide on a continuous basis services such as business guidance, technical support and business training, etc. of the type and by the method agreed upon. If the franchisor requires the franchisee to pay moneys before entering into the franchise agreement, it shall explain to the franchisee the purpose such moneys and the conditions for, and the method of, refunding the same. The moneys for promotion and publicity collected from the franchisee shall be used for their purpose specified in the agreement. The use of the moneys for promotion and publicity shall be disclosed to the franchisee in a timely manner. During the first quarter of each year, a franchisor shall submit a report to the department in charge of commerce on the franchise agreements it concluded during the preceding year. In the event of violations of the regulations, a fine shall be imposed, and the illegal income shall be confiscated. If the violation is serious, criminal liability shall be pursued.

Jiangsu Huiyin filed with the relevant authorities for conducting the franchising business in compliance with relevant regulations for the administration of commercial franchising. During the first quarter of each year, Jiangsu Huiyin is required to submit the report to the department in charge of commerce on the franchise agreements it concluded during the preceding year.

Competition Law and Anti-Monopoly Law

The principal legal provisions governing market competition are set out in the Competition Law, which was promulgated on 2 September 1993 and implemented with effect from 1 December 1993 and the Anti-Monopoly Law promulgated on 30 August 2007 and implemented on 1 August 2008.

Competition Law

The Competition Law provides that business operators shall not undermine their competitors by engaging in the following improper market activities:

- infringement of trademark rights or confidential business information;
- false publicity through advertising or other means, or forgery and dissemination of false information that compromises the goodwill of competitors or the reputation of their products; and
- other improper practices, including commercial bribery, cartels, dumping sales at below-cost prices, and offering prizes as sales rebates illegally.

Violations of the Competition Law may result in the imposition of fines and, in serious cases, revocation of the business operator's business license as well as incurrence of criminal liability.

Anti-Monopoly Law

The Anti-Monopoly Law addresses three types of monopoly acts, namely, monopoly agreements reached between or among business operators, abuse by business operators of their market dominance, concentrations of business operators that have or could have the effect of eliminating or restricting competition.

"Monopoly agreements" refers to agreements, decisions or other concerted behaviours between firms that eliminate or restrict competition. "Monopoly agreements" shall include agreements that fix or change the prices of goods, agreements that limit the quantity of goods produced or sold, agreements that divide up the sales market or raw materials procurement market, agreements that restrict the purchase of new technology or new equipment or that restrict the development of new technology or new products, agreements for the joint boycotting of trade, and other types of monopoly agreements as determined by the State Council's Anti-monopoly Law Enforcement Authority.

"Market dominance" means a market position where a business operator has the ability to control the price or quantity of goods or other trade conditions in the relevant market or to impede or affect the entry of other business operators into the relevant market. The acts of market dominance shall include selling goods at an unfairly high price or purchasing goods at an unfairly low price, selling goods at below cost without legitimate reason, refusing to deal with trade counterparties without legitimate reason, selling goods through a tying arrangement without legitimate reason or imposing other unreasonable trade conditions in the course of trading, treating equally qualified trade counterparties differently in terms of transaction price or other such transaction conditions without legitimate reason, carrying out other acts of abuse of market dominance as determined by the State Council's Anti-monopoly Law Enforcement Authority.

"Concentration of business operators" refers to mergers of business operators, a business operator obtaining control of other business operators through the acquisition of their equity or assets, or a business operator obtaining the control of, or being able to exercise a decisive influence on, other business operators through contractual or other means.

The State Council has set up the Anti-Monopoly Commission, which is responsible for organising, coordinating and directing the anti-monopoly work. The anti-monopoly enforcement agency shall investigate any alleged monopoly acts in accordance with the Anti-Monopoly Law.

Where a monopoly act is constituted, the illegal income shall be confiscated and a fine shall be imposed. In the case of obstructing investigation by the anti-monopoly enforcement agency, and if the case is serious, criminal liability shall be pursued in accordance with the Anti-Monopoly Law.

Pricing Law

Pursuant to the Pricing Law promulgated on 29 December 1997, which came into effect on 1 May 1998, the government implemented and was gradually perfecting a mechanism whereby prices are chiefly determined by the market, while subject to economic adjustment and control at the macro-level. The setting of prices shall conform to the laws of value. The prices of the great majority of merchandise and services shall be market-regulated prices, whereas the prices of a very small number of merchandise and services shall be subject to government-guided prices or government-fixed prices. The term "market-regulated prices" shall mean prices that are set autonomously by operators and determined through market competition. The term "government-guided prices" shall mean prices set by governmental authorities in charge of pricing or other relevant authorities for the purpose of guiding operators, namely by specifying basic prices and their margins of fluctuation pursuant to the Pricing Law. The term "government-fixed prices" shall mean prices set by governmental authorities in charge of pricing or other relevant authorities pursuant to the Pricing Law and in accordance with the limits and scope of their pricing authority.

Where necessary, the government may set guided prices or fixed prices for the following merchandise and services:

- a very small number of merchandise items with a major bearing on national economic development and the people's livelihood;
- a small number of merchandise items whose resources are scarce;
- merchandise that is naturally handled on a monopoly basis;
- important public utilities; and
- important public services.

As advised by our PRC Legal Advisers, given that home appliances and consumer electronic products do not fall within the categories mentioned above, the home appliances and consumer electronics sold by us are not subject to the government-fixed price or the government-guided price under the Pricing Law in general. However, merchandise sold under the Rural Appliance Rebate Program is subject to the ceiling price as set out under the program. Since the appointment as an authorised distributor under the Rural Appliance Rebate Program in February 2009, approximately 6.0% of our revenue for the year ended 31 December 2009 was generated from the sale of merchandise eligible under the Rural Appliance Rebate Program.

Consumer Protection Law

The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law, which was promulgated on 31 October 1993 and implemented with effect from 1 January 1994. The Consumer Protection Law sets out standards of behaviour which business operators must observe in their dealings with consumers, including the following:

- consumer goods and services must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;

- providing consumers with true information and advertising concerning goods and services, as well as providing true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by it;

- issuing purchase or service vouchers to consumers in accordance with relevant national regulations or business practices or upon the request by a consumer;

- ensuring the quality, functionality, applications and duration of use of the goods or services under normal use and ensuring that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions or samples;

- properly performing its responsibilities for guaranteed repair, replacement and return or other liability in accordance with national regulations or any agreement with the consumer; and

- not setting unreasonable or unfair terms for consumers or excluding itself from civil liability for undermining the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices, etc.

Violations of the above Consumer Protection Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

Product Quality Law

The principal legal provisions governing product liability are set out in the Product Quality Law, which was promulgated on 22 February 1993 (as amended on 8 July 2000) and implemented with effect from 1 September 1993. The Product Quality Law provides for the following obligations of a business operator:

- a check-for-acceptance system for stock replenishment shall be adopted to examine the quality certificates and other labels of such stock;
- measures shall be adopted to keep products for sale in good quality;
- observing prohibition to sell defective or deteriorated products;
- selling products with labels that comply with relevant provisions;
- observing prohibition against forging the origin of a product, or falsely using the name and address of another producer;
- observing prohibition against forging or falsely using another producer's authentication marks, marks of famous/premium brand names or other product quality marks; and
- observing prohibition against mixing impurities or imitations into the products, substituting a fake product for a genuine one, a defective product for a high-quality one, or passing off a substandard product as a qualified one in the sale of products.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

PRC GOVERNMENTAL POLICIES RELATING TO HOME APPLIANCES INDUSTRY

Rural Appliance Rebate Program

Pursuant to 加大家電下鄉政策實施力度的通知(財建 [2009] 48號) (Notice on Intensifying the Implementation of the Policy of Home Appliances Going to the Rural Areas (No. 48 of 2009 of the Ministry of Finance)*) promulgated on 26 February 2009 and 家電下鄉操作細則 (Detailed Operation Rules for Home Appliances Going to the Rural Areas*) promulgated on 16 April 2009, farmers buying home appliances going to the rural areas could enjoy a 13 per cent rebate as to the sales prices, which will be borne jointly by central treasury and local treasury. For further details of the Rural Appliance Rebate Program, please refer to the section headed "Industry overview — PRC Government initiatives to encourage spending on home appliances and consumer electronic products" in this prospectus.

As one of the authorised distributors under the Rural Appliance Rebate Program in Jiangsu province, we are obliged to observe and comply with the relevant rules under the Rural Appliance Rebate Program.

Change of the Old for New Program

Pursuant to 國務院辦公廳關於轉發發改委等部門促進擴大內需鼓勵汽車家電以舊換新實施方案的通知 (國辦發 [2009] 44號) (Notice on Change of the Old for New Program in Motor Vehicle and Home Appliances Industry to Boost Domestic Consumption issued by the State Council of the PRC on behalf of PRC National Development and Reform Commission (No. 44 of 2009 of the National Development and Reform Commission)*) promulgated on 1 June 2009 and the relevant implementation rules issued on 28 June 2009, eligible citizens in Beijing, Tianjin, Shanghai, Jiangsu province, Zhejiang province, Shandong province, Guangdong province, Fuzhou and Changsha may enjoy rebates from the government by exchanging their old home appliances for new ones between 1 June 2009 and 31 May 2010. For further details of the Change of the Old for New Program, please refer to the section headed "Industry overview — PRC Government initiatives to encourage spending on home appliances and consumer electronic products" in this prospectus.

We have been appointed as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program, we shall observe and comply with the relevant rules under the Change of the Old for New Program.

OUR BUSINESS DEVELOPMENT

Introduction

Our history can be traced back to 1995 when our founder, Mr. Cao, first participated in the management of home appliance trading business, 揚州市廣陵區滙銀貿易有限公司 (Yangzhou Guangling District Huiyin Trading Co., Ltd.*), a company operated and controlled by Mr. Cao, under the brandname *"汇银 (Huiyin*)"*. In 1999, Mr. Cao established Yangzhou Jiaojiadian to operate retail business and wholesale of home appliances and electronic products business under the same brand name. Through the operation of Yangzhou Jiaojiadian, Mr. Cao established business relationship with suppliers as well as retailers of home appliances and electronics products. In particular, the business relationship between Mr. Cao and the retailers established at that time provided a foundation for the growth of our network of Franchised Stores as certain retailers subsequently became our franchisees. In May 2002, Yangzhou Huiyin was established to engage in the retail and distribution business of home appliances and consumer electronic products in the PRC. At the time of its establishment, Yangzhou Huiyin was held as to 80% by Yangzhou Jiaojiadian and 20% by Ms. Mao Shanzhen (being Mr. Cao's spouse). Our first Self-operated Store was opened in October 2003.

We have grown rapidly since the commencement of our business. Our Directors believe that we have become one of the leading household appliances enterprises in the third and fourth-tier markets in eastern China. With the improving living standards of rural households in China, together with the macroeconomic policies and economic stimulus packages including in particular the promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program over the recent years, we have expanded our business both in terms of the number of Stores and the types of merchandise offered to our customers.

As at the Latest Practicable Date, we have a sales network of 250 Stores, comprising 30 Self-operated Stores and 220 Franchised Stores, and most of them are operated under our registered brand of "*汇银 (Huiyin*)*" (except for most of our dedicated brand retail Stores and our four shop-in-shop Stores which are operated within department stores).

Business milestones

The key milestones in our business development are as follows:

2002	• Our first enterprise, Yangzhou Huiyin, was established in Yangzhou
2003	• Our first Self-operated Store, Jiangdu Jianhang store, commenced its operation in Yangzhou
	• Our first Self-operated Service Centre commenced its operation in Yangzhou
	• Our first Franchised Store commenced its operation in Hanjiang

	• We set our strategic focus on the third and fourth-tier markets in the PRC well ahead of our peers and adopted the development policy of first establishing our Self-operated Store which is then followed by Franchised Store openings in the relatively more populated surrounding rural areas
	• Our first Authorised Service Centre commenced its operation in Yizheng
2004	• Our flagship store, Yangzhou store, commenced its operation in Yangzhou
2006	• Our first Self-operated Store outside Jiangsu province, Tianchang store, was established in Tianchang, Anhui province
2007	• We entered into an agreement to acquire the entire equity interest in Changzhou Keyi which was granted the bulk distribution rights of Gree air conditioners in Changzhou
	• Our distribution and logistic centre of approximately 13,476 sq.m. commenced its operation in Yangzhou
2009	• We were appointed as an authorised distributor under the Rural Appliance Relate Program
	• We were appointed as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program

OUR CORPORATE HISTORY

The following sets forth the corporate development of each operating member of our Group in the PRC since their respective dates of incorporation. Certain financial investors invested in our Group and we underwent certain reorganisation steps from the end of 2005 in contemplation of the listing of our Group, particulars of which are set forth in the subsections headed “Reorganisation”, “Information on the financial investors in our Company”, “Rights of the financial investors” and “Convertible loans, options and Warrants” under this section.

Yangzhou Huiyin

Yangzhou Huiyin was established on 27 May 2002 as a limited liability company in the PRC with a registered capital of RMB5 million. At the time of its establishment, Yangzhou Huiyin was held as to 80% by Yangzhou Jiaojiadian (being a company wholly owned by Mr. Cao) and 20% by Ms. Mao Shanzhen as the nominee of Yangzhou Jiaojiadian. The nominee shareholder was appointed for the purpose of fulfilling the requirement to have at least two shareholders in a limited liability company under the then PRC Company Law. Ms. Mao Shanzhen is the spouse of Mr. Cao and has been an employee of the finance department since our establishment.

The name of Yangzhou Huiyin was changed from "揚州滙銀對外貿易有限公司 (Yangzhou Huiyin Foreign Trade Company*)" to "揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd*)" on 16 June 2003. On 4 November 2003, Ms. Mao Shanzhen (being Mr. Cao's spouse) transferred all of her 20% equity interest in Yangzhou Huiyin to Mr. Mao Shanxin (being Mr. Cao's brother-in-law) in consideration for RMB1 million. The amount of consideration was based on the original amount of capital contribution.

In July 2004, the registered capital of Yangzhou Huiyin was increased from RMB5 million to RMB13.5 million by way of the subscription for additional equity interest by Mr. Cao in the amount of RMB8.5 million in cash. This capital increase was duly contributed and verified by a qualified accounting firm in the PRC. As a result, Yangzhou Huiyin was owned as to approximately 62.96% (RMB8.5 million) by Mr. Cao, 7.41% (RMB1 million) by Mr. Mao Shanxin and 29.63% (RMB4 million) by Yangzhou Jiaojiadian. In order to record in written form that the 20% equity interest in Yangzhou Huiyin transferred from Ms. Mao Shanzhen to Mr. Mao Shanxin in November 2003 was beneficially owned by Yangzhou Jiaojiadian, Yangzhou Jiaojiadian and Mr. Mao Shanxin subsequently entered into an agreement in October 2004 pursuant to which Mr. Mao Shanxin agreed that his equity interest in Yangzhou Huiyin was held as nominee of Yangzhou Jiaojiadian.

On 1 March 2005, the registered capital of Yangzhou Huiyin was further increased to RMB57.5 million. The additional equity interest in the amount of RMB44 million was fully subscribed by Mr. Cao in cash. After this capital increase, Yangzhou Huiyin was owned as to approximately 91.3% (RMB 52.5 million) by Mr. Cao, 1.74% (RMB1 million) by Mr. Mao Shanxin and 6.96% (RMB4 million) by Yangzhou Jiaojiadian. Subsequently, Yangzhou Jiaojiadian transferred all of its equity interest in Yangzhou Huiyin to Mr. Cao on 26 October 2005 for a consideration of RMB4 million which was based on its contribution to the registered capital of Yangzhou Huiyin. As a result, Mr. Cao's equity interest in Yangzhou Huiyin increased to approximately 98.26%.

Yangzhou Jiaojiadian was owned by Mr. Cao since its establishment in May 1999 and was principally engaged in the wholesale and retail of household appliances and electronic products. Yangzhou Jiaojiadian was liquidated in November 2006.

Pursuant to the 2005 Equity Transfer Agreement, China Huiyin was required to acquire the entire equity interest in Yangzhou Huiyin at a consideration of RMB25 million (which sum was lower than the then registered capital of Yangzhou Huiyin and was determined with reference to the net asset value of RMB24,678,928.2 of Yangzhou Huiyin as at 31 January 2005). Accordingly, our Group intended to revoke the increase in the registered capital of Yangzhou Huiyin in March 2005, and the registered capital of Yangzhou Huiyin was reduced to RMB13.5 million and an amount of RMB44 million was refunded to Mr. Cao in cash on 30 March 2006. As a result, Yangzhou Huiyin was owned as to approximately 92.59% (RMB12.5 million) by Mr. Cao and 7.41% (RMB1 million) by Mr. Mao Shanxin.

Pursuant to the 2005 Equity Transfer Agreement, Yangzhou Huiyin became a wholly-owned subsidiary of China Huiyin and a wholly foreign-owned enterprise in China. Subsequently, the registered capital was increased to US$10 million and was fully subscribed by China Huiyin.

Pursuant to the 2007 Equity Transfer Agreement, Yangzhou Huiyin became a wholly-owned subsidiary of China Houde.

Pursuant to the 2007 Subscription Agreement, the registered capital of Yangzhou Huiyin was increased to US$46.417 million. The increase in registered capital was subscribed by China Houde as to US$14.355 million, New Dame as to US$10.374 million and New Fellow as to US$11.688 million. As a result, Yangzhou Huiyin was owned as to approximately 52.47% (US$24.355 million) by China Houde, 22.35% (US$10.374 million) by New Dame and 25.18% (US$11.688 million) by New Fellow.

Pursuant to the 2008 Equity Transfer Agreement, Yangzhou Huiyin became a wholly-owned subsidiary of Yinrui HK.

Yangzhou Huiyin engages in distribution and provision of after-sales service of home appliances.

Yangzhou Huihou

Yangzhou Huihou was established in August 2004 as a limited liability company in the PRC under the name of "揚州滙銀時代家電有限公司 (Yangzhou Huiyin Shidai Household Appliances Co., Ltd.*)". At the time of its establishment, the registered capital of Yangzhou Huihou was RMB5 million and was wholly owned by Yangzhou Huiyin (30% of which was held by Mr. Mao Shanxin as its nominee). The nominee shareholder was appointed for the purpose of fulfilling the requirement to have at least two shareholders in a limited liability company under the then PRC Company Law. In April 2007, Mr. Mao transferred all of his 30% equity interest in Yangzhou Huihou to Yangzhou Huiyin. Upon completion of the transfer, Yangzhou Huihou became a wholly-owned subsidiary of Yangzhou Huiyin.

In June 2009, the name of Yangzhou Huihou was changed to "揚州滙厚電器銷售有限公司 (Yangzhou Huihou Electronics Sales Co., Ltd.*)".

Yangzhou Huihou focuses its business activities on distribution of home appliances.

Subsidiary of Yangzhou Huihou

Nanjing Huize was established by Yangzhou Huihou in July 2006 as a wholly-owned subsidiary with a registered capital of RMB600,000. Its principal operation is retail sales of Gree air conditioners in Nanjing.

Hengxin Air-Conditioner

Hengxin Air-Conditioner was established in August 2004 as a limited liability company in the PRC with a registered capital of RMB5 million. At the time of its establishment, Hengxin Air-Conditioner was wholly owned by Yangzhou Huiyin, with 9% equity interest of which was held by Mr. Mao Shanxin and 1% equity interest of which was held by Mr. Gao Yuan as its nominees. The nominee shareholders were appointed for the purpose of fulfilling the requirement to have at least two shareholders in a limited liability company under the then PRC Company Law. In April 2007, Mr. Mao Shanxin transferred all of his 9% equity interest in Hengxin Air-Conditioner to Yangzhou Huiyin. Upon completion of the transfer, Hengxin Air-Conditioner was owned by Yangzhou Huiyin and Mr. Gao Yuan as to 99% (RMB4.95 million) and 1% (RMB50,000), respectively.

Hengxin Air-Conditioner acts as a bulk distributor of Gree air conditioners in the Yangzhou and Taizhou regions.

Subsidiary of Hengxin Air-Conditioner

Zhenjiang Huize was established by Hengxin Air-Conditioner in December 2006 as a wholly-owned subsidiary with a registered capital of RMB600,000. Its principal operation is distribution of Gree air conditioners in Zhenjiang.

Jiangsu Huiyin

Jiangsu Huiyin was established in May 2006 as a limited liability company in the PRC under the name of "揚州美德電器營銷有限公司 (Yangzhou Meide Electronics Sales Co., Ltd.*)". At the time of its establishment, the registered capital of Jiangsu Huiyin was RMB5 million and was owned as to 99% by Yangzhou Huiyin and 1% by Mr. Sun Qingxiang (being a member of our senior management). In August 2006, the name of Jiangsu Huiyin was changed to "江蘇滙銀電器連鎖有限公司 (Jiangsu Huiyin Electronics Chain-Stores Co. Ltd.*)".

In September 2006, Mr. Sun Qingxiang transferred his 1% equity interest in Jiangsu Huiyin to Yangzhou Huiyin for a cash consideration of RMB50,000 which was based on the original amount of capital contribution. At the same time, the registered capital of Jiangsu Huiyin was increased to RMB62.5 million with subscription for the additional equity interest as to RMB43.75 million by Mr. Cao and RMB13.75 million by Yangzhou Huiyin. The capital injection by Mr. Cao in the amount of RMB43.75 million was made in kind by contributing the ownership of a building and the land use right of a parcel of land in Yangzhou, which was valued at approximately RMB43.81 million in aggregate by an independent valuer. Yangzhou Huiyin injected the increased capital of RMB13.75 in cash. As a result, Jiangsu Huiyin was owned as to 70% (RMB43.75 million) by Mr. Cao and 30% (RMB18.75 million) by Yangzhou Huiyin.

As Mr. Cao was also the legal representative of Yangzhou Huiyin, it was then beneficial to have an additional shareholder for Jiangsu Huiyin to facilitate the proceedings of the shareholders meeting of Jiangsu Huiyin. Thus, in October 2006, Yangzhou Huiyin transferred its 8.4% equity interest in Jiangsu Huiyin to Mr. Mao Shanxin, being a nominee of Yangzhou Huiyin, for a cash consideration of RMB5.25 million which was based on the original amount of capital contribution.

As part of the Reorganisation, in November 2006, Mr. Mao Shanxin and Mr. Cao transferred all of their equity interest in Jiangsu Huiyin to Yangzhou Huiyin for a cash consideration of RMB5.25 million and RMB43.75 million, respectively. The amount of consideration for each transfer was based on the original amount of capital contribution. Upon consummation of the transfers, Jiangsu Huiyin became a wholly-owned subsidiary of Yangzhou Huiyin.

Jiangsu Huiyin engages in retail and provision of after-sales services of home appliances.

Subsidiaries of Jiangsu Huiyin

For the purpose of streamlining our business, Jiangsu Huiyin established a number of wholly-owned subsidiaries, namely, Xinghua Huiyin, Yangzhou Huiyin Yuankun, Huaian Huiyin and Hanshang Huiyin.

Xinghua Huiyin was established by Jiangsu Huiyin in August 2007 as a wholly-owned subsidiary with a registered capital of RMB5 million. Its principal operation is retail sales of home appliances in Xinghua.

Yangzhou Huiyin Yuankun was established by Jiangsu Huiyin in January 2008 as a wholly-owned subsidiary with a registered capital of RMB5 million. Its principal operation is bulk distribution of Daikin air conditioners.

Huaian Huiyin was established by Jiangsu Huiyin in March 2009 as a wholly-owned subsidiary with a registered capital of RMB1 million. Its principal operation is retail sales of Haier products in Huaian.

Hanshang Huiyin was established by Jiangsu Huiyin in June 2009 as a wholly-owned subsidiary with a registered capital of RMB10 million. Its principal operation is retail sales of home appliances in Yangzhou.

In addition, Jiangsu Huiyin acquired the entire equity interest in Tianchang Huiyin from Yangzhou Huiyin in July 2007 for a cash consideration of RMB3 million which was based on the original amount of capital contribution. Its principal operation is retail sales of home appliances. Tianchang Huiyin established Wuhu Yinrui in March 2009 with a registered capital of RMB2 million. Wuhu Yinrui focuses its operation on distribution of Daikin air conditioners in Anhui province.

In December 2007, Jiangsu Huiyin entered into an agreement to acquire the entire equity interest in Changzhou Keyi from Ms. Ma Xiaowen (as to 72% equity interest) and an Independent Third Party (as to 28% equity interest), for a cash consideration of RMB6.81 million and RMB0.84 million, respectively. The total consideration was determined after arm's length negotiation with the transferees with reference to the net assets value of Changzhou Keyi as at 31 December 2007. In February 2008, the registered capital of Changzhou Keyi was increased by RMB2 million with subscription of the additional equity interest as to RMB250,000 by Jiangsu Gree, RMB250,000 by Ms. Ma Xiaowen and RMB1.5 million by Jiangsu Huiyin. As a result, the registered capital of Changzhou Keyi increased from RMB3 million to RMB5 million and Changzhou Keyi was owned as to 5% (RMB250,000) by each of Jiangsu Gree and Ms. Ma Xiaowen, and 90% (RMB4.5 million) by Jiangsu Huiyin. Changzhou Keyi focuses its operation on distribution of Gree air conditioners in Changzhou regions.

Ms. Ma Xiaowen was one of the founders of Changzhou Keyi and is the general manager of the Changzhou Keyi. Save as the above, she has no other relationship with any member of our Group, its directors and shareholders and any of their respective associates.

Jiangsu Gree is a limited liability company incorporated in the PRC and is principally engaged in installation, sale and repair of central air conditioners and household appliances. The substantial shareholders of Jiangsu Gree are Independent Third Parties.

Huide Electronics

In order to improve our distribution operation and solidify our business relationship with one of our major suppliers, Midea, Huide Electronics was established in October 2006 with a registered capital of RMB5 million. At the time of its establishment, Huide Electronics was wholly owned by Yangzhou Huiyin, with 1% equity interest of which was held by Mr. Sun Qingxiang (being a member of our senior management) as its nominee. The nominee shareholder was appointed pursuant to the request of the local administration for industry and commerce bureau which required two shareholders in a limited liability company. Huide Electronics is engaged in the distribution of Midea air conditioners in Yangzhou, Changzhou, Nanjing, Danyang and the nearby regions.

Ningguo Huiyin

Ningguo Huiyin was established on 23 September 2009 with a registered capital of RMB5 million. At the time of its establishment, Ningguo Huiyin was owned as to 70% by Yangzhou Huiyin and 30% by Jiangsu Huiyin. Ningguo Huiyin is engaged in the retail sales of home appliances in Ningguo, Anhui province.

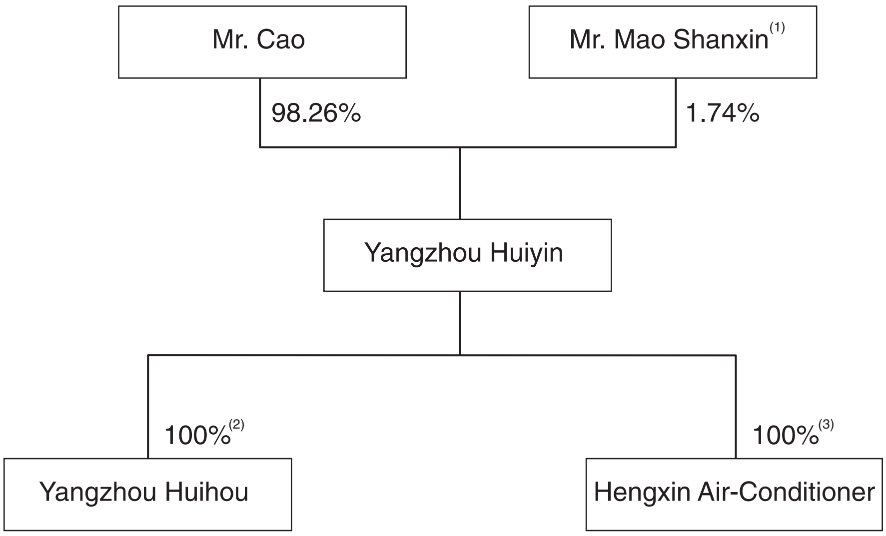
Jiangsu Huadong Huiyin

Jiangsu Huadong Huiyin was established on 1 November 2009 with a registered capital of RMB100 million, of which RMB20 million was paid up in the required manner and within the required timeframe and the remaining RMB80 million is required to be paid up in full within two years after the establishment. At the time of its establishment, Jiangsu Huadong Huiyin was owned as to 70% by Yangzhou Huiyin and 30% by Jiangsu Huiyin. Jiangsu Huadong Huiyin is engaged in the distribution of home appliances in southern region of Jiangsu province.

As advised by our PRC Legal Advisers, the nominee arrangements disclosed in this subsection are legal, valid and enforceable against the relevant contracting parties under the applicable laws and regulations in the PRC.

CORPORATE STRUCTURE PRIOR TO REORGANISATION

The following chart sets out our shareholding and corporate structure immediately prior to the Reorganisation.



Notes:

(1) The 1.74% interest in Yangzhou Huiyin was held by Mr. Mao Shanxin as the nominee of Yangzhou Jiaojiadian.

(2) 30% interest in Yangzhou Huihou was held by Mr. Mao Shanxin as the nominee of Yangzhou Huiyin.

(3) 10% interest in Hengxin Air-Conditioner was held as to 9% by Mr. Mao Shanxin and as to 1% by Mr. Gao Yuan (a member of our senior management) each as the nominee of Yangzhou Huiyin.

REORGANISATION

The reorganisation step set forth below in relation to transfers of the equity interest in Yangzhou Huiyin from Mr. Cao and Mr. Mao Shanxin to China Huiyin, which was proposed to be the then holding company of our Group, was implemented for the preparation of the then proposed listing of China Huiyin on AIM. The application for the proposed listing on AIM was not made due to the change of development plan resulting from the investment by certain financial investors and the perceived unfavourable prevailing market conditions at that time.

Yangzhou Huiyin was the principal operating entity of our Group and was the holding company of all the operating entities of our Group throughout the Track Record Period. Upon commencement of the Track Record Period, i.e. 1 January 2007, the equity interest in Yangzhou Huiyin was wholly owned by China Huiyin.

We have reorganised our corporate structure in preparation for the Listing. The principal steps involved in the Reorganisation are summarised below.

Transfer of equity interest in Yangzhou Huiyin to China Huiyin

On 28 December 2005, Mr. Cao, Mr. Mao Shanxin and China Huiyin entered into the 2005 Equity Transfer Agreement, pursuant to which Mr. Cao and Mr. Mao Shanxin transferred all of their respective equity interests in Yangzhou Huiyin to China Huiyin. COFTEC of Jiangsu province approved such transfer on 6 March 2006 and Yangzhou Huiyin became wholly-owned by China Huiyin.

China Huiyin, which was the then proposed holding company of the then members of our Group, was incorporated in Singapore on 6 December 2005. Upon its incorporation, two shares were issued to two nominees which held the same for and on behalf of Mr. Cao. The said two shares in China Huiyin, representing its entire issued share capital, were transferred to Zhen Chao Investment Limited, which was in turn wholly owned by Mr. Cao, on 10 April 2006. The principal activity of China Huiyin was holding the equity interests in Yangzhou Huiyin.

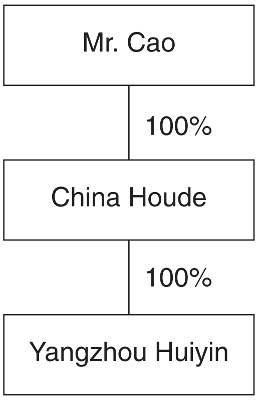
Mr. Cao had negotiated with several financial investors, including Pope and Dalton, to invest in China Huiyin for the then proposed listing of China Huiyin, and had concluded agreements with them in December 2005 and March 2007 whereby, such financial investors had invested in China Huiyin in the form of convertible loans. Particulars of such investments are set forth in the subsection headed "Convertible loans, options and Warrants" under this section.

On 15 January 2007, Yangzhou Huiyin increased its registered capital from RMB13.5 million to US$10 million.

Transfer of equity interest in Yangzhou Huiyin to China Houde

Pursuant to the 2007 Equity Transfer Agreement entered into between China Huiyin and China Houde on 9 October 2007, China Huiyin transferred all of its equity interest in Yangzhou Huiyin to China Houde for a cash consideration of US$3,125,000. The amount of consideration was based on the consideration paid by China Huiyin for its acquisition of the entire equity interest in Yangzhou Huiyin as approved in March 2006. Such transaction was approved by COFTEC of Jiangsu province on 22 October 2007.

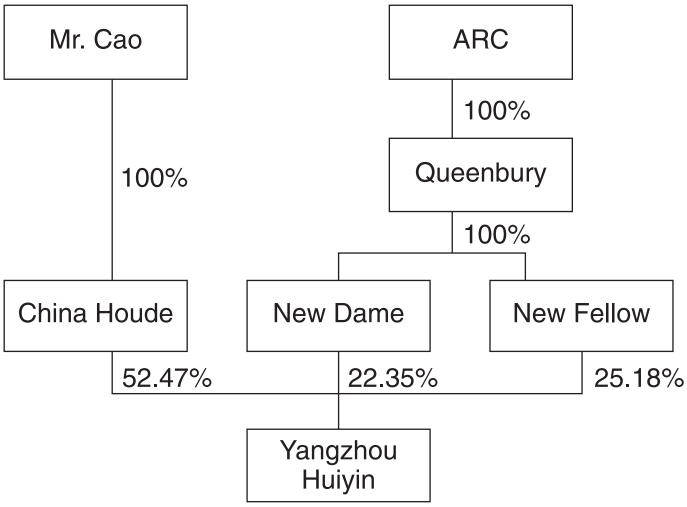
Upon completion of this transaction, Yangzhou Huiyin became wholly-owned by China Houde.



Investments in Yangzhou Huiyin by ARC

ARC invested in our Group in 2007 as a financial investor through its wholly owned subsidiaries, New Dame and New Fellow. Pursuant to the 2007 Subscription Agreement entered into between China Houde, New Fellow and New Dame on 16 November 2007, an aggregate amount of US$38,000,000 was injected as payment of additional registered capital of Yangzhou Huiyin (US$36,417,000 of which was the increased amount of the registered capital under the 2007 Subscription Agreement and the remaining amount of US$1,583,000 of which was the balance of amount required to be contributed by China Houde before such capital increase). Such capital investments by way of an increase in registered capital were approved by COFTEC of Jiangsu province on 21 November 2007. As at 31 October 2007, the unaudited consolidated net asset value of our Group was approximately RMB115,934,000.

Upon completion of these transactions, New Dame and New Fellow, each being a direct wholly-owned subsidiary of Queenbury which in turn is wholly owned by ARC, became shareholders of Yangzhou Huiyin. The registered capital of Yangzhou Huiyin was increased to US$46,417,000 and was owned as to approximately 52.47% by China Houde, approximately 22.35% by New Dame and approximately 25.18% by New Fellow.



Establishment of our Company and Yinrui HK

On 5 February 2008, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of US$50,000 divided into 50,000,000 Shares. On the same day, one subscriber Share was transferred to Mr. Cao, representing 100% of the then issued share capital of our Company. On 17 March 2008, Mr. Cao transferred the one Share to China Houde.

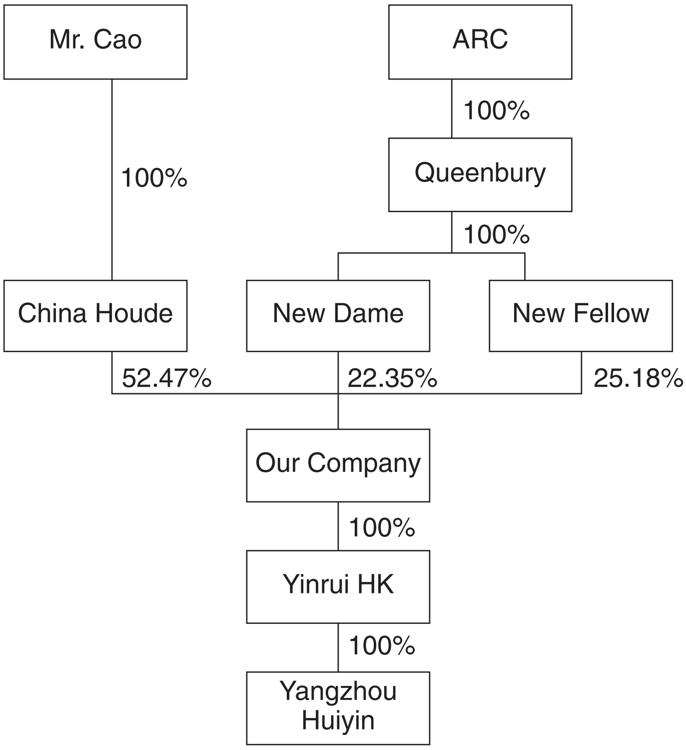
On 14 March 2008, Yinrui HK was incorporated in Hong Kong with limited liability as a wholly-owned subsidiary of our Company and one share of HK$1.00 each was issued and allotted to our Company.

Transfer of the entire equity interest in Yangzhou Huiyin from China Houde and ARC to Yinrui HK

Pursuant to the 2008 Equity Transfer Agreement entered into between Yinrui HK, China Houde, New Fellow and New Dame on 3 April 2008, Yinrui HK acquired the entire equity interest in Yangzhou Huiyin from China Houde, New Fellow and New Dame for an aggregate consideration of US$46,417,000. The amount of consideration of each of the transactions was based on the registered capital of Yangzhou Huiyin. The above transactions were approved by COFTEC of Jiangsu province on 7 May 2008.

In consideration of such acquisitions and pursuant to the 2008 Subscription Agreement entered into between our Company, Yinrui HK, China Houde, New Fellow and New Dame on 3 April 2008, our Company issued and allotted to China Houde, New Fellow and New Dame, 10,493,999 Shares, 5,036,000 Shares, and 4,470,000 Shares, respectively, representing approximately 52.47%, 25.18% and 22.35% of our issued share capital.

Upon the consummation of the transactions, Yangzhou Huiyin became wholly-owned by Yinrui HK and the ultimate interests of China Houde, New Dame and New Fellow in Yangzhou Huiyin remained at approximately 52.47%, 22.35% and 25.18%.



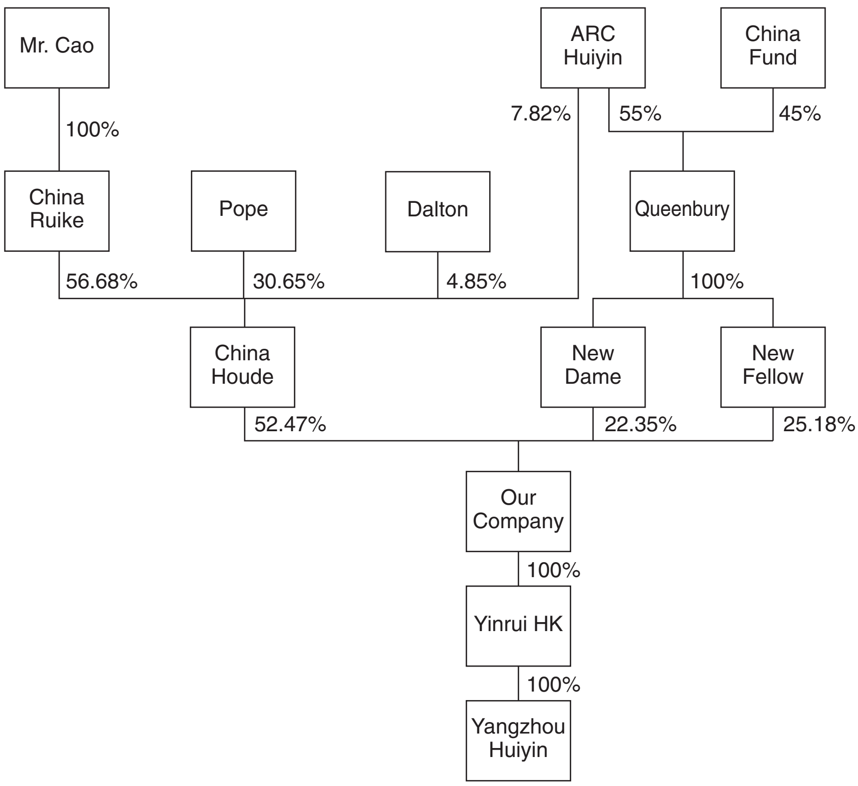
Investments in our Company by China Fund, Pope, Dalton and ARC Huiyin

On 23 April 2008, Mr. Cao transferred his one share with par value of US$1 in China Houde, representing the entire issued share capital of China Houde, to China Ruike, a company wholly and beneficially owned by Mr. Cao.

In May 2008, ARC transferred (i) 55% interest in Queenbury to its wholly-owned subsidiary, ARC Huiyin, for a cash consideration of US$550; and (ii) 45% interest in Queenbury to China Fund, a financial investor in our Group, for a cash consideration of US$38,459,700. After such transfers, Queenbury was owned as to 55% by ARC Huiyin and 45% by China Fund. As at 30 April 2008, the unaudited consolidated net asset value of our Group was approximately RMB461,384,000.

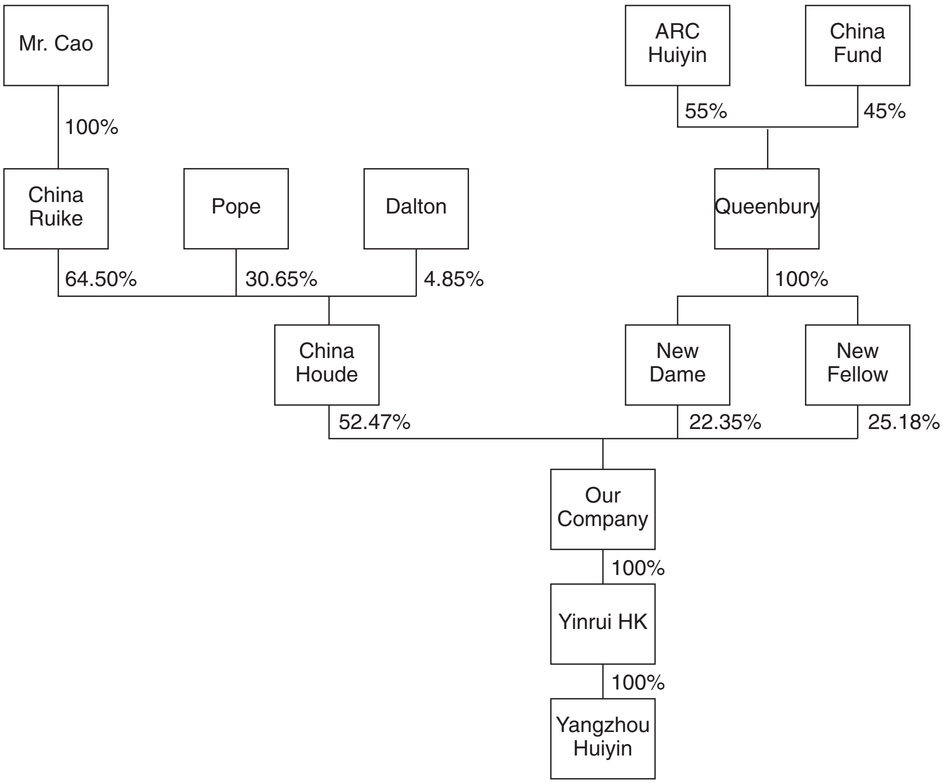
Pursuant to a share purchase agreement entered into between China Houde, China Ruike, ARC Huiyin, Pope and Dalton on 30 June 2008, China Houde issued and allotted 9,999 shares at par value, of which 5,667 shares to China Ruike for a total consideration of US$5.67, 782 shares to ARC Huiyin for a total consideration of US$0.78, 3,065 shares to Pope for a total consideration of US$3.07 and 485 shares to Dalton for a total consideration of US$0.49. After the consummation of these transactions, China Houde was owned as to 56.68% by China Ruike, 7.82% by ARC Huiyin, 30.65% by Pope and 4.85% by Dalton. As at 30 June 2008, the unaudited consolidated net asset value of our Group was approximately RMB470,121,000.

Pope and Dalton, which are financial investors to our Group, invested in China Huiyin by way of convertible loans in December 2005 and March 2007 respectively. In addition, there was a requirement under the above share purchase agreement that China Houde shall enter into a call option agreement, a put option agreement and a share charge with China Ruike and ARC Huiyin at or around completion. Please refer to the subsection headed "Convertible loans, options and Warrants — 2008 share transfers of China Houde" under this section for further details on the investments of Pope, Dalton and ARC Huiyin in our Group.



Transfer of 7.82% shareholding in China Houde from ARC Huiyin to China Ruike

On 12 March 2009, China Ruike, ARC Huiyin and China Houde entered into an agreement, pursuant to which China Ruike acquired from ARC Huiyin its entire 7.82% interest in China Houde from ARC Huiyin for a cash consideration of US$7,074,200. The amount of consideration was determined with reference to the exercise price of the put option under the put option agreement entered into between ARC Huiyin, China Ruike and China Houde on 8 July 2008. Such exercise price was determined with reference to the then valuation of US$158 million of our Group.



Transfer of Shares to the financial investors

On 6 March 2010, China Houde effected a distribution in specie by which 10,494,000 Shares held by China Houde were distributed to China Ruike, Pope and Dalton as to 6,768,630 Shares, 3,216,411 Shares and 508,959 Shares, respectively, in proportion to their then shareholdings in China Houde.

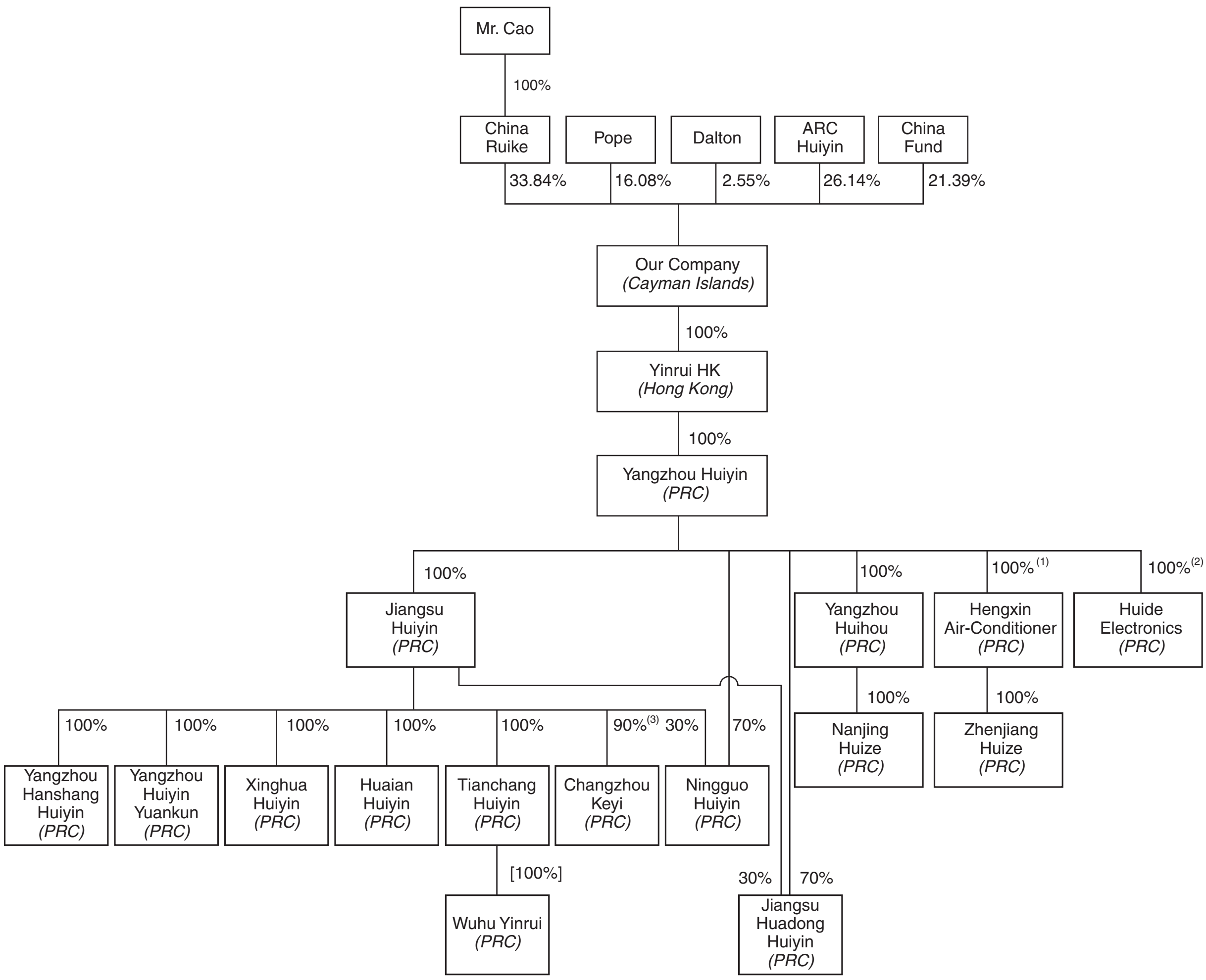
On 6 March 2010, New Fellow and New Dame transferred an aggregate of 9,506,000 Shares held by New Fellow and New Dame to Queenbury which effected a distribution in specie by which 9,506,000 Shares were distributed to ARC Huiyin and China Fund as to 5,228,300 Shares and 4,277,700 Shares, respectively, in proportion to their then shareholdings in Queenbury.

COMPLIANCE WITH THE RELEVANT PRC LAWS AND REGULATIONS

In the course of the Reorganisation described above, we and Mr. Cao have complied with all the relevant requirements of the then prevailing PRC laws and regulations. The registered capital of our PRC subsidiaries was fully paid up in the required manner and within the required timeframe, save and except that Jiangsu Huadong Huiyin, which was established on 1 November 2009, has a registered capital of RMB100 million, of which RMB20 million was paid up in the required manner and within the required timeframe and the remaining RMB80 million is required to be paid up in full within two years after the establishment.

OUR SHAREHOLDING AND CORPORATE STRUCTURE AS AT THE LATEST PRACTICABLE DATE AND IMMEDIATELY AFTER COMPLETION OF THE GLOBAL OFFERING

The following chart sets out our shareholding and corporate structure as at the Latest Practicable Date:



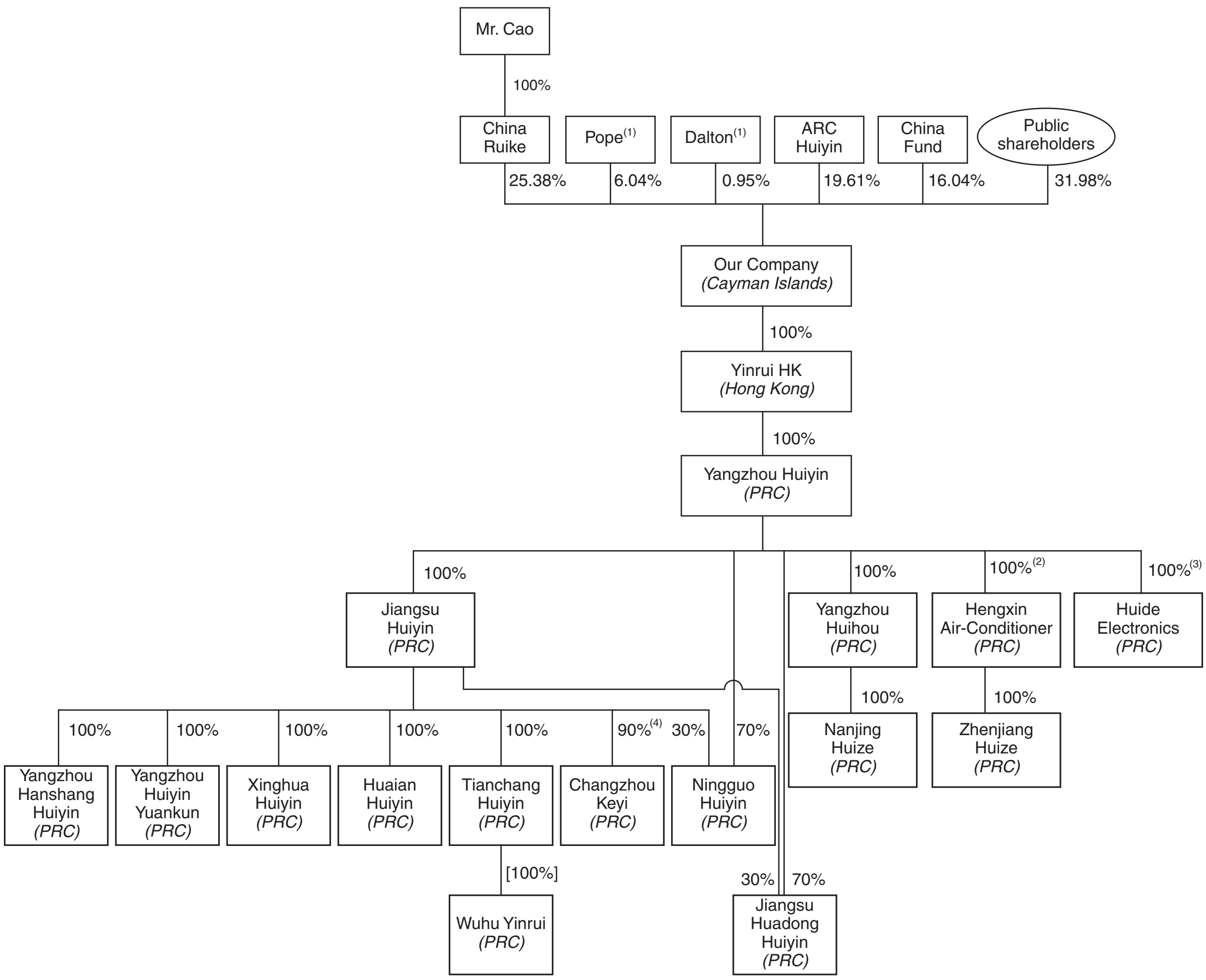
Notes:

1. *1% interest in Hengxin Air-Conditioner was held by Mr. Gao Yuan (a member of our senior management) as the nominee of Yangzhou Huiyin.*

2. *1% interest in Huide Electronics was held by Mr. Sun Qingxiang (a member of our senior management) as the nominee of Yangzhou Huiyin.*

3. *The remaining 10% interest was held by each of Jiangsu Gree and Ms. Ma Xiaowen, both being Independent Third Parties, in equal share.*

The following chart sets out our shareholding and corporate structure immediately upon completion of the Reorganisation, the Capitalisation Issue and the Global Offering without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, or any options granted under the Pre-IPO Option Scheme, or any options which may be granted under the Share Option Scheme or pursuant to the exercise or surrender of the Warrants:



Notes:

1. *Under the terms of the Warrants, Pope and Dalton were entitled to subscribe for up to 182,280 Shares and 121,520 Shares at a purchase price of US$7.90 per Share or, instead of exercising the Warrants for cash, receive a reduced number of Shares by surrendering the Warrants to our Company prior to the Listing, subject to adjustment pursuant to the terms of the Warrants in respect of the Capitalisation Issue.*

Pope and Dalton indicated to our Company that they will surrender their Warrants in full prior to the Listing and intend to receive a reduced number of Shares by such surrender of Warrants. Based on an Offer Price of HK$1.69, being the highest point of the stated Offer Price range, our Company will issue and allot 223,374 Shares and 148,916 Shares, representing approximately 0.02% and 0.01% of the issued share capital of our Company immediately upon the completion of the Capitalisation Issue and the Global Offering (without taking into account such 223,374 Shares and 148,916 Shares and any Shares which may be issued on the exercise of the Over-allotment Option or the option granted under the Pre-IPO Options), to Pope and Dalton, respectively, prior to the Listing. If the Offer Price is determined at HK$1.63 or less, the Warrants will have no value pursuant to the terms thereof and our Company will not be required to issue any Shares to Pope and Dalton upon their surrender of the Warrants.

2. *1% interest in Hengxin Air-Conditioner was held by Mr. Gao Yuan (a member of our senior management) as the nominee of Yangzhou Huiyin.*

3. *1% interest in Huide Electronics was held by Mr. Sun Qingxiang (a member of our senior management) as the nominee of Yangzhou Huiyin.*

4. *The remaining 10% interest was held by each of Jiangsu Gree and Mr. Mao Xiaowen, both being Independent Third Parties, in equal share.*

INFORMATION ON THE FINANCIAL INVESTORS IN OUR COMPANY

Pope

Pope is a limited liability company incorporated under the laws of Delaware, the U.S., on 15 December 2005. Pope is a pooled investment company managed by Pope Asset Management and serves as a complement to the registered investment adviser activities of Pope Asset Management by investing in private equity, small public companies, and operating companies that are better suited for a pooled fund. Pope Asset Management is managed by Mr. William P. Wells. Pope invested in our Group in December 2005 by way of convertible loans to China Huiyin when China Huiyin was established for the preparation of its then proposed listing on AIM.

Dalton

Dalton is an equity long/short fund launched in early 2005 and managed by Dalton Investments LLC. Dalton Investments LLC is a investment adviser registered with the Securities and Exchange Commission in the U.S. The firm serves institutional and private clients and offers investment strategies including Greater China equity long/short funds. Dalton invested in our Group in March 2007 by way of convertible loans to China Huiyin for the purpose of the then proposed listing of China Huiyin on AIM.

ARC Huiyin

ARC Huiyin is a company established in the BVI and a wholly-owned subsidiary of ARC. ARC is an investment fund listed on the AIM (traded as ARCH. LN) and focused on investing in the retail and consumer sectors primarily in the PRC and other Asian countries. ARC invested in our Group in November 2007 by way of contribution to the increase of registered capital of Yangzhou Huiyin for the purpose of a proposed listing of the holding company of Yangzhou Huiyin.

China Fund

China Fund is a non-diversified, closed-end management investment company whose shares are listed on The New York Stock Exchange, Inc. Martin Currie Inc. has served as the investment manager of China Fund with respect to its holdings of listed securities and direct investments. Martin Currie Investment Management Limited and Martin Currie Inc. are wholly-owned subsidiaries of Martin Currie Limited, which is in turn a wholly-owned subsidiary of Martin Currie (Holdings) Limited. Both Martin Currie Investment Management Limited and Martin Currie Inc. act as discretionary investment managers for the funds managed by them, including the Martin Currie Fund and China Fund. Martin Currie (Holdings) Limited and its subsidiaries engage in specialist investment management business for clients across Europe, North America and around the world and it is owned and managed by its directors and employees. China Fund invested in our Group in May 2008 by acquiring a 45% interest in Queenbury for the purpose of the proposed Listing.

Each of the financial investors, namely Pope, Dalton, ARC Huiyin and China Fund, has confirmed to our Company that: (i) it is independent of and not connected with each of the other financial investors and China Ruike; and (ii) there is no cross ownership or management between it and each of the other financial investors.

Other than the investments in our Group disclosed in this prospectus, Mr. Cao has no other business relationship with Pope, Dalton, ARC Huiyin and China Fund.

The table below sets out information on the investments of the above financial investors in our Company:

Financial investor	Number of Shares as at the Latest Practicable Date	Number of Shares after the Capitalisation Issue	Shareholding in our Company as at the Latest Practicable Date	Consideration initially paid	Premium/ (discount) to midpoint of the proposed Offer Price range[(6)]
Pope	3,216,411[(1)]	120,615,413	16.08%	US$9,325,000[(2)]	(59.53)%
Dalton	508,959[(1)]	19,085,963	2.55%	US$2,000,000[(3)]	(45.14)%
ARC Huiyin	5,228,300	196,061,250	26.14%	US$42,568,900[(4)]	13.66%
China Fund	4,277,700	160,413,750	21.39%	US$38,459,700[(5)]	25.51%

Notes:

1. *Under the terms of the Warrants, Pope and Dalton were entitled to subscribe for up to 182,280 Shares and 121,520 Shares at a purchase price of US$7.90 per Share or, instead of exercising the Warrants for cash, receive a reduced number of Shares by surrendering the Warrants to our Company prior to the Listing, subject to adjustment pursuant to the terms of the Warrants in respect of the Capitalisation Issue.*

   Pope and Dalton indicated to our Company that they will surrender their Warrants in full prior to the Listing and intend to receive a reduced number of Shares by such surrender of Warrants. Based on an Offer Price of HK$1.69, being the highest point of the stated Offer Price range, our Company will issue and allot 223,374 Shares and 148,916 Shares, representing approximately 0.02% and 0.01% of the issued share capital of our Company immediately upon the completion of the Capitalisation Issue and the Global

Offering (without taking into account such 223,374 Shares and 148,916 Shares and any Shares which may be issued upon the exercise of the Over-allotment Option or the option granted under the Pre-IPO Option Scheme), to Pope and Dalton, respectively, prior to the Listing. If the Offer Price is determined at HK$1.63 or less, the Warrants will have no value pursuant to the terms thereof and our Company will not be required to issue any Shares to Pope and Dalton upon their surrender of the Warrants.

2. *Pope, E2-Capital and L.K. Ang granted convertible loans in an aggregate amount of US$6 million to China Huiyin under the Original Investment Agreement whereas Pope, Dalton and LIM Asia granted convertible loans in an aggregate amount of US$6 million to China Huiyin under the Second Investment Agreement. Pope provided convertible loans of US$2,875,000 and US$3,000,000 to China Huiyin pursuant to the Original Investment Agreement and the Second Investment Agreement. It acquired from E2-Capital another convertible loan of US$2,875,000 and to China Huiyin and options held by E2-Capital for a consideration of US$3,450,000. The total consideration paid by Pope for its interest in our Company was US$9,325,000. Under the 2008 Deed of Release, Pope received an amount of US$11,948,396, a 30.65% interest in China Houde and the Warrants to subscribe for a maximum of 182,280 Shares for the cancellation of the convertible loans and options held by it.*

3. *Pope, Dalton and LIM Asia granted convertible loans in an aggregate amount of US$6 million to China Huiyin under the Second Investment Agreement. Dalton provided a convertible loan of US$2,000,000 to China Huiyin pursuant to the Second Investment Agreement. Under the 2008 Deed of Release, Dalton received an amount of US$148,889, a 4.85% interest in China Houde and the Warrants to subscribe for a maximum of 121,520 Shares for the cancellation of the convertible loan held by it.*

4. *ARC acquired an aggregate 47.53% interest in Yangzhou Huiyin for a total consideration of approximately US$77,398,000, of which US$38,000,000 was injected to the registered capital of Yangzhou Huiyin under the 2007 Subscription Agreement, approximately US$39,363,000 was paid to the Original Loan Lenders (as defined hereinafter), the Second Loan Lenders (as defined hereinafter) and the Call Option Grantees (as defined hereinafter) and Mr. Cao for cancellation or dilution of their interests in our Group pursuant to the 2008 Deed of Release, and US$35,000 was used to settle the legal costs in respect of the 2008 Deed of Release. It subsequently sold 45% of its investment in our Group to China Fund for a consideration of US$38,459,700. The consideration for its remaining investment is US$42,568,900.*

5. *China Fund acquired 45% of the investment of ARC in our Group for a consideration of US$38,459,700.*

6. *The discount is calculated by dividing the consideration initially paid by the financial investor by the total number of Shares held by it after the Capitalisation Issue. The figures were arrived at without taking into account any Shares which may fall to be issued to Pope and Dalton under the terms of the Warrants upon the exercise or surrender of the same and any amounts of monies received or to be received by the relevant investors in respect of their respective investments in our Group prior to the Listing or pursuant to the Global Offering and are for illustration purpose only.*

RIGHTS OF THE FINANCIAL INVESTORS

Shareholders' agreement in respect of our Company

In connection with the transfer of the entire interest in Yangzhou Huiyin from China Houde, New Dame and New Fellow to Yinrui HK pursuant to the 2008 Equity Transfer Agreement, Mr. Cao, China Houde, New Fellow, New Dame and our Company entered into a shareholders' agreement on 3 April 2008 (as amended on 8 July 2008, and hereinafter the "**China Yinrui Shareholders Agreement**") which provided certain protective mechanism for the interests of the minority shareholders. Pursuant to the China Yinrui Shareholders Agreement, the parties to the agreement agreed, among other things, to have the following rights and obligations. The China Yinrui Shareholders Agreement will be terminated and the protection rights provided to the relevant financial investors under the China Yinrui Shareholders Agreement will cease to have effect upon Listing. The protection rights provided to the relevant financial investors under the articles of association of the relevant members of our Group will also be taken out and cease to have effect upon Listing.

Transfer restrictions

Mr. Cao, China Houde, New Dame and New Fellow are not allowed to, directly and indirectly, sell, assign, transfer, pledge or otherwise encumber or dispose of any direct or indirect interest in any equity securities of our Company unless otherwise approved in writing by the other Shareholders.

Rights of first refusal and co-sale

If any of China Houde, New Dame and New Fellow propose a sale of the Shares held by it, it is required to give a written notice setting out the terms and conditions of the proposed sale to the other Shareholders, and such other Shareholders have an option for a period of 30 days from the receipt of notice to purchase the Shares to be sold at the same price and subject to the same material terms and conditions described in the notice.

To the extent that such other Shareholders do not exercise their respective rights of first refusal, such other Shareholders have the right to participate in the proposed sale of Shares and sell up to all of its Shares on the same terms and conditions described in the notice. If the prospective purchaser refuses to purchase the Shares from any Shareholder exercising its co-sale right, the prospective selling Shareholder is not allowed to sell its Shares until it agrees to purchase such Shares of the Shareholders exercising its co-sale right.

Right of first refusal to new issue

Each of China Houde, New Dame and New Fellow has a right to purchase up to a pro rata share of any new equity securities which our Company may, from time to time, propose to sell and issue.

Drag-along right

If any of China Houde, New Dame or New Fellow proposes to vote for a merger or consolidation of our Company into, or sell all or substantially all assets of our Company to, a third party purchaser in an arm's length transaction negotiated in good faith ("**Drag-along Sale**"), then each of the Shareholders shall vote in favour of such Drag-along Sale and/or to transfer all or a portion of their respective Shares in such Drag-along Sale; provided that the consideration shall not be less than the valuation of our Company assessed by an international investment banking firm selected by the Shareholders.

Information right

New Dame and New Fellow have the right to require our Company to deliver the unaudited consolidated income statement, cash flows statement and balance sheet of our Company for the relevant period and as at the relevant date within 20 days after the end of each month, within 30 days after 30 June of each year and within 60 days after the end of each calendar year, respectively, and the audited consolidated income statement, cash flows statement and balance sheet of our Company within 120 days after the end of each financial year.

Right to elect directors

The board of directors of each of our Company, Yinrui HK and Yangzhou Huiyin shall consist of five directors, and each of China Houde, New Dame and New Fellow shall be entitled to elect, remove from office and replace three, one and one member(s) to such boards of directors, respectively. China Houde has the right to appoint one of the directors as chairman of the boards of directors of our Company, Yinrui HK and Yangzhou Huiyin.

Reserved matters

The affirmative vote of at least four directors of the board of directors of our Company, Yinrui HK and Yangzhou Huiyin is required for, among other things, the following actions:

- any material change to the business of scope or current line of business of any member of our Group;
- any incurrence, assumption, refinancing or guarantee of indebtedness or other liability by any member of our Group, or any combination of the foregoing, equal to or in excess of an aggregate of 10% of the valuation of our Company from time to time;
- any amendment or change to the memorandum and articles of association or any constitutional document of the any member of our Group;
- any appointment, dismissal of or change in our Company's independent auditors;
- the public offerings of our Company's securities and related matters;
- the merger, consolidation, reorganisation, or amalgamation of any member of our Group with or into any other person or nay scheme of arrangement or other business combination with or into any other person;
- the liquidation or winding up of any member of our Group.

The affirmative vote of a two-thirds majority of the directors present at a duly convened and constituted board meeting of our Company is required for, among other things, the following actions:

- approval of the budget and business plan of any member of our Group and any material variations thereto;

- transactions (including but not limited to any investment, merger, acquisition by any member of our Group or disposition of any assets or rights of any member of our Group) the aggregate consideration of which is equal to or in excess of 5% of the valuation of our Company from time to time;

- employment of any new employee whose annual compensation is no less than US$200,000 or increase of the compensation of any existing employee to no less than US$200,000;

- assumption or guarantee of any liability of a person or persons other than members of our Group by any members of our Group in excess of an aggregate amount of RMB500,000 except in the ordinary course of business of such member of the Group;

- transactions with any individual who is a shareholder of any members of our Group the aggregate consideration of which is in excess of RMB1 million.

ARC and China Fund confirmed that they entrusted the day-to-day management of our Group to the current executive Directors and had never exercised their veto rights under reserved matters provisions in the China Yinrui Shareholders Agreement. Accordingly, our Company's management style and decision making process were not affected by the China Yinrui Shareholders Agreement.

Appointment of chief executive officer and chief financial officer

The chief executive officer, if any, of any member of our Group shall be jointly nominated by China Houde, New Dame and New Fellow and confirmed by a simple majority of the Directors present at a duly convened board meeting of our Company.

The chief financial officer, if any, of any member of our Group shall be jointly nominated by New Dame and New Fellow and confirmed by a simple majority of the Directors present at a duly convened board meeting of our Company.

Single largest beneficial shareholder of our Company

New Dame and New Fellow agreed that they would not take any actions or transfer any equity in our Company in such manner as would result in Mr. Cao ceasing to be the single largest beneficial shareholder of our Company through China Houde.

Control of China Houde

Mr. Cao and China Houde jointly and severally undertook to maintain the control of Mr. Cao over China Houde prior to the consummation of an initial public offering of Shares by our Company.

If Mr. Cao no longer holds more than 50% of the outstanding voting shares of China Houde, New Dame and New Fellow have the right to purchase all Shares held by China Houde at a price equivalent to the shareholding percentage of our Company attributable to such Shares times US$120 million.

Shareholders' agreement in respect of China Houde

In connection with the subscription of shares in China Houde pursuant to the share purchase agreement dated 30 June 2008, Mr. Cao, China Houde and its then shareholders, namely China Ruike, ARC Huiyin, Pope and Dalton, entered into a shareholders' agreement on 8 July 2008 ("**China Houde Shareholders Agreement**") which provided certain protective mechanism for the interests of the minority shareholders. Pursuant to the China Houde Shareholders Agreement, the parties to the agreement agreed, among other things, to have the following rights and obligations. The China Houde Shareholders Agreement will be terminated and the protection rights provided to the relevant financial investors under the China Houde Shareholders Agreement will cease to have effect upon Listing.

Transfer restrictions

China Ruike, ARC Huiyin, Pope and Dalton (collectively, "**Houde Shareholders**" and each a "**Houde Shareholder**") are not allowed to sell, assign, transfer, pledge or otherwise encumber or dispose of any direct or indirect interest in any shares of China Houde ("**Houde Shares**") unless in compliance with the provisions of the China Houde Shareholders Agreement regarding the rights of first refusal and co-sale described in the sub-paragraphs below.

Rights of first refusal and co-sale

If any of the Houde Shareholders propose a sale of the Houde Shares held by it, it is required to give a written notice setting out the terms and conditions of the proposed sale to the other Houde Shareholders, and such other Houde Shareholders have an option for a period of 30 days from the receipt of notice to purchase the Houde Shares to be sold at the same price and subject to the same material terms and conditions described in the notice.

To the extent that such other Houde Shareholders do not exercise their respective rights of first refusal, such other Houde Shareholders have the right to participate in the proposed sale of Houde Shares in proportion to their respective shareholdings on the same terms and conditions described in the notice. If the prospective purchaser refuses to purchase the Houde Shares from a Houde Shareholder exercising its co-sale right, the prospective selling Houde Shareholder is not allowed to sell its Houde Shares until it agrees to purchase such Houde Shares of the Houde Shareholders exercising its co-sale right.

Right of first refusal to new issue

Each of the Houde Shareholders has a right to purchase up to a pro rata share of any new equity securities which China Houde may, from time to time, propose to sell and issue.

Information right

Pope and Dalton have the right to require China Houde to deliver the unaudited consolidated income statement, cash flows statement and balance sheet of our Company for the relevant period and as at the relevant date within 20 days after the end of each month, within 30 days after 30 June of each year and within 60 days after the end of each calendar year, respectively, and the audited consolidated income statement, cash flows statement and balance sheet of our Company within 120 days after the end of each financial year.

Right to elect directors

The board of directors of each of China Houde shall consist of five directors, one of whom shall be appointed by China Ruike to serve as chairman of the board of directors. China Houde shall by ordinary resolution appoint or remove directors provided that as measures to protect the minority interests of Pope and Dalton in China Houde, for so long as Pope and Dalton collectively own more than 20% of the Houde Shares in issue, each of Pope and Dalton has the right to elect, remove from office and replace one director of China Houde, and for so long as Pope and Dalton collectively own not more than 20% but not less than 5% of the Houde Shares in issue, Pope and Dalton jointly have the right to elect, remove from office and replace one director of China Houde.

Right of first refusal to new issue

Each of China Houde, New Dame and New Fellow has a right to purchase up to a pro rata share of any new equity securities which our Company may, from time to time, propose to sell and issue.

Reserved matters

Prior to consummation of the initial public offering of the Shares by our Company, for so long as Pope and Dalton collectively own not less than 5% of the Houde Shares in issue, unanimous consent of the directors of China Houde is required for, among other things, the following actions:

- any material change to the business of scope or current line of business of China Houde and any member of our Group;

- any amendment or change to the memorandum and articles of association or any constitutional document of China Houde;

- any incurrence, assumption, refinancing or guarantee of indebtedness or other liability by China Houde;

- any increase or decrease of the size of the board of directors of China Houde;

- the engagement or entry into any agreement or transaction with Mr. Cao or any of his affiliates;

- the acquisition of any assets other than shares in the share capital our Company, or engagement in any business other than as a holding company for shares in the share capital our Company;

- the hiring or payment of compensation to any employee, officer or other representative of China Houde;

- the sale, transfer or exchange, other than in accordance with the China Houde Shareholders Agreement, of any shares in the share capital our Company.

Pope and Dalton confirmed that they entrusted the day-to-day management of our Group to the current executive Directors and had never exercised their veto rights under reserved matters provisions in the China Houde Shareholders Agreement. Accordingly, our Company's management style and decision making process were not affected by the China Houde Shareholders Agreement.

CONVERTIBLE LOANS, OPTIONS AND WARRANTS

Mr. Cao had negotiated with several financial investors to invest in our Group in connection with the then proposed listing of China Huiyin, and had concluded agreements with them whereby, among other things, such financial investors had invested in China Huiyin in the form of convertible loans and options to subscribe for shares in China Huiyin and the Warrants were issued to certain financial investors.

2005 Investment

Original Investment Agreement

For the then proposed listing of our Group, Mr. Cao had negotiated with three financial investors and concluded an agreement that such investors would invest in China Huiyin in the form of convertible loans and at the option of these financial investors, in the form of new shares arising from the application of such loans towards subscription of such new shares. Accordingly, on 20 December 2005, China Huiyin, Mr. Cao and Mr. Mao Shanxin entered into the Original Investment Agreement with Pope, E2-Capital and L.K. Ang (collectively, "**Original Loan Lenders**"), all being Independent Third Parties, whereby the Original Lenders granted non-interest bearing and convertible loans in an aggregate amount of US$6 million ("**Relevant Original Loans**") to China Huiyin. Pursuant to the Original Investment Agreement, each Original Loan Lender was entitled, at its option, to convert its principal amount of the Relevant Original Loans into shares in the capital of China Huiyin in accordance with the terms and conditions thereof.

L.K. Ang is a limited liability company incorporated under the laws of Singapore and is a wholly-owned subsidiary of L.K. Ang Construction Pte Ltd. which was also incorporated in Singapore. It is an investment company that invests in companies based in China that offer high growth potential with plans to be listed on stock exchanges outside China to access international capital resources to further grow their businesses.

The respective amounts of the Relevant Original Loans provided by Pope, E2-Capital and L.K. Ang were US$2,875,000, US$2,875,000 and US$250,000 respectively. The Original Loan Lenders had the right to recall the Relevant Original Loans if the proposed listing of China Huiyin had not taken place by 31 December 2006.

Pursuant to the Original Investment Agreement, China Huiyin undertook to apply an amount of RMB25,000,000 from the Relevant Original Loans to fund the corporate restructuring under which China Huiyin would be the holding company of a group of companies including Yangzhou Huiyin, and the balance to defray the expenses involved in the proposed listing and for the expansion of the business of Yangzhou Huiyin and other such purposes as shall be approved by the Original Loan Lenders. US$3.1 million of the Relevant Original Loans was applied in the acquisition of Yangzhou Huiyin by China Huiyin in March 2006, approximately US$1.2 million was applied to pay the expenses of the professional parties involved in the proposed listing of China Huiyin, the Original Investment Agreement, the Supplemental Agreement, the 2006 Deed of Release and the Restated Investment Agreement, and the balance of approximately US$1.7 million was used for the increases in the registered capital of Yangzhou Huiyin.

Yangzhou Huiyin, Mr. Cao and Mr. Mao Shanxin had respectively given guarantees to each of the Original Loan Lenders guaranteeing the repayment of the Relevant Original Loans severally.

Pursuant to the Original Investment Agreement, Mr. Cao and Mr. Mao Shanxin, in consideration of the Original Loan Lenders entering into the Original Investment Agreement, granted to each of the Original Loan Lenders a put option to require Mr. Cao and Mr. Mao Shanxin to purchase all of their respective shares in China Huiyin which would be issued to them after conversion of the Relevant Original Loans for a consideration equivalent to the amount of the Relevant Original Loan of such Original Loan Lender in the event that the proposed listing of China Huiyin had not taken place by 31 December 2006.

The conversion price of the shares in China Huiyin which were to be issued upon conversion of the Relevant Original Loans was based on the then valuation of our Group equivalent to the multiple of five of the profit before tax of our Group for the financial year ended 31 December 2005 but subject to a maximum valuation of RMB200 million.

E2-Capital transferred to Pope its rights, title and interests in, under and to its Relevant Original Loan on 29 September 2006. None of the Relevant Original Loans had been converted into shares in China Huiyin. The remaining parties to the Original Investment Agreement and the related ancillary documents discharged of all rights, claims, duties liabilities, obligations, undertakings, indemnities and breaches under such documents, including the repayment obligations of the Relevant Original Loans and the right of conversion of the Relevant Original Loans, pursuant to the terms of the 2008 Deed of Release.

Supplemental Investment Agreement

Taking into account the financial consultancy services provided to China Huiyin by MCP International, SBI E2-Capital and Paradigm, all being Independent Third Parties, in connection with the Original Investment Agreement and the Relevant Original Loans provided by the Original Loan Lenders, on 30 December 2005, China Huiyin, Mr. Cao, Mr. Mao Shanxin, the Original Loan Lenders (namely Pope, E2-Capital and L.K. Ang), MCP International, SBI E2-Capital and Paradigm entered into the Supplemental Investment Agreement whereby Mr. Cao irrevocably and unconditionally granted to each of Pope, E2-Capital, L.K. Ang, MCP International, SBI E2-Capital and Paradigm (collectively, "**Call Option Grantees**") a call option ("**Call Option**") to require Mr. Cao to sell a specific percentage of his shares in the issued and paid up capital of China Huiyin to it.

The Call Options were exercisable by the Call Option Grantees at any time after the regulatory procedures in relation to the corporate restructuring of our Group contemplated under the Original Investment Agreement had been completed and a sum of RMB25,000,000 had been received by Yangzhou Huiyin pursuant to the Original Investment Agreement, but on or prior to the listing of China Huiyin. The shares in China Huiyin which were subject to the Call Options represented an aggregate of 10% of the total issued share capital of China Huiyin. If the Call Options were exercised in full, Mr. Cao would receive an aggregate sum of RMB3,000,000 from the Call Option Grantees.

Under the Call Options, Pope, E2-Capital, L.K. Ang, MCP International, SBI E2-Capital and Paradigm were entitled to purchase from Mr. Cao 2.39583%, 2.39583%, 0.20833%, 0.75%, 0.75% and 3.5% of the then issued share capital of China Huiyin, for a consideration of RMB718,750, RMB718,750, RMB62,500, RMB225,000, RMB225,000 and RMB1,050,000, respectively. The exercise prices were with reference to the then total investment amount of Yangzhou Huiyin of RMB25 million.

Paradigm transferred all its rights, title and interests in its Call Option to New Asia, subsequently. New Asia is a company incorporated under the laws of BVI on 7 January 2004. Our Directors believe that New Asia is an investment firm based in Shanghai and Hong Kong with a focus on assisting Chinese companies to access the international capital markets. Our Directors believe that Paradigm is a company incorporated in BVI and holds the entire issued share capital of New Asia. Ms. Fan Li Rong holds the entire issued share capital of Paradigm.

SBI E2-Capital (HK) Limited is a licensed corporation to carry on business in types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the SFO.

On 17 August 2006, SBI E2-Capital transferred all its rights, title and interests in its Call Option to E2-Capital, which in turn transferred to Pope the same together with its own Call Option on 29 September 2006 for a total consideration of US$3,450,000 approximately.

None of the Call Options had been exercised. E2-Capital transferred to Pope its rights, title and interests in, under and to its Relevant Original Loan on 29 September 2006. The remaining parties to the Supplemental Investment Agreement discharged of all rights, claims, duties liabilities, obligations, undertakings, indemnities and breaches under such documents, including the right to exercise the Call Options, pursuant to the terms of the 2008 Deed of Release.

2006 Deed of Release and Restated Investment Agreement

As E2-Capital transferred its Relevant Original Loan and Call Option to Pope and SBI E2-Capital transferred its Call Option to E2-Capital which in turn transferred the same to Pope, on 29 September 2006, the parties to the Original Investment Agreement and the Supplemental Investment Agreement, namely China Huiyin, Pope, E2-Capital, L.K. Ang, SBI E2-Capital, MCP International, Paradigm, Mr. Cao and Mr. Mao Shanxin together with Yangzhou Huiyin and Mr. Ong Tiang Lock (who was a then director of China Huiyin nominated by E2-Capital and was required to resign from such directorship pursuant to the Restated Investment Agreement), entered into the 2006 Deed of Release.

For the purpose of restating the Original Investment Agreement as amended by the Supplemental Investment Agreement and the 2006 Deed of Release, the remaining parties to the Original Investment Agreement and the Supplemental Investment Agreement, namely Mr. Cao, Mr. Mao Shanxin, China Huiyin, Pope, L.K. Ang, MCP International and New Asia, entered into the Restated Investment Agreement on 29 September 2006.

Under the 2006 Deed of Release, the then existing parties to the Original Investment Agreement and the Supplemental Investment Agreement released and discharged E2-Capital and SBI E2-Capital from all and any duties, obligations and liabilities under or in connection with the Original Investment Agreement (as supplemented by the Supplemental Investment Agreement) and the related ancillary documents (except the confidentiality obligation).

The rights and obligations of the parties to the Original Investment Agreement as amended by the Supplemental Investment Agreement and the 2006 Deed of Release were primarily restated in the Restated Investment Agreement as follows:

- Pope and L.K. Ang (collectively, "**Restated Loan Lenders**") granted non-interest bearing and convertible loans in an aggregate amount of US$6 million ("**Relevant Restated Loans**") to China Huiyin. The respective amounts of the Relevant Restated Loans provided by Pope and L.K. Ang were US$5,750,000 and US$250,000, respectively. The Restated Loan Lenders had the right to recall the Relevant Original Loans if the proposed listing of China Huiyin had not taken place by 31 December 2007 or other date as may be extended by the Restated Loan Lenders.

- Yangzhou Huiyin, Mr. Cao and Mr. Mao Shanxin had respectively given guarantees to each of the Restated Loan Lenders guaranteeing the repayment of the Relevant Restated Loans severally.

- Mr. Cao and Mr. Mao Shanxin, in consideration of the Restated Loan Lenders entering into the Restated Investment Agreement, granted to each of the Restated Loan Lenders a put option to require Mr. Cao and Mr. Mao Shanxin to purchase all of their respective shares in China Huiyin which would be issued to them after conversion of the Relevant Restated Loans for a cash consideration equivalent to the amount of the Relevant Restated Loan of such Restated Loan Lender in the event that, among other things, the proposed listing of China Huiyin had not taken place by 31 December 2007.

- The price of the shares in China Huiyin which were to be issued upon conversion of the Relevant Restated Loans was based on the then valuation of our Group amounting to RMB200 million which was arrived at after arm's length negotiation between the parties to the agreement taking into account the unaudited profit before tax of our Group for the financial year ended 31 December 2005.

- Mr. Cao irrevocably and unconditionally granted to each of Pope, L.K. Ang, MCP International and New Asia (collectively, "**Restated Call Option Grantees**") a call option ("**Restated Call Option**") to require Mr. Cao to sell a specific percentage of his shares in the issued and paid up capital of China Huiyin to it.

- The Restated Call Options were exercisable by the Restated Call Option Grantees at any time after the date of the Restated Investment Agreement until the listing of China Huiyin. The shares in China Huiyin which were subject to the Call Options represented an aggregate of 13.5% of the total issued share capital of China Huiyin. If the Call Options were exercised in full, Mr. Cao would receive an aggregate sum of RMB3,000,000 from the Restated Call Option Grantees. Under the Restated Call Options, Pope, L.K. Ang, MCP International and New Asia were entitled to purchase from Mr. Cao 5.54166%, 0.20833%, 0.75% and 7% of the then issued share capital of China Huiyin, for a consideration of RMB1,662,500, RMB62,500, RMB225,000 and RMB1,050,000, respectively.

None of the Relevant Restated Loans had been converted into shares in China Huiyin and none of the Restated Call Options had been exercised. The parties to the Restated Investment Agreement and the related ancillary documents discharged of all rights, claims, duties liabilities, obligations, undertakings, indemnities and breaches under such documents, including the repayment obligations of the Relevant Restated Loans, the right of conversion of the Relevant Restated Loans and the right to exercise the Restated Call Options, pursuant to the terms of the 2008 Deed of Release.

2007 investment

In respect of the proposed listing of China Huiyin, China Huiyin had further negotiated with Pope and two other new financial investors. Accordingly, on 21 March 2007, China Huiyin, Mr. Cao and Mr. Mao Shanxin entered into the Second Investment Agreement with Pope, Dalton and LIM Asia (collectively, "**Second Loan Lenders**") whereby the Second Loan Lenders granted convertible loans in an aggregate amount of US$6 million ("**Relevant Second Loans**") to China Huiyin. Pursuant to the Second Investment Agreement, each Second Loan Lender was entitled, at its option, to convert its principal amount of the Relevant Second Loans into shares in the capital of China Huiyin in accordance with the terms and conditions thereof.

The respective amounts of the Relevant Second Loans provided by Pope, Dalton and LIM Asia were US$3 million, US$2 million and US$1 million. Interests were accrued from 31 July 2007 on the outstanding principal balance of the Relevant Second Loans at an annual rate of 8%. The Second Loan Lenders had the right to recall the Relevant Second Loans if the proposed listing of China Huiyin had not taken place by 31 December 2007 or such later date no later than the fifth anniversary of the date of the Second Investment Agreement.

Pursuant to the Second Investment Agreement, China Huiyin undertook to apply the Relevant Second Loans to continue its expansion of self-managed and franchised stores in Jiangsu and Anhui provinces and to pay the expenses incurred in connection with the Second Investment Agreement and the proposed listing of China Huiyin and for other general corporate purposes. Approximately US$1 million of the Relevant Second Loans was applied to pay the expenses of the professional parties involved in the proposed listing of China Huiyin, and the balance of approximately US$5 million was for the increases in the registered capital of Yangzhou Huiyin.

Yangzhou Huiyin had given a guarantee to each of the Second Loan Lenders guaranteeing the repayment of the Relevant Second Loans severally. Mr. Cao and Mr. Mao Shanxin had given a tax indemnity in favour of China Huiyin and the Second Loan Lenders in relation to any tax liabilities of our Group.

Pursuant to the Second Investment Agreement, Mr. Cao and Mr. Mao Shanxin granted to each of the Second Loan Lenders a put option to require Mr. Cao and Mr. Mao Shanxin to purchase all of their respective shares in China Huiyin which would be issued to them after conversion of the Relevant Second Loans for a consideration equivalent to the amount of the Relevant Original Loan of such Original Loan Lender in the event that the proposed listing of China Huiyin had not taken place by 31 December 2007.

The price of the shares in China Huiyin which were to be issued upon conversion of the Relevant Original Loans was based on the then valuation of our Group equivalent to the multiple of 6.7 of the profit before tax of our Group for the financial year ended 31 December 2006 subject to a maximum valuation of RMB435.5 million plus any outstanding amount of the Relevant Second Loans.

None of the Relevant Second Loans had been converted into shares in China Huiyin. The parties to the Second Investment Agreement discharged of all rights, claims, duties liabilities, obligations, undertakings, indemnities and breaches under the agreement, including the repayment obligations of the Relevant Second Loans and the right of conversion of the Relevant Second Loans, pursuant to the terms of the 2008 Deed of Release.

2008 release of obligations

As part of the corporate restructuring of our Group, China Huiyin transferred all of its equity interest in Yangzhou Huiyin to China Houde in October 2007. New Dame and New Fellow became shareholders of Yangzhou Huiyin in November 2007 and subsequently, Yinrui HK acquired the entire equity interest in Yangzhou Huiyin from China Houde, New Fellow and New Dame in May 2008. As a result, the relevant parties to the Original Investment Agreement, the Supplemental Investment Agreement, the Restated Investment Agreement, the Second Investment Agreement and the related ancillary documents decided to have a re-arrangement of their interests in our Group and discharge of all rights, claims, duties liabilities, obligations, undertakings, indemnities and breaches under such documents. For this purpose, the 2008 Deed of Release was entered into between, among others, China Huiyin, Pope, Dalton, L.K. Ang, LIM Asia, MCP International, New Asia, Mr. Cao and Mr. Mao Shanxin whereby the rights, claims, duties, liabilities, obligations, undertakings, indemnities and breaches of the relevant parties under such documents were discharged in July 2008.

The release and termination of the rights, claims, duties, liabilities, obligations, undertakings, indemnities and breaches of the relevant parties under the Original Investment Agreement, the Supplemental Investment Agreement, the Restated Investment Agreement, the Second Investment Agreement and the guarantees and indemnity executed by Mr. Cao, Mr. Mao Shanxin and Yangzhou Huiyin under the above documents were conditional on, among others, the following arrangements:

- the payment of an aggregate of US$21,253,397 to the Original Loan Lenders, the Second Loan Lenders and the Call Option Grantees, namely, Pope, L.K. Ang, LIM Asia, MCP International, New Asia and Dalton, as to US$11,948,396, US$1,276,472, US$1,815,215, US$765,912, US$5,298,513 and US$148,889, respectively, which were determined with reference to the respective percentages of equity interests in China Huiyin that would be held by those entities should their Relevant Restated Loans and Restated Call Options were exercised, the respective percentages of equity interests in China Houde issued to them (if any) and the then valuation of US$158 million of our Group;

- duly execution of the share purchase agreement among China Houde, China Ruike, ARC Huiyin, Pope and Dalton whereby China Houde, which held 52.47% of the issued share capital of our Company, issued and allotted 5,667,782, 3,065 and 485 shares to China Ruike, ARC Huiyin, Pope and Dalton, respectively, at a nominal price of US$0.001 per share; and

- issue of the Warrants by our Company to Pope and Dalton.

The conditions of the 2008 Deed of Release were fulfilled in July 2008.

Warrants

As one of the conditions precedent to the 2008 Deed of Release, our Company issued the Warrants to Pope and Dalton on 8 July 2008. Under the terms of the Warrant, Pope and Dalton were entitled to subscribe up to 182,280 Shares (subject to adjustment pursuant to the terms of the Warrant in respect of the Capitalisation Issue) and 121,520 Shares (subject to adjustment pursuant to the terms of the Warrant in respect of the Capitalisation Issue), respectively, during the period from the date of grant to the closing date of a qualified public listing (being a firm commitment underwritten registered public offering by our Company of the Shares for listing on a stock exchange in accordance with the general terms and conditions approved in writing by the holders of a three-fourths majority in voting power of the outstanding Shares), or the closing of a sale of our Company (whether by sale of shares, assets, or otherwise), whichever is earlier, at the purchase price of US$7.90 per Share. The purchase price of US$7.90 per Share was determined with reference to the then valuation of US$158 million of our Company.

Under the terms of the Warrants, Pope and Dalton, instead of exercising the Warrants for cash, were also entitled to receive a reduced number of Shares by surrender of the Warrants to our Company and such reduced number of Shares to be issued would be determined as follows:

$$\text{reduced number of Shares to be issued} = \frac{\text{(fair market value of a Share - exercise price of the Warrant)}}{\text{fair market value of a Share}} \times \text{number of Shares issuable under the Warrants}$$

whereas the fair market value of a Share as of a particular date shall be as determined in good faith by the Board provided that if the Warrant is exercised in connection with an initial public offering of our Company, the fair market value per Share shall be the offer price per Share under such initial public offering of our Company.

Pope and Dalton indicated to our Company that they will surrender their Warrants in full prior to the Listing and intend to receive a reduced number of Shares by such surrender of Warrants. Based on an Offer Price of HK$1.69, being the highest point of the stated Offer Price range, our Company will issue and allot 223,374 Shares and 148,916 Shares, representing approximately 0.02% and 0.01% of the issued share capital of our Company immediately upon the completion of the Capitalisation Issue and the Global Offering (without taking into account such 223,374 Shares and 148,916 Shares and any Shares which may be issued upon the exercise of the Over-allotment Option or the option granted under the Pre-IPO Option Scheme), to Pope and Dalton, respectively, prior to the Listing. If the Offer Price is determined at HK$1.63 or less, the Warrants will have no value pursuant to the terms thereof and our Company will not be required to issue any Shares to Pope and Dalton upon their surrender of the Warrants.

2008 share transfers of China Houde

Pursuant to the share purchase agreement entered into between China Houde, China Ruike, ARC Huiyin, Pope and Dalton on 30 June 2008, ARC Huiyin, China Ruike and China Houde entered into the following agreements on 8 July 2008:

- a put option agreement whereby China Ruike granted a put option to ARC Huiyin to require China Ruike to purchase from ARC Huiyin 782 shares of US$0.001 each of China Houde ("**Subject Shares**") in accordance with the terms and conditions thereof;

- a call option agreement whereby ARC Huiyin granted a call option to China Ruike to require ARC Huiyin to sell to China Ruike the Subject Shares in accordance with the terms and conditions thereof;

- a share charge whereby China Ruike charged to ARC Huiyin by way of a first fixed charge all of the right, title and interest in and to the Subject Shares in consideration of ARC Huiyin subscribing the same and as a continuing security for the obligations, liabilities of and moneys owed by China Ruike under the above put option agreement.

ARC Huiyin agreed to sell the Subject Shares to China Ruike on 12 March 2009 and the above agreements in relation to the Subject Shares were terminated accordingly.

OVERVIEW

Our Directors believe that we are one of the leading household appliance enterprises in the third and fourth-tier markets*(Note 1)* in eastern China. We are a retail chain operator and distributor of quality home appliances and consumer electronic products, with an operating history of close to 15 years. Our business focuses on retail, bulk distribution (including sales to our franchisees) and after-sales services which are complementary to each other. With headquarters in Yangzhou, Jiangsu province, our sales and after-sales network (which includes our Self-operated Stores, Self-operated Service Centres, Franchised Stores and Authorised Service Centres) covers more than 360 points of presence in 27 cities/districts*(Note 2)* across Jiangsu and Anhui provinces. We believe our early-mover advantage and strategic focus in the third and fourth-tier markets in eastern China, covering a population of more than 450 million, allow us to capture the mass-market growth opportunities in these areas, including those brought by the Rural Appliance Rebate Program and the Change of the Old for New Program.

According to the certification issued in November 2009 by 中國家用電器協會*(Note 3)* (China Household Electrical Appliances Association*, being an industry organisation supervised and administered by 中華人民共和國民政部 (Ministry of Civil Affairs of the PRC*) and 國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council*)):

- we are one of the enterprises which developed household appliance business in the third and fourth-tier markets at the early stage of development of the relevant markets; and

- we are one of the top enterprises in the household appliance industry in terms of sales amount, sales volume and scale of operations in the third and fourth-tier markets.

Note 1: The third and fourth-tier markets in the PRC comprise county-level cities, townships and rural areas. As there is no official industry classification, such classification is adopted based on our Directors' knowledge and experience as well as market information. Please refer to the section headed "Industry overview — The retail industry for household appliances in PRC" in this prospectus for details of the third and fourth-tier markets in the PRC.

Note 2: The 27 cities/districts include (i) cities/districts in Jiangsu province, namely, Yangzhou, Jiangdu, Baoying, Gaoyou, Yizheng, Hanjiang, Taizhou, Xinghua, Jingjiang, Jiangyan, Taixing, Nanjing, Zhenjiang, Danyang, Dantu, Yangzhong, Changzhou, Yancheng, Binhai, Huishan, Jiangyin, Huaian, Binhu and Lianyun; and (ii) cities/districts in Anhui province, namely, Tianchang, Chuzhou and Ningguo.

Note 3: According to the website managed by 中國家用電器協會 (China Household Electrical Appliances Association*), 中國家用電器協會 (China Household Electrical Appliances Association*) is an industry organisation for manufacturers and distributors of electrical household appliances and other entities engaging in the industry, and serves as a communication channel between the government and the industry members. The association also represents the interests of the industry and oversees and promotes fair competition in the industry.

We pride ourselves not only on our successful establishment of one of the renowned retail suppliers of home appliances and consumer electronic products in Jiangsu province and the nearby region, Anhui province, but also our strategic focus in the third and fourth-tier markets in these regions. Our "*汇银 (Huiyin*)*" brand was accredited by 江蘇省工商行政管理局 (Jiangsu Administrative Bureau of Industry and Commerce*) as 江蘇省著名商標 (Jiangsu Famous Trademark*) in 2008 and was accredited by 江蘇省揚州工商行政管理局 (Administrative Bureau of Industry and Commerce of Yangzhou, Jiangsu province*) as 揚州市知名商標 (Yangzhou Well-known Trademark*) for period between 2003 and 2006. Jiangsu province ranked the fifth among 31 PRC provinces, autonomous regions and municipalities in 2008 in terms of per capita net income of rural households according to the National Bureau of Statistics of China. Its population reached approximately 76.8 million, and approximately 45.7% of which were considered rural as at 31 December 2008. The per capita net income of rural households in Jiangsu province increased from approximately RMB4,239.26 in 2003 to RMB7,356.47 in 2008, representing a CAGR of 11.7%, whilst the per capita living expenditure of rural households in Jiangsu province increased from approximately RMB2,704.37 in 2003 to approximately RMB5,328.37 in 2008, representing a CAGR of 14.5%. We believe our targeted markets have thus far been less developed than the urban markets in the primary PRC cities, which present a lower level of competition for large-scale suppliers and retailers of home appliances and consumer electronic products and at the same time offer a high potential for rapid growth in demand for such products as the per capita net income in our targeted markets continues to increase and the consumers in these markets continue to modernise their lifestyles and upgrade their living standards. We are one of the first retail chains to target development of the third and fourth-tier markets in Jiangsu province and we believe this early-mover advantage gives us a competitive edge over our present and future competitors.

Business operation

Our business focuses on retail, bulk distribution (including sales to our franchisees) and after-sales services which are complementary to each other. Our strategic business focus enables us to add value to the supply chain between manufacturers and customers of home appliances and consumer electronic products, and distinguishes us from our competitors in the same market. We are proactively expanding the geographical coverage of our sales network in China. Apart from establishing new Self-operated Stores in the existing regions, which remains our main strategy, we plan to expand into new regions outside Jiangsu and Anhui provinces and to identify and pursue new acquisition opportunities in a prudent and selective manner. We will also continue to employ the franchise model to maintain and sustain our expansion and penetration in the targeted markets.

Approximately 48.3%, 33.4% and 35.3% of our revenue were generated from our retail operations (through our Self-operated Stores) for the three years ended 31 December 2007, 2008 and 2009, respectively, and approximately 50.4%, 65.7% and 64.0% of our revenue were generated from our bulk distribution operations for the three years ended 31 December 2007, 2008 and 2009, respectively, which includes sales to our franchisees and distribution to other third parties. Our Franchised Stores offer the merchandise sourced from us to their retail and wholesale customers, and their respective revenue is not recorded as part of our revenue. Whilst the revenue derived from our after-sales services only accounted for an insignificant percentage of our total revenue during the Track Record Period, we believe that our capability to offer quality maintenance services coupled with our wide and strategic network of Service Centres helps boost the confidence of our customers in the quality and reliability of our retail chain. Please refer to the section headed "Financial Information — Principal income statement components" in this prospectus for further details.

We have adopted a strategy of first establishing a Self-operated Store in a targeted municipal market, which such store is usually larger in terms of Gross Floor Area and located in an area with higher commercial activity level, to promote the "*汇银 (Huiyin*)*" brand awareness, which is then followed by the opening of Franchised Stores in the more populated surrounding rural areas to expand our chain coverage and reach. This expansion strategy allows us to obtain penetration in our targeted markets with a shorter ramp up time, minimal capital outlay and hence reduced operational risks. We believe that this strategy can lend itself to other third and fourth-tier markets outside Jiangsu and Anhui provinces, and we plan to replicate this strategy in our targeted markets.

In order to prevent competition and cannibalisation among our Self-operated Stores and Franchised Stores, we generally conduct an evaluation on the population size, living standards and the spending powers of the residents in a targeted market before we open new Stores in that market . Please refer to the paragraph headed "Store opening" under the section headed "Our Business — Management and operations" of this prospectus for further details.

We set out below summary of our business by operations.

Retail operation through our Self-operated Stores

As at the Latest Practicable Date, we have 30 Self-operated Stores, most of which are operated under our registered brand of "*汇银 (Huiyin*)*" (except for most of our dedicated brand retail Stores and our four shop-in-shop Stores which are operated within department stores). The "*汇银 (Huiyin*)*" retail brand is marketed in 24 cities/districts in Jiangsu province and three cities/districts in the neighbouring Anhui province.

We operate our Yangzhou flagship store and 16 general stores which offer a comprehensive range of products and brands in 11 cities/districts. We also operate four retail outlets in department stores in Jiangsu province operated by Golden Eagle Retail Group Limited, which is one of the most established department store chains in the PRC, selling mainly higher-end home appliances and consumer electronics such as liquid crystal displays, and nine specialty air conditioner or dedicated brand retail stores to satisfy the special market demand in different localities. Our Self-operated Stores are managed and operated by our employees under the supervision of our management.

We are the retailer of over 50 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens(Note 4). Our retail chain provides a selection of merchandise, including air conditioners, TV sets, refrigerators and washing machines, small home appliances, mobile communications products, I.T. digital products, and audio-video systems. Through our Self-operated Stores, we cover approximately 16,000 product model types.

Franchise operation

Our business operation is characterised by the presence of a significant number of Franchised Stores, most of which are operated under our registered brand of "*汇银 (Huiyin*)*" within our chain.

Our first Franchised Store was set up in 2003. Since then, our retail franchise operation has expanded into a network of 220 Franchised Stores as at the Latest Practicable Date.

All of our Franchised Stores are established, financed and operated by Independent Third Parties under our registered "*汇银 (Huiyin*)*" brand name. Substantially all of our current franchisees are our former customers or former employees. We enter into annual standard franchise agreements with our franchisees, where one of the key features is that all our Franchised Stores are required to source their merchandise exclusively from us or our approved channels, except for those small electronic products and electrical accessories which we do not offer. Under this arrangement, our Franchised Stores are the key patrons of our bulk distribution business. Our franchise agreements also contain provisions requiring our franchisees to comply with the standards, rules and procedures specified by us from time to time.

In addition to the requirement that our franchisees shall source their merchandise exclusively from us, other major terms of the franchise agreements include:

- Use of brand name - We authorised our franchisees to use our brand name in relation to the franchise operation. Our franchisees shall not allow any third party to use our logo and brand name. They shall cease to use our logo and brand name and arrange for change of company name if any of their names contains our brand name after the expiry or termination of the franchise agreements

- Support - We provide various training and marketing supports to our franchisees

- Operating regions - The operations of our franchisees are restricted to the regions set out in the respective franchise agreements and are non-exclusive in nature

Note 4: The sales of products of the above-mentioned seven brands amounted to approximately 66%, 82% and 83% of our total revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

- General management - Our franchisees are required to comply with the standards, rules and procedures in relation to this franchise arrangement

We also manage our franchise operations in the following respects:

- Price - Our Franchised Stores can set their own prices within the range we prescribe, taking into account factors including the income level of the local consumers, the prices charged by our competitors and the general market conditions.

- Marketing and promotion - Our franchisees are required to use our standard marketing materials and to comply with our other marketing and advertising standards and procedures. We conduct special promotional or marketing activities for our franchisees. Since our Franchised Stores are generally of smaller scale and lack of resources and expertise in organising promotional and marketing activities, and promotion and marketing activities are normally of less importance to stimulate sales in rural markets due to the lower level of market competition, our Franchised Stores normally rely on the activities and campaigns we organise and conduct for them.

- Fees - While we imposed a royalty fee (the amount of which was set based on our estimated revenue and profit of the individual Franchised Stores) on our franchisees during the Track Record Period, we waived a number of our franchisees from payment of royalty fees for the year ended 31 December 2008. We no longer charge such royalty fee on our franchisees since 1 January 2009 for the purpose of boosting the development of our franchise operations. We received an aggregate royalty fee in the sum of approximately RMB9.9 million, RMB4.7 million and nil for the three years ended 31 December 2007, 2008 and 2009, respectively. Other than the royalty fees mentioned above, our franchisees are not required to pay any other fees to us.

- Minimum purchase amount - During the Track Record Period, we had not set any general minimum purchase requirement on any Franchised Store.

- Return of goods - Our Franchised Stores can return goods with serious quality problems to us. For the three years ended 31 December 2007, 2008 and 2009, goods returned to us by our franchisees and other customers amounted to approximately RMB0.10 million, RMB0.11 million and RMB0.89 million, respectively. Our Directors confirmed that there was only a very minimal amount of goods returned to us by our Franchised Stores during the Track Record Period.

- Store size - Subject to our approval on a case by case basis, the size of our Franchised Stores is expected to be at least 100 sq. m., depending on the locations of the Franchised Stores.

- Others - Our Franchised Stores are also required to observe other rules, such as our standard requirements for staff uniforms and other items that carry our "*汇银 (Huiyin*)*" trademark, and the submission of the information about the Gross Floor Area of the Franchised Store along with the franchise applications.

We may terminate a franchise agreement if the franchisee (i) breaches its covenants or obligations under the agreement and fails to rectify such breach after we have issued a notice of breach to it; or (ii) fails to implement our brand building marketing plan. Our Directors confirm that there was no early termination of franchise agreement during the Track Record Period.

We provide a large selection of merchandise, including air conditioners, TV sets, refrigerators, washing machines and small home appliances through our franchise operation to the ultimate customers in the third and fourth-tier markets. Our Franchised Stores generally cover around 700 product model types. Our revenue derived from the sales to our Franchised Stores is categorised as our revenue derived from our bulk distribution operation as described below.

Bulk distribution (including sales to our franchisees)

In support of our retail operation, we distribute as a supplier to our Franchised Stores as well as other Independent Third Parties, mainly household electronics retailers and our corporate customers. We are currently one of the bulk distributors of selected types of home appliances and consumer electronic products, principally air conditioners, refrigerators and TV sets, for over 20 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens*(Note 4)*, within the areas surrounding our Stores. We have obtained 23, 21 and 31 distribution rights of branded products categories for the three years ended 31 December 2007, 2008 and 2009.

We believe our appointment as a bulk distributor for these branded home appliances and consumer electronic products is attributable to our proven retail experience in Jiangsu and Anhui provinces, including our in-depth understanding of local consumer preferences as well as our large sales network in and sustained penetration into our targeted markets in the PRC. In addition, unlike most major household appliance and electronics retailers in China, in addition to making prepayments to certain of our suppliers, we have adopted a business strategy of sourcing our supplies on a COD or a very short-term credit basis. Our Directors believe that our purchasing strategy to a certain extent relieves our suppliers' cash flow burden and avoids uncertainty of possible bad debts. We trust our purchasing strategy adds to our creditworthiness and is a significant driver of our good relationships with our suppliers. Our suppliers also benefit from our distribution logistics, from delivery to warehousing to account management, without the need to establish physical presence in our targeted markets.

Our bulk distribution operations complement our retail operations by providing a stable and reliable source of supply for our Stores, whilst the exclusive supplier status established with our Franchised Stores ensures that our bulk distribution operations benefit from a steady revenue stream.

Note 4: The sales of products of the above brands amounted to approximately 66%, 82% and 83% of our total revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

After-sales services

In line with our business philosophy, we place a heavy emphasis on customer service and therefore maintain a quality after-sales service network. We currently operate and manage 126 Service Centres, comprising seven Self-operated Service Centres (six of which are located inside our Self-operated Stores) and 119 Authorised Service Centres, giving a ratio of one Service Centre to approximately 2.0 Stores and which are strategically located within close proximity to our Stores and our target customers. Our after-sale services are also easily accessible, as we offer a hotline to handle enquiries and orders for after-sales services. Our Service Centres offer a broad range of installation and maintenance services for the products purchased from us or from other third party vendors. We are the authorised after-sales service provider for more than 15 branded electronics suppliers, such as Gree, Midea and Sharp, in most of the areas in which our Service Centres are located and we have provided such authorised after-sales services to most of our branded electronic suppliers for more than three years. We generally provide our after-sales services for the relevant branded electronics suppliers through both our Self-operated Service Centres and Authorised Service Centres.

After-sales maintenance is particularly important for the customers in our targeted markets, who are typically less inclined to replace their appliances with new models within a short period of time. We believe that timely and quality after-sales maintenance is one of the key factors that our target customers take into consideration in making purchases from an electronics retailer. Our Directors further believe that our capability to offer quality maintenance services coupled with our wide and strategic network of Service Centres helps boost the confidence of our customers in the quality and reliability of our retail chain.

Our Authorised Service Centres are managed through authorised arrangements with Independent Third Party operators. Our authorised arrangements allow us to extend the geographic coverage of our after-sales customer service with less capital requirements and operational risks. All of our Authorised Service Centres are operated under our registered "*汇银* (*Huiyin*)*" brand name, and all instructions for authorised after-sales services provided for customers of the relevant branded electronics suppliers from our Authorised Service Centres are placed through our hotline with standard price list, which together bring forth a conforming service chain. We enter into annual authorisation agreements of similar terms with our authorised service providers. In the case that we are provided with repair parts free of charge from the relevant branded suppliers during the relevant warranty periods as a result of our status as an authorised after-sales service provider, we provide the necessary repair parts equally free of charge during the warranty period to the Authorised Service Centres. We also provide the necessary repair parts at a prescribed cost after the warranty period to the Authorised Service Centres to carry out the repair and maintenance work.

Our "*汇银 (Huiyin*)*" brand was accredited by 江蘇省工商行政管理局 (Jiangsu Administrative Bureau of Industry and Commerce*) as 江蘇省著名商標 (Jiangsu Famous Trademark*) in 2008 in relation to our appliance installation and maintenance services. We consider such recognition to be proof of the high quality of our services.

Product categories

We offer over 16,000 types of merchandise through our Self-operated Stores and broadly divide our products into five product categories: air conditioners, TV sets, refrigerators, washing machines and others. We derive a substantial portion of our revenue from the sales of air conditioners, either through our retail operation or bulk distribution (including sales to our franchisees). For the three years ended 31 December 2007, 2008 and 2009, our revenue derived from the sales of air conditioners accounted for approximately 57.7%, 71.8% and 67.7% of our total revenue derived from the sales of merchandise, respectively.

Favourable government policies

We believe our strategic focus in the third and fourth-tier markets in eastern China has been the right business direction to take, particularly in view of the recent promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program by the PRC Government.

Rural Appliance Rebate Program

We are one of the first four home appliances and electronics retail chain operators which were appointed by 財政部經濟建設司 (Economic Development Department of Ministry of Finance of the PRC*) and 商務部綜合司 (Comprehensive Department of Ministry of Commerce of the PRC*) as an authorised distributor under the Rural Appliance Rebate Program in Jiangsu province since the Rural Appliance Rebate Program was launched in Jiangsu province in February 2009. In addition, we assist our Franchised Stores which can meet the relevant requirements in applying for the status as one of our 備案銷售網點 (registered points of sale*) under the Rural Appliance Rebate Program. As at the Latest Practicable Date, 67 out of our 220 Franchised Stores are eligible to sell merchandise under the Rural Appliance Rebate Program. Although a number of our Franchised Stores had not yet obtained the registered point-of-sale status under this program, we will continue to assist our Franchised Stores in applying for such registered point-of-sale status.

This program helps manufacturers to sell household electrical appliances in rural areas by the government subsidising 13% of the eligible merchandise price directly to rural consumers. Each rural household is entitled to receive a rebate for the purchase of any two program-eligible items. The Rural Appliance Rebate Program is applicable to nine categories of products, including TVs, refrigerators (including freezers), mobile phones, washing machines, computers, air conditioners, water heaters (solar, gas and electric), microwave ovens and induction cookers. Whilst we are obliged to sell the eligible merchandise at a price not exceeding the ceiling price specified under the program, our suppliers are also obliged to supply the eligible merchandise to us at a price not exceeding the ceiling price specified under the program.

Change of the Old for New Program

We are one of the home appliance and electronics retail chain operators appointed as authorised sales enterprises and authorised recycling enterprises by 江蘇省財政廳 (Finance Bureau of Jiangsu Province*) and 江蘇省經濟和信息化委員會 (Jiangsu Economic and Information Technology Commission*) in August 2009 under the Change of the Old for New Program in Jiangsu province which was promulgated in June 2009. Our Franchised Stores have not yet obtained the authorised sales enterprise status under the Change of the Old for New Program due to the uncertainty of the implementation rules about this program.

We believe that our status as an authorised distributor under the Rural Appliance Rebate Program and as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program has placed us in an advantageous position to capture the vast potential customer base eligible to participate in these programs. Our appointment as authorised distributor under the Rural Appliance Rebate Program and an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program will continue until the expiry of the relevant programs unless we are in breach of our duties thereunder.

We believe that both the Rural Appliance Rebate Program and the Change of the Old for New Program will continue to incentivise the residents in the PRC rural communities to purchase new home appliances and consumer electronic products, which will in turn impact positively on all of our retail, distribution and after-sales services businesses. We believe that our authorised distributor status under the Rural Appliance Rebate Program and our authorised sales enterprise and authorised recycling enterprise status under the Change of the Old for New Program helps attract potential franchisees who intend to develop electronics retail business in our target markets.

Since the appointment as an authorised distributor under the Rural Appliance Rebate Program in February 2009 and the appointment as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program in August 2009, approximately 6.0% of our revenue for the year ended 31 December 2009 was generated from sale of merchandise eligible under the Rural Appliance Rebate Program, and approximately 8.4% of our revenue for the year ended 31 December 2009 was generated from sale of merchandise under the Change of the Old for New Program. However, the Rural Appliance Rebate Program is a short term government incentive policy which is expected to expire in the first quarter of 2013. The Change of the Old for New Program is also a short term incentive policy which was implemented from June 2009 on a trial basis for one year by the PRC Government. Based on the news published on the websites of 中央人民廣播電台 (China National Radio*) and 人民網 (People's Daily Online*), our Directors expect that the PRC Government will strengthen the Rural Appliance Rebate Program and will continue to implement the Change of the Old for New Program after the expiration of the trial period.

Financial track record

We experienced robust growth in our revenue during the Track Record Period. Our revenue grew from approximately RMB500.5 million in 2007 to approximately RMB1,247.8 million in 2009, representing a CAGR of approximately 57.9%.

The following table sets out our revenue by operations during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of total revenue*	*RMB ('000)*	*% of total revenue*	*RMB ('000)*	*% of total revenue*
Revenue						
(i) Retail Operation	241,605	48.3	330,417	33.4	440,331	35.3
(ii) Bulk Distribution Operation						
Franchisees	154,978	31.0	285,342	28.9	373,294	29.9
Other third parties	97,406	19.4	363,783	36.8	425,086	34.1
(iii) Service Income						
Maintenance income	2,263	0.5	3,366	0.3	2,405	0.2
Installation income	4,231	0.8	5,306	0.6	6,709	0.5
Total	500,483	100.0	988,214	100.0	1,247,825	100.0

General

We believe that with the improving living standards of rural households in China, together with the macroeconomic policies and economic stimulus packages including in particular the promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program, China's home appliance and consumer electronics business will continue to grow in the foreseeable future and we will continue to be one of the beneficiaries. Our management also believes that with our position as one of the most established chains and an early entrant in our targeted markets, our participation in the Rural Appliance Rebate Program and the Change of the Old for New Program, our community-based and customer-oriented offering of quality and value-for-money merchandise, our bulk distribution (including sales to our franchisees) and after-sales services business model, and our comprehensive logistics and distribution systems, we have a competitive edge against our competitors. To maintain our competitiveness, we intend to continue expand our sales and after-sales outreach in the third and fourth-tier markets in the PRC, through organic growth and/or acquisitions, and to secure further bulk distributorships, in order to maximise our market share.

OUR COMPETITIVE STRENGTHS

We believe that our success to date and our potential for future growth are attributable to a combination of our competitive strengths, including:

Strategic business focus on the third and fourth-tier markets within or near Jiangsu province

Store location is one of the key factors of success for a retail operation. We are a home appliance and consumer electronics retailer which strategically focuses on the third and fourth-tier markets within or near Jiangsu province. Although certain large-scale home appliance retailers have started to establish their presence in the third and fourth-tier markets, with support of a large network of after-sales services, we are one of the first retail chains to target the development of the third and fourth-tier markets. Our early mover advantage and after-sales services network distinguish us from our competitors, including other major electronics enterprise in China. Currently, 240 out of our total 250 Stores, and 125 out of our total 126 Service Centres, are located in the third and fourth-tier markets.

Our business is based in Jiangsu province. Jiangsu province ranked fifth in 2008 among 31 PRC provinces, autonomous regions and municipalities in the PRC in terms of the per capita net income of rural households according to the National Bureau of Statistics of China. Its population reached approximately 76.8 million, approximately 45.7% of which was considered rural as at 31 December 2008. The per capita net income of rural households in Jiangsu province increased from approximately RMB4,239.26 in 2003 to RMB7,356.47 in 2008, representing a CAGR of 11.7%, whilst the per capita living expenditure of rural households in Jiangsu province increased from approximately RMB2,704.37 in 2003 to approximately RMB5,328.37 in 2008, representing a CAGR of 14.5%.

We have also expanded our presence into the home appliance and consumer electronics market in Anhui province. According to the National Bureau of Statistics of China, the population of Anhui province reached approximately 61.4 million and approximately 59.5% of which was populated in rural areas as at 31 December 2008. The per capita net income of rural households in Anhui province increased from approximately RMB2,127.48 in 2003 to approximately RMB4,202.49 in 2008, and the per capita living expenditure of rural households in Anhui province increased from approximately RMB1,596.27 to approximately RMB3,284.11, representing a CAGR of 14.6% and 15.5%, respectively.

As a result of the lower ownership rates of appliances such as refrigerators, colour TVs, washing machines and air conditioners in the rural areas as compared to the rates in the urban areas in the PRC, we believe our strategic focus on the sale of such products in our targeted rural markets, offers a higher potential to capture the growth in demand for home appliances and consumer electronic products. We believe our targeted markets will continue to grow and develop as our target customers continue to modernise their lifestyles and upgrade their living standards.

Our strategic business focus on targeted markets has better positioned us to capture the market opportunities created by the recent favourable government policies

We believe we are well-positioned to tap into the growth in the Jiangsu suburban and rural home appliance and consumer electronics markets on both the customer base and the general demand for electronics products in terms of quantity and quality as a result of the recent promulgation of the favourable government policies, namely the Rural Appliance Rebate Program and the Change of the Old for New Program.

According to information published by the PRC Government on 21 February 2009, the sales of home appliances in 2008 in Sichuan, Henan and Shandong provinces (the three provinces eligible for the pilot scheme under the Rural Appliance Rebate Program) grew by 40% as compared to the sales in 2007. With the appointment as an authorised distributor under the Rural Appliance Rebate Program in Jiangsu province in February 2009 and the appointment as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program in Jiangsu province in August 2009, our Directors believe that the Rural Appliance Rebate Program and the Change of the Old for New Program would boost the demand for the consumer electronics markets in the suburban and rural regions, in which our Stores are located. Since the appointment as an authorised distributor under the Rural Appliance Rebate Program in February 2009 and the appointment as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program in August 2009, approximately 6.0% of our revenue for the year ended 31 December 2009 was generated from sale of merchandise eligible under the Rural Appliance Rebate Program, and approximately 8.4% of our revenue for the year ended 31 December 2009 was generated from sale of merchandise under the Change of the Old for New Program. We believe our strategic business focus and well-established position in our targeted markets have placed us advantageously to capture opportunities that will arise from the confluence of both growth trends in consumer activity in an expanding market and favourable government policies.

Effective business model comprising of retail, distribution and after-sales services

We have a large retail network of 250 Stores spanning across 27 cities/districts in Jiangsu and Anhui provinces, comprising 30 Self-operated Stores established in the municipal markets and 220 Franchised Stores located generally in the relatively more populated surrounding rural areas. In addition to retail operations, we have also taken notice of the market opportunity presented for distribution operations. Therefore, unlike traditional retail chain operators, we are also engaged in the distribution of selected home appliances and consumer electronic products. The integration of this distribution operation with our retail operation has formed a combined distribution network spanning distribution channels from the manufacturers up to the end customers, which is supported by our after-sales service chain.

We are currently one of the bulk distributors of selected types of home appliances and consumer electronics products, principally air conditioners, refrigerators and TV sets, for over 20 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens, within the areas surrounding our Stores. We distribute as a supplier to our Franchised Stores as well as other Independent Third Parties, mainly household electronics retailers and our corporate customers. Our distribution operations complement our retail operations by providing a supply source for our Stores, whilst the exclusive supplier status established with our Franchised Stores ensures steady revenue for our bulk distribution operations. With a steady revenue stream in place, we are able to divert more of our resources to market to our Independent Third Party distribution customers.

Although there is no single recipe for success when it comes to selling electronics products to consumers in rural areas in the PRC, our Directors consider that having an excellent after-sales service network makes a crucial difference for a home appliances and consumer electronics retailer tapping into the rural market. After-sales maintenance is particularly important for the customers in our targeted markets, who are typically less inclined to replace their appliances with new models within a short period of time. Therefore, we complement our supply chain operations with our extensive after-sales network.

Since our inception, we have been placing a heavy emphasis on customer service and therefore maintain a quality after-sales service network, which supports our retail operations. We currently operate and manage 126 Service Centres, giving a ratio of one Service Centre to approximately 2.0 Stores and which are strategically located within close proximity to our Stores and our target customers. Our Service Centres offer a broad range of installation and maintenance services for the products purchased from us or other third party sellers. We are the authorised after-sales service provider for more than 15 branded electronics suppliers, such as Gree, Midea and Sharp, in most of the areas in which our Service Centres are located. We believe that timely and quality after-sales maintenance is one of the key factors that our target customers take into consideration in making purchases from an electronics retailer. We further believe that our capability to offer quality maintenance services coupled with our wide and strategic network of Service Centres helps boost the confidence of our customers in the quality and reliability of our retail chain.

We believe that our supply chain operation comprising of distribution, retail sales and after-sales services distinguishes us from our competitors in our target markets.

Proven development strategy

In order to cement our position in the highly fragmented third and fourth-tier markets, since 2003, we have adopted a development strategy of first establishing a Self-operated Store in a targeted municipal market, which is usually larger in terms of Gross Floor Area and located in an area with higher commercial activity, to promote the "*汇银 (Huiyin*)*" brand awareness, which is then followed by the opening of Franchised Stores in the relatively more populated surrounding rural areas to expand our chain coverage and reach. By adopting this strategy, we grew from a retail operator of seven Stores in the Yangzhou region in 2003 to 250 Stores in 27 cities/districts across Jiangsu and Anhui provinces as at the Latest Practicable Date. This strategy allows us to obtain market penetration in the rural areas with a shorter ramp up time, minimal capital outlay and hence reduced operational risks. We have also adopted this strategy in our after-sales services operation. This extensive geographical penetration in rural communities helps build up store-customer relationships within the community where the Stores are located and we believe this has attracted patronage and fostered customer loyalty. We believe that this strategy can lend itself to other third and fourth-tier markets outside Jiangsu province and this successful strategy could be replicated in our targeted markets in regions outside Jiangsu province, especially when we have proved to be successful in adopting this strategy in Anhui province which neighbours Jiangsu province.

Effective Store franchising and Service Centre authorisation management

Our operation is characterised by the considerable amount of Franchised Stores and Authorised Service Centres. Our first Franchised Store was set up in 2003, and to date our retail franchise operation has expanded into an extensive network of 220 Franchised Stores. Similarly, our Authorised Service Centres have grown significantly from 50 as at 31 December 2007 to 119 as at 31 December 2009.

All of our franchisees and authorised service providers are under our centralised management. We have developed standardised procedures for the approval of applications of our franchisees, and our franchisees and authorised after-sales service providers are required to comply with the standards, rules and procedures specified in the operating manual or the requirements under the relevant agreements. We actively work with our franchisees and authorised after-sales service providers to support their operations and monitor their compliance with our operational requirements.

In relation to our franchise operation, the Franchised Stores are independently established, financed and operated by Independent Third Parties under our registered "*汇银 (Huiyin*)*" brand name. Substantially all of our current Franchised Stores are established by our former customers or former employees. We enter into annual franchise agreements with our franchisees, where one of the key features is that all our Franchised Stores are required to source their merchandises exclusively from us or our approved channels, except for those small electronics products and electrical accessories which we do not offer.

Our Authorised Service Centres are managed through authorised service arrangements with Independent Third Party operators. All of our Authorised Service Centres are operated under our registered "*汇银 (Huiyin*)*" brand name. We enter into annual authorisation agreements with our authorised service providers to authorise our Authorised Service Centres to carry out the repair and maintenance work under our registered "*汇银 (Huiyin*)*" brand name.

Our franchise and service authorisation model allows us to extend the geographic coverage of our retail and after-sales customer service network with less capital requirements and operational risks. Moreover, product sales to our Franchised Stores is also one of the major contributors to our revenue, accounting for approximately 31.0%, 28.9% and 29.9% of our revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

Early mover in strategic locations and remarkable insights of our experienced and stable management team

We maintain an experienced and stable management team, most of whom have been with us for more than 5 years and have extensive experience working in the home appliances and consumer electronics market in China. Leveraged on the industry expertise and the in-depth business insights of our management, we have set our strategic focus in the third and fourth-tier markets in the PRC well ahead of our peers. We are one of the first household appliance and electronics chain distributors and after-sales service providers to enter into the electronics consumer market in the third and fourth-tier markets and have established a major presence. It is one of our key business strategies to set up Stores and Service Centres in, and to extend our distribution reach to, suburban and rural areas as an early entrant when the competition environment is less intensive and the household appliance and consumer electronics market is anticipated to grow. We believe our early presence in the third and fourth-tier markets has enabled us not merely to gain a strong and dominant position in such markets under our registered "*汇银 (Huiyin*)*" brand name, but also to build an effective barrier against new competition within those markets.

Strong supplier relationships

We have developed close working relationships with our major suppliers. As mentioned above, we are currently one of the bulk distributors of selected types of home appliances and consumer electronics within the areas surrounding our Stores and we believe such appointments are attributable to our proven retail experience in Jiangsu and Anhui provinces, including our in-depth understanding of local consumer preferences as well as our large sales network (through our Self-operated Stores and through our Franchised Stores independently operated by our franchisees) in and sustained penetration into our targeted PRC markets. In addition, unlike most major household appliance and electronics retailers in China, in addition to making prepayments to certain of our suppliers, we have adopted a business strategy of sourcing our supplies on a COD or a very short-term credit basis. Our Directors believe that our purchasing strategy, to a certain extent, relieves our suppliers' cash flow burden and avoids possible bad debts. We trust such of our purchasing strategy is a significant driver of our good relationships with our suppliers. Our suppliers also benefit from our distribution logistics, from delivery to warehousing to account management, without the need to establish a physical presence in our targeted markets.

To ensure efficiency and constant communication, dedicated teams within our distribution division are set up to liaise with each of our suppliers. Such distributorship arrangements do not merely solidify our business relationships with these reputable manufacturers, but also enhance our steady supply of merchandise to both our Self-operated Stores and Franchised Stores, and afford us with additional flexibilities in pricing our merchandise at the retail level. Our close collaborations with these selected suppliers also facilitate our initiation and organisation of marketing activities to promote the products that we distribute at both the distribution and retail levels.

We believe that through our close working relationships with our suppliers, we will continue to enjoy competitive terms and extensive support from suppliers which will benefit our customers through improved product pricing, mix, and availability of new products, and will, in turn, help our suppliers achieve higher volume growth and overall profit levels.

OUR BUSINESS STRATEGIES

We endeavour to maintain sustainable growth and to leverage our competitive strengths to achieve a leadership position in each regional market we enter. We aim to maximise shareholder value and pursue the following business strategies:

Expand our retail sales network through organic growth and selective acquisitions

It is our goal to establish ourselves as one of the leading integrated retail chain operators and distributors of home appliances and consumer electronic products in the third and fourth-tier markets in eastern China and then leverage our experience and market position in these regions to expand our business into other rural districts and towns in China. We are proactively expanding the geographical coverage of our sales network in China. Apart from establishing new Stores in existing regions, which remains our main strategy, we plan to expand into new regions and to pursue further acquisition opportunities in a prudent and selective manner. We reserved approximately RMB112.0 million (which will be funded by the net proceeds to us from the Global Offering) for acquiring home appliance and electronics retail enterprises in the eastern China with business focus on the third and fourth-tier markets.

One of the focal points of our expansion is Anhui province. Anhui province is geographically neighbouring our Yangzhou headquarters and has a relatively high rural population density. We have begun to establish our presence in Anhui province and plan to further our expansion in this region. We aim to pursue an expansion strategy combining organic growth and acquisitions of existing home appliance retail businesses in the less economically developed regions in Anhui province. Our new Self-operated Store in Ningguo, which commenced its operation in October 2009, is located in the confluence of Anhui province and Jiangsu province. We believe that the establishment of our Ningguo Store represents an essential step for us to extend our network reach and reinforce our market position in the region.

We currently target at setting up:

- 16 new Self-operated Stores in Jiangsu and Anhui provinces with an aggregate Gross Floor Area of approximately 29,000 sq. m. by the end of 2011. The estimated amount of investment for establishing these new Self-operated Stores is approximately RMB105.7 million, which will be used as working capital of the new Self-operated Stores and for renovating the new Self-operated Stores, purchasing new facilities and organising marketing and promotional activities. Such investment is expected to be funded by the net proceeds from the Global Offering; and

- four dedicated brand Stores in Jiangsu province by the end of 2010. The estimated amount of investment for establishing these new dedicated brand Stores is approximately RMB1 million, which will be used as working capital of the new dedicated brand Stores and for renovating the new dedicated brand Stores, purchasing new facilities and organising marketing and promotional activities. Such investment is expected to be funded by our internal resources.

As part of our growth strategy, we will continue to employ the franchise model to maintain and sustain our expansion in the market. We currently target to open 50 new Franchised Stores by the end of 2011 in both Jiangsu and Anhui provinces. The estimated amount of investment for opening these new Franchised Stores is RMB32 million, which will mainly be operation fund for procurement of inventory as a result of expected increase in demand by our Franchised Stores. We plan to apply certain amount of such budget as management expenses of the new Franchised Stores, for organising marketing and promotional activities and providing training for staff. Such investment is expected to be funded by the net proceeds to us from the Global Offering.

Improve the sales and profitability of our Stores

We plan on enhancing our overall financial performance by achieving higher comparable revenue and profitability primarily through the following key initiatives:

- *Expand our product offerings.* With our focus on sourcing merchandise from renowned international and domestic brands, our Directors believe that we will enhance the variety and quality of merchandise available for sale at our Stores to attract new customers. Our product offerings are regularly reviewed and updated to accommodate changing market trends and differences in tastes and preferences in different geographical regions. To monitor customer tastes and preferences, we will regularly conduct customer surveys and market studies.

- *Upgrade our existing Stores.* We have implemented, and will continue to undertake, refurbishment programs at our existing Stores to provide a satisfactory shopping environment for our customers. We plan to carry out refurbishment in 13 of our Self-operated Stores by the end of 2011. The refurbishment work will include face-lifting of exterior outlook, improvement of internal decoration and layout. The estimated amount of investment for such refurbishment programs is approximately RMB7 million, which is expected to be funded by our internal resources. Such refurbishment will be carried out during non-peak sales seasons by phases (each lasts for one to two weeks) to minimise its impact on the Stores' operation. The refurbishment of the retail outlets in department stores will follow the overall schedule of the relevant department stores. As at the Latest Practicable Date, we have not spent on the budget of RMB7 million to undertake refurbishment programs at our existing Stores.

- *Strengthen our operational infrastructure and activities.* A key component of our strategy to improve comparable performance is to strengthen the management and efficiency of our operations. We have implemented initiatives to provide better customer service. We are also introducing measures to achieve higher staff efficiency rate, greater standardisation of our practices and more centralised operational management.

- *Increase and enhance our brand marketing activities.* We plan to strengthen and raise the profile of "*汇银 (Huiyin*)*" brand in eastern China region by enhancing our marketing efforts in terms of brand-building, advertising and other means of promotion, taking into consideration the different characteristics of our geographical markets and customer segments. We expect to increase our advertising activities through various media and store-level promotional activities and to explore different ways to expand our customer loyalty program.

Further strengthen our relationships with our suppliers

We intend to further strengthen our relationships with certain selected and strategic brand suppliers in particular those brands whose home appliance products are popular in our targeted markets, through:

- opening more dedicated brand retail Stores either under our registered "*汇银 (Huiyin*)*" brand and/or under their own brands; and

- assigning additional dedicated teams within our Group to closely work with our suppliers on a daily basis.

We believe our plan to open new dedicated brand Stores, coupled with our understanding of customer preferences and business environments within our targeted markets and our proven track record of operating dedicated brand retail Stores since 2006, will enhance our relationships and cooperation with selected brand suppliers.

Moreover, through our dedicated teams' closer and more frequent interactions with our suppliers, we trust we should be better able to broaden our geographical coverage and the product range of our bulk distribution rights and to formulate our sourcing strategies and implement better inventory controls to reduce inventory turnover days and merchandise obsolescence. As part of this strategy, we also intend to enhance our operating, information and logistics management systems to improve operating efficiency.

Enhance the operating standards and financial contribution of Franchised Stores

We plan to further enhance the performance of our franchise network by continuing to strengthen the management and supervision of our Franchised Stores and introducing greater standardisation in their business and operations. We will continue to work with carefully selected franchisees to expand into the third and fourth-tier markets outside Jiangsu and Anhui provinces, emphasising the scale and geographical coverage of our franchise network. In particular, we plan to implement the following key initiatives for Franchised Stores over the next few years:

- We will (i) continue our close control over our franchisees through frequent visits and telephone communications; (ii) impose minimum purchase target on our franchisees; and (iii) increase our control of the marketing materials and other promotional activities conducted by Franchised Stores after the Listing. After the Listing, we plan to improve the level of assistance on marketing materials and promotional activities to our franchisees by providing more marketing materials such as posters and billboards to our franchisees;

- We will provide more support to our Franchised Stores so that they can take advantage of market opportunities presented by the Rural Appliance Rebate Program and the Change of the Old for New Program. For instance, we strive to extend the authorised distributor status to our Franchised Stores, work closely with Franchised Stores in relation to their product offerings and provide training on the relevant requirements under the said governmental programs. In addition, we will continue to assist our Franchised Stores which can meet the relevant requirements, including the fulfilment of information system requirement, in applying for the status as one of our 備案銷售網點 (registered points of sale*) under the Rural Appliance Rebate Program;

- We will strengthen our training and guidance to Franchised Stores, including organisations of on-site visit to manufacturers with an aim to enhance their product knowledge, store managerial and sales skills; and

- We will set the purchase target for each Franchised Store and closely monitor their sales performance throughout the year.

We believe that these measures will enable us to better monitor the business, operations and financial performance of Franchised Stores and enhance their financial contribution to our operating results. Currently, we manage our Franchised Stores by actively supporting their operations and monitoring their compliance with our operational requirements. We provide guidelines and supports to assist them throughout the opening process and continued operations and require adherence to our quality and brand specifications and training under our employee training programs. To monitor franchise operations, we will continue to conduct periodic onsite inspections.

Further improve our information technology systems

We plan to further enhance our operating efficiency by upgrading our I.T. systems by establishing a franchise management system which enables us to manage our transactions and analyse the financial information in relation to our franchise operation and setting up the system connection with our Franchised Stores. We will focus on enhancing our I.T. systems to extend the information sharing among us and our franchisees so that we will be in a better position to track the sales performance and stock level of our Franchised Stores on a real-time basis, which will facilitate our sourcing operations and inventory controls, replenishments and logistics. We will also continue to upgrade our Group-wide ERP System with applications tailored for our business operations, strengthen system maintenance, expand the bandwidth of our I.T. system, and enhance our safety and operational efficiency.

The estimated amount of investment for the improvement of our information technology systems is approximately RMB4.4 million, which will be used in improving our ERP System and establishing a franchise store information management system. The franchise store information system is expected to be connected with the information system of our Franchised Stores, enabling us to better monitor the sales performance and inventory level of our Franchised Stores on a real-time basis. The incorporation of this system can also enhance our operating efficiency through optimising our product offering, sourcing operations and inventory controls. Such investment is expected to be funded by the net proceeds to us from the Global Offering by the end of 2011.

OUR PRINCIPAL BUSINESS

Product categories

We offer over 16,000 types of merchandise through our Self-operated Stores and broadly divide our products into five product categories: air conditioners, TV sets, refrigerators, washing machines and others. We derive a substantial portion of our revenue from the sales of air conditioners, either through our retail operation or bulk distribution (including sales to our franchisees). For the three years ended 31 December 2007, 2008 and 2009, our revenue derived from the sales of air conditioners accounted for approximately 57.7%, 71.8% and 67.7% of our total revenue derived from the sales of merchandise, respectively.

Our business network

Our business network covers an extensive home appliances and consumer electronic products retail chain of 250 Stores, comprising 30 Self-operated Stores and 220 Franchised Stores, most of which are operated under the well-known brand of "汇银 *(Huiyin*)*" (except for most of our dedicated brand retail Stores and our four shop-in-shop Stores which are operated within department stores).

We focus on our retail operation in the third and fourth-tier markets in Jiangsu province and the nearby region, Anhui province. We have adopted a development strategy of first establishing a Self-operated Store in a targeted municipal market, which is usually larger in terms of Gross Floor Area and located in an area with higher commercial activity, to promote the "汇银 *(Huiyin*)*" brand awareness, which is then followed by the opening of Franchised Stores in the relatively more populated surrounding rural areas to expand our chain coverage and reach. We believe that our targeted markets have thus far been less developed than the urban markets in primary PRC cities, which present a significantly lower level of competition for large-scale suppliers and retailers of home appliances and consumer electronic products and at the same time offer a higher potential for rapid growth in demand for such products as the per capita net income in our targeted markets continues to increase and our target customers continue to modernise their lifestyles and upgrade their living standards.

We also maintain a large network of Service Centres to support our retail operation. We currently operate and manage 126 Service Centres, comprising seven Self-operated Service Centres (six of which are located inside our Self-operated Stores) and 119 Authorised Service Centres, giving a ratio of one Service Centre to approximately 2.0 Stores and which are strategically located within close proximity to our Stores and our target customers. Our Service Centres offer a broad range of installation and maintenance services for the products purchased from us or other third party sellers.

Our chain spans across 24 cities/districts in Jiangsu province and three cities/districts in the neighbouring Anhui province.

The map below shows the regions covered by our business network as at the Latest Practicable Date:

Region	Location	Stores: Self-operated Stores	Stores: Franchised Stores	Service Centres: Self-operated Service Centres	Service Centres: Authorised Service Centres
Jiangsu province					
Yangzhou	Yangzhou	4	5	1	—
	Jiangdu	2	27	—	12
	Baoying	1	6	1	16
	Gaoyou	2	27	1	33
	Yizheng	2	14	1	14
	Hanjiang	2	41	—	17
Taizhou	Taizhou	1	6	—	—
	Xinghua	1	—	1	12
	Jingjiang	1	6	1	10
	Jiangyan	1	7	—	—
	Taixing	1	16	—	—
Nanjing	Nanjing(Note 5)	1	2	—	—
Zhenjiang	Zhenjiang	2	—	—	—
	Danyang	—	3	—	—
	Dantu	—	1	—	—
	Yangzhong	—	2	—	—
Changzhou	Changzhou	—	40	—	—
Yancheng	Yancheng	1	—	—	—
	Binhai	—	1	—	—
Wuxi	Huishan	—	1	—	—
	Binhu	—	1	—	—
	Jiangyin	—	8	—	—
Huaian	Huaian	2	1	—	—
Lianyungang	Lianyun	—	1	—	—
Anhui province					
Chuzhou	Tianchang	3	4	1	5
	Chuzhou	1	—	—	—
Xuancheng	Ningguo	2	—	—	—
	Total	**30**	**220**	**7**	**119**

In order to prevent competition and cannibalisation among our Self-operated Stores and Franchised Stores, we generally conduct an evaluation before we open new Stores in our existing markets. We would only open a new Self-operated Store or permit the opening of a new Franchised Store if we believe that any potential reduction of customer traffic to the existing Stores near such a new Store will not adversely affect our overall operations and performance in that region. Please refer to the paragraph headed "Store opening" under the section headed "Our Business — Management and operations" of this prospectus.

Note 5: One of our Self-operated Stores is located in Liuhe district, Nanjing, a market that our Directors believe that it is within the third and fourth-tier markets. Two of our Franchised Stores are located in Jianye district and Qinhuai district in Nanjing, markets that our Directors believe that they are not within the third and fourth-tier markets.

The following table sets out the growth in the number of our Self-operated Stores and certain operating data for the years indicated:

	Year ended 31 December		
	2007	2008	2009
Number of Self-operated Stores at year end[1]	12	20	27
Number of cities/districts covered	9	14	17
Approximate average daily revenue *(RMB '000)*[2]	661.9	902.8	1,206.4
Approximate total Gross Floor Area at year end *(sq.m.)*[3]	16,582	21,564	30,705
Approximate weighted average Gross Floor Area *(sq.m.)*[4]	13,867	19,717	21,839
Approximate weighted average annual revenue per sq.m. *(RMB)*	17,423	16,758	20,162
Approximate weighted average daily revenue per sq.m. *(RMB)*[5]	48	46	55

Notes:

(1)

	Year ended 31 December		
	2007	2008	2009
Number of Self-operated Stores opened	3	10	9
Location of Self-operated Stores opened	Gaoyou, Xinghua, Liuhe	Yangzhou, Jingjiang, Taizhou, Huaian, Zhenjiang, Hanjiang, Changzhou, Changshu	Jiangyan, Huaian, Tianchang, Yancheng, Hanjiang, Ningguo, Yangzhou
Number of Self-operated Stores closed	—	2	2
Location of Self-operated Stores closed	—	Changshu, Liuhe	Taizhou, Changzhou
Major reasons for closure of Self-operated Stores	—	Closure of the shopping mall in which the relevant Self-operated Store was located, and unsatisfactory sales performance	Closure of the shopping mall in which the relevant Self-operated Store was located, and unsatisfactory sales performance
Net growth in number of Self-operated Stores	3	8	7

(2) Calculated based on the actual number of days in the particular year.

(3) This area represents the area of title of the buildings recorded in the relevant building ownership certificates and includes both sales area and non-sales area (such as office and warehouse).

(4) The sum of the Gross Floor Area of each Self-operated Store multiplied by the actual number of days that the Self-operated Store has operated during the relevant period and divided by the actual number of days in the particular period.

(5) Calculated as the approximate average daily revenue of the period divided by approximate weighted average Gross Floor Area during the period.

(6) Under our franchise arrangement, our income from franchise operations is not based on the revenue derived by our Franchised Stores, and thus operating data of our Franchised Stores is not included in the above table.

Our business integrates retail, bulk distribution (including sales to our franchisees) and after-sales service operations, which is characterised by a strong retail franchise operation and authorised service arrangement, and forms a comprehensive supply and service chain of home appliances and consumer electronic products in our targeted markets.

Retail network through our Self-operated Stores

We have 30 Self-operated Stores of which our Yangzhou flagship store and 16 general stores offer a comprehensive range of products and brands, four were shops-in-shop in department stores offering mainly higher-end home appliances and consumer electronics, such as liquid crystal displays, and nine specialty air conditioner or dedicated brand retail stores to satisfy the special market demand in different localities. Regarding the operation of our dedicated brand retail stores, in addition to the requirements under the relevant supply agreements, we are required to abide by the instructions and regulations in respect of the use of logo, the exterior outlook and interior layout and decoration of the relevant brand. The relevant supplier will send its personnel to inspect the store whether we have complied with all the instructions and regulations and supervise the operation of the Store from time to time. The size of our flagship store is more than 3,000 sq.m. and our general stores vary in size ranging from 900 sq.m. to 4,000 sq.m. The specialty air conditioner or dedicated brand retail stores are smaller stores (less than 450 sq.m.). Our four shops-in-shop are located in department stores in Jiangsu province operated by Golden Eagle Retail Group Limited, which is one of the most established department store chains in the PRC. Our Self-operated Stores generally stock more modern and higher value products, as well as more premium domestic and international brands than our Franchised Stores.

Our Self-operated Stores share the same brand name (except for most of our dedicated brand retail Store and our four shop-in-shop Stores which are operated within department stores), business focus, standardised management system and corporate culture. Subject to the approval of the headquarters, certain variations in strategies for specific Stores are permitted after taking into account location, size, target customer group and surrounding competition of individual Stores.

The typical layout of our Self-operated Stores comprises a ground floor which is generally occupied by manufacturers of small consumer electronics, including, for example, mobile phones, digital music players and juicers. We believe that the presence of small fashionable electronic products in the prominent areas on the ground floor helps attract customers into our Self-operated Stores. The second and (where applicable) third floors house our larger products such as air conditioners, washing machines and refrigerators. For these larger goods, the Self-operated Stores act as a showroom and sales office with purchases of these larger goods being delivered directly from our warehouses to the customers' homes. The products are grouped together by type and brand. Our sales staff and those personnel sent by our suppliers will provide advice and assistance to customers. We believe that our sales staff can take the lead on implementing our sales strategies and the combined sales force of our Group and our suppliers allows us to provide better customer service and to better control our staff cost through adjusting the sales staff mix.

We are the retailer of over 50 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens[(*Note 4*)]. Our retail chain provides a large selection of merchandise, including air conditioners, TV sets, refrigerators and washing machines, small home appliances, mobile communications products, I.T. digital products, and audio-video systems, and we now cover approximately 16,000 product model types through our Self-operated Stores.

As at 31 December 2009, one of our Self-operated Stores was operated at our owned property. This store commenced its operation in 2008 and its product sales accounted for approximately 0.2% and 0.7% of our revenue for the two years ended 31 December 2009, respectively. Please refer to the subsection "Properties - Leased properties" under this section for the term and rental details of the leases for our Self-operated Stores.

Products sales of our Self-operated Stores accounted for approximately 48.3%, 33.4% and 35.3% of our revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

Franchised Stores

Our business operation is characterised by the presence of a significant number of Franchised Stores most of which are operated under our registered brand of "*汇银 (Huiyin*)*" within our chain. Our first Franchised Store was set up in 2003. Since then, our retail franchise operation has expanded into an extensive network of 220 Franchised Stores to date. Based on the information provided by our franchisees, the size of our Franchised Stores ranged from approximately 60 sq. m. to 400 sq. m. We believe our franchise model allows us to obtain

Note 4: The sales of products of the above-mentioned seven brands amounted to approximately 66%, 82% and 83% of our total revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

greater market penetration in targeted development areas with a shorter ramp up time, minimal capital outlay and hence reduced operational risk. We believe that our authorised distributor status under the Rural Appliance Rebate Program helps attract potential franchisees who intend to develop an electronics retail business in our targeted markets.

The following table sets out the growth in the number of our Franchised Stores and number of cities/districts covered for the periods indicated:

	As at 31 December			As at the Latest Practicable Date
	2007	2008	2009	
Number of Franchised Stores	152[(1)]	186[(2)]	220[(3,4)]	220[(3,4)]
Number of cities/districts covered	17	19	22	22

Notes:

(1) 97 of which were existing Franchised Stores operated by franchisees who continued the franchise arrangement with us from 2006, 2 of which were new Franchised Stores operated by franchisees who continued the franchise arrangement with us from 2006 and 53 of which were new Franchised Stores operated by newly appointed franchisees in 2007.

(2) 116 of which were existing Franchised Stores operated by franchisees who continued the franchise arrangement with us from 2007 and 70 of which were new Franchised Stores operated by newly appointed franchisees in 2008.

(3) 172 of which were existing Franchised Stores operated by franchisees who continued the franchise arrangement with us from 2008, 3 of which were new Franchised Stores operated by franchisees who continued the franchise arrangement with us from 2008 and 45 of which were new Franchised Stores operated by newly appointed franchisees in 2009.

(4) As at 31 December 2009, 197 of them were operated by our former customers, 14 of them were operated by our former employees and the remaining 19 of them were operated by selected individuals or enterprises with local market knowledge.

Revenue generated from sales to our Franchised Stores which were owned by our former employees amounted to approximately RMB46.8 million for the year ended 31 December 2009, whilst our corresponding average profit margin amounted to approximately 17.1%.

The amount of purchase from franchisees for the year ended 31 December 2009 was set out below:

Amount of purchase	**Number of franchisees**(Note 4)
Below RMB0.1 million	28
More than RMB0.1 million but less than RMB1 million	100
More than RMB1 million but less than RMB10 million	72
More than RMB10 million	12

All of our franchise agreements expired at the end of the particular year and there was no early termination of franchise agreement during the Track Record Period.

Franchise arrangements

All of our Franchised Stores are established, financed and operated by Independent Third Parties under our registered "*汇银 (Huiyin*)*" brand name. Our current franchisees include our former customers (including trading companies or small-scale local home electronics retailers), our former employees or selected individuals or enterprises with local market knowledge. To the best knowledge of our Directors, substantially all of them are individuals or small-scale local enterprises having the sole business of operating the relevant Franchised Stores. We generally select applicants that are experienced and well-capitalised retail operators with good local social network and reputation. We enter into annual franchise agreements of standard terms with our franchisees, and one of the key features of our retail franchise agreements is that all our Franchised Stores are required to source their merchandise exclusively from us or our approved channels, except for those electronic products which we do not offer. Under this arrangement, our Franchised Stores are the key patrons of our bulk distribution business. Our franchise agreements also contain provisions requiring our franchisees to comply with the standards, rules and procedures specified by us from time to time.

In addition to the requirement that our franchisees shall source their merchandise exclusively from us, other major terms of the franchise agreements include:

- Use of brand name - We authorised our franchisees to use our brand name in relation to the franchise operation. Our franchisees shall not allow any third party to use our logo and brand name. They shall cease to use our logo and brand name and arrange for change of company name if any of their names contains our brand name after the expiry or termination of the franchise agreements;

- Support - We provide various training and marketing supports to our franchisees;

Note 4: There are 212 franchisees operating an aggregate of 220 Franchised Stores as at 31 December 2009.

- Operating regions - The operations of our franchisees are restricted to the regions set out in the respective franchise agreements and are non-exclusive in nature; and

- General management - Our franchisees are required to comply with the standards, rules and procedures in relation to this franchise arrangement.

For the purpose of strengthening our control over our franchisees, since the beginning of 2010, we plan to require each franchisee to warrant and represent that it will obtain all the licenses, permits and approvals necessary for operating its business.

We adopt the "八大統一操作模式 (The Eight Standardised Operation Model*)" in our franchise operations. Under this model, our franchisees are required to adopt the standardised trademark, marketing strategy, after-sales service, personnel training, procurement, pricing, logistics and sales models we prescribe, so as to promote and reinforce our customer awareness and brand recognition, control legal and operational risks and minimise administrative expenses.

Please also refer to the paragraph "Franchisee management" below for details of our franchisee management.

Franchisee selection and approval

We have developed standardised procedures for the approval of franchise applications. Our franchisee approval process begins with the submission of an application. Our franchisee assessment commission conducts an assessment to determine the eligibility of applicants. As part of our approval process, we conduct detailed background and financial checks to determine if the applicant fulfils our selection criteria. The applicants are required to seek our approval for the proposed location for the establishment of the Franchised Stores and our franchise management centre will send personnel to conduct an inspection of the proposed location to assess if the proposed location is suitable for the Franchised Store. Factors that we consider in evaluating a franchise application include the applicant's relevant experience, local social network and reputation and the amount of the proposed investment (although we do not have any minimum investment requirement). We generally select applicants that are experienced and well-capitalised retail operators. Successful applicants are required to provide us with copy of their business licences and other permits or approvals that we may request upon signing of the franchise agreement.

Franchisee management

Our franchise management centre, based in our headquarters, is responsible for overseeing our franchise operations and implementing the franchise policies set out by our management. Our franchisees are required to comply with the standards, rules and procedures specified in the operating manual formulated by our management. We actively work with our franchisees to support their operations and monitor their compliance with our operational requirements.

As part of our franchise service, we provide guidelines and advice to our franchisees to assist them through the store opening process from site selection, store design and decoration to supply management, marketing strategy and employee training. To achieve consistency of brand image for all of our Stores, our Franchised Stores are required to adhere to our interior design and decor specifications and to obtain approval from us for their decoration plan. To ensure the quality of our franchisees, we provide our franchisees and their employees with training programs regarding, among others, our corporate culture, financial management, customer management and product knowledge.

Our franchisees are required to source their merchandise exclusively from us or our approved channels, except for those small electronic products and electrical accessories which we do not offer. While we do not impose specific restrictions on the amount of sales or on the suppliers of such small electronic products and electrical accessories, we monitor the sales activity of our franchisees closely during our visits to the Franchised Stores and may exercise our discretion not to allow the franchisees to sell certain products which we consider inappropriate. As measures to prevent infringement of third party intellectual property rights, we will require our franchisees to give representations and warranties in the franchisee agreements that they will not violate any third party intellectual property rights. We require our franchisees to prepay certain amounts for purchases and/or to pay on COD basis. However, during the peak seasons, we grant credit terms to some of our franchisees who purchase a larger amount of merchandise from us.

All our franchisees source their merchandise directly from our various subsidiaries specialised in distribution of brand products, except that our franchisees in some of the regions which are located far away from our logistics centre in Yangzhou (including Taizhou and Changzhou) source their merchandise from us through certain designated Franchised Stores (which are of better sales performance and warehousing and delivery support) or one of our customers (an Independent Third Party trading company based in Changzhou engaging in the trading of electronic appliances and was our largest customer for the two years ended 31 December 2009) for logistical convenience. There is no special contract governing the sourcing arrangement available to the franchisees from the designated Franchised Stores and such relevant customer. We sell our merchandise to such designated Franchised Stores and the relevant customer as if they are our ultimate customers with our normal volume discounts made under our bulk distribution operation and they in turn re-sell such merchandise to the purchasing Franchised Stores as approved by us at the price equivalent to the price payable by such purchasing Franchised Stores if they source the merchandise directly from us. However, we do not restrict the designated Franchised Stores to sell such merchandise (which were sourced from us at a discount) to their retail customers. Under such arrangement, we determine the price of products sourced by the relevant designated Franchised Stores and the relevant customer, as well as the price sold to the purchasing Franchised Stores. To ensure that the relevant designated Franchised Store sells its products to the purchasing Franchised Stores at our pre-determined price, we distribute a standard price list applicable to all the Franchised Stores (except the designated Franchised Stores) from time to time. We also confirm the practical operation of this sales arrangement, including the compliance of our pre-determined price, with the relevant selling and purchasing Franchised Stores during our regular visits.

For the year ended 2009, we had approved (i) 13 Franchised Stores located in either Jiangyan, Jingjiang and Taixing to source their merchandise from three designated Franchised Stores operated by enterprises with their sole business of operating the our Franchised Stores in the respective regions; and (ii) another 38 Franchised Stores located in Changzhou to source their merchandise from one of our customers, which is a home electronics trading company in Changzhou. Our Self-operated Store in Jiangyan is a specialty store and our Self-operated Store in Jingjiang is a relatively small store located in a department store. The operation scale of these two Stores is relatively small and they are not able to provide sufficient supply and delivery support to the other Franchised Stores in the regions. Moreover, our Directors consider that the adoption of this sourcing arrangement can lower the cost of sales and relieve our capital pressure. Sales made through the above arrangements amounted to nil, approximately RMB23.5 million and RMB68.6 million for the three years ended 31 December 2007, 2008 and 2009, representing nil, approximately 2.4% and 5.5% of our total revenue, respectively. While there is a possibility that the designated Franchised Stores sell some of the discounted merchandise sourced for distribution to retail customers at the retail price instead of to other Franchised Stores, our Directors consider such possibility is slim because a large proportion of the revenue of the designated Franchised Stores was derived from distribution and the scale of their retail operations is comparatively small; and such other purchasing Franchised Stores can source their merchandise from us directly should the designated Franchised Stores fail to provide them with sufficient merchandise. Our Directors have not received any complaints from the small franchisees who source merchandise from the designated Franchised Stores that they failed to source merchandise from the relevant designated Franchise Stores during the Track Record Period and believe that there is no material adverse impact on our operations if the designated Franchised Stores fail to adhere to such sales arrangement.

We also manage our franchise operations in the following respects:

- Price - Our Franchised Stores can set their own prices within the range we prescribe, taking into account factors including the income level of the local consumers, the prices charged by our competitors and the general market conditions.

- Marketing and promotion - Our franchisees are required to use our standard marketing materials and to comply with our other marketing and advertising standards and procedures. We conduct special promotional or marketing activities for our franchisees. Since our Franchised Stores are generally of smaller scale and lack of resources and expertise in organising promotional and marketing activities, and promotion and marketing activities are normally of less importance to stimulate sales in rural markets due to the lower level of market competition, our Franchised Stores normally rely on the activities and campaigns we organise and conduct for them.

- Fees - While we imposed a royalty fee (the amount of which was set based on our estimated revenue and profit of the individual Franchised Stores) on our franchisees during the Track Record Period, we waived a number of our franchisees from payment of royalty fees for the year ended 31 December 2008. We no longer charge such royalty fee on our franchisees since 1 January 2009 for the purpose of boosting the development of our franchise operations. We received an aggregate royalty fee in the sum of approximately RMB9.9 million, RMB4.7 million and nil for the three years ended 31 December 2007, 2008 and 2009, respectively. Other than the royalty fees mentioned above, our franchisees are not required to pay any other fees to us.

- Minimum purchase amount - During the Track Record Period, save as disclosed below, we had not set any general minimum purchase requirement on any Franchised Store.

- Return of goods - Our Franchised Stores can return goods with serious quality problems to us. For the three years ended 31 December 2007, 2008 and 2009, goods returned to us by our franchisees and other customers amounted to approximately RMB0.10 million, RMB0.11 million, and RMB0.89 million, respectively. Our Directors confirmed that there was only a very minimal amount of goods returned to us by our Franchised Stores during the Track Record Period.

- Store size - Subject to our approval on a case by case basis, the size of our Franchised Stores is expected to be at least 100 sq. m., depending on the locations of the Franchised Stores.

- Others - Our Franchised Stores are also required to observe other rules, such as our standard requirements for staff uniforms and other items that carry our "*汇银 (Huiyin*)*" trademark, and the submission of the information about the Gross Floor Area of the Franchised Stores along with the franchise applications.

While we had not set any general minimum purchase requirements for the individual Franchised Stores, we require certain Franchised Stores of larger size to meet the annual/monthly minimum purchase target of product of certain brands. Our Directors advised that, none of our Franchised Stores has failed to meet the minimum purchase target prescribed by us from time to time. In determining the minimum purchase target for individual franchisee, we take into account the past performance of such franchisee and the expected market demand in the region where the relevant Franchised Stores are located. We will generally set the minimum purchase target on the individual franchisee at the level equivalent to approximately 100% to 130% of the amount of purchase made by such individual franchisee in the preceding year.

Failure to meet the annual/monthly purchase target by our franchisees would not attract any payment of remedy or penalty. However, the ability to meet the annual / monthly purchase target is one of the criteria for us to assess the performance of individual franchisees. Further, we will make reference to the individual franchisees' ability to meet the annual / monthly purchase target when considering renewal of the relevant franchise agreements. As at 31 December 2009, 53 Franchised Stores were subject to the annual / monthly purchase target in respect of certain branded products.

To monitor our franchise operations and whether our franchisees are in compliance with our rules and regulations, our franchise management and brand management personnel will visit our Franchised Stores generally on a weekly basis and communicate with each Franchised Store by phone regularly. While we generally do not require the franchisees to provide us with information on their sales and inventory, our personnel observe, among others, the business operation, the use of our brand name and the inventory level during the visits to the Franchised Stores and keep track of the order history of each Franchised Store. On this basis, our Directors believe that our Franchised Stores have not accumulated stock in an amount which exceeds their actual sales operation. If we identify any non-compliance with our standards, requirements or any applicable laws and regulations during our visits or inspections, our franchise management personnel will request the franchisees to take actions to rectify such non-compliance. We are not aware of any non-compliance matters in any material respects by our Franchised Stores during the Track Record Period.

We may terminate a franchise agreement if the franchisee (i) breaches its covenants or obligations under the agreement and fails to rectify such breach after we have issued a notice of breach to it; or (ii) fails to implement our brand building marketing plan. Our Directors confirm that there was no early termination of franchise agreement during the Track Record Period.

In addition, the annual renewal of a franchise agreement is subject to our approval. We will only renew franchise agreements with franchisees that have satisfactory sales performance and good record in respect of compliance with our standards, requirements and other applicable laws and regulations. For the three years ended 31 December 2007, 2008 and 2009, we rejected 9, 28 and 14 applications for renewal of franchise agreements, respectively, mainly as a result of unsatisfactory sales performance of the relevant franchisees. Our franchisees are not entitled to return their remaining inventory to us after they cease their operations. However, upon request of such franchisees, we will assist them in liaising with other Franchised Stores which are interested in taking up their remaining inventory.

Based on the fact that (i) our key statutory obligations as a franchisor only include the grant of the right to use our brand name and/or our other operational resources to the franchisees under 商業特許經營管理條例 (Regulations for the Administration of Commercial Franchising*); and (ii) our franchise agreements expressly state that our franchisees and us are independent entities and each of our franchisees and us shall operate and be responsible for our own civil liabilities and indebtedness independently, our PRC Legal Advisers are of the view that any non-compliance with relevant laws and regulations by our franchisees, such as any failure to obtain the fire safety approval and the environmental approvals, will not result in any liability to us. Since our franchisees are independent entities and do not constitute member of our Group, we are not in a position to ascertain whether all the Franchised Stores have obtained all the licences, permits and approvals necessary for their operations. It was our understanding that all the existing Franchised Stores as at 31 December 2009 had obtained the relevant business licences and we are not aware of any breach of laws or regulations in relation to the operation of our Franchised Stores which may materially and adversely affect our own or our Franchised Stores' operations.

Our Directors confirmed that none of our franchisees has ever received any funding support from, or had any trust arrangement or business dealings (apart from the purchases made under the transactions disclosed under this prospectus) with, our Group, our Directors, our Shareholders or any of their respective associates, except that Yangzhou Huiyin has agreed to guarantee the performance of obligations by three franchisees under the bill of exchange arrangements in respect of an aggregate amount of RMB10 million from September 2008 to September 2009. Yangzhou Huiyin was discharged from the obligations under the relevant guarantees.

We have no restrictions on the number of Franchised Stores allowed to be operated by each franchisee. There were 4, 5 and 8 of our franchisees or their respective associates each operating two Franchised Stores as at 31 December 2007, 2008 and 2009, and sales to these franchisees accounted for approximately 17.2%, 16.7% and 22.8% of our revenue derived from bulk distribution operations for the three years ended 31 December 2007, 2008 and 2009, respectively.

Products sales to our Franchised Stores accounted for approximately 31.0%, 28.9% and 29.9% of our revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

We provide a large selection of merchandise, including air conditioners, TV sets, refrigerators, washing machines and small home appliances through our franchise operation to the ultimate customers in the third and fourth-tier markets. Our Franchised Stores generally cover more than 700 product model types.

Bulk distribution (including sales to our franchisees)

In support of our retail operation, we distribute as a supplier to our Franchised Stores as well as other Independent Third Parties, mainly household electronics retailers (including both large-scale home electronics retail chains and small-scale local home electronics retailers) and our corporate customers (including government organisations, schools, hotels and property developers). We are currently one of the bulk distributors of selected types of home appliances and consumer electronic products, principally air conditioners, refrigerators and TV sets, for over 20 internationally or domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens, within the areas surrounding our Stores. We have obtained 23, 21 and 31 distribution rights of branded product categories for the three years ended 31 December 2007, 2008 and 2009. Our Directors advised that, we have not been required by the relevant suppliers of certain merchandise sold under our bulk distribution operation to obtain specific distribution rights.

Our bulk distribution operation complements our retail operation by providing a stable and reliable supply source for our Stores, whilst the exclusive supplier status established with our Franchised Stores ensures that our bulk distribution operations benefit from steady revenue stream.

We aim at broadening our geographical coverage and the product range of our bulk distribution rights. We assess the sales performance at our Self-operated Stores and the financial performance of our bulk distribution operation to identify the branded product categories which have higher market and growth potentials from time to time. Once we have identified the high potential branded product categories, we will then negotiate with the relevant suppliers for distribution rights of such branded product categories. In addition, based on our informal market research on the particular new region, we will negotiate with our suppliers to extend our existing distribution rights in the relevant new region identified by us.

We believe our appointment as a bulk distributor for these branded home appliances and consumer electronic products is attributable to our proven retail industry experience in Jiangsu and Anhui provinces, including our in-depth understanding of local consumer preferences as well as our large sales network in and sustained penetration into our targeted markets in the PRC. Our suppliers benefit from our distribution logistics, from delivery to warehousing to account management, without the need to establish a physical presence in our targeted markets.

Most of the subsisting distribution agreements that we entered into are for a term of one year. To ensure efficiency, we designate specific operating subsidiaries within our Group to enter into the distribution agreements, and to liaise on a day-to-day basis, with the relevant suppliers. Whilst customers of our bulk distribution business receive better pricing than retail customers, leading to lower profit margins for our Group, our Directors believe that the ability to achieve higher purchasing volumes has historically allowed us to negotiate favourable overall pricing terms with our suppliers.

We sell the merchandise to our franchisees and other Independent Third Parties at the same price. In general, the amount of volume discounts granted by us to both of our franchisees and other Independent Third Parties depends on the amount purchased by such customer, the bigger the purchase, the bigger the volume discounts. Given that some of such other Independent Third Parties generally make a bigger purchase amount, they receive a bigger volume discounts from us. The payment terms for bulk distribution sales made to our Franchised Stores and other Independent Third Parties are different. While our franchisees normally make prepayments to us as deposit for merchandise sourcing and settle their purchase orders on COD basis, we usually grant credit periods ranging from 30 to 90 days to other Independent Third Party customers.

Our customers may only return goods with serious quality problems within a prescribed time to us and the amount of goods returned to us by our franchisees and other customers accounted for approximately RMB0.10 million, RMB0.11 million and RMB0.89 million for the three years ended 31 December 2007, 2008 and 2009, respectively.

Our bulk distribution (including sales to our franchisees) contributed approximately 50.4%, 65.7% and 64.0% of our revenue for the three years ended 31 December 2007, 2008 and 2009, respectively. Over 50% of the contribution from our bulk distribution was derived from the sales pursuant to our distribution rights during the Track Record Period.

After-sales services

In line with our business philosophy, we place a heavy emphasis on customer service and therefore maintain a quality after-sales service network. We currently operate and manage 126 Service Centres, comprising seven Self-operated Service Centres (six of which are located inside our Self-operated Stores) and 119 Authorised Service Centres, giving a ratio of one Service Centre to approximately 2.0 Stores and which are strategically located within close proximity to our Stores and our target customers. Our Service Centres offer a broad range of installation and maintenance services for the products purchased from us or from other third party vendors. We are the authorised after-sales service provider for more than 15 branded electronics suppliers, such as Gree, Midea and Sharp, in most of the areas in which our Service Centres are located and we have provided such authorised after-sales services to most of our branded electronic suppliers for more than three years. We generally provide our after-sales services for the relevant branded electronics suppliers through both our Self-operated Service Centres and Authorised Service Centres. Our staff and technicians at the Service Centres also receive training from our suppliers for product updates so as to maintain high service standards from time to time.

The following table sets out the growth in number of our Service Centres for the periods indicated:

	As at 31 December			As at the Latest Practicable Date
	2007	2008	2009	
Number of Self-operated Service Centres	6	7	7	7
Number of Authorised Service Centres	50	70	119	119

As at 31 December 2009, 18 of the service providers under our authorised after-sales service provision arrangement were also our franchisees operating our Franchised Stores.

We generally enter into agreements in relation to provision of authorised after-sales services with our suppliers on an annual basis. The major terms of such agreements include:

- Authorised after-sales services - The relevant suppliers appoint us to provide installation and/or maintenance services in relation to the relevant branded electronics within the prescribed region.

- Repair parts - The relevant suppliers are generally responsible for providing the necessary repair parts to us to carry out our duties free of charge or at a prescribed set cost and some of the suppliers require us to pay a deposit as payment for the repair parts. We are restricted from sourcing such repair parts from third parties by some of our suppliers.

- Support - The relevant suppliers are generally required to provide installation and/or maintenance training to our staff from time to time.

- Settlement terms - We shall submit the monthly record of the installation and/or maintenance work carried out by us to the relevant suppliers, who will generally settle the payment to us on a monthly basis. The amount of payment is calculated based on the prescribed price for each type of maintenance and repair work set out in the relevant agreements.

- Quality assurance - The relevant suppliers are not responsible for any property loss or personal injury occurred as a result of or in connection with our installation and/or maintenance work.

- Termination - The relevant supplier generally has the right to terminate the agreement if, among others, we breach our obligations under the relevant agreement or disrepute the relevant supplier.

The Directors confirmed that there was no early termination of the authorised after-sales services provision agreement during the Track Record Period.

We have set up a service hotline to receive installation and repair orders from our customers, which offers convenience to our customers and facilitates our service management. When offering maintenance services, we typically charge the suppliers if the maintenance services are provided during the warranty period, or we charge the customers if the services are provided outside the warranty period.

In addition to the common single-occasion maintenance services, we also offer extended warranties for air conditioners to our customers at a fixed rate for up to three years after the expiration of the warranty period provided by the suppliers. Our Directors believe that such value-added after-sales services help enhance our customers' satisfaction and thus our competitive edge against our competitors.

Besides the usual maintenance services, our after-sales service taskforce may also offer certain optional parts or gadgets to our customers which may provide added safety to the users in using the appliances, or help extend the working life or enhance the functions of the appliances.

Our Authorised Service Centres are managed through our authorised arrangement with Independent Third Party operators. Our authorised after-sale services arrangement allows us to extend the geographic coverage of our after-sales customer service with lower capital requirements and operational risks. All of our Authorised Service Centres are operated by Independent Third Parties under our registered "*汇银 (Huiyin*)*" brand name, and all instructions for authorised after-sales services provided for customers of the relevant branded electronics suppliers from our Authorised Services Centres are placed through our hotline with a standard price list, which together bring forth a conforming service chain. We enter into annual authorisation agreements of similar terms with our authorised service providers.

The major terms of the authorisation agreements include:

- Services - we appoint the relevant Authorised Service Centre as our exclusive after-sales service provider in respect of certain types of home appliances in a specific region and such Authorised Service Centre shall carry out its duties in accordance with our instructions.

- Support - we (i) provide training to the staff in the Authorised Service Centres and (ii) provide necessary repair parts, free of charge during the warranty period (if we are provided with those repair parts by our suppliers free of charge) or for a prescribed cost after the warranty period, to the Authorised Service Centres to carry out the repair and maintenance work.

- Fee - the fee charged by the Authorised Service Centres to the customers shall be based on the standard pricing schedule we publish from time to time, and the Authorised Service Centres shall deliver the fee received from the customers to us twice a month or once a week. The Authorised Service Centres shall be entitled to service fees (to be calculated as a percentage of the fee received from the suppliers or customers for each item of home appliances they maintain or install) (at 40% and 70% for services provided during and after the warranty period, respectively). Such service fee payable to the Authorised Service Centres shall be settled on a monthly basis. The amount of service fee paid to our Authorised Service Centres accounted for approximately RMB0.7 million, RMB0.8 million and RMB1.1 million for the three years ended 31 December 2007, 2008 and 2009, respectively. Such amount was booked as our cost of sales.

Our after-sales service management centre is responsible for overseeing our authorised service provision operations and implementing the after-sales service policies set out by our headquarters. Our authorised service providers are required to comply with the standards, rules and procedures specified in the relevant authorised service agreements, including requirements to comply with our service charge schedule and to carry out our instructions on time. Factors that we consider in evaluating an authorised service provider application include the applicants' technical skills and local social network and reputation. We provide training to our authorised service providers so as to ensure their quality of work can meet customers' requirements. Please also refer to the subsection headed "Management and operations — Quality assurance" under this section for details of our quality control over our Service Centres. We are not aware of any material non-compliance matters by our Authorised Service Centre during the Track Record Period.

After-sales maintenance is particularly important to the customers in our targeted markets, who are typically less inclined to replace their appliances with new models within a short period of time. We believe that timely and quality after-sales maintenance is one of the key factors that our target customers would take into consideration in making purchases from an electronics retailer. Our Directors further believe that our capability to offer quality maintenance services coupled with our wide and strategic network of Service Centres helps boost the confidence of our customers in the quality and reliability of our retail chain.

Our "*汇银 (Huiyin*)*" brand was accredited by 江蘇省工商行政管理局 (Jiangsu Administrative Bureau of Industry and Commerce*) as 江蘇省著名商標 (Jiangsu Famous Trademark*) in 2008 in relation to our appliance installation and maintenance services. We consider such recognition to be proof of the high quality of our services.

Our service income comprises of maintenance income and installation income. Revenue from maintenance services represents income from after-sales maintenance services provided by us and our Authorised Service Centres to our customers. Revenue from installation services represents income from installation services provided by us and our Authorised Service Centres to our customers. All the revenue generated from the maintenance and installation services provided by our Authorised Service Centres are recognised by us and we pay a service fee to our Authorised Service Centres for their services. Revenue derived from provision of after-sales services accounted for approximately 1.3%, 0.9% and 0.7% of our revenue for the three years ended 31 December 2007, 2008 and 2009, respectively.

SALES

Our merchandise

We offer an extensive range of home appliances and consumer electronics products from international and domestic brand names in each of our Stores. We sell over 16,000 types of merchandise and divide our products into the following product categories:

Product category	Main products
Air conditioners	air conditioners and air purifiers
TV sets	televisions
Refrigerators	refrigerators
Washing machines	washing machines
Others	audio-video systems, small home appliances, I.T. digital products and mobile communications products

Out of all the product categories, sales of air conditioners represent a very significant amount of our revenue. The table below sets out our revenue, by product category, as a percentage of our total revenue derived from sale of merchandise for each of the periods indicated below:

	Year ended 31 December		
Product category	**2007**	**2008**	**2009**
	(%)	*(%)*	*(%)*
Air conditioners	57.7	71.8	67.7
TV sets	16.8	11.7	15.8
Refrigerators	11.6	8.5	7.1
Washing machines	4.2	3.4	3.8
Others[(Note)]	9.7	4.6	5.6
	100.0	100.0	100.0

Note: This includes revenue derived from sales of audio-video systems, small home appliances, I.T. digital products and mobile communications products.

Business model

We derive our revenue principally from sales of home appliances and consumer electronic products and the provision of after-sales services. We also derive other income including rental income from leasing our properties.

We offer home appliances and consumer electronic products through direct sales and concessionaire sales.

Direct sales

For direct sales, we sell the merchandise we purchase directly from suppliers. Most of our merchandise, including air conditioners, TV sets, refrigerators and washing machines, are directly-purchased merchandise. We generate gross profit from direct sales from the difference between our purchase price (net of rebates from our suppliers) and the price of the merchandise (net of volume discounts to distributors) we sell, either to retail customers or to other bulk distributor customers. Supplier rebates are given by suppliers based on our purchase volume in specific periods, and are usually settled on a monthly, quarterly, semi-annual, and annual basis, by way of rebates in accordance with agreed rates with the relevant suppliers. Supplier rebates are accrued as earned and reliably estimated and are credited as a reduction in inventory with a subsequent reduction in cost of sales when the related merchandise is sold. In addition, under some of the supply agreements, supplier rebates may also be provided by suppliers to compensate us for any adjustments they may make to the retail price of their merchandise we sell, the amount of which is confirmed with the suppliers during the settlement process as well. For the three years ended 31 December 2007, 2008 and 2009, our supplier rebates on merchandise sold accounted for approximately 19.0%, 15.7% and 20.6%, respectively, of our cost of merchandise (before deducting supplier rebates). Our merchandise is often sold with volume discounts to distributors. Volume discounts are given by us based on the purchase volume in specific periods, and are usually settled on a monthly, quarterly, semi-annual and annual basis, by way of cash rebate in accordance with agreed rates with the relevant bulk distribution customers. For the three years ended 31 December 2007, 2008 and 2009, the volume discounts provided by us to our customers under our bulk distribution operation were approximately 4.0%, 6.3% and 4.6% respectively, of the total amount purchased by our customers under our bulk distribution operation.

We believe the direct-purchase model allows us a better control over the range and categories of merchandise that we offer, and reduces the lead time for inventory replenishments. For the three years ended 31 December 2007, 2008 and 2009, approximately 99.0%, 98.9% and 99.2% of our revenue in retail operation was generated from direct sales, respectively.

Please refer to the paragraph headed “Purchasing and logistics management — Purchasing arrangements” under this section for further details of our purchasing arrangements with our suppliers.

Concessionaire sales

Concessionaires are generally invited to enter into agreements with us, usually for a term of one year, whereby the concessionaires will occupy designated areas in our Self-operated Stores and to establish their own sales counters for the purpose of selling their branded merchandise. Most of our concessionaire sales are in respect of small electronic products, I.T. digital products and mobile communications products. As at the Latest Practicable Date, there were approximately 20 concessionaires selling products of more than 50 international and local brands at our Self-operated Stores.

We charge our concessionaires either a fixed rental fee or a percentage of the revenue generated from such concessionaire as a commission, which is calculated based on an agreed commission rate and is subject to an agreed minimum commission amount determined on the basis of an agreed minimum purchase target. Based on the arrangements with the individual concessionaires under the relevant agreements, the revenues received from the concessionaires are first collected by us. In general, the fees payable by our concessionaries to us are settled on a monthly basis. We record sales generated from concessionaire sales on a net basis.

For the three years ended 31 December 2007, 2008 and 2009, approximately 1.0%, 1.1% and 0.8% of our revenue in retail operation was generated from concessionaire sales, respectively.

Our current business model focuses on direct sales and there is no expansion plan for concessionaire sales.

Other income

After-sales service charge — We provide installation, repair and maintenance services for the home appliances and consumer electronics that are purchased from us or other third party vendors. We offer maintenance services to our customers. We typically charge the suppliers if the maintenance services are provided during the warranty period, or we charge the customers if the services are provided outside the warranty period. As the cost of maintenance of products are borne by the manufacturers (if maintenance services are provided during the warranty period) or by the customers (if maintenance services are provided outside the warranty period), we did not make any provisions of product warranties during the Track Record Period. We also offer extended warranties for air conditioners to our customers at a fixed rate for up to three years after the expiration of the warranty provided by suppliers.

Others — We receive other sources of revenue, including promotion and store display income and rental income from our investment properties. Amount of promotion and store display income is determined based on size and location of the display shelf and the number and scale of the promotional events. Such income is payable by the supplier in the form of supplier rebate or set-off of purchase sum. As a home appliances recycling enterprise under the Change of the Old for New Program, we are also entitled to freight subsidies from the relevant governmental authority as payment for the services we provide in relation to the delivery of old home appliances received to dis-assembling enterprises. However, since the Change of the Old for New Program was only commenced in June 2009, we have not received any such freight subsidies for the year ended 31 December 2009.

Pricing strategy

For our retail operations, our profitability depends to a large extent on the price competitiveness of our merchandise. Except for some of the merchandise newly introduced by our suppliers for which we have exclusive sales rights for a certain period of time, our primary pricing policies are to offer our merchandise at market prices. Although we adopt similar pricing methodologies for merchandise sold at our Self-operated Stores and Franchised Stores, the retail prices of merchandise in any particular Store can differ after taking into account the combination of various factors including sales condition and performance of a particular Store, the income level of local consumers, the prices charged by our competitors and general market conditions. We review our prices regularly and make adjustments based on the recommended retail price and discount range set by our suppliers, the expected profit margin on individual products determined by management, the prices set by our competitors and the anticipated market trends and expected demand from customers.

For some merchandise which is subject to price control under the Rural Appliance Rebate Program, we strictly comply with such controls. As advised by our PRC Legal Advisers, save and except for the products sold under the Rural Appliance Rebate Program, merchandise that we offer is not subject to any price control by the PRC Government under the Pricing Law or any other relevant regulations. Whilst we are obliged to sell the eligible merchandise at a price not exceeding the ceiling price specified under the program, our suppliers are also obliged to supply the eligible merchandise to us at a price not exceeding the ceiling price specified under the program.

Our Directors are of the view that the markets in which our business is operated are of lower level of competition and thus we have not experienced any price war nor suffered from any eminent pressure on price cutting during the Track Record Period.

The price for products that we sell in our bulk distribution operation (including sales to our franchisees) is set on the basis of purchase price and the expected profit margin, being a rate which is lower than the margin set for our retail operations, as determined by our management.

Customers

Under our retail operations, our customers are predominantly individual members of the public. Individual customers typically pay for merchandise purchased at our Stores by cash, bank debit cards or credit cards at the time of sale.

Under our bulk distribution business, our customers are basically home electronics retailers and corporate customers. Our Franchised Stores, which are obligated under the franchise agreements to source their merchandise exclusively through us or our approved channels, are also one of our major streams of customers for our bulk distribution business.

We also sell to the corporate customer market and have a specialised team to serve corporate customers, including government organisations, schools, hotels and property developers. We usually enter into corporate sales contracts with our corporate customers and offer a discount for corporate purchase, varying from customer to customer depending on the negotiation with the relevant customer and the quantity of merchandise purchased. Our corporate customers usually require our involvement in devising their procurement plan and provision of our free-delivery, installation and maintenance services. We generally offer payment-on-delivery or credit periods of not more than three months. We value our corporate customers whose high value purchases are important to our business. Our suppliers also encourage our development of the corporate customer market because such market can serve as an effective channel to market and promote their products.

For each of the three years ended 31 December 2009, our top five customers, in aggregate, accounted for approximately 15.9%, 32.3% and 23.4%, respectively, and our single largest direct customer accounted for approximately 4.5%, 17.7% and 10.7% of our sales of goods, respectively. Our top five customers include our Franchised Stores and other Independent Third Parties, including electronics retailers.

None of our Directors, our chief executive or any of their respective associates (as defined in the Listing Rules) or, so far as our Directors are aware, any Shareholder who owns 5% or more of our issued share capital had as at the Latest Practicable Date any interest in any of our five largest customers during the Track Record Period.

MANAGEMENT AND OPERATIONS

Store opening

We are proactively expanding the geographical coverage of our Stores network in prudently selected regions in China. We have adopted a strategy of first establishing a Self-operated Store in the targeted municipal markets, in which such store is usually larger in terms of Gross Floor Area and is located in an area with higher commercial activity, to promote the "*汇银 (Huiyin*)*" brand awareness, which is then followed by the opening of the Franchised Stores in the more populated surrounding rural areas to expand our chain coverage and reach.

When evaluating any prospective region for network expansion, our management typically evaluates the development potential of a region by making reference to size of the market for home appliances, level of competition, level of support by our suppliers and sufficiency of our resources. We then prepare detailed feasibility reports of store openings in the targeted region before implementing an execution plan.

In selecting a location for new Self-operated Stores, we evaluate:

- potential self competition and cannibalisation between our Stores;
- existing and expected population density, pedestrian flow and vehicle traffic of the proposed location;
- shopping habits, needs, spending patterns and power of the target population;
- store location and layout factors, including urban planning, geographic location, available lettable area, adjacent buildings, public transport and infrastructure, as well as demographic patterns of residential areas;
- rental and other costs; and
- estimated returns on capital.

In addition to setting up new Self-operated Stores, our management believes that the franchise model allowed us to expand our operational reach and coverage successfully and rapidly in the past few years and intends to continue to expand our franchised retail store network. Please refer to the paragraph headed "Franchised Stores" under the section headed "Our principal business — Our business network" under this section for details of our procedures and criteria for franchisee selection and approval.

As part of our growth strategies to expand into other regions, we may also consider potential opportunities of acquiring existing strong local retail operators or entering into joint ventures with them. For the purpose of assessing a potential acquisition target, we take into account factors such as its location, market position and operation quality, our administration cost and the availability of support from suppliers. When our senior management identifies any potential target, we will set up a special project team (which will be led by our other management and comprise of members from different departments) to perform due diligence exercises against the target and then prepare the investment proposal. We may engage independent professional institutes to prepare feasibility study report for acquisition of a larger scale target. The investment proposal will be presented for our Board's further consideration if it is considered promising. Our Board will consider, and where appropriate, approve such proposal.

In order to prevent competition and cannibalisation among our Self-operated Stores and Franchised Stores, we generally conduct an evaluation on the population size of the region, living standards and spending powers of the residents in such region when opening new Stores in our existing markets to determine the potential cannibalisation effect. We would only open a new Self-operated Store or permit the opening of a new Franchised Store if we believe that any potential reduction of customer traffic to existing Stores near such a new Store will not adversely affect our overall operations and performance in that region. Our Directors believe that cannibalisation among Self-operated Stores and Franchised Stores is insignificant due to the site selection and other evaluation conducted by us prior to opening a Store and their different geographical target markets. We also offer different types and models of products and maintain similar selling prices of same products in Stores opened in the relatively close vicinity so as to avoid any adverse competition among our Stores. Based on the above, our Directors trust that no cannibalisation exists among our Self-operated Stores and our Franchised Stores.

Store management - Self-operated Stores

Headquarters management

We adopted a centralised approach in managing our business, as reflected in our operation management, merchandise procurement, contract review and approval, resource allocation, marketing and promotion, pricing policy, after-sales services and business strategies and planning. Our Directors believe that a centralised management mode optimises resource utilisation within our Group, maintains a consistent market image and consistent business practices across our Self-operated Stores, and helps control legal and operation risks. Such approach also enables us to leverage our Group-wide resources to attract popular suppliers, to obtain favourable terms for our Self-operated Stores in negotiation with our suppliers in terms of cost of direct sales merchandise, and sales and promotional support, and to improve internal sharing of best practices.

The central management of our overall business and operations is overseen by our headquarters in Yangzhou. Any actions taken by the Self-operated Stores should be approved by the headquarters and authorisation from the headquarters is required for any expenses incurred by the Self-operated Stores, except that we delegate certain decisions to our store-level management teams, so that they have the flexibility to respond quickly to market demand and improve business performance. For instance, the minimum retail prices of and sales discounts for merchandise sold at our individual Self-operated Stores are determined by our headquarters after taking into account information provided by the individual Self-operated Stores on the sales condition and performance, the income level of local consumers, the prices charged by our competitors and other general market conditions of the districts in which the Stores are located.

Store-level management

The Self-operated Stores, under the management and supervision of the headquarters, focus on sales, local marketing, customer relationship, provision of customer service and other general administration and management of the relevant Self-operated Stores. The duties of the store managers include delegating various duties to subordinated staff, deciding product display location, supervising and assessing staff performance and allocating resources within the approved budget.

Store management - Franchised Stores

Our franchise management centre is responsible for overseeing our franchise operations and implementing the franchise policies set out by our headquarters. Please refer to the paragraph headed "Our principal business — Our retail network — Franchised Stores" under this section for further details of our franchise arrangement and management.

Store operation

Each Self-operated Store is headed by a store manager who is principally responsible for the store's day-to-day management and operation, including staff hiring and stock management. We require each Self-operated Store to abide by a set of operational guidelines prescribed by the chain development centre of the headquarters to ensure uniformity among our Stores.

The number of staff differs from store to store, ranging from five for a specialty store to approximately 160 for our flagship store. Part of the sales staff in our Self-operated Stores are secondees from our suppliers whose salaries are borne by our suppliers.

Hours of operation vary between Self-operated Stores, depending on the shopping habits of our customers in the locality, but are typically between 8:00 a.m. to 6:00 p.m., seven days a week. Generally, we extend our hours of operation during weekend or festival time.

Quality assurance

We understand that customer loyalty cannot be maintained or will be lost if customers are dissatisfied with their shopping experience. Failures to maintain quality can lead to customer complaints, refusals by customers to accept delivery of products or even the return of products and damage to our reputation.

We place strong emphasis on the quality of products and adopt the following quality control policies: (i) we adopt a stringent supplier selection policy and only merchandise from suppliers approved by us are sold in our Stores so as to reduce the risk arising from product quality problems; (ii) the warehouses perform a series of checks upon the receipt of the merchandise of, among others, the appearance, packaging, specification and brand logo etc.; (iii) before the merchandise is displayed on Store shelves, our sales staff perform inspections of the appearance and packaging of merchandise on a sampling basis; and (iv) if any defects are detected, the relevant product will be returned to the supplier for replacement or be sold to us at a discounted price. Most of the products we sell are internationally or domestically renowned branded products which offer our customers an assurance of high quality.

強制性產品認證管理規定 (Mandatory Product Certification Administration Regulations*) promulgated in December 2001 and amended in September 2009 prohibit the sale in the PRC of any electric home appliance which has not obtained the "3C certification" referred to in the regulations. We ensure that all products to be sold in our Stores are in compliance with these regulations.

To ensure the service quality of our Service Centres, all the technicians in our Service Centres are required to attend relevant training sessions before reporting duty. Our technicians will report to our call centre upon completion of each maintenance visit and our representatives of the call centre will communicate with our customers to ensure that they are satisfied with our services. We also pay visits to our Service Centres and perform on-site inspections to ensure that the services provided by our Service Centres meet our prescribed standards, including the use of our brand name and service quality.

PURCHASING AND LOGISTICS MANAGEMENT

Purchasing policy

We source our merchandise from both international and domestic manufacturers. We purchased from a total of over 150 suppliers, for both our retail and distribution operations, during the year ended 31 December 2009. In relation to those merchandise sourced from the international manufacturers or suppliers, we sourced such merchandise from the subsidiaries or sales representatives of such international manufacturers located in the PRC. We settle the payment with our suppliers in Renminbi. Therefore, our Directors are of the view that we are not subject to any currency risks associated with our purchases from international manufacturers.

Retail operations

Our purchasing policy is to provide a wide range of superior quality products at market price. Towards the end of each year, our headquarters purchasing department is responsible for formulating sales plans in accordance with sales targets set by our management team for the coming year. The purchasing department continuously reviews new and existing products with a view to maintain a wide range of high quality, brand-name consumer electronic products within our product mix. We source merchandise only from a pre-qualified list of suppliers who meet our quality standards.

Bulk distribution (including sales to our franchisees)

Our brand management team is responsible for negotiating the bulk distribution arrangement with suppliers, including Gree, Midea and Sony. Towards the end of each year, our headquarters brand management department is responsible for formulating sales plans in accordance with sales targets set by our management team for the coming year. Whilst the customers of our bulk distribution business receive better pricing than retail customers, leading to reduced profit margins, our Directors believe that the ability to achieve higher purchasing volumes has historically allowed us to negotiate favourable overall pricing terms with suppliers. We have obtained 23, 21 and 31 distribution rights of various kinds of branded products for the three years ended 31 December 2007, 2008 and 2009.

General

We have adopted a set of uniform procedures for the review and approval of supply agreements. The major terms of the supply agreements for our bulk distribution include:

- Supply and exclusivity - The relevant suppliers authorise us to distribute and/or sell the designated products in a particular region, mainly on a non-exclusive basis.

- Price restrictions - We are usually subject to price restrictions on resale by distribution and/or resale through our own retail networks fixed by the relevant suppliers.

- Prepayment and settlement - We are usually required to make certain amount of prepayments to our suppliers. We generally settle our amounts due on our purchase on COD basis by cash or bank acceptance notes.

- Minimum purchase target - The relevant suppliers generally set the minimum annual or monthly purchase target for us. If we are able to achieve the target, the relevant suppliers will generally offer certain amount of rebate to us. If we are unable to meet the target for a certain period of time, under some of the agreements, our suppliers have the right to withhold any benefits payable to us and/or the relevant suppliers may have the right to terminate such supply agreements. Save as disclosed, our agreements with suppliers are silent on monetary compensation to be given by us in the event that we are unable to meet the target. As advised by our PRC Legal Advisers, our failure to fulfil the minimum purchase target may constitute and render us liable to a breach of contract under the PRC law and regulations. Under the PRC Contract Law, if a contracting party does not perform its duties under the contract or the performance of its contractual duties contravenes the agreement in the contract, the defaulting party shall be liable to continue to perform its contractual duties, adopt remedial actions or pay for the compensation. We had not failed to satisfy any minimum purchase target under the supply agreements during the Track Record Period. As at the Latest Practicable Date, we had not failed to satisfy any minimum purchase target under the supply agreements.

- Sales return policy - We are entitled to return the products with quality problems to our suppliers. We had returned purchase of approximately RMB3.4 million, RMB8.4 million and RMB4.8 million to our suppliers for the three years ended 31 December 2007, 2008 and 2009.

- Product liability - The relevant suppliers usually guarantee the quality of the products provided to us are in compliance with the requirements under the applicable laws and regulations in the PRC and are responsible for the product liability they set out in their warranties to end customers.

- After-sales services - We are responsible for providing after-sales services to the customers of the branded electronics in accordance with the requirements and guidelines of the relevant suppliers if we are also the authorised after-sales service provider of the same supplier.

- Delivery - The relevant suppliers are generally responsible for delivering the goods to us at their own costs.

- Information rights - We are required to provide our sales amount and inventory level to some of our suppliers.

The major terms of the supply agreements for our retail operation through our Self-operated Stores are the same as the major terms of the supply agreements for our bulk distribution, save and except that we are only permitted to sell the relevant products at our Self-operated Stores designated by our suppliers. We are not required under the supply agreements for our retail operation to obtain retail rights.

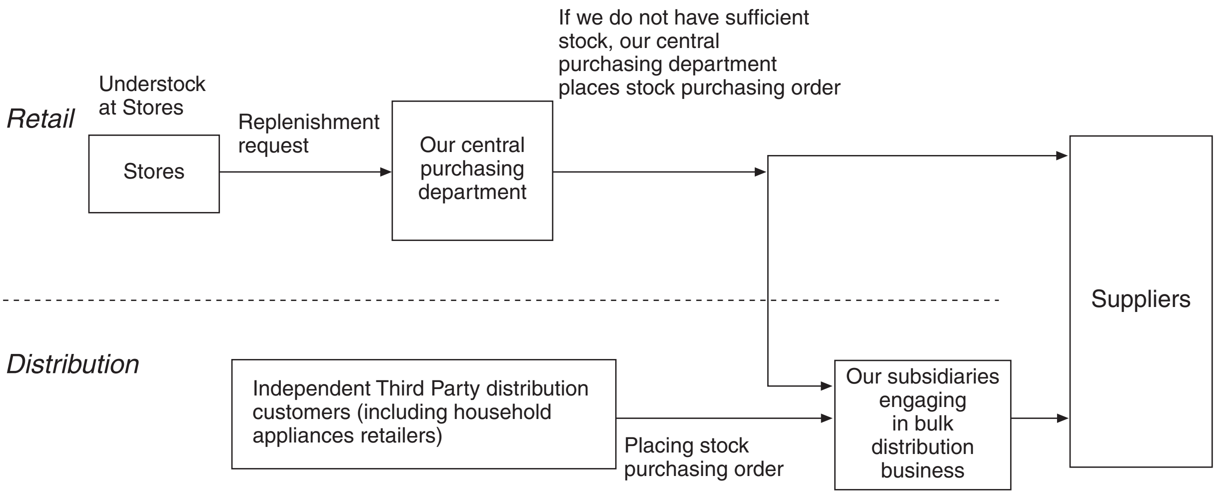
Our arrangements with suppliers generally also include a guarantee from the relevant supplier of a minimum gross profit margin on products we source from them by way of adjusting the sourcing price by reference to the agreed profit margin or through setting the minimum selling price on us and/or an undertaking to compensate us for any loss we incur as a result of downward adjustment of the sourcing price offered by the supplier. In addition, we are entitled to compensation to losses arising from defective products. Our suppliers would second sales representatives as well as provide display furniture and marketing materials to our Stores. The typical term of our supply agreements is one year.

Purchasing strategy

Unlike most major household appliances and electronics retailers or distributors in China, we make prepayments to certain of our suppliers. In addition, we have adopted a business strategy of sourcing our supplies principally on a COD or a very short-term credit basis ranging from 15 to 60 days. Our Directors believe that our purchasing strategy, to a certain extent, relieves our suppliers' cash flow burden and avoids uncertainty of possible bad debts. By adopting this strategy, our suppliers are more willing to co-operate with us and we are then in a more favourable position to strive for the exclusive right to sell certain best-selling products (usually larger products such as air conditioners, washing machines and refrigerators) for a prescribed period from our suppliers and the right to determine the retail price so as to optimise our sales structure and maximise our profits. We trust that our purchasing strategy is a significant driver of our strong relationship with our suppliers.

Our headquarters negotiates our agreements through the purchasing department with our retail suppliers and through the brand management department with the suppliers of our bulk distribution business. Accordingly, we are able to consolidate our purchasing power for more competitive terms for our merchandise.

Purchasing flow



In relation to merchandise sourced from the international manufacturers or suppliers, we source such merchandise from the subsidiaries or sales representatives of such international manufacturers located in the PRC.

The purchasing process is supported by our management information system to facilitate better tracking of sales and inventory control. This arrangement allows our management and our suppliers to monitor and achieve an optimal level of inventory of our merchandise.

In general, it takes approximately three to seven days from submitting an order to a supplier to receiving the ordered products.

Relationships with suppliers

Our Directors confirmed that during the Track Record Period, we did not experience any material dispute with any of our major suppliers or any material disruption to our operations as a result of any shortage in the supply of merchandise nor any termination of distribution rights granted by our suppliers.

For each of the three years ended 31 December 2009, our top five suppliers, in aggregate, accounted for approximately 69.1%, 74.7% and 76.7%, respectively, and our single largest direct supplier accounted for approximately 39.3%, 36.3% and 33.4% of our total purchases, respectively. Our top five suppliers include international or domestic renowned electronics suppliers or manufacturers, including Gree, Midea, Sharp, Sony and Haier.

None of our Directors, our chief executive or any of their respective associates (as defined in the Listing Rules) or, so far as our Directors are aware, any Shareholder who owns 5% or more of our issued share capital at the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period.

Logistics management and warehousing

We consider an effective inventory logistics management system to be a key factor in meeting consumer requirements and in improving our overall business performance. We have developed localised logistics networks to serve each region where we have established Stores. As at the Latest Practicable Date, we had 11 warehouses and distribution centres (with a total area of over 20,000 sq.m.) to serve our Stores in the relevant regions. Please also refer to the subsection headed "Properties — Owned properties" under this section for details of the development of our new distribution and logistics centre in Yangzhou. Our suppliers deliver products directly to our local distribution centres' warehouses, with the exception of some small electrical appliances which they deliver directly to our Stores. Our warehouses are equipped with security systems to prevent theft.

The computer systems of our distribution centres are connected to our management information system in our headquarters to assist in product procurement, store delivery and inventory management.

We deliver merchandise from distribution centres to Stores or to our customers either by our own delivery team or through independent contractors according to specific delivery standards. We had 15, 10 and 20 independent contractors who provided delivery services to us for the three years ended 31 December 2007, 2008 and 2009, respectively, and the service fee paid by us to such independent contractors amounted to approximately RMB0.7 million, RMB0.4 million and RMB0.8 million for the corresponding periods, respectively. We had not entered into any written agreements with these independent contractors during the Track Record Period. However, we require these independent contractors to comply with our delivery requirements, such as complying with our delivery order, maintaining vehicle for delivery properly and returning acknowledgment of receipt of our customers. We usually make our service payment to these independent contractors on a monthly basis. Through this arrangement, we believe we are able to maintain the provision of efficient services, without the need to bear the costs of maintaining a large delivery team and vehicle fleets. Staff at distribution centres are responsible for coordinating our delivery services.

INVENTORY CONTROL

In order to minimise inventory carrying costs and the use of working capital, while at the same time ensuring timely delivery of merchandise to our customers and maintaining a wide variety of merchandise at our Stores, we have a policy to maintain an optimal level of inventory. The average inventory turnover days of our merchandise was 52 days, 49 days and 56 days for the three years ended 31 December 2007, 2008 and 2009, respectively.

Our Stores employ a computerised information system which captures the relevant information including inventory movement, purchases and sales. Furthermore, each model of merchandise we offer is coded with a unique item code for identification in our POS system, which, in turn, is linked with our management information system. Cashiers input the model or item code of the merchandise being sold (as the case may be) and our management information system records the data instantly. With this system in place, the inventory level of a particular model of merchandise can be monitored and controlled.

We target to keep our inventory for maintaining our sales operation for 45 days. In order to monitor closely the level of inventory, assess the amount of inventory loss and determine the rate of inventory turnover, monthly and ad hoc stock take are conducted. We have set out a detailed policy on stock-taking, which requires our warehouse control staff, sales staff and finance and accounts staff to participate in the stock-take exercise as a check-and-balance. To prevent over-stock problem, we would request our suppliers to provide us with the relevant goods for display purpose. Our internal control department keeps close track of stock movement and helps minimise obsolete stock through conducting promotional activities, selling such products to our Franchised Stores at greater discount or providing higher commission to incentivise our sales staff to market such products. We make full provision for obsolete merchandise based on our inventory aging analysis of different categories of merchandise. For the three years ended 31 December 2007, 2008 and 2009, the provision for obsolescence as at year end was approximately RMB0.3 million, RMB0.8 million and RMB0.5 million, respectively.

CASH MANAGEMENT

Most of the sales of our retail operation are paid for at the time of purchase by cash, credit cards or debit cards. All of our sales are denominated in Renminbi. For the three years ended 31 December 2007, 2008 and 2009, approximately 48.3%, 33.4% and 35.3% of our sales were made in cash, respectively. As is common in the retail industry, we require our retail customers to pay for merchandise at the time of purchase.

We handle a significant amount of cash every day. As a preventive measure, we have adopted strict internal control procedures for the handling of cash at all Self-operated Stores, including:

- handling of cash by cashiers only;

- prohibition on the making of any payment from cash proceeds without any official source document;

- daily deposits of cash generated by our Self-operated Stores;

- use of sequentially-numbered sales invoices to check against sales amounts and cash proceeds;

- daily reconciliation of sales recorded by the POS system and actual cash proceeds; and

- monthly checks by the accounting staff of the head office on cash proceeds against the records of deposit of cash, as well as the sales invoices to ensure that sales are properly recorded by the POS system.

All the proceeds generated from sales of our retail outlets in department stores are first collected by the department stores, which will then transfer the net proceeds (after deduction of commission and other relevant charges) to our bank account on a monthly basis. Our Directors believe that the relevant department stores have also adopted strict internal control procedures for the handling of the cash received.

There had not been any incident of misappropriation of cash from sales which had caused us any significant losses during the Track Record Period.

MARKETING AND PROMOTION

Marketing

Our marketing strategies focus on providing an extensive portfolio of quality merchandise at market prices offered with attentive customer services, in particular our after-sales services, in order to foster customers' loyalty.

Thorough market research

We undertake market research and surveys regularly in order to collect market data in relation to matters such as consumer behaviour and feedback from customers on the Store's various marketing tactics. These market surveys normally cover areas such as pricing and the range of merchandise offered in other stores, the effectiveness of promotional materials distributed and comparison with competitors. Our Directors believe that such research and surveys provide first-hand information from customers based on which we will be able to further improve the quality of our customer service and to formulate our marketing strategies. In addition, regular market research is also conducted on our competitors by studying their promotional campaigns, new product types, sales volume, sales staff and products layout. Our Directors believe that such research will help increase our competitiveness in the retail operation.

Our website

Our website, www.hyjd.com, serves as an effective promotional platform for merchandises as well as a communication channel with our customers.

The information provided in the website includes our news and culture, promotional activities, service and management, and information about new products or merchandise in our stores. The website has also established an exchange forum through which customers can lodge their complaints and suggestions.

Media information release

We run advertising campaigns in the print media, including magazines and newspapers, on television as well as other media such as public posters, billboards, banners and light boxes. In addition, we also conduct in-store promotion campaigns designed to draw customers into our stores through attractive window displays, billboards and inflatable outdoor displays.

We also publish direct marketing materials, such as brochures and leaflets containing information on merchandise and sales promotions.

Through maintaining close-tie with local community

It is our strategy to ally with local property developers or community organisations for the marketing and promotion of home appliances and consumer electronic products sold by us to potential customers, such as homeowners of new residential buildings. Those local property developers with which we have close working relationship will inform us the official sales period of their new residential properties and invite us to send our staff and launch promotion campaign at the site for promoting our Group and our products to buyers or potential buyers of the residential properties through distributing brochures and leaflets and offering advice on choosing home appliances and electronic products.

We also commit to contribute to the development of the communities in which we operate and we participate in charity events and other social activities, such as fund raising for local charity organisations, disaster relief as well as for poor children in rural China.

Sales promotion

With a view to attracting customers, we run regular sales promotion campaigns, including seasonal sales and festival sales in New Year, Chinese New Year, Labour Day, Tuen Ng Festival, Mother’s Day, Father’s Day, Mid-autumn Festival, National Day and Christmas. In addition, we also run store opening and store anniversary promotions. Our sales promotions include direct discounts, gifts, bonus points for customer spending and lucky draws.

These promotions target specific categories of merchandises with the aim of tackling categorical inventory issues and counter-adjusting to seasonal, festival or cyclical demands.

Customer loyalty program

With a view to attracting customer spending and maintaining stable and long-term patronage, we have in August 2009 launched our customer loyalty program for customers of our Self-operated Stores. Members are categorised into ordinary, silver and gold classes based on the amount spent on purchases in our Self-operated Stores. Membership shall be valid for a period of five years. The aggregate number of members of our customer loyalty program exceeded 6,300 as at 31 December 2009. Our Directors believe that the benefits associated with our customer loyalty program, such as redemption of accumulated purchase points for gifts, provide an added incentive for customer to shop at our Stores.

As our customer loyalty program was launched in August 2009, no revenue was generated and no cost was recognised from our customer loyalty program during the Track Record Period. In the future, we expect that no revenue will be generated directly from this customer loyalty program. The cost of the gifts to be given to the customers under this program will be booked as our selling and marketing expenses.

As advised by our PRC Legal Advisers, the laws and regulations of the PRC do not prohibit the launch of our customer loyalty program or the issue of membership card in the retail industry. Such acts do not violate any laws and regulations of the PRC nor expose us to potential legal risks or liability.

Excellent customer service

We are fully committed to maintaining a high standard of customer service management system and have adopted a service standards manual which we require our own staff as well as seconded staff from suppliers and our contractors to follow. The manual emphasises our focus on excellent customer service at each stage of our customers' shopping experience.

We have maintained a centralised call centre featuring seven representatives since our inception in Yangzhou. Such call centre operates seven days a week, receiving all incoming calls and requests for service from our "toll free" customer service hotline.

Our customer management database system is an important tool in our management of customer relationships and contains various data of our existing and potential customers, including their personal information and contact information. With the customer management database system, our call operators at our call centre can access relevant information about the calling customer.

We believe that the customer management database system provides a strong platform to utilise and analyse the data we collect, and will help us in our efforts to further enhance customer relationships and loyalty.

MANAGEMENT INFORMATION SYSTEM AND INFORMATION TECHNOLOGY

We believe that an efficient management information system significantly improves product procurement, inventory and logistics management, and financial and cash management, and help us to minimise costs of maintaining inventory, achieve better retail space allocations, and improve our overall sales performance. As at 31 December 2009, our costs incurred on computer software which is in use by us amounted to approximately RMB4.4 million. We maintain a computerised information system which integrates the functions of merchandising, stock replenishment, procurement and distribution, sales, and financial management. All of our Self-operated Stores are equipped with a standard management information system which enables our headquarters to analyse and record sales details, and to track inventory on a timely basis.

We also use our information system to identify fast and slow moving products, analyse the sales trend of different products based on the historical data of stock orders and selling data, and improve our product mix.

We intend to upgrade our existing management information systems to establish a uniform platform which complement the expansion of our business. We believe that an upgraded management information system will also facilitate even better exchange of information between the headquarters and our Stores/Service Centres in different localities, and allow us to improve our data analysis to support more in-depth decision-making.

As at 31 December 2009, there were four members in our I.T. team to take care of the maintenance of our information management system. We have formulated contingency plans for system failure caused by computer virus, network failure, application failure, power failure and natural disaster. In particular, we have adopted a dual-server system structure to avoid system downtime, and we conduct back-up storage of all our data on a real-time basis. As at the Latest Practicable Date, we had not experienced any material system failure that had resulted in widespread and substantial loss of service or other significant damages.

AWARDS AND ACHIEVEMENTS

We are committed to developing a good corporate image and reputation with which we hope to attract and secure more franchisees and customers and enhance recognition of the brand name. We have won several prestigious awards and achievements for our retail business. The following table sets out some of our major awards and industry rankings:

Date	Awards/Accreditations	Issued by
2009	2009中國最佳商業模式獎[(1)] (2009 Best Business Model in China*)	商業傳媒 (Business Media*) 《商界評論》(Business Review)

Date	Awards/Accreditations	Issued by
	中國家電連鎖業消費者購物滿意品牌[2] (Customer-satisfied Brand in Household Appliances Industry of China*)	中國聯合商報社 (China United Business*) 人民日報新聞戰綫雜誌社 (People's Daily - News Front Magazine*) 品牌雜誌社 (Brand Magazine*) 購物導報社 (Shopping Guide Magazine*) 中國經濟報刊協會 (The Association of China Economic Press*) 中國國際品牌學會 (China International Brand Academy*) 中國第一品牌研究中心 (China First Brand Research Centre*) 全國高科技產業品牌推進委員會 (National Commission of High-tech Industry Brands*)
	中國家電連鎖業最具競爭力品牌[3] (Most Competitive Brand in Household Appliances Industry of China*)	Same as above
	2008年中國特許經營連鎖百強[4] (2008 Top 100 Franchise Chains in China*)	中國連鎖經營協會 (China Chain Store and Franchise Association*)
	2009年度中國農村市場優質渠道[5] (2009 Best distribution channel in PRC Rural Market*)	中國電子報 (China Electronics News*)
	2008-2009年度中國特許經營最具成長力獎[6] (2008-2009 Most Growth Competitive Franchise Operation in China*)	中國連鎖經營協會 (China Chain Store and Franchise Association*)
	揚州市十大消費品零批旗艦型企業[7] (Yangzhou Top 10 Flagship Group for Retail and Wholesale of Consumer Goods*)	揚州市人民政府 (The People's Government of Yangzhou City*)
2008	江蘇省著名商標[8] (Jiangsu Famous Trademark*)	江蘇省工商行政管理局 (Jiangsu Administrative Bureau of Industry and Commerce*)
	2008中國最佳商業模式獎[9] (2008 Best Business Model in China*)	《21世紀商業評論》 (21 Century Business Review*) 《21世紀經濟報道》 (21 Century Business Herald*)

Date	Awards/Accreditations	Issued by
2007	2007年度揚州市十大誠信商家(10) (2007 Yangzhou Top 10 Units of Creditworthiness*)	揚州工商局 (Yangzhou Administrative Bureau of Industry and Commerce*) 揚州市消費者協會 (Yangzhou Consumers' Association*) 揚州廣播電視總台 (Yangzhou Broadcasting Video Station*)
2006	2005-2006年度價格誠信單位(11) (2005-2006 Units of Price Creditworthiness*)	揚州市物價局 (Yangzhou Bureau of Commodity Price*)
	2003-2006 揚州市知名商標(12) (2003-2006 Yangzhou Famous Trademark*)	揚州工商行政管理局 (Yangzhou Administrative Bureau of Industry and Commerce*)

Notes:

(1) The recipient enterprises of 2009 最佳商業模式獎 (2009 Best Business Model in China*) were selected based on their innovation ability profitability, business growth, risk control, stability, future prospect and so on. We believe this award is a recognition of our successful business model.

(2) The award of 中國家電連鎖業消費者購物滿意品牌 (Customer-satisfied Brand in Household Appliances Industry of China*) was granted by reference to the brand's performance in terms of, among others, quality, services, reputation, public image, customer loyalty, influence on the industry and influence on people's life. The result was a combination of public opinion and expert evaluation. We believe this award is the recognition of our brand influence as a retailer in the household appliances industry.

(3) The award of 中國家電連鎖業最具競爭力品牌 (Most Competitive Brand in Household Appliances Industry of China*) was granted by reference to the brand's performance in terms of, among others, quality, services, reputation, public image, customer loyalty, influence on the industry and influence on people's life. The recipient was selected by way of public poll and expert committee evaluation. We believe this award manifests our strong competitiveness and outstanding performance in the household appliance industry.

(4) The award of 2008 中國特許經營連鎖百强 (2008 Top 100 Franchise Chains in China*) was assessed under the criteria including compliance with relevant PRC franchise regulation and guidelines, duration of the enterprise, number of stores (both franchise stores and the total) and the sales from franchise operation. We believe this award is the recognition of our success in the franchise operation.

(5) This award was presented on 2009農村家電市場高峰論壇 (2009 Summit Forum on Household Appliances in Rural Market*) held by China Electronic News and supported by China Electronic Appliances Associations in Beijing, and was evaluated by reference to the recipients' performance in rural market. We believe this award is the recognition of our efforts in developing the rural market by the household appliances industry.

(6) Applicants of 2008-2009年度中國特許經營最具成長力獎 (2008-2009 Most Growth Competitive Franchise Operation in China*) were assessed on the following parameters including, business strategies, franchise operation, brand recognition and strategy, compliance and overall performance. . We believe this award is the recognition of the fast growth of our franchise operation.

(7) Applicants of 揚州市十大消費品零批旗艦企業 (Yangzhou Top 10 Flagship Group for Retail and Wholesale of Consumer Goods*) were assessed with reference to their annual revenue, operating floor area, annual income tax, number of employees and awards and accreditations received. . We believe this award is the recognition of our leading position in the commercial industry of Yangzhou.

(8) Applications for 江蘇省著名商標 (Jiangsu Famous Trademark*) were assessed on various parameters including, revenue generated from use of the brand, tax contribution, quality of the products or services, brand management, brand recognition and market reputation. . We believe this award is the recognition of our outstanding after-sales services by the public within the region.

(9) The recipient enterprises of 2008 最佳商業模式獎 (2008 Best Business Model in China*) were selected based on their innovation ability, profitability, risk control, business growth, stability, future prospect and so on. We believe this award is the recognition of our business model.

(10) The recipient of 2007年度揚州市十大誠信商家 (2007 Yangzhou Top 10 Units of Creditworthiness*) was selected by way of public voting. We believe this award is the recognition of the quality of our products and services.

(11) The selection criteria for 2005-2006年度價格誠信單位 (2005-2006 Units of Price Creditworthiness*) include compliance with relevant laws and regulation, internal pricing control and consumer complaint management. We believe this award helps further build up our reputation and enhance our brand image among our customers.

(12) Applications for揚州市知名商標 (Yangzhou Famous Trademark*) were assessed on various parameters including, revenue generated from use of the brand, tax contribution, quality of the products or services, brand management, brand recognition, market reputation and so on. We believe this award is the recognition of our brand by the public within the region.

PROPERTIES

Owned properties

As at 31 December 2009, we owned the land use rights for three parcels of land within total site area of approximately 29,778.6 sq.m. that support our business activities and operations in China.

As at 31 December 2009, we owned three properties that support our business activities and operations in China. They include an office building, which houses our office and one of our specialty stores, with part of it being leased to third parties; and two distribution and logistics centres. The total Gross Floor Area of the completed properties is approximately 28,280.98 sq.m. Phase I of our new distribution and logistics centre, which has a Gross Floor Area of approximately 11,700 sq.m. commenced its operation in the fourth quarter of 2009. The construction of the second phase of the new distribution and logistics centre, which will have a Gross Floor Area of approximately 14,620 sq.m. (inclusive of basement floor) upon completion, is expected to commence in the second half of 2010 and is expected to be completed by the end of 2011. The construction of the remaining phase will commence after completion of the second phase which is expected to be completed by the end of 2011. The estimated investment in this construction of the second phase and the remaining phase is approximately RMB51 million, approximately RMB48 million of which is expected to be funded by the net proceeds from the Global Offering and the balance is expected to be funded by our internal resources. For detail of our new distribution and logistics centre, please refer to the property valuation report prepared by American Appraisal China Limited contained in Appendix III to this prospectus.

We have the building ownership rights certificates in respect of our office building and a distribution and logistics centre. We also possess the building ownership rights certificates in respect of Phase I of our new distribution and logistics centre. As we have also obtained the relevant land use rights in respect of the remaining phases of our new distribution and logistic centre, our PRC Legal Advisers advised that there will be no major substantive legal impediments for us to obtain the building ownership rights certificate of the remaining phases of our new distribution and logistic centre after we obtain the relevant Construction Land Planning Permit, Construction Works Planning Permit, Construction Works Commencement Permit and Construction Works Completion Permit in accordance with laws. Moreover, our PRC Legal Advisers further advised that we will not be subject to any legal liability resulting from the occupation and use of the new distribution and logistic centre. We expect to obtain the building ownership rights certificate of the second phase of our new distribution and logistic centre by the end of 2011.

In order to finance our expansion plan, as at 31 December 2009, we pledged the two self-owned parcels of land and the buildings erected thereon to local banks as collateral to secure banking facilities in an aggregate amount of approximately RMB36.0 million.

Leased properties

As at 31 December 2009, we leased 43 properties that support our business activities and operations in China, with a total Gross Floor Area of approximately 55,901.74 sq.m. They are used either as retail shops, office buildings, warehouses or dormitories.

Set out below are the term and rental information of the leases for 22 out of our 27 Self-operated Stores as at 31 December 2009 and one Self-operated Store which commenced its business in 2010:

	Location	Gross Floor Area (sq.m.)	Term	Annual rental	Property number in the property valuation report in Appendix III to this prospectus
1.	Yangzhou Store Levels 1-3 of Ruifeng Emporium, No. 248 Wenchang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province	3,100	10 years from 20 November 2009 to 19 November 2019	RMB1.8 million from 20 November 2009 to 19 November 2014 RMB1.98 million from 20 November 2014 to 19 November 2019	4

	Location	Gross Floor Area (sq.m.)	Term	Annual rental	Property number in the property valuation report in Appendix III to this prospectus
2.	Hanshang Store Levels 1-2 of Lanzhuang Commerce and Trade Building, No. 440 Hanjiang Zhong Road, Hanjiang District, Yangzhou District, Jiangsu Province	1,100	8 years from 1 July 2009 to 30 June 2017	RMB700,000 from 1 July 2009 to 30 June 2012 RMB742,000 from 1 July 2012 to 30 June 2015 RMB786,520 from 1 July 2015 to 30 June 2017	5
3.	Baoying Store 1st Floor of No. 35 Anyi Road East, Baoying County, Yangzhou City, Jiangsu Province	1,256.16	8 years from 1 June 2004 to 1 June 2012	RMB760,000 from 1June 2004 to 31 May 2008 RMB800,000 from 1 June 2008 to 1 June 2012	6
4.	Yizheng Store Retail Portion on Levels 1-2, No. 2 Gongnong Road North, Zhenzhou Town, Yizheng City, Jiangsu Province	2,000	12 years from 1 September 2006 to 31 August 2018	RMB310,000	7
5.	Jiangdu Store 1st Floor to 4th Floor, West Podium, China Construction Bank Co., Ltd. Jiangdu Branch Building, No. 1, Jianghuai Road, Huaiyang Residents Committee, Jiangdu Town, Jiangdu City, Jiangsu Province	1,649.38	5 years from 13 December 2009 to 12 December 2014	RMB550,000	8

	Location	Gross Floor Area (sq.m.)	Term	Annual rental	Property number in the property valuation report in Appendix III to this prospectus
6.	Jiangdu Silian Store Retail Shop on Level 1 and Office on Level 2 of Daguanyuan Emporium, No. 7 Huaiyang Road, Jianshe Residents Committee, Jiangdu Town, Jiangdu City, Jiangsu Province	2,050	5 years from 1 September 2005 to 31 August 2010	RMB650,000 for the 1st to 2nd year RMB715,000 for the 3rd year RMB793,000 for the 4th year RMB889,000 for the 5th year	9
7.	Gaoyou Store Level 3 of Gaoyou Renmin Shangcheng, No. 167 Tonghu Road, Gaoyou Town, Caoyou City, Jiangsu Province	2,160	5 years from 31 December 2007 to 31 December 2012	RMB550,000	10
8.	Xinghua Store Retail Portion on Level 1 and Storage Portion and Post-Sales Services Area on Level 2 of Xinghua Yingwu Dian in Times Supermarket, Xinghua City, Jiangsu Province	2,087	5 years from 1 August 2007 to 31 July 2012	RMB580,000	11

	Location	Gross Floor Area (sq.m.)	Term	Annual rental	Property number in the property valuation report in Appendix III to this prospectus
9.	Jiangyan Store 2 units of retail portion on the upper and lower levels of "New Century People's Square" located at No. 262-264 West Avenue, Jiangyan City, Jiangsu Province	455	3 years from 12 April 2009 to 11 April 2012	RMB350,000	12
10.	Jingjiang Store Level 6 of Guorun Department Store, No. 88 Renmin Road South, Jingjiang City, Jiangsu Province	900	5 years from 16 June 2008 to 15 June 2013	RMB300,000	13
11.	Tianchang Jianshe Road West Store Levels 2-3 of No. 1 Jianshe Road West, Tianchang City, Anhui Province	1,638	28 April 2006 to 10 October 2010	RMB172,000	15
12.	Tianchang Bingdong Store 5 Units of Block 2, Bingdong, Shiliang Road East, Tianchang City, Anhui Province	200	5 years from 18 February 2009 to 17 February 2014	RMB120,000 from 18 February 2009 to 17 February 2012 RMB130,000 from 18 February 2012 to 17 February 2014	16

	Location	Gross Floor Area (sq.m.)	Term	Annual rental	Property number in the property valuation report in Appendix III to this prospectus
13.	Tianchang Shiliang Road East Store Levels 1-2 of Block 3, Bingdong, Shiliang Road East, Tianchang City, Anhui Province	1,391.61	8 years from 8 June 2006 to 7 June 2014	RMB375,000 for the 1st year to 2nd year of the lease term RMB405,000 for the 3rd year to 5th year of the lease term Not more than RMB500,000 for the 6th year to 8th year of the lease term	17
14.	Chuzhou Store Level 1, No. 659 Nanqiao Road North, Chuzhou City, Anhui Province	180	3 years from 1 March 2009 to 28 February 2012	RMB330,000	18
15.	Zhenjiang Dagang Store Units 0120 and 0121 on Levels 1 and 2, Block 001, Jixiang Court, Dagang Gangnan Huayuan, Zhenjiangxin District, Zhenjiang City, Jiangsu Province	207.08	4 years from 15 December 2006 to 14 December 2010	RMB60,000	20
16.	Zhenjiang Huize Store Unit No. 104 of a commercial building located at No. 430 Jiefang Road North, Jingkou District, Zhenjiang City, Jiangsu Province	162.59	28 November 2006 to 8 January 2012	RMB230,000 for the 1st year to 3rd year RMB241,500 for the 4th year RMB253,575 for the 5th year	21

	Location	Gross Floor Area (sq.m.)	Term	Annual rental	Property number in the property valuation report in Appendix III to this prospectus
17.	Huai'an Store Units No. 104, F03, 1-105, 106, Block 1, Anshe Qiao, No. 124 Huaihai Road East, Qinghe District, Huai'an City, Jiangsu Province	384	Area of approximately 111 sq. m. was rented for a term of 3 years commencing on 24 March 2009 and expiring on 23 March 2012 Area of approximately 273 sq. m. was rented for a term of 3 years commencing on 18 March 2009 and expiring on 17 March 2012	RMB280,000 RMB350,000	23
18.	Yangzhou Yuankun Store Units 109 and 209, Levels 1-2, Block 1, Guiyuan • Yonghua Fu, Hanjiang District, Yangzhou City, Jiangsu Province	302.05	6 years from 1 January 2008 to 31 December 2013	RMB90,000 from 1 January 2008 to 31 December 2010 RMB103,500 from 1 January 2011 to 31 December 2013	33
19.	Nanjing Store Unit No. 0113 located at No.460 Xinhua Road, Grand Century Plaza, Dachang Geguan Road Jiucunzhuanpan, Liuhe District, Nanjing City, Jiangsu Province	127.1	26 June 2006 to 26 July 2011	RMB100,000	36

	Location	Gross Floor Area (sq.m.)	Term	Annual rental	Property number in the property valuation report in Appendix III to this prospectus
20.	Ningguo Store 2nd Floor of Block 1, Meidu Yangguang Shopping Mall, Jinhe Road West, Ningguo City, Anhui Province	2,700	9 years from 12 October 2009 to 11 October 2018	RMB800,000 from 12 October 2009 to 11 October 2013 RMB1,000,000 from 12 October 2013 to 11 October 2018	44
21.	Yunhe Store Levels 1 and 2, No. 231 Yunhe Road West, Yangzhou City, Jiangsu Province	2,632	Level 1: 8 years from 1 October 2009 to 30 September 2017 Level 2: from handover date of level 2 to 30 September 2017	RMB1,060,000 for the 1st year to 4th year RMB1,180,000 for the 5th year to 8th year RMB200,000 from the 1st year to 4th year RMB220,000 from the 5th year to 30 September 2017	45
22.	Ningguo Dahua Store Levels 1 to 3, Main Building of Dahua Supermarket, Dongfengbei Road, Ningguo City, Anhui Province	4,000	5 years from 12 September 2009 to 11 September 2014	RMB1,000,000	46
23.	Taixing Store No. 9 Daqing Road West and No. 1 Gulou Road North, Taixing Town, Taixing City, Jiangsu Province, The PRC	10,100	8 years commencing from the date of delivery of vacant possession	RMB2,600,000 from 1st to 4th year RMB2,800,000 from 5th to 8th year	26

We also operated four shop-in-shop Stores through annual concessionaire arrangement with department stores. We are required to pay a percentage at the range of 3.0% to 3.8% of the revenue generated from such Stores as a commission to the department stores.

As at 31 December 2009, with respect of 10 of our leased properties, the relevant lessors have not provided us with the relevant title ownership certificates or documents evidencing that they have requisite titles or rights to lease the properties to us. These 10 properties have an aggregate Gross Floor Area of approximately 9,259.94 sq.m. which have title problem. Three of these leased properties with an aggregate Gross Floor Area of approximately 4,255 sq.m. are occupied for retail and office uses, four of which with a Gross Floor Area of approximately 4,175 sq.m. are occupied for storage use, two of which with a Gross Floor Area of approximately 560 sq.m. are occupied for office and dormitory use and one of the relevant Stores uses an area of 269.94 sq.m. which has title problem for ancillary office and storage purposes. We have not generated any revenue from the said seven properties which are occupied for office, storage or dormitory use. We are dedicating significant efforts to obtain the relevant title ownership certificates, or other documents evidencing the authorisation of the relevant property owner to our lease, from our lessors of those properties. Our PRC Legal Advisers advised us that in general, in order to obtain the building ownership certificate, the property owner shall provide documents including state-owned land use certificate (國有土地使用權證), construction land planning permit (建設用地規劃許可證), construction works planning permit (建設工程規劃許可證), construction works commencement permit (建設工程施工許可證), construction works completion permit (工程竣工驗收備案證明書) and fire control system consent document for construction works (建築工程消防驗收文件) to the relevant authority. As at the Latest Practicable Date, the relevant lessors have not provided to our PRC Legal Advisers copies of the necessary documents, and accordingly, our PRC Legal Advisers further advised us that there may be legal impediments for the relevant property owner to obtain the relevant title ownership certificates.

As advised by our PRC Legal Advisers, we are not subject to any legal liabilities resulting from such leases and a lessor's failure to duly obtain title to the property it has leased to us might potentially invalidate our lease agreements. Should disputes arise due to encumbrances on the title of these lease properties, we may encounter difficulties in continuing to lease the properties.

Our Directors consider that the ten leased properties for which we had not been provided with relevant valid property title documents are not crucial to, and will not have material impact, on our operations, on an individual or aggregate basis, because:

(a) we anticipate that there will not be any significant practical difficulties in terms of timing and costs in relocating the stores, offices, dormitories and warehouses which are operated on such ten properties to alternative and/or comparable premises, and any possible disruption to the uses of the relevant properties is likely to be transient;

(b) four of such 10 leased properties with a total Gross Floor Area of approximately 4,175 sq. m. are occupied for storage use and two of which with a total Gross Floor Area of approximately 560 sq. m. are occupied for office and dormitory use, and we had not generated any revenue from the above six properties which are occupied for office, storage or dormitory use;

(c) one of the 10 leased properties has title problem on an area of 269.94 sq. m. out of a Gross Floor Area of approximately 1,391.61 sq. m., and such area of 269.94 sq. m. is used for ancillary office and storage purposed only; and

(d) the remaining three leased properties with a total Gross Floor Area of approximately 4,255 sq. m. having title problem, which are occupied by our Self-operated Stores. The three leased properties are in Yangzhou city ("**Relevant Yangzhou Store**"), Jiangyan City ("**Relevant Jiangyan Store**") and Ningguo city ("**Relevant Ningguo Store**"), respectively. We have another Self-operated Store in Yangzhou city which is within three kilometres from the Relevant Yangzhou Store, and another Self-operated Store in Ningguo City which is within one kilometre from the Relevant Ningguo Store. During each of the three years ended 31 December 2009, the Relevant Yangzhou Store, the Relevant Jiangyan Store and the Relevant Ningguo Store only contributed a total revenue of nil, nil and approximately RMB24.2 million (representing approximately 1.9% of our revenue for the year ended 31 December 2009) and a total net profit of nil, nil and approximately RMB1.7 million (representing approximately 1.9% of our net profit for the year ended 31 December 2009). Therefore, any possible disruption to the use of such property is likely to have minimal impact on our larger sale network and financial position as a whole.

In light of the above, the Sponsor concurs with the view of our Directors in this regard.

Regarding the four warehouses situated at the relevant leased properties, it is estimated that it will take about 20 days to relocate a warehouse and RMB30,000 will be the estimated relocation cost for each relocation. No loss of revenue is expected due to relocation. Regarding the two dormitories situated at the relevant leased properties, it is estimated that it will take about ten days to relocate a dormitory and RMB1,500 and RMB9,000 will be the estimated relocation cost for each of the dormitories respectively. No loss of revenue is expected due to relocation. Regarding the area used for ancillary office and storage purpose situated at the relevant leased property, it is estimated that it will take about ten days to relocate the above at the same premises and the estimated relocation cost will be immaterial. No loss of revenue is expected due to relocation.

Regarding the Relevant Yangzhou Store, the Relevant Jiangyan Store and the Relevant Ningguo Store, it is estimated that it will take about thirty to forty five days to relocate a Store and RMB100,000 to RMB300,000 will be the estimated relocation cost for each relocation. Assuming that the three shops have to be relocated at the same time and the relocation takes forty days to complete. However we consider that if there is any loss of profits due to relocation, the loss will not be significant as our Group has other Self-operated Stores in Yangzhou City and Ningguo City which are within three kilometres and one kilometre from the Relevant Yangzhou Store and the Relevant Ningguo Store.

In addition, the lessors of all of the 43 leased properties as at 31 December 2009 had not registered the relevant lease agreements with the appropriate government authorities in the PRC. These 43 properties have an aggregate Gross Floor Area of approximately 55,901.74 sq.m.. 31 of these leased properties are used as office building or store, another 9 of which are used as warehouse and the remaining 3 of which are used as dormitory.

As advised by our PRC Legal Advisers, the parties to the lease agreement shall register and file an executed lease agreement with the relevant land and real estate administration bureau under the PRC laws. In accordance with the applicable PRC laws and regulations, the application for registration of an executed lease agreement requires the submission of the relevant building ownership rights certificate. Accordingly, there will be legal impediments for registration of those lease agreements in respect of properties without building ownership rights certificates. Failure to register an executed lease agreement will not invalidate the lease agreement.

We have been advised by our PRC Legal Advisers that we are not subject to any penalty from the relevant land and estate administration bureau under the PRC laws and regulations for the failure to file and register the lease agreement. However, there can be no assurance that our lease agreements relating to, and our right to use and occupy, the premises mentioned above will not be challenged in the future.

During each of the three years ended 31 December 2009, the Self-operated Stores which are located on leased properties with unregistered lease agreements contributed a total revenue of approximately RMB241.6 million, RMB328.4 million and RMB431.6 million, representing approximately 48.3%, 33.2% and 34.6% of our revenue for the same period, respectively; and a total net profit of approximately RMB19.0 million, RMB18.0 million and RMB46.7 million, representing approximately 43.8%, 46.7% and 50.5% of our net profit for the same period, respectively.

Under certain of these unregistered lease agreements, we shall be entitled to seek compensation from the lessor if we are forced to relocate our operations from the leased premises as a result of such registration default on the part of the lessor.

Mr. Cao has agreed to indemnify us for any costs arising from the relocation mandated by the lessors' lack of relevant title certificates or documents or the lessors' registration default in relation to the lease agreements to the extent that damages, if any, recovered from the relevant lessor are inadequate to cover our related costs.

Up to the Latest Practicable Date, our business operations have not been disrupted due to our lessors' lack of relevant title certificates or documents or the lessors' registration default in relation to the lease agreements as described above. We believe that these leased properties can, if necessary, be replaced by comparable premises without a material adverse effect on our business, results of operations and financial condition.

Based on the above, the Directors consider that the non-registration of our leased properties is not crucial to our business and operations and the Sponsor concurs with the view of the Directors in this regard.

As the properties interests which have defective titles are the property interests rented by us, we have no control on the titles to those properties. However, we have at our best endeavours requested the relevant lessors to rectify the title defects of such leased properties. In the future, we will continue to ensure that the properties owned by us will have no title defects by examining the titles of the prospective vendors, assignors, transferors or grantors to the properties. In addition, we will also examine the titles of the prospective lessors to the properties and ensure that for properties to be leased to us which will be crucial to our operations, the prospective lessors possess the relevant property title documents.

For details of the properties owned or leased by us in our retail operation, please refer to the property valuation report prepared by American Appraisal China Limited contained in Appendix III to this prospectus.

OUR INTELLECTUAL PROPERTY

Our most important intellectual property rights are the trademarks and the domain names we use for the marketing and sales of our merchandise. Details of our intellectual property rights are more particularly set out under the subsection headed “Further information about our business — (B) Intellectual property” in Appendix V to this prospectus.

We recognise the importance of protecting and enforcing intellectual property rights. We are not aware of any material infringement of our intellectual property rights during the Track Record Period, and we believe that by registering our trademarks in the PRC, we have taken all reasonable measures to prevent any infringement of our own intellectual property rights and avoid any losses as a result of infringement of the intellectual property rights of the third parties by our suppliers. As at the Latest Practicable Date, we are not aware of any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any third parties, intellectual property rights by us or our franchisees.

INSURANCE

We carry insurance covering risks like loss and theft of, and damage, to our property (including our fixed assets and our inventories). As at 31 December 2009, we maintained approximately RMB124.2 million in insurance coverage. We did not make any material insurance claims during the Track Record Period.

As advised by our PRC Legal Advisers, we, as a retailer or distributor, may be subject to product liabilities under the Consumer Protection Law and the Product Quality Law and we are entitled to recover such compensation from the manufacturers where the responsibility lies with the manufacturers. Some of our suppliers guarantee in the supply agreements that the quality of the products provided to us are in compliance with the requirements under the applicable laws and regulations in the PRC. Our suppliers are also responsible for the product liability they set out in their warranties to end customers. Thus, we do not maintain insurance against product liability for products we sell. Our Directors consider that it is not industry practice for electronics retailers and distributors to maintain such insurance. During the Track Record Period and as of the Latest Practicable Date, we had not received any material claims from our customers regarding any of the products sold by us or our franchisees. As most of our assets to operation, such as our properties and inventory, are under insurance protection, we believe that our insurance coverage is adequate for our operations.

LITIGATION AND LEGAL COMPLIANCE

As advised by our PRC Legal Advisers, we have obtained all material approvals, permits, licences and certificates for conducting our businesses except that 17 of our Self-operated Stores have not undertaken fire inspection tests at the area where they are operated, details of which are set out in the paragraph headed "We failed to obtain certain required certificates, licenses and permits on time" under the section headed "Risk factors — Risks relating to our business" in this prospectus. During the Track Record Period, we have not paid any housing provident fund for our employees.

Fire inspection tests

Pursuant to 中華人民共和國消防法 (Fire Protection Law of the PRC*) which was promulgated in 1998 ("**Old Fire Protection Law**"), which was amended in 2009 ("**New Fire Protection Law**"), all businesses established in places of public gathering, such as shopping centres, are required to apply to the relevant local authorities to undertake fire inspection tests, and they may only commence their operations after passing the requisite tests.

We generally communicate with the PRC local governments to seek a preliminary guidance on the general procedures to be undertaken for the commencement of business of our Self-operated Stores. However, from our such previous communications, we have not been specifically requested by the PRC local governments and the relevant local authorities to apply for the fire inspection tests, nor have we been imposed any penalty for the failure to apply for the fire inspection tests.

As at the Latest Practicable Date, 17 out of our Self-operated Stores (excluding our four shop-in-shop stores which are operated within department stores) have not undertaken fire inspection tests. During each of the three years ended 31 December 2009, 14 of the above Self-operated Stores contributed a total revenue of approximately RMB79.2 million, RMB89.5 million and RMB142.5 million, representing approximately 15.8%, 9.1% and 11.4% of our Group's revenue for the same periods and a total net profit of approximately RMB5.3 million, RMB4.5 million and RMB12.0 million, representing approximately 12.3%, 11.5% and 12.9% of our Group's net profit for the same periods.

As advised by our PRC Legal Advisers, given that 12 of such Self-operated Stores commenced their business prior to the implementation of the New Fire Protection Law, the Old Fire Protection Law shall apply. The Old Fire Protection Law did not expressly specify the exact penalty for non-compliance. However, 江蘇省消防條例 (Rules of Fire Protection of the Jiangsu Province*) stipulated that, based on article 40 of the Old Fire Protection Law, a business shall be ordered to pay fines in an amount between RMB 10,000 and RMB100,000. Further, 安徽省實施〈中華人民共和國消防法〉(Implementation of Fire Protection Law in Anhui province*) stipulated that, based on article 40 of the Old Fire Protection Law, a business shall be ordered to pay fines in an amount between RMB4,000 and RMB100,000. Five of such Self-operated Stores commenced their business after the implementation of the New Fire Protection Law, hence the New Fire Protection Law shall apply. As advised by our PRC Legal Advisers, the New Fire Protection Law stipulates that, a business shall be ordered to cease its business operation and pay fines in an amount between RMB30,000 and RMB300,000. In the event that the relevant fire inspection criteria are not met, a business could be required to make necessary adjustments in order to comply with the relevant criteria within a prescribed period. Any failure to make such adjustments within a prescribed period could, in turn, result in the imposition of penalties, including an order to stop utilising the premises and the operations and to pay fines. The maximum possible penalty that may be imposed on us is expected to be in an amount of RMB2,700,000.

We have not made any provisions in its accounts for the relevant maximum possible penalty as the amount involved is insignificant when compared to our overall performance results during the Track Record Period. Besides, given that we have not been penalised during the Track Record Period, the Directors believe that the probability of being penalised in the future is remote. Further, we are currently applying for the relevant fire inspection tests to be conducted on the relevant Self-operated Stores in accordance with applicable PRC law and regulations and the Directors believe that we will be able to meet the relevant requirements in the future.

After having been advised by our PRC Legal Advisers, we have applied for fire inspection tests for certain of our Self-operated Stores and these tests were successfully passed. We continue to apply for fire inspection tests at such of our Self-operated Stores by batches based on the amount of revenue generated by such Self-operated Stores. As advised by our PRC Legal Advisers, there are no material legal impediments for our Self-operated Stores to pass the relevant fire inspection tests. As at the Latest Practicable Date, we have already submitted applications for fire inspection tests for our Baoying Store, Jiangdu Silian Store and Ningguo Dahua Store. We target to file the applications for fire inspection tests with the relevant PRC authorities by the end of June 2010 in respect of the 17 Self-operated Stores which have not undertaken fire inspection tests as at the Latest Practicable Date in order to pass the fire inspection tests in respect of such Self-operated Stores by the end of September 2010. After the Listing, we will disclose in our interim report and annual report the status regarding the undertaking of fire inspection tests by such 17 Self-operated Stores until the relevant fire inspection tests of such 17 Self-operated Stores are passed. However, we may be required to relocate any of our Self-operated Stores if we are found not to meet the relevant fire inspection requirements. It is estimated that it will take about thirty to forty five days to relocate a Store and RMB100,000 to RMB300,000 will be the estimated relocation cost for each relocation.

Housing provident fund

According to the laws and regulations of the PRC, as part of employees' welfare and benefits, pursuant to 住房公積金管理條例 (Housing Provident Fund Administration Regulation*) companies are required to make contributions to a government administered housing provident fund. We are currently required to make the relevant contributions at a rate of no less than 8% of salaries paid to employees whereas employees are also required to make the same contributions to the fund. We generally communicate with the PRC local governments to seek a preliminary guidance on the general procedures to be undertaken for the commencement of business of our Self-operated Stores. However, from our such previous communications, we have not been specifically requested by the PRC local governments and the relevant local authorities to register with the relevant local authorities or to make contributions to the housing provident fund, nor have we been imposed any penalty for the contribution to the housing provident fund. We have not made contributions to the housing provident fund for the Track Record Period, but have made a provision of RMB2,151,000 as at 31 December 2009 amounting to our potential contribution to housing provident fund during the Track Record Period. We proceeded the registration with the relevant PRC governmental authorities for the contribution to the housing provident fund in January 2010 and started to make the relevant contribution for those employees whose housing provident fund accounts with the banks designated by the relevant PRC governmental authorities have been opened.

According to the laws and regulations of the PRC, entities which do not proceed the registration with the relevant authority will be notified by the said authority to proceed the registration. Any failure to register and pay housing provident fund shall attract a fine in an amount between RMB10,000 and RMB50,000. The relevant PRC governmental authority may apply to the court to enforce payment of any housing provident fund payable and the penalty imposed as a result of the non-compliance under the relevant PRC law and regulations. Should we fail to register with the relevant authority, the maximum possible penalty that may be imposed on us is expected to be RMB800,000.

As at the Latest Practicable Date, we have not received any notification or directive from the relevant authority for housing provident fund contribution and, there was no penalty imposed on us for failure to make punctual and full housing provident fund contribution. There was also no claims made by our Group's employees due to our Group's non-contribution to the housing provident fund.

Mr. Cao has agreed to indemnify us for any costs, expenses and losses we may suffer from not having obtained all relevant approvals, permits, licences, certificates and tests for conducting our businesses, including but not limited to the non-compliances disclosed above. During the Track Record Period and as of the Latest Practicable Date, we had not received any material claims or suffered any loss due to failure to obtain relevant approvals, permits, licences and certificates for conducting our businesses.

Our PRC Legal Advisers also confirmed that save as disclosed in this prospectus, we have complied with all relevant laws and regulations in the PRC in all material respects.

In order to ensure ongoing compliance with the relevant laws and regulations in the PRC, we plan to adopt following measures:

- meetings and seminars will be arranged for our senior management from time to time to discuss and study regulatory requirements and latest updates thereof applicable to our business operation;

- we have engaged a PRC law firm in Yangzhou to provide legal advices on annual retainer basis and an officer of the administrative and management department of our Group who graduated from Yangzhou University with a degree in law has been designated to oversee the ongoing compliance of our Group with the relevant PRC laws and regulations with the support of the PRC law firm engaged;

- all management and staff will be required to report to and/or notify our Directors, our compliance adviser and our legal adviser (which is a PRC law firm in Yangzhou is engaged for providing us with PRC legal advices) promptly of any events which are subject of any possible violations that may be subject to the various regulatory requirements; and

- regular training programmes will be held to improve our staff's legal knowledge.

NO SIGNIFICANT INTERRUPTIONS

There have been no interruptions in our business that have had a significant effect on our financial position during the Track Record Period.

COMPETITION

As the third and fourth-tier markets in China are still under development, we are not aware of any official, reliable and authoritative statistics or information on the market share of household appliances operators in the third and fourth-tier markets in the PRC. However, based on the experience and industry knowledge of our Directors, as well as general market information available, we believe that the competitive landscape of the PRC household appliances and consumer electronics industry in primary urban markets contrasts sharply with that in the third and fourth-tier markets. While the primary markets are highly competitive between a small group of larger retail operators, the third and fourth-tier markets are highly fragmented with a large number of much smaller operators.

The third and fourth-tier markets have always been a tough market due to the inefficient logistics, inadequate after-sales support and high investment with low returns, and therefore our targeted markets have thus far been less developed than the primary urban markets. However, this presents a lower level of competition for large-scale suppliers and retailers of home appliances and consumer electronic products that at the same time offers a higher potential for rapid growth in demand for such products. We also believe that the recent promulgation of the Rural Appliance Rebate Program and the Change of the Old for New Program has further fueled the growth potential of our targeted markets, particularly in view of the fact that we are one of the authorised distributors under Rural Appliance Rebate Program and one of the authorised sales enterprises and authorised recycling enterprises under the change of the Old for New Program in Jiangsu province.

With the increasing importance of the rural market, we have noticed an increasing numbers of entrants, including the large-scale store retailers focusing on major urban markets and the branded electronics manufacturers, becoming more interested in exploring the market potential of our targeted markets through setting points of presence in those markets. Notwithstanding the increasing competition, we believe that with our community-based and customer-oriented offering of quality and value-for-money merchandise, our bulk distribution (including sales to our franchisees) and after-sales services business model, as well as our comprehensive logistics and distribution systems, we will have substantial competitive edge against our competitors in our targeted markets. We believe that the strong performance of our Yangzhou flagship store, which outshines its peers in the region, demonstrates our ability to meet the threat.

CONTINUING CONNECTED TRANSACTIONS

We entered into a premises leasing agreement with Mr. Cao, our Chairman and thus a connected person of our Company, on 9 July 2007 pursuant to which Mr. Cao agreed to lease certain properties to us for office purposes for a term of 10 years commencing from 25 August 2007 ("**2007 Premises Leasing Agreement**"). We entered into another premises leasing agreement with Mr. Cao on 10 December 2008 pursuant to which Mr. Cao agreed to lease other properties to us for office purposes for a term of 4 years commencing from 10 January 2009 ("**2008 Premises Leasing Agreement**").

The total annual rent payable under the 2007 Premises Leasing Agreement was RMB600,000 for the first and second years, which increases by an increment of RMB30,000 for every two years thereafter. The total annual rent payable under the 2008 Premises Leasing Agreement was RMB430,000 for the first year, which increases by an increment of RMB30,000 for every two years thereafter.

In order to comply with the provisions under the Listing Rules in respect of continuing connected transactions, the 2007 Premises Leasing Agreement and the 2008 Premises Leasing Agreement were terminated and replaced by two other premises leasing agreements which we entered into with Mr. Cao on 1 November 2009 and were amended on 22 February 2010 in respect of the payment terms ("**2009 Premises Leasing Agreements**").

Description of Transaction and Principal Terms

Each of the 2009 Premises Leasing Agreements is for a term of two years commencing from 1 November 2009. We consider the term of the Premises Leasing Agreements to be consistent with normal commercial terms.

The premises leased by us from Mr. Cao in the PRC under the 2009 Premises Leasing Agreements are our headquarters in Yangzhou, Jiangsu province, which consist of an aggregate Gross Floor Area of approximately 2,240 sq.m.. The leased premises are used for office purposes and do not provide any significant direct income to us. We consider the activities involved therein can be relocated if necessary and therefore the premises are not significant or crucial to our independent operation.

The total annual rent payable under the 2009 Premises Leasing Agreements is RMB825,000. Such annual rent was originally agreed to be paid on the first day of November in advance and this payment term was subsequently amended on 22 February 2010 so that the annual rent is payable by quarterly instalments on the first day of February, May, August and November. Mr. Cao shall pay the taxes relating to the properties leased, the related charges on maintenance of power supply and elevators, and the charges for the car park.

We may require Mr. Cao to renew the term of the leases under the 2009 Premises Leasing Agreements by giving notice to him two months before the expiry of the leases. We may, at any time before the 2009 Premises Leasing Agreements expire, terminate the leases under the 2009 Premises Leasing Agreements if the conditions of the premises severely affect our operations. According to the 2009 Premises Leasing Agreements, Mr. Cao can terminate the lease unilaterally without our consent if we have changed the structure or use of the premises leased without Mr. Cao's consent, or have not remedied any damages we made to the premises, or used the premises for storage of dangerous goods or for illegal purposes, or have not paid the rent for more than 90 days.

American Appraisal China Limited, being the independent property valuer appointed by our Company, has reviewed the terms of the 2009 Premises Leasing Agreements and confirmed that the annual rents payable under the 2009 Premises Leasing Agreements are, or less than, the prevailing market rates in the relevant part of the PRC and the terms of the 2009 Premises Leasing Agreements are fair and reasonable to the lessees. The Directors (including the independent non-executive Directors), after taking into account the opinion of the valuer, considered that the 2009 Premises Leasing Agreements were entered into in the ordinary course of business of our Group and in the interests of our Company and the Shareholders as a whole, and the terms thereof are on normal commercial terms and fair and reasonable.

Historical figures

For the three years ended 31 December 2007, 2008 and 2009, payments made by us to Mr. Cao for the premises currently leased under the 2009 Premises Leasing Agreements were approximately RMB807,000, RMB660,000 and RMB1,050,000, respectively.

Implications under the Listing Rules

We currently expect the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules on an annual basis in respect of our annual aggregate amount of expenditure for the lease of premises under the 2009 Premises Leasing Agreements, which constitutes a continuing connected transaction of our Company, will not exceed 0.1% and the 2009 Premises Leasing Agreements will be exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

If annual rent payable by us to Mr. Cao after the Listing results in the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules on an annual basis exceeding 0.1%, we will take the necessary steps to comply with the applicable provisions of the Listing Rules.

DIRECTORS

Our Board consists of four executive Directors, two non-executive Directors, and three independent non-executive Directors. The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title
Mr. Cao Kuanping (曹寬平先生)	47	Chairman, executive Director and Chief Executive Officer
Mr. Mo Chihe (莫持河先生)	38	Executive Director
Mr. Mao Shanxin (茅善新先生)	43	Executive Director
Mr. Wang Zhijin (王志瑾先生)	33	Executive Director and Chief Financial Officer
Mr. Ke Shifeng (柯世鋒先生)	44	Non-executive Director
Mr. Li Jung-Hsing (李榮興先生)	56	Non-executive Director
Mr. Li Fei (李飛先生)	52	Independent non-executive Director
Mr. Zhou Shuiwen (周水文先生)	42	Independent non-executive Director
Mr. Tam Chun Chung (譚振忠先生)	37	Independent non-executive Director

Executive Directors

Mr. Cao Kuanping (曹寬平先生), 47, founder of our Group, Chairman, executive Director and Chief Executive Officer of our Company, is responsible for our overall sales, marketing, development and strategic planning. Mr. Cao has been a Director since 5 February 2008. He is the legal representative of our various Group companies. Mr. Cao has extensive experience in the home appliances and consumer electronic products industry of close to 15 years. Prior to the establishment of Yangzhou Huiyin in 2002, Mr. Cao was the General Manager of both Yangzhou Jiaojiadian and 揚州市廣陵區滙銀貿易有限公司 (Yangzhou Guangling District Huiyin Trading Co., Ltd.*), both of which were involved in the business of home appliances. In 2009, Mr. Cao obtained his executive MBA under the Tsinghua Executive MBA Program which is a part-time programme launched by Tsinghua University.

Mr. Mo Chihe (莫持河先生), 38, executive director of our Company since 3 April 2008, is responsible for treasury management, cash management, and investment project. He also works together with our chief financial officer on certain accounting aspects of our Group. Mr. Mo has been with us since the establishment of Yangzhou Huiyin in May 2002. Mr. Mo is also a director of Yinrui HK and Yangzhou Huiyin. He has close to 10 years of experience in home appliances and consumer electronic products industry and in financial management. Mr. Mo was employed by 揚州造紙廠 (Yangzhou Paper Production Factory*) between 1995 and 1998 during which he obtained the qualification of corporate accountant (會計(企業)師) approved by Ministry of Personnel of the PRC (中華人民共和國人事部) and conferred by Ministry of Finance of the PRC (中華人民共和國財政部) in May 1997. He joined Yangzhou Jiaojiadian as the financial manager in April 1999. Mr. Mo obtained a high diploma in planning and statistics of economic trading (經濟貿易系計劃與統計專業專科) from 江蘇農學院 (Jiangsu Agricultural College*) (currently know as 揚州大學農學院 (Agricultural College of Yangzhou University*)) in 1992.

Mr. Mao Shanxin (茅善新先生), 43, executive Director of our Company since 3 April 2008, is responsible for overall supervision and management of our franchising operation. Mr. Mao joined our Group since inception. Mr. Mao was responsible for overseeing the operation of our warehouse and distribution department and after-sales services department, and was a manager of our bulk distribution business, audit manager, and the manager of our head office. Mr. Mao is also a director of Yinrui HK. Prior to joining us, Mr. Mao was employed by 廣陵區百貨公司 （Guangling District Department Store*） as a salesman between 1987 and 1995. Mr. Mao completed 現代企業 CEO 項目管理高級研修班 (Advanced Training Course of Project Management for CEO of Contemporary Enterprises*), a part-time course launched by 清華大學 (Tsinghua University*) in 2003. He completed the studying of 工商管理(MBA)核心課程班 (the Core Course of Business Administration (MBA)*) which is a part-time course launched by 南京大學 (Nanjing University*) 2009. Mr. Mao Shanxin is the brother-in-law of Mr. Cao Kuanping, our Chairman.

Mr. Wang Zhijin (王志瑾先生), 33, executive Director of our Company since 5 March 2010, is responsible for the overall financial management and investors' relationship management. Mr. Wang joined our Group as the chief financial officer of our Company in July 2008. Mr. Wang is a member of 中國註冊會計師協會 (The Chinese Institute of Certified Public Accountants*). He has over 10 years experience in finance and accounting. Mr. Wang was employed by PricewaterhouseCoopers as a junior auditor in 1998, and was subsequently promoted to audit manager. Prior to joining us in 2008, Mr. Wang was appointed in December 2006 as chief financial officer and assistant to the chairman of directors of Kingdom Holdings Limited (stock code: 528), which is a company listed on the Main Board of the Stock Exchange. Mr. Wang obtained his bachelor degree in accounting from 上海財經大學 (Shanghai University of Finance and Economics*) in June 1998.

Non-executive Directors

Mr. Ke Shifeng (柯世鋒先生), 44, was appointed as a non-executive Director of our Company since 5 March 2010. Mr. Ke was appointed as a Director pursuant to the shareholders' agreement dated 3 April 2008 entered into by Mr. Cao, China Houde, New Dame, New Fellow and our Company pursuant to which each of New Dame and New Fellow is entitled to appoint a Director. Upon Listing, the appointment of Mr. Ke as a Director will be subject to re-election procedures as provided in the Articles of Association. Mr. Ke has 12 years' experience in investment. He was employed by Martin Currie Investment Management Limited from 1997 to 2006 to provide research and investment management services to certain of its clients investing in the Greater China and Taiwan Markets. He also served as a director of Martin Currie Investment Management Limited from February 2004 to June 2006. Since 2006, Heartland Capital Management Ltd has seconded Mr. Ke to Martin Currie Investment Management Ltd and its affiliates, including Martin Currie Inc (collectively "Martin Currie"). Through this arrangement, Mr. Ke continues to provide research and investment management services to certain clients of Martin Currie, including the China Fund Inc., on a full time basis with the same roles and responsibilities as a full time employee. He obtained a bachelor's degree in English language and literature from 華中師范大學 (Central China Normal University*) in 1988, a bachelor's degree in intellectual property law from 中國人民大學 (People's University of China*) in 1990 and a Master of Business Administration degree from the University of Edinburgh in 1997. Mr. Ke is a non-executive director of both China Corn Oil Company Limited (stock code: 1006) and China Merchants China Direct Investments Limited (stock code: 133), which are companies listed on the Main Board of the Stock Exchange, since November and December 2009, respectively.

Mr. Li Jung-Hsing (李榮興先生), 56, was appointed as a non-executive Director of our Company since 3 April 2008. Mr. Li was appointed as a Director pursuant to the shareholders' agreement dated 3 April 2008 entered into by Mr. Cao, China Houde, New Dame, New Fellow and our Company pursuant to which each of New Dame and New Fellow is entitled to appoint a Director. Upon Listing, the appointment of Mr. Li as a Director will be subject to re-election procedures as provided in the Articles of Association. Mr. Li joined ARC Advisors (HK) Limited ("**ARC Advisors**") in October 2006 and is currently an executive director for operations of ARC Advisors. He has over 19 years of experience in the retail operations of multinational entities in Asia. In 1997, Mr. Li was a store manager in the IKEA Division of Jardine Consumer Marketing Services Taiwan Ltd. Between October 1990 and January 1994, he was employed by Makro Taiwan Ltd. during which he was promoted to Non-food Commercial Director. Mr. Li obtained his bachelor of engineering degree from National Taiwan College of Marine Science and Technology (currently known as National Taiwan Ocean University) in 1977. In 2008, he obtained his Executive MBA, which is a part-time programme launched by 復旦大學 (Fudan University). Mr. Li is a non-executive director of New Focus Auto Tech Holdings Limited (stock code: 360), which is a company listed on the Main Board of the Stock Exchange, since May 2007.

Independent non-executive Directors

Mr. Li Fei (李飛先生), 52, was appointed as an independent non-executive Director of our Company since 5 March 2010. He is a professor and tutor for postgraduate degree at 清華大學經濟管理學院市場營銷系 (Marketing Department of School of Economics and Management of Tsinghua University*). He is currently a deputy director of 清華大學經濟管理學院中國零售研究中心 (China Retail Research Centre of the School of Economics and Management of Tsinghua University*). Mr. Li has been active in researching in the areas of marketing management and the retail management for over 20 years. He obtained his bachelor of economics and master of economics degrees from 北京商學院 (Beijing Institute of Business*, currently known as 北京工商大學 (Beijing Technology and Business University*)) in 1983 and 1988, respectively. In 2002, Mr. Li obtained doctorate degree from the School of Business of 人民大學 (People's University*). Mr. Li was an independent director of 山東沃華醫藥科技有限公司 (Shandong Wohua Pharmaceutical Co., Ltd.*) (stock code: 002107), which is a company listed on Shenzhen Stock Exchange, between April 2006 and April 2009.

Mr. Zhou Shuiwen (周水文先生), 42, was appointed as an independent non-executive Director of our Company since 5 March 2010. He joined 上海永宣創業投資管理有限公司 (Shanghai NewMargins Growth Investment Management Co., Ltd.*, formerly known as 上海聯創投資管理有限公司 (Shanghai Lianchuang Investment Management Co., Ltd.*)) ("**Shanghai NewMargins**") in 1999, and is currently one of the partners of Shanghai NewMargins. Mr. Zhou is a director of 珠海歐比特控制工程股份有限公司 (Zhuhai Orbita Control Engineering Co., Ltd.*) and 鄭州煤礦機械集團股份有限公司 (Zhengzhou Coal Mining Machinery Group., Ltd.*) since

March 2008 and December 2008, respectively. He was also appointed as a supervisor of 江蘇聯環藥業股份有限公司 (Jiangsu Lianhuan Pharmaceutical Joint Stock Co., Ltd.*) (stock code: 600513), which is a company listed on Shanghai Stock Exchange, and 海南海藥股份有限公司 (Hainan Haiyao Pharmaceutical Joint Stock Co., Ltd.*) (stock code: 000566), which is a company listed on Shenzhen Stock Exchange between May 2006 and May 2009, and between May 2004 and May 2007, respectively. Mr. Zhou obtained his bachelor of engineering in bioengineering from 上海科學技術大學 (Shanghai University of Science and Technology degree, currently known as 上海大學 (Shanghai University*)) in 1989.

Mr. Tam Chun Chung (譚振忠), aged 37, was appointed as an independent non-executive Director of our Company on 5 March 2010. Mr. Tam has more than 14 years of experience in the accounting and audit field. He has been a joint company secretary of 中國中鐵股份有限公司(China Railway Group Limited *) (stock code: 390), which is a company listed on the Main Board of the Stock Exchange, since November 2007. Prior to joining中國中鐵股份有限公司(China Railway Group Limited *), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (stock code: 549), which is a company listed on the Main Board of the Stock Exchange, from September 2005 to November 2007. Between 2000 and 2005, he worked in the finance department in China Motion Telecom International Limited (stock code: 989), which is a company listed on the Main Board of the Stock Exchange, as an assistant manager, and was subsequently promoted to the position as a senior manager. From 1994 to 2000, Mr. Tam was employed by KPMG and was subsequently promoted to the position as an assistant manager. He has been a member of the Hong Kong Institute of Certified Public Accountants since December 1997 and a fellow of the Chartered Association of Certified Accountants since November 2002. Mr. Tam graduated from the Chinese University of Hong Kong in December 1994 with degree of bachelor of business administration.

Please refer to the subsection headed "Further information about our Directors, Substantial Shareholders, senior management and staff — (C) Particulars of service agreements" in Appendix V to this prospectus for further information on our Directors' service agreements.

Save as disclosed in this prospectus, each of the Directors confirms with respect to him that: (i) he has not held any directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not have any relationship with any other Directors, senior management or substantial shareholders of our Company; (iii) he does not hold any positions in our Company or other members of our Group; (iv) he does not have any interests in the Shares within the meaning of Part XV of SFO; (v) there is no other information in respect of our Directors to be disclosed pursuant to rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and (vi) there is no other matter that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title
Mr. Guo Guangzhong (郭廣忠先生)	32	Assistant to General Manager
Mr. Lu Chaolin (路朝林先生)	34	Vice General Manager
Ms. Zhang Yun (張雲女士)	30	Head of after-sale service centre
Mr. Gao Yuan (高源先生)	36	General Manager of Hengxin Air-Conditioner
Mr. Sun Qingxiang (孫清翔先生)	34	General Manager of Huide Electronics

Mr. Guo Guangzhong (郭廣忠先生), 32, is the assistant to the general manager of our Company, and is responsible for marketing and management of our Self-operated Stores, and the overall management and implementation of our businesses under the Rural Appliance Rebate Program and the Change of the Old for New Program. He joined our Group in December 2002. Mr. Guo obtained a high diploma in civil engineering and architecture from 南京建築工程學院 (Nanjing Institute of Architectural and Civil Engineering*, which was merged with other institutes to form 南京工業大學 (Nanjing University of Technology*)) in 2000. In 2006, he completed a 120-hour course of 零售賣場管理設計高級研修班 (the Advanced Level on Management and Design of Retail Premises*) launched by 清華大學美術學院培訓中心 (the Training Centre of the Academy of Fine Arts of Tsinghua University*).

Mr. Lu Chaolin (路朝林先生), 34, is the vice general manager of our Company, and is responsible for overall management of our corporate clients. He joined our predecessor, Yangzhou Jiaojiadian as deputy general manager in 1999 and Yangzhou Huiyin as deputy general manager since its establishment in May 2002. Mr. Lu is the legal representative of Hengxin Air-Conditioner, Huide Electronics and Zhenjiang Huize, respectively. He attended and completed a 384-hour 高級工商管理總裁研修班 (Training Course of Business Administration and Management of Chief Executives*), which was launched by 清華大學繼續教育學院 (the School of Continuing Education of Tsinghua University*), and comprised 160-hour physical attendance study and 224-hour long distance study. Further, he also completed a nine-month MBA Core Course, Executive Development Programs which was launched by 南京大學 (Nanjing University*) in September 2009.

Ms. Zhang Yun (張雲女士), 30, head of our after-sale service centre (售後服務中心總監), is responsible for the overall management of our after-sale service centre. She has been engaged in the home appliances and consumer electronic products distribution business for over five years. Prior to joining us in 2003, Ms. Zhang was employed by 揚州蘇寧電器有限公司 (Yangzhou Suning Appliance Co., Ltd.*) to deal with after-sales works and was responsible for installation and maintenance works in Yangzhou between 2003 and 2004.

Mr. Gao Yuan (高源), 36, general manager of Hengxin Air-Conditioner, is responsible for the overall management of Hengxin Air-Conditioner. Mr. Gao has close to 10 years of experience in the home appliances and consumer electronic products industry. Prior to joining our predecessor, Yangzhou Jiaojiadian, in 2000, Mr. Gao was employed by 揚州百信電器有限公司 (Yangzhou Baixin Electronics Co., Ltd*) and was responsible for sales of a specified brand of air conditioners in Yangzhou and Taizhou between March 1999 and May 2000. Mr. Gao is studying in a part-time undergraduate course with a major in accounting at 南京審計學院繼續教育學院 (Nanjing Audit University Continuing Education*) and is expected to graduate in 2011.

Mr. Sun Qingxiang (孫清翔先生), 34, general manager of Huide Electronics, is responsible for the overall management of Yangzhou Huide. Mr. Sun joined our predecessor, Yangzhou Jiaojiadian, in 2001 and Yangzhou Huiyin since its establishment as business manager responsible for the development of and distribution in the network of towns and villages. He has close to 9 years of experience in the home appliances and consumer electronic products industry.

COMPANY SECRETARY

Ms. Ngai Kit Fong, aged 44, was appointed as the company secretary of our Company on 5 March 2010. She is a Senior Manager of Corporate Services at Tricor Services Limited. Prior to her employment by Tricor Services Limited in 2005, Ms. Ngai worked at Secretaries Limited and at Deloitte Touche Tohmatsu in Hong Kong to provide both company secretarial and share registration services to their respective clients. Ms. Ngai has been providing corporate services to a variety of Hong Kong listed companies and offshore companies for over 15 years. As at the Latest Practicable Date, Ms. Ngai has not been appointed as director or company secretary of any other listed companies.

Ms. Ngai, Chartered Secretary, is an Associate of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators. She also holds the Practitioner's Endorsement of HKICS.

BOARD COMMITTEES

Audit committee

Pursuant to Rule 3.21 of the Listing Rules, an audit committee was established by our Board on 5 March 2010 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The audit committee comprises the three independent non-executive Directors, namely Mr. Li Fei, Mr. Zhou Shuiwen and Mr. Tam Chun Chung. Mr. Tam Chun Chung is the chairperson of the audit committee.

Remuneration committee

We established the remuneration committee on 5 March 2010 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to make recommendations to our Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. The remuneration committee comprises an executive Director and two independent non-executive Directors, namely, Mr. Cao Kuanping, Mr. Zhou Shuiwen, and Mr. Li Fei. Mr. Zhou Shuiwen is the chairperson of the remuneration committee.

Nomination committee

We established the nomination committee on 5 March 2010 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duty of the nomination committee is to make recommendations to our Board on the appointment of Directors and senior management. The nomination committee comprises an executive Director and two independent non-executive Directors namely, Mr. Mo Chihe, Mr. Li Fei and Mr. Zhou Shuiwen. Mr. Li Fei is the chairperson of the nomination committee.

CORPORATE GOVERNANCE

We aim to achieve high standards of corporate governance which is crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we intend to comply with the Code on Corporate Governance Practices ("Code") in Appendix 14 to the Listing Rules after the Listing 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 our Company, Mr. Cao has been the Chairman and Chief Executive Officer of our Company functions of the Chairman and Chief Executive Officer in our Company's strategic planning and development process overlap. These constitute deviations from code provision A.2.1 of the Code. However, the Board considered that our Group has been operating well under the current arrangement, and thus it might not be beneficial to our 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 our Group.

DIRECTORS' REMUNERATION

During the Track Record Period, the aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of the Directors) or any bonuses paid by our Group to our Directors for the three years ended 31 December 2007, 2008 and 2009 were approximately RMB1.4 million, RMB1.7 million and RMB2.0 million, respectively. Approximately RMB3.0 million (excluding any management bonus which may be paid) as remuneration is estimated to be paid to our Directors by our Group in respect of the financial year ending 31 December 2010 pursuant to the present arrangement.

Our Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of our Group.

In addition to the fees, salaries, housing allowances, other allowances, benefits in kind or bonuses, our Company has conditionally adopted the Share Option Scheme and the Pre-IPO Option Scheme pursuant to which our Directors' remuneration shall include the options granted or to be granted under the two schemes.

During the Track Record Period, no remuneration was paid by our Group to, or receivable by, our Directors or the five largest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by our Group to, or receivable by, our Directors, past Directors or the five highest paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Group.

None of our Directors waived any emoluments for any of the last three years.

Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors and the five highest paid individuals during the Track Record Period.

SHARE OPTION SCHEMES

We have conditionally adopted the Share Option Scheme pursuant to which our employees may be granted options to subscribe for Shares. We have conditionally adopted the Pre-IPO Option Scheme pursuant to which certain Directors and staff have been granted options to subscribe for Shares. Further information on the Share Option Scheme and the Pre-IPO Option Scheme is set forth in the paragraphs under "Share Option Scheme" and "Pre-IPO Option Scheme" in Appendix V to this prospectus.

STAFF

As at 31 December 2009, our Group employed a total of 841 employees. The table below sets forth the number of employees in the respective functions of our Group:

Function	Number of employees
Management and administration	58
Sales operation, including:	289
• Sales staff in Self-operated Stores	171
• Sales staff in brand management department	96
• Sales staff in franchise management centre	12
• Sales staff in bulk distribution operation	10
Procurement	14
Warehouse and logistics	120
Marketing and promotion	7
Accounting	151
Human resources	6
Information technology	4
Others, including:	192
• After-sales service	163
• Security, delivery and others	29
	841

We adopt remuneration policies similar to our peers in the industry. The remuneration payable to our staff is fixed by reference to the prevailing market rates in the region. Our management receive a fixed sum of basic salary and a discretionary performance bonus after annual / monthly / quarterly assessments. The remuneration of our other employees comprises basic salary and an attractive sum of monthly performance bonuses.

In compliance with the applicable statutory requirements in the PRC and existing requirements of the local government, our Group participates in a pension contribution plan, a work-related injury insurance plan, an unemployment insurance plan, a medical insurance plan and an accident insurance plan for our employees. The contributions paid for the three years ended 31 December 2007, 2008 and 2009 were approximately RMB1.4 million, RMB4.3 million and RMB5.9 million, respectively.

During the Track Record Period, we have not paid any housing provident fund for our employees. Pursuant to 住房公積金管理條例 (Housing Provident Fund Management Regulations*), any failure to register and pay housing provident fund shall attract a fine in an amount between RMB10,000 and RMB50,000. The relevant PRC governmental authority may apply to the court to enforce payment of any housing provident fund payable and the penalty imposed as a result of the non-compliance under the relevant PRC law and regulations. Our Directors confirm that we have complied with the relevant labour and social welfare laws and regulations save as disclosed in this prospectus.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated including share issues and share repurchases;

(c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our Group's business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after Listing.

OUR SUBSTANTIAL SHAREHOLDERS

As far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Option Scheme, or the options which may be granted under the Share Option Scheme, or upon the exercise or surrender of the Warrants, and which would affect disclosure in this section) the following persons will have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Nature of interest and capacity	Number of Shares held immediately after the Capitalisation Issue and the Global Offering	Approximate percentage of shareholding immediately after the Capitalisation Issue and the Global Offering
China Ruike	Beneficial owner	253,823,625(L)	25.38%
	Beneficial owner	47,970,000(S)[7]	4.80%
Mr. Cao[1][4]	Interest of controlled corporation	253,823,625(L)	25.38%
	Interest of controlled corporation	47,970,000(S)[7]	4.80%
	Beneficial owner	50,000,000(L)[8]	5.00%
ARC Huiyin[2]	Beneficial owner	196,061,250(L)	19.61%
ARC[2]	Interest of controlled corporation	196,061,250(L)	19.61%
China Fund[3]	Beneficial owner	160,413,750(L)	16.04%
Martin Currie Inc[5]	Investment manager	160,413,750(L)	16.04%
Martin Currie Limited[5]	Interest of controlled corporation	160,413,750(L)	16.04%
Martin Currie (Holdings) Limited[5]	Interest of controlled corporation	160,413,750(L)	16.04%
Pope[6]	Beneficial owner	60,351,469(L)	6.04%
Pope Asset Management, LLC[6]	Interest of controlled corporation	60,351,469(L)	6.04%
Mr. William P. Wells[6]	Interest of controlled corporation	60,351,469(L)	6.04%

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

Notes:

1. As China Ruike is 100% owned by Mr. Cao, Mr. Cao is deemed interested in the shares held by China Ruike under the SFO.

2. ARC Huiyin is a wholly-owned subsidiary of ARC. Accordingly ARC is deemed to be interested in the Shares held by ARC Huiyin under the SFO.

3. China Fund is a closed-end greater China fund listed on the New York Stock Exchange.

4. Mr. Cao was brought up in the PRC.

5. Martin Currie Inc, a wholly owned subsidiary of Martin Currie Limited, is the investment manager of China Fund. Martin Currie Inc is wholly owned by Martin Currie (Holdings) Limited.

6. Pope is managed by Pope Asset Management which is in turn managed by Mr. William P. Wells.

7. Conditional on the Stock Borrowing Agreement expected to be entered into between China Ruike and the Global Coordinator, China Ruike will have, and Mr. Cao will be deemed to have, a short position in 47,970,000 Shares under the Stock Borrowing Agreement pursuant to the SFO.

8. Our Company granted 25,000,000 Pre-IPO Options to Mr. Cao to subscribe for 25,000,000 Shares 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 will have an option for a period of two days from the day of notice (inclusive 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.

Further details of interests and short positions (if any) of the above persons in the Shares are set out in the paragraphs under "Further information about our Directors, Substantial Shareholders, senior management and staff" in Appendix V to this prospectus.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Option Scheme, or the options which may be granted under the Share Option Scheme, or upon the exercise or surrender of the Warrants, and which would affect disclosure in this section), will have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

NON-DISPOSAL UNDERTAKINGS

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Option Scheme, or the options which may be granted under the Share Option Scheme, or upon the exercise or surrender of the Warrants), none of the existing Shareholders will be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company and will be in a position to control the composition of a majority of the board of Directors. However for the purpose of Rule 10.07 of the Listing Rules, the Substantial Shareholders and Dalton are treated as the controlling shareholders of our Company and subject to the non-disposal undertakings set out in the paragraphs headed “Hong Kong Public Offer — Undertakings” and “Other managements” in the section headed “Underwriting — Underwriting arrangements and expenses” in this prospectus.

As at the Latest Practicable Date and to the best of the knowledge of our Directors having made all reasonable enquiries, none of the Substantial Shareholders (other than Mr. Cao and China Ruike) and Dalton has decided whether he or it intends to dispose of any Shares held or controlled by him or it after the expiry of a lock-up period of 12 months after the Listing Date.

OUR INDEPENDENCE FROM THE SUBSTANTIAL SHAREHOLDERS AND DALTON

We are capable of carrying on our business independently of our Substantial Shareholders and Dalton after the Listing for the reasons set out below:

Management and functions of our Group

We have our own management with in-depth experience and understanding of our operations as an integrated retail chain operator and distributor of quality home appliances and consumer electronic products. We have our own management and administration, sales, procurement, warehousing and logistics, marketing and promotion, accounting, human resources, information technology and after-sales services functions which are responsible for our daily operations.

Mr. Ke Shifeng, who is an investment director of Martin Currie Investment Management Ltd. and a co-manager of China Fund, and Mr. Li Jung-Hsing, who is an executive director of ARC Advisors (HK) Limited, were appointed as non-executive Directors and are not involved in the daily operation and management of our Group. Except for Mr. Cao, who is one of our Substantial Shareholders, the executive Directors and senior management of our Group are independent of our Substantial Shareholders and Dalton.

Customers of our Group

For each of the three years ended 31 December 2007, 2008 and 2009, our top five customers, in aggregate, accounted for approximately 15.9%, 32.3% and 23.4%, respectively, and our single largest direct customer accounted for approximately 4.5%, 17.7% and 10.7% of our sales of goods, respectively. Our top five customers include our Franchised Stores and other Independent Third Parties, including electronics retailers. So far as our Directors are aware, Shareholder who owns 5% or more of our issued share capital had as at the Latest Practicable Date any interest in any of our five largest customers during the Track Record Period. We can also access our customers independently of our Substantial Shareholders and Dalton.

Procurement of merchandise

For each of the three years ended 31 December 2007, 2008 and 2009, our top five suppliers, in aggregate, accounted for approximately 69.1%, 74.7% and 76.7%, respectively, and our single largest direct supplier accounted for approximately 39.3%, 36.3% and 33.4% of our total purchases, respectively. Our top five suppliers include international or domestic renowned electronics suppliers or manufacturers, including Gree, Midea, Sharp, Sony and Haier. So far as our Directors are aware, no Shareholder who owns 5% or more of our issued share capital at the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period. We can also access our suppliers independently of our Substantial Shareholders and Dalton.

Intellectual property rights

All our trademarks are registered in the name of our subsidiaries, namely, Yangzhou Huiyin and Yinrui HK.

Leasing and ownership of properties

As at 31 December 2009, we owned three properties that support our business activities and operations in China. They include an office building, which houses our office and one of our specialty stores, with part of it being leased to third parties; and two distribution and logistics centres. As at at 31 December 2009, we also leased 43 properties that support our business activities and operations in China which are used either as retail shops, office buildings, warehouses or dormitories. Other than the two properties which are leased from Mr. Cao and used by us as our headquarters in Yangzhou, such leased properties are leased from Independent Third Parties.

Financial independence

As at 31 December 2007, 2008 and 2009, the total balances due to the Substantial Shareholders and their associates amounted to approximately RMB15,202,000 RMB16,196,000 and RMB6,856,000, respectively. In addition, Mr. Cao provided personal guarantees in favour of our banks to secure our bank borrowings and bank acceptance bills representing approximately 18.39% of our total bank borrowings and bank acceptance bills as at 31 December 2009. All balances due to the Substantial Shareholders, Dalton and their associates, if any, will be settled and all personal guarantees provided by Mr. Cao will be released prior to or upon Listing. Moreover we have our own accounting and treasury function and can access independently to third parties for financing.

Therefore, in view of the above, we are independent of the Substantial Shareholders and Dalton in all material aspects of management, operation and financing.

DEED OF NON-COMPETITION

Each of the Directors confirmed that he is not interested in any business which competes or is likely to compete, either directly or indirectly, with our Group.

For the purpose of the Listing, Mr. Cao and China Ruike have entered into a non-competition deed pursuant to which each of them irrevocably and unconditionally, jointly and severally undertakes with our Company (for itself and as trustee for the benefit of members of our Group) that he/it shall not, and shall use his/its best endeavours to procure that his/its respective associates shall not engage, invest, participate or be interested (economically or otherwise) in any business undertaking involving (i) retail and operating retail chain of home appliances and consumer electronic products, or (ii) distribution of home appliances and consumer electronic products in the PRC ("**Restricted Business**") except (a) through his/its interests in our Group from time to time; or (b) being interested in any Restricted Business which we have decided not to make an investment as approved in writing by a majority of all the independent non-executive Directors.

In addition, each of (i) ARC and ARC Huiyin jointly and severally, (ii) Pope Asset Management, Mr. William P. Wells and Pope jointly and severally, (iii) Dalton and (iv) China Fund (collectively, "**Financial Investors**") unconditionally and irrevocably undertakes, severally, with our Company (for itself and as trustee for the benefit of members of our Group) that he/it shall not, and shall use his/its best endeavours to procure that his/its respective associates will not, engage, invest, participate or be interested (economically or otherwise) in any Restricted Business except (a) through his/its interests in our Group from time to time; or (b) through acquiring or holding any passive investments; or (c) any Restricted Business which we have decided not to make an investment as approved in writing by a majority of all the independent non-executive Directors. For the purpose of this paragraph, "passive investment" means an investment or interest in units or shares of any entity engaging in the Restricted Business, where such investment or interest does not exceed 10% of the outstanding voting shares of such entity provided such investment or interest does not grant, nor does the relevant Financial Investor and/or his associates otherwise hold, any right to control the composition of a majority of the board of directors of such entity nor any right to participate, directly or indirectly, in such entity.

In addition, each of Mr. Cao, China Ruike and the Financial Investors (collectively, "**Covenantors**") hereby irrevocably, unconditionally and severally undertakes with our Company (for itself and as trustee for the benefit of members of our Group) that if any new business opportunity relating to any Restricted Business (excluding through acquiring or holding any passive investments) ("**Business Opportunity**") is made available to any of the Covenantors or their respective associates (other than our Company), it or he will refer or procure the relevant associate to refer such Business Opportunity to our Group with such information reasonably necessary for our Company to consider whether to pursue the Business Opportunity.

Any decision of our Company will have to be approved by the independent non-executive Directors taking into consideration our Group's financial condition, the growth prospect and earning potentials of the Business Opportunity and any advice of an independent financial adviser on the terms of the Business Opportunity.

Each of the Covenantors hereby irrevocably and unconditionally represents and warrants that neither it or he nor any of its or his associates is currently interested, involved or engaging, whether directly or indirectly, in any Restricted Business.

Each of the Covenantors further irrevocably and unconditionally undertakes that it or he will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the non-competition deed and (ii) confirm to our Company on an annual basis as to whether it or he has complied with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:

(a) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or their associates in our Company falls below 30% of the issued share capital of our Company;

(b) in relation to each of Pope, ARC, ARC Huiyin and China Fund, when his/its beneficial shareholding and/or the beneficial shareholding of his/its respective associates in our Company falls below 5% of the issued share capital of our Company;

(c) in relation to a particular Covenantor (other than Pope, ARC, ARC Huiyin and China Fund) individually, he/it and all of his/its associates cease to hold or otherwise be interested in any of the issued share capital of our Company; or

(d) the Shares cease to be listed on the Stock Exchange.

We shall adopt the following measures in relation to the compliance with the deed of non-competition in order to protect the interests of our Shareholders:

(a) our independent non-executive Directors shall review, at least on an annual basis, the compliance with the terms of the deed of non-competition;

(b) we shall disclose any decisions reviewed by the independent non-executive Directors relating to compliance of the deed of non-competition in our annual reports;

(c) we shall disclose in the corporate governance report in our annual report an annual declaration on compliance with the terms of the deed of non-competition by the Covenantors; and

(d) in the event that any of our Directors and/or their respective associates has a material interest in any matter to be deliberated by our Board in relation to the compliance with the deed of non-competition, the relevant Director may not vote on the relevant resolutions of the Board and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in our Articles of Association.

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering:

		US$
Authorised share capital:		
2,000,000,000	Shares	2,000,000

(i) Assuming no exercise or surrender of Warrants

Issued and to be issued, fully paid or credited as fully paid upon completion of Global Offering:		
20,000,000	Shares in issue as at the date of this prospectus	20,000
730,000,000	Shares to be issued under the Capitalisation Issue	730,000
250,000,000	Shares to be issued pursuant to the Global Offering	250,000
1,000,000,000	**Total**	**1,000,000**

(ii) Assuming full surrender of Warrants and the final Offer Price being HK$1.69

Issued and to be issued, fully paid or credited as fully paid upon completion of Global Offering:		
20,000,000	Shares in issue as at the date of this prospectus	20,000
730,000,000	Shares to be issued under the Capitalisation Issue	730,000
372,290	Shares to be issued upon surrender of Warrants	372
250,000,000	Shares to be issued pursuant to the Global Offering	250,000
1,000,372,290	**Total**	**1,000,372**

Assumptions

The above tables assume that the Global Offering becomes unconditional and is completed in accordance with the relevant terms and conditions. The above tables take no account of (a) Shares which may be allotted and issued upon the exercise of the Over-allotment Option, (b) Shares which may be allotted and issued upon the exercise of any options which were granted under the Pre-IPO Option Scheme and any option which may be granted under the Share Option Scheme and (c) any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate, respectively.

Ranking

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue and/or to be allotted and issued as mentioned in this prospectus, and will rank in full for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus other than participation in the Capitalisation Issue.

SHARE OPTION SCHEMES

We have conditionally adopted the Share Option Scheme and the Pre-IPO Option Scheme. Summaries of the principal terms of the Share Option Scheme and the Pre-IPO Option Scheme are set forth in the paragraphs under "Share Option Scheme" and "Pre-IPO Option Scheme" in Appendix V to this prospectus.

ISSUING MANDATE

Our Directors have been granted the general unconditional Issuing Mandate authorising them to exercise all the powers of our Company to allot, issue and deal with Shares not exceeding the aggregate of 20% of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue, and the number of Shares repurchased by us, if any, pursuant to the Repurchase Mandate.

Our Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of the options granted under the Pre-IPO Option Scheme and any option which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The Issuing Mandate will expire:

— at the conclusion of the next annual general meeting of our Company; or

— upon the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or the Companies Law; or

— the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

Further information on the Issuing Mandate is set forth in the paragraphs under "Further information about our Company — (C) Written resolutions passed by our Shareholders" in Appendix V to this prospectus.

REPURCHASE MANDATE

Our Directors have been granted the general unconditional Repurchase Mandate to exercise all the powers of our Company to repurchase Shares totaling not more than 10% of the issued share capital of our Company (as set out in the table above).

The Repurchase Mandate only relates to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant requirements of the Listing Rules on the Repurchase Mandate is set forth in the paragraphs under "Repurchase by our Company of our own securities" in Appendix V to this prospectus.

The Repurchase Mandate will expire:

— at the conclusion of the next annual general meeting of our Company; or

— upon the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or the Companies Law; or

— the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

Further information on the Repurchase Mandate is set forth in the subsection under "Further information about our Company — (C) Written resolutions passed by our Shareholders" in Appendix V to this prospectus.

RULE 10.08 OF THE LISTING RULES

Our Directors confirm that we will comply with the requirements of Rule 10.08 of the Listing Rules upon Listing. Rule 10.08 of the Listing Rules provides that we may not issue any further Shares or securities convertible into equity securities or enter into any agreement to make such an issue within six months from the Listing Date.

You should read the following discussion and analysis in conjunction with the audited consolidated financial information of our Group for the years ended 31 December 2007, 2008 and 2009, including the accompanying notes thereto, set out in the Accountant's Report in Appendix I to this prospectus. Our audited consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis also contains forward-looking statements concerning events that involve risks and uncertainties. Our actual results may differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including, without limitation, the factors set forth in the section headed "Risk factors" and elsewhere in this prospectus. Investors should note that certain figures stated in the following discussion and analysis are the result of rounding from those figures in, or from calculations based on the figures set out in, the Accountant's Report of our Group, and totals set forth in the tables may differ from the sum of individual items in such tables due to rounding.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Our Directors believe that we are one of the leading household appliances enterprises in the third and fourth-tier markets*(Note 1)* in eastern China. We are a retail chain operator and distributor of quality home appliances and consumer electronic products, with an operating history of close to 15 years. With headquarters in Yangzhou, Jiangsu province, our sales and after-sales network covers more than 360 points of presence in 27 cities/districts*(Note 2)* across Jiangsu and Anhui provinces. Our sales network includes our Self-operated Stores and Franchised Stores and our after-sales network includes our Self-operated Service Centres and our Authorised Service Centres. We believe our early-mover advantage and strategic focus on the third and fourth-tier markets in eastern China allow us to capture the mass-market growth opportunities in these areas, including those brought by the Rural Appliance Rebate Program and the Change of the Old for New Program.

Our "*汇银 (Huiyin*)*" brand is our flagship brand and the focus of our marketing strategies. Our "*汇银 (Huiyin*)*" brand was awarded 揚州市知名商標 (Yangzhou Famous Trademark*) by

Note 1: The third and fourth-tier markets in the PRC comprise county-level cities, townships and rural areas. As there is no official industry classification, such classification is adopted based on our Directors' knowledge and experience as well as market information. Please refer to the section headed "Industry Overview — The retail industry for household appliances in PRC" in this prospectus for details of the third and fourth-tier markets in the PRC.

Note 2: The 27 cities/districts include (i) cities/districts in Jiangsu province, namely, Yangzhou, Jiangdu, Baoying, Gaoyou, Yizheng, Hanjiang, Taizhou, Xinghua, Jingjiang, Jiangyan, Taixing, Nanjing, Zhenjiang, Danyang, Dantu, Yangzhong, Changzhou, Yancheng, Binhai, Huishan, Jiangyin, Huaian, Binhu and Lianyun; and (ii) cities/districts in Anhui province, namely, Tianchang, Chuzhou and Ningguo.

揚州工商行政管理局 (Yangzhou Administrative Bureau of Industry and Commerce*) for the years 2003 to 2006, and was awarded 江蘇省著名商標 (Jiangsu Famous Trademark*) by 江蘇省工商行政管理局 (Jiangsu Administrative Bureau of Industry and Commerce*) for the years 2008 to 2011.

Our revenue is principally derived from sales of merchandise, which includes revenue from retail sales of products directly to end-users through our Self-Operated Stores and sales of products through our bulk distribution operation to our franchisees and Independent Third Parties, such as household electronics retailers and corporate customers. We are a retailer of over 50 internationally and domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens. Our retail chain provides a large selection of merchandise, including air conditioners, TV sets, refrigerators and washing machines, and other products (which includes small home appliances, mobile communications products, I.T. digital products and audio-video systems), and we now cover approximately 16,000 product model types in our larger Self-operated Stores and more than 700 product model types in our Franchised Stores. In respect of our bulk distribution operation, we are currently an authorised bulk distributor of selected types of home appliances and consumer electronic products, principally air conditioners, refrigerators and TV sets, for over 20 internationally or, domestically renowned brands, including Gree, Midea, Sharp, Sony, Haier, Daikin and Siemens, within the areas surrounding our Stores.

Our growth in revenue during the Track Record Period was principally due to the expansion of our sales network and franchise model, including an increase in the number of our Self-operated Stores and Franchised Stores and expansion of our bulk distribution operation through, among others, the receipt of authorised bulk distribution rights from suppliers. The number of our Self-operated Stores and Franchised Stores has grown from 12 and 152, respectively, as at 31 December 2007, to 27 and 220, respectively, as at 31 December 2009. As at the Latest Practicable Date, we have 30 Self-operated Stores and 220 Franchised Stores. The growth in revenue for the year ended 31 December 2009 was also positively impacted by the favourable government policies.

Our revenue amounted to approximately RMB500.5 million, RMB988.2 million and RMB1,247.8 million for the three years ended 31 December 2007, 2008 and 2009, respectively. Our profit for the year attributable to equity holders amounted to approximately RMB43.4 million, RMB38.2 million and RMB91.5 million for the three years ended 31 December 2007, 2008 and 2009, respectively.

BASIS OF PRESENTATION

The Reorganisation as described in Note 1(b) of Appendix I to this prospectus has been accounted for as a reverse acquisition under HKFRSs 3 “Business Combinations”, as the completion of the Reorganisation on 3 April 2008 resulted in our Company becoming the holding company of Yangzhou Huiyin through its wholly owned subsidiary, Yinrui HK. For accounting purposes, in preparing the Accountant's Report set out in Appendix I to this Prospectus, Yangzhou Huiyin was treated as the acquirer while our Company and Yinrui HK were deemed to have been acquired by Yangzhou Huiyin. The financial information throughout the Track Record Period has been prepared as a continuation of the consolidated financial information of Yangzhou Huiyin and of our Group and accordingly upon the Reorganisation:

(a) The assets and liabilities of Yangzhou Huiyin are recognised and measured at their historical carrying amounts prior to the Reorganisation;

(b) The retained earnings and other equity balances of Yangzhou Huiyin prior to the Reorganisation are retained in the equity balances;

(c) The equity structure appearing in the financial information (being the number and type of equity instruments issued) reflects the equity structure of our Company (the legal parent) and includes the shares issued for the Reorganisation; and

(d) The cost for acquisition of Yangzhou Huiyin (the legal subsidiary) by Yinrui HK (the legal acquirer) is recorded as a debit in other reserve under equity. The cost of acquisition is determined using the historical carrying amount of the net assets of Yangzhou Huiyin prior to the Reorganisation.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below.

Ability to maintain and expand brand awareness

Our growth and hence our results of operations are substantially affected by our ability to promote the "*汇银 (Huiyin*)*" brand awareness in our targeted markets in order to attract customers and potential franchisees to join our retail network and/or after-sales service. It is crucial for us to promote the awareness and recognition of our "*汇银 (Huiyin*)*" brand. Through our Self-operated Stores, which are usually larger in terms of Gross Floor Area and located in areas with a relatively higher concentration of commercial activity, we promote the "*汇银 (Huiyin*)*" brand awareness through a variety of measures. Once our brand is established, our business strategy is to expand our footprint in a target market by signing up qualified franchisees to open Franchised Stores. Our ability to maintain and expand the position of our "*汇银 (Huiyin*)*" brand in the market through our marketing efforts affects our ability to grow our business and market share.

Ability to obtain authorised distribution rights from our suppliers

Our sales growth and results of operations are affected by our ability to obtain authorised distribution rights from our suppliers for our bulk distribution operation. Our revenue from sales of merchandise through our bulk distribution operation increased by approximately 157.2% from RMB252.4 million for the year ended 31 December 2007 to RMB649.1 million for the year ended 31 December 2008, primarily due to the fact that we obtained additional authorised distribution rights for selected types of Gree and Midea products through the acquisition of Changzhou Keyi and our strengthening relationships with certain suppliers. During the Track Record Period, we voluntarily made prepayments for certain other inventory purchases in order to better enhance the relationships with our suppliers and to increase the likelihood of securing additional authorised distribution rights. Our distribution agreements with these suppliers are for one year fixed terms and are required to be renegotiated on an annual basis. In the event that we are unable to secure additional authorised distribution rights or renew our existing authorised distribution rights from our suppliers, our sales growth and results of operation could be materially and adversely affected.

Expansion of sales network and franchise model

We derive substantially all of our revenue from (i) retail sales of merchandise at our Self-operated Stores and (ii) sales of merchandise through our bulk distribution operation, which includes sales to our Franchised Stores and Independent Third Parties. Accordingly, our revenue is affected to a significant extent by the number of Stores in our sales network. During the Track Record Period, the number of our Stores, especially Franchised Stores, grew at a relatively fast pace.

The following table summarises the number of our Self-operated Stores and Franchised Stores as at 31 December 2007, 2008 and 2009:

	As at 31 December		
	2007	**2008**	**2009**
Number of Self-operated Stores at period end	12	20	27
Number of Franchised Stores at period end	152	186	220
Total number of Stores	164	206	247

During the Track Record Period, more than 50% of our revenue was generated from sales through our bulk distribution operation. We distribute as a supplier to our Franchised Stores and Independent Third Parties, mainly household electronics retailers and our corporate customers. Therefore, our growth depends heavily on the success of our franchise model, which allows us to extend our geographic coverage and market share in a shorter period of time with lower capital requirements and operational risks. Through the establishment of new Self-operated Stores and Franchised Stores, we have implemented a strategy of aggressive expansion of our sales network to capture market share and increase brand exposure. We have adopted a strategy of first establishing a Self-operated Store in the municipal markets, which is usually larger in terms of Gross Floor Area and located in an area with a relatively higher concentration of commercial activity to promote the "汇银 *(Huiyin*)*" brand awareness, which is then followed by Franchised Store openings in the relatively more populated surrounding rural areas to expand our network coverage and reach. We require our franchisees to purchase and sell home appliances and consumer electronic products from us or our approved channels exclusively, except for certain products that we do not sell. The revenue from our retail operation is generated from sales of products to retail customers of our Self-operated Stores. The revenue from our bulk distribution operation comes from our franchisees and other third parties buying products from us directly. We normally require our franchisees to prepay certain amounts for purchases and/or to pay cash on delivery. For sales to Independent Third Parties, which includes mainly household electronics retailers and corporate customers, we generally offer credit periods of 30 to 90 days. In the event that the business performance of our Stores declines significantly or the number of our Franchised Stores does not grow at a pace similar to the growth pace during the Track Record Period, our growth in revenue could be materially and adversely affected.

Gross profit margins

Our gross profit margins are principally impacted by changes in the selling prices of our products, our product mix and our cost of merchandise. Our gross profit margins for the three years ended 31 December 2007, 2008 and 2009 were approximately 16.9%, 12.2% and 16.5%, respectively.

Selling prices of our products

Our gross profit margins and accordingly our results of operations are affected by the prices we are able to charge for the home appliances and consumer electronic products that we sell. For our retail operations, our profitability depends to a large extent on the price competitiveness of our merchandise. Except for some of the merchandise newly introduced by our suppliers for which we have exclusive sales rights for a certain period of time, our primary pricing policies are to offer merchandise for sale at market prices, subject to any pricing restrictions placed on us by suppliers. Although we adopt similar pricing methodologies for merchandise sold at our Self-operated Stores and Franchised Stores, the retail prices of merchandise in any particular Store can differ from other Stores after taking into account the sales condition and performance of a particular Store, the income level of local consumers, the prices charged by our competitors and general market conditions. Our suppliers provide us with recommended retail prices and discount ranges for individual products within which we are generally required to maintain our pricing. We review our prices regularly and make adjustments based on the recommended retail price and discount range set by our suppliers, the expected profit margin on individual products determined by management, the prices set by our competitors and the anticipated market trends and expected demand from customers. We expect the sales prices of our merchandise will continue to be driven by these factors.

Pricing for products sold through our bulk distribution operation (including sales to our franchisees) is set on the basis of purchase price and expected profit margin, being a rate which is lower than the profit margin of our retail operations, as determined by our management. In the event that our purchase prices for products increase and we are unable to increase our selling prices for products sold through our bulk distribution operation, the gross profit margin for sales made through our bulk distribution operation will decrease. For instance, during the year ended 31 December 2008, the prices of some of our merchandise sourced from our suppliers increased. Due to the relatively poor market conditions for household appliances in China in 2008, we were not able to pass all of such increased costs onto customers of our bulk distribution operation, resulting in a decrease in the gross profit margin of our sales to customers under the bulk distribution operation.

In addition, the prices for products sold through our bulk distribution operation (including sales to our franchisees) are generally lower than prices for the same products sold through our retail operation (i.e., at our Self-operated Stores). As the proportion of our sales to our Franchised Stores and other third parties increases compared to the sales of our Self-operated Stores, our gross profit margin will decrease. For the year ended 31 December 2008, sales made through both our retail operation and bulk distribution operation increased overall. On a relative basis, sales made through our bulk distribution operation increased at a faster rate than sales made through our retail operation. In particular, our revenue from sales of merchandise through our retail operation increased by approximately 36.8% for the year ended 31 December 2008. Our revenue from sales of merchandise through our bulk distribution operation increased by approximately 157.2% for the year ended 31 December 2008. Accordingly, our gross profit margin decreased from 16.9% in 2007 to 12.2% in 2008. In the event that sales through our bulk distribution operation continues to grow at a faster rate than the increase in sales through our retail operation, our gross profit margin will decrease.

Product mix

Our gross profit margins are also affected by our product mix, particularly any changes in the proportion of sales of higher versus lower margin products. We offer over 30,000 types of merchandise and broadly divide our products into five categories: air conditioners, TV sets, refrigerators, washing machines and other small appliances. During the Track Record Period, the gross profit margins on sales of air conditioners were generally the highest among our five product categories, and the proportion of revenue derived from sales of air conditioners increased from approximately 57.7% of our total revenue derived from sales of merchandise for the year ended 31 December 2007 to approximately 67.7% for the year ended 31 December 2009. We intend to continue to monitor and adjust our product mix as appropriate in an effort to increase our revenue and gross profit margin. Our combined gross profit margin will be affected by any change in our product mix attributable to, and any change in the gross profit margin of, each product category.

Cost of sales

Our gross profit margins are also affected by our purchasing costs. Our cost of sales principally consists of the cost of merchandise, which is net of provision for supplier rebates. We purchase household appliances and consumer electronics from our suppliers. The typical duration of our supply agreements with suppliers is one year term. Most of our supply agreements provide for rebates to be given by suppliers if we achieve certain milestones, including without limitation, our sales volume or purchase volume, and are usually settled on a monthly, quarterly, semi-annual and annual basis, in accordance with agreed rates with the relevant suppliers. In addition, rebates may also be provided by suppliers to compensate us for any adjustments they may make to the retail prices of their merchandise, the amount of which would be confirmed with the suppliers during the settlement process. The rates of supplier rebates are negotiated by us with our suppliers on a case by case basis. For the three years ended 31 December 2007, 2008 and 2009, our supplier rebates recognised as a reduction in the cost of sales amounted to approximately RMB97.0 million, RMB161.1 million and RMB269.0 million, respectively, representing approximately 19.0%, 15.7% and 20.6% of our cost of merchandise sold (before deducting supplier rebates), respectively. Our Directors confirm that it is customary to receive supplier rebates in our industry. As competition exists among suppliers and various brands of home appliances, it had been the practice of suppliers to induce the distributors or retailers to promote their respective products by providing supplier rebates. This is particularly the case for the home appliances industry as new models and products are constantly introduced by various brands within a short period of time. During the Track Record Period, we maintained good relationships with our suppliers and had not encountered any material problems with our suppliers in relation to supplier rebates. On the aforesaid basis, our Directors expect that our Company will continue to receive supplier rebates from our suppliers in the foreseeable future. In the event of any unfavourable changes in relation to the rebate arrangements with our suppliers, our cost of sales and thereby our gross profit margins could be materially and adversely affected.

Acquisition of Changzhou Keyi

We acquired 90% of the equity interests in Changzhou Keyi from certain Independent Third Parties on 1 January 2008, following which the financial results of Changzhou Keyi have been consolidated with the financial results of our Group. With the authorised distribution rights for Gree air conditioners in Changzhou, the sole business of Changzhou Keyi was the bulk distribution of Gree air conditioners. During the Track Record Period, the gross profit margins on sales of air conditioners (comprising both retail and bulk distribution sales) were the highest among all of our product categories. Our Directors believed that an acquisition of Changzhou Keyi would complement our Group's overall bulk distribution business. In addition, our Directors believed that we could improve the operational efficiencies of Changzhou Keyi's business.

Prior to the acquisition, the gross profit margin of Changzhou Keyi for the year ended 31 December 2007 was approximately 8.5%. The following table sets out the contribution of Changzhou Keyi to our Group's financial results for the years ended 31 December 2008 and 2009:

Certain summary standalone financial information of Changzhou Keyi

	Year ended 31 December 2008		Year ended 31 December 2009	
	RMB (million)	*% of the Group's overall results*	*RMB (million)*	*% of the Group's overall results*
Revenue	127.0	12.8	145.6	11.7
Gross profit	11.3	9.3	24.2	11.7
Net profit	3.7	9.6	11.5	12.4

The following table sets out the gross profit margin of Changzhou Keyi on a standalone basis and our Group on a consolidated basis for the years ended 31 December 2008 and 2009:

	Year ended 31 December 2008	Year ended 31 December 2009
Gross profit margin of Changzhou Keyi (standalone)	8.9%	16.6%
Gross profit margin of our Group's bulk distribution business (consolidated)	9.1%	12.8%

The gross profit margin of Changzhou Keyi (standalone) for the year ended 31 December 2008, which was the first year following acquisition, improved slightly to approximately 8.9%. During the year, the new managers of Changzhou Keyi's business were focused on strengthening customer relationships. At the same time, the global financial crisis that began during the year had an adverse affect on overall demand for household appliances in China. As a result, we did not increase pricing as aggressively during the year. For the year ended 31 December 2009, the gross profit margin of Changzhou Keyi (standalone) improved to approximately 16.6% as market conditions improved and pricing returned to more normal levels. The sales of higher margin air conditioner products by Changzhou Keyi contributed to the increase in our Group's gross profit margin for bulk distribution operation from approximately 9.1% for the year ended 31 December 2008 to approximately 12.8% for the year ended 31 December 2009.

For the years ended 31 December 2008 and 2009, prepayments made by Changzhou Keyi were a significant factor in our Group's net operating cash outflow position. As Changzhou Keyi is only engaged in the bulk distribution business of Gree air conditioners, it is typically required to make substantial prepayments in amounts based on its expected purchase levels for the upcoming period such that its purchases of merchandise from suppliers would be settled in their entirety by prepayments. Prepayments made by Changzhou Keyi to our suppliers amounted to approximately RMB12.1 million and RMB31.0 million for the years ended 31 December 2008 and 2009, respectively.

Changes in the regulatory environment, including favourable government policies

Our strategic focus in the third and fourth-tier markets in the eastern PRC has positioned us to take advantage of the mass-market growth opportunities in these historically underserved areas. We believe these areas will continue to grow at least in line with the growth in the overall PRC economy. In addition, the PRC Government has in recent years implemented short term incentive policies aimed at fostering growth and improving the quality of life of those living in such areas, such as the Rural Appliance Rebate Program and the Change of the Old for New Program. We are one of the four home appliances and electronics retail chain operators to be appointed as authorised distributors under the Rural Appliance Rebate Program in Jiangsu province in February 2009. Approximately 6.0% of our revenue for the year ended 31 December 2009 was generated from the sale of merchandise eligible for rebates under the Rural Appliance Rebate Program. In addition, we were also one of the home appliances and electronics retail chain operators appointed as an authorised sales enterprise and authorised recycling enterprise under the Change of the Old for New Program in Jiangsu province in August 2009. Approximately 8.4% of our revenue for the year ended 31 December 2009 was generated from the sales of merchandise under the Change of the Old for New Program. We believe that our status as one of the authorised distributors under the Rural Appliance Rebate Program and one of the authorised sales enterprises and authorised recycling enterprises under the Change of the Old for New Program has placed us in an advantageous position to capture the vast potential customer base able to participate in these programs.

While the Rural Appliance Rebate Program and the Change of the Old for New Program are short term incentive policies of the PRC Government, we believe both programs will incentivise the residents in our target markets to purchase new home appliances and consumer electronic products, which we believe will impact positively on all of our retail, distribution and after-sales services businesses. In addition, our authorised distributor status under the Rural Appliance Rebate Program and our authorised sales enterprise and authorised recycling enterprise status under the Change of the Old for New Program helps attract potential franchisees to join and expand our sales network in our targeted markets. The expiry of the Rural Appliance Rebate Program and the Change of the Old for New Program can negatively affect our sales growth and results of operations.

Continued growth of China's economy and higher disposable income and spending levels for consumers in China

Our financial condition and results of operations are significantly affected by macro-economic conditions and their impact on levels of consumer spending. According to the National Bureau of Statistics of China, the PRC's GDP has grown from RMB10,965.5 billion in 2001, to RMB30,067.0 billion in 2008, representing a CAGR of 15.5%, with GDP per capita increasing from RMB8,622.0 to RMB22,698.0 during the same period, representing a CAGR of 14.8%. The disposable income of the people in the PRC has increased due to the economic growth of the PRC. The per capita annual disposable income urban households in the PRC rose from around RMB6,859.6 in 2001 to around RMB15,780.8 in 2008, at a CAGR of approximately 12.6% over the period. The per capita annual disposable income of rural households in the PRC rose from around RMB2,366.4 in 2001 to around RMB4,760.6 in 2008, at a CAGR of approximately 10.5% over the period. Since 2002, retail sales of household appliances in China, including consumer electronics, white goods, small electrical appliances and telecom equipment has grown. The value of retail sales of household appliances in China increased from around RMB398.0 billion in 2002 to RMB1,176.0 billion in 2008, representing a CAGR of 19.8% for the period. In particular, the rural market has shown continuing growth over the past few years, according to a report published by Access Asia Limited. The rural retail sales value of household appliances has increased from approximately RMB90.7 billion in 2002 to RMB398.4 billion in 2008, representing a CAGR of approximately 28.0%, which is approximately 10.0% higher than the CAGR of urban retail sales value of household appliances over the same period. See "Industry Overview — The retail industry for household appliances in PRC" for further details. However, the recent global economic downturn which occurred at the end of 2008 caused economic growth in China to slow down and adversely affected demand for household appliances which in turn negatively affected the gross profit margins of our sales made through the bulk distribution operation for the year ended 31 December 2008. We expect that our financial condition and results of operations will continue to be significantly affected by changes in the growth of China's economy and the levels of disposable income and consumer spending in China, particularly in retail segment of household appliances in China and particularly in the third and fourth tier markets.

There can be no assurance that financial difficulties and economic conditions in the PRC and elsewhere will not in the future materially and adversely affect our business financial condition and results of operations. Any further decline in consumer spending or change in consumer habits as a result of the recent economic downturn may have an adverse effect on our results of operations. See "Risk factors — Risks relating to the PRC retail industry — The recent global financial crisis and economic downturn did and may continue to materially and adversely affect our business, results of operations and financial condition" and "Risk factors — Risks relating to the PRC retail industry — We may fail to successfully respond to changes in consumer preferences and/or purchasing power".

PRC tax incentives

Our income tax expense represents the amounts of PRC enterprise income tax ("EIT") we pay. Prior to 1 January 2008, under the then applicable PRC law and regulations (the "Old EIT Law") entities established in China were generally subject to a 33% EIT. However, entities that satisfied certain conditions enjoyed preferential tax treatment.

In accordance with the PRC tax laws and regulations effective until 31 December 2007, our subsidiary, Yangzhou Huiyin, being identified as a new labour service enterprise, applied to the relevant tax authorities in the PRC and was granted approval for its entitlement to an exemption from paying EIT for three years starting from its first profit making year and was allowed a 50% reduction in its tax rate in the fourth and fifth profit making years. The relevant tax exemption for Yangzhou Huiyin started from 2004. Accordingly, during the Track Record Period, Yangzhou Huiyin enjoyed a full exemption from EIT in 2006 and a 50% exemption from EIT in 2007.

In accordance with the PRC tax laws and regulations effective until 31 December 2007, our subsidiary, Yangzhou Huihou, was subject to EIT at the rate of 27% for 2007 due to the fact that its annual taxable income for 2007 was less than RMB100,000 but more than RMB30,000. Similarly, our subsidiary, Nanjing Huize, was subject to EIT at the rate of 18% for 2007 due to the fact that its annual taxable income for 2007 was less than RMB30,000.

On 16 March 2007, the PRC National People's Congress enacted the PRC Enterprise Income Tax Law (the "New EIT Law"), which, together with its related implementation rules issued by the PRC State Council on 6 December 2007, became effective on 1 January 2008. The New EIT Law imposes a single uniform income tax rate of 25% on all Chinese enterprises, including foreign invested enterprises, and eliminates or modifies most of the tax exemptions, reductions and preferential treatment available under the previous tax laws and regulations. In accordance with the New EIT Law, the EIT rate applicable to all of our PRC subsidiaries starting from the year 2008 was 25%. In addition, pursuant to the New EIT Law, starting from 1 January 2008, dividends and interest payable to foreign investors, as defined under the New EIT Law, are subject to a 10% withholding tax (unless the foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement, and the preferential tax rate is approved by the competent authorities). As dividends that may distributed from our operating subsidiaries in the PRC would be remitted to a Hong Kong incorporated intermediate holding company, such dividends would be subject to a 5% withholding tax. As a result of this New EIT Law, we made provisions for withholding tax in the amount of RMB312,000 and RMB717,000 for the two years ended 31 December 2008 and 2009, respectively.

Principally as a result of the above preferential tax treatment and exemptions, our effective tax rate the three years ended 31 December 2007, 2008 and 2009 was 17.4%, 30.9% and 27.0%, respectively.

Seasonality

Our results of operations have fluctuated from season to season in the past and are likely to continue to fluctuate due to seasonality. In particular, sales of air conditioners are subject to seasonality. Revenue generated from sales of air conditioners accounted for approximately 57.7%, 71.8% and 67.7% of our revenue derived from sales of merchandise for the three years ended 31 December 2007, 2008 and 2009, respectively. During the Track Record Period, a higher proportion of our sales was typically recorded around or prior to the summer season, particularly from May to July each year.

The following table sets out our revenue derived in the three months from May to July in each year during the Track Record Period and each item is expressed as a percentage of our total revenue for the periods indicated:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of total revenue*	*RMB ('000)*	*% of total revenue*	*RMB ('000)*	*% of total revenue*
Revenue						
May to July	186,648	37.3	358,186	36.2	395,935	31.7
Rest of the year/period	313,835	62.7	630,028	63.8	851,890	68.3
Total	500,483	100.0	988,214	100.0	1,247,825	100.0

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our operating results and financial condition are based on our audited consolidated financial information, which has been prepared in accordance with HKFRSs. The preparation of financial information in conformity with HKFRSs requires our management to adopt accounting policies and make estimates and assumptions that affect amounts reported in our financial information. In applying those accounting policies, our management make subjective and complex judgments that frequently require estimates about matters that are of an inherently uncertain nature. Many of those policies, estimates and judgments are common to retail industries, while others are specific to our business and operations.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited consolidated financial information. Our significant accounting policies are summarised in Note 3 of the Accountant's Report in Appendix I to this prospectus. Our management believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue recognition

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

Retail Operation

In respect of our Self-operated Stores, revenue from sales of goods are recognised when a Group entity sells a product to the customer, which are usually settled in cash or by credit card.

Bulk Distribution Operation (including sales to our franchisees)

Under our bulk distribution operation, we generate revenue from sales to our franchisees and other third parties. Revenue from sales of goods are recognised when (i) the products have been transported to the specified location, (ii) the risks of obsolescence and loss have been transferred to the buyer, and (iii) either the buyer has accepted the products in accordance with sales agreement, the acceptance provisions have lapsed, or we have objective evidence that all criteria for acceptance have been satisfied.

Our household appliance merchandise are often sold with volume discounts. Sales are recorded based on the price specified in the sales orders, net of estimated volume discounts at the time of sale. Our management's accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases and periodic policies granted to customers, and are adjusted to the actual amounts when these become finalised.

Service Income

We, through our Self-operated Service Centres and Authorised Service Centres, provide maintenance and installation services to our end customers. All of the revenue generated from the maintenance and installation services provided by our Authorised Service Centres are recognised by us. Revenue from services is recognised when services has been provided and the collectibility of the related receivables is reasonably assured.

Inventories

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

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

Trade, bills and other payables

We recognise trade, bills and other payables initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade, bills and other receivables

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

Our Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of trade, bills and other receivables. This assessment is based on the credit history of its customers and other debtors and the current market conditions, and requires the use of judgements and estimates. Management reassesses the position at each balance sheet date.

Current and deferred income tax

Our tax expense for a particular year comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In such case, tax is also recognised in equity.

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

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

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

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

Judgments

In the process of applying our accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Income taxes

We are mainly subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during our ordinary course of business, such as the calculation of accrued supplier rebates and accrued volume discounts to our customers under the bulk distribution operation. We recognise our liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As at 31 December 2007, 2008 and 2009, we had deferred income tax assets in the amount of approximately RMB8.4 million, RMB11.8 million and RMB11.2 million, respectively. As at 31 December 2007, 2008 and 2009, we had deferred income tax liabilities of approximately RMB5.7 million, RMB17.9 million and RMB39.4 million, respectively. To the extent it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from impairment provision of inventories and receivables, temporary differences arising from depreciation, certain accrual items and unused tax losses.

Net realisable value of inventories

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

Estimated impairment of non-financial assets

We adopt Hong Kong Accounting Standard 36 in determining whether our non-financial assets have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The value in use calculations require the use of estimates.

Fair value of derivatives and other financial instruments

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

Estimate of fair value of investment properties for disclosure purpose

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

Rebates from suppliers

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

SUMMARY OF RESULTS OF OPERATIONS

Our consolidated income statements for the three years ended 31 December 2007, 2008 and 2009 as set out below are derived from our consolidated financial information included in Appendix I to this prospectus.

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Revenue	500,483	988,214	1,247,825
Cost of sales	(415,794)	(867,423)	(1,041,737)
Gross profit	84,689	120,791	206,088
Other income	13,199	8,616	11,647
Other gains/(losses) — net	—	170	(52)
Selling and marketing expenses	(28,163)	(41,763)	(51,226)
Administrative expenses	(15,900)	(38,494)	(41,339)
Operating profit	53,825	49,320	125,118
Finance income	3,162	6,887	4,736
Finance costs	(4,438)	(392)	(2,936)
Finance (costs)/income — net	(1,276)	6,495	1,800
Profit before income tax	52,549	55,815	126,918
Income tax expense	(9,131)	(17,248)	(34,291)
Profit for the year	43,418	38,567	92,627
Attributable to:			
- Equity holders of the Company	43,418	38,197	91,477
- Minority interests	—	370	1,150
	43,418	38,567	92,627

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Our revenue is derived from (i) sales of merchandise through our retail operation, (ii) sales of merchandise through our bulk distribution operation (including sales to our franchisees) and (iii) service income. Through our bulk distribution operation, we distribute products to our Franchised Stores as well as other Independent Third Parties, which mainly comprise of household electronics retailers and other corporate customers. Our service income comprises of maintenance income and installation income. Revenue from maintenance services represents income from after-sales maintenance services provided by us and our Authorised Service Centres to our customers. Revenue from installation services represents income from installation services provided by us and our Authorised Service Centres to our customers. All of the revenue generated from the maintenance and installation services provided by our Authorised Service Centres are recognised by us. We pay our Authorised Service Centres a service fee for each item of home appliances installed or maintained by the Authorised Service Centres.

The following table sets out our revenue by operation categories during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of total revenue*	*RMB ('000)*	*% of total revenue*	*RMB ('000)*	*% of total revenue*
Revenue						
(i) Retail Operation	241,605	48.3	330,417	33.4	440,331	35.3
(ii) Bulk Distribution Operation						
Franchisees	154,978	31.0	285,342	28.9	373,294	29.9
Other third parties	97,406	19.4	363,783	36.8	425,086	34.1
(iii) Service Income						
Maintenance income	2,263	0.5	3,366	0.3	2,405	0.2
Installation income	4,231	0.8	5,306	0.6	6,709	0.5
Total	500,483	100.0	988,214	100.0	1,247,825	100.0

We currently focus our operation on the third and fourth-tier markets in Jiangsu province and the neighboring Anhui province. The following table sets out our revenue derived from sales of merchandise through our retail and bulk distribution operations by region during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of revenue derived from sales of merchandise*	*RMB ('000)*	*% of revenue derived from sales of merchandise*	*RMB ('000)*	*% of revenue derived from sales of merchandise*
Jiangsu Province						
Yangzhou	345,362	70.0	463,136	47.3	539,759	43.6
Taizhou	114,113	23.1	147,330	15.0	219,266	17.7
Wuxi	—	—	523	0.1	11,210	0.9
Yancheng	2,713	0.5	5,338	0.5	13,097	1.1
Nantong	1,738	0.4	3,432	0.4	1,619	0.1
Zhenjiang	6,292	1.3	9,243	0.9	65,018	5.2
Nanjing	5,093	1.0	50,548	5.2	62,107	5.0
Xuzhou	4,632	0.9	—	—	—	—
Huaian	59	—	4,148	0.4	9,538	0.8
Lianyungang	421	0.1	883	0.1	894	0.1
Changzhou	—	—	275,172	28.1	281,059	22.7
Suzhou	—	—	930	0.1	50	—
Sub-total	480,423	97.3	960,683	98.1	1,203,617	97.2
Anhui Province						
Chuzhou	13,566	2.7	18,852	1.9	25,773	2.1
Wuhu	—	—	—	—	184	—
Ma'anshan	—	—	—	—	128	—
Hefei	—	—	—	—	14	—
Xuancheng	—	—	—	—	8,872	0.7
Huainan	—	—	—	—	123	—
Sub-total	13,566	2.7	18,852	1.9	35,094	2.8
Zhejiang Province						
Hangzhou	—	—	7	—	—	—
Total	493,989	100.0	979,542	100.0	1,238,711	100.0

We offer over 16,000 types of merchandise and broadly divide our products into five product categories: air conditioners, TV sets, refrigerators and washing machines and others. The following table sets out our revenue derived from sales of merchandise through our retail and bulk distribution operations by product categories during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of revenue derived from sales of merchandise*	*RMB ('000)*	*% of revenue derived from sales of merchandise*	*RMB ('000)*	*% of revenue derived from sales of merchandise*
Air conditioners	285,077	57.7	703,230	71.8	838,566	67.7
TV sets	82,999	16.8	114,221	11.7	195,756	15.8
Refrigerators	57,548	11.6	83,532	8.5	88,164	7.1
Washing machines	20,979	4.2	33,565	3.4	47,008	3.8
Other small appliances	47,386	9.7	44,994	4.6	69,217	5.6
Total	493,989	100.0	979,542	100.0	1,238,711	100.0

Volume discounts

Under our bulk distribution operation, merchandise are often sold to our franchisees and other third parties with volume discounts. Sales are recorded based on the prices specified in the sales orders, net of estimated volume discounts at the time of sales. Accumulated experience is used to estimate and provide for the volume discounts. The volume discounts are assessed based on the anticipated annual purchases by a particular customer and related periodic discount policy agreed between the customer and us in advance, and are adjusted to the actual amounts when these are finalised. There were no significant over or under estimations of volume discounts recorded during the Track Record Period. For the three years ended 31 December 2007, 2008 and 2009, our volume discounts made to our bulk distribution operation customers amounted to approximately RMB19.6 million, RMB61.6 million and RMB56.9 million, respectively, representing approximately 4.0%, 6.3% and 4.6%, respectively, of the total amount purchased by our bulk distribution operation customers, respectively. Our volume discounts policy was launched in the middle of 2007 as we just commenced our bulk distribution operation in 2006. The decrease in volume discounts granted to customers for the year ended 31 December 2009 was primarily due to the fact that we granted less volume discounts to our franchisees in 2009 in light of the fact that we ceased the annual royalty fees requirement for all of our Franchised Stores starting from 2009. Our Directors confirm that it is customary practice to grant volume discounts in our industry and our range of volume discounts granted to our customers is in line with industry practice.

For more information on the reasons for the fluctuation of revenue, please see “Revenue” for the relevant periods in the “Period to Period Comparison of Results of Operations” in this section of the prospectus.

Cost of sales

Our cost of sales primarily consists of cost of merchandise (which includes cost of maintenance and installation, net of supplier rebates), and other charges and levies, net of provision for obsolete inventories. Cost of sales is determined on the first-in, first-out basis.

The following table sets forth a breakdown of our cost of sales by major components for the periods indicated:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Cost of merchandise before deducting supplier rebates	511,449	1,026,528	1,308,799
Supplier rebates	(96,964)	(161,055)	(269,048)
Other charges and levies	1,162	1,421	2,304
Provision/(Write back of provision) for obsolescence on inventories	147	529	(318)
Total	415,794	867,423	1,041,737

The following table sets forth a breakdown of our cost of sales by operation categories and as a percentage of total revenue for the periods indicated.

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of total revenue*	*RMB ('000)*	*% of total revenue*	*RMB ('000)*	*% of total revenue*
Cost of sales						
(i) Retail Operation	189,228	37.8	271,202	27.4	339,963	27.2
(ii) Bulk Distribution Operation	223,746	44.7	590,006	59.7	695,819	55.8
Franchisees	134,259	26.8	254,716	25.8	320,541	25.7
Other third parties	89,487	17.9	335,290	33.9	375,278	30.1
(iii) Service Income	2,820	0.6	6,215	0.6	5,955	0.5
Total	415,794	83.1	867,423	87.8	1,041,737	83.5

Supplier rebates

Supplier rebates are given by our suppliers primarily based on our purchase volume and are negotiated by us with our suppliers on a case by case basis. Supplier rebates are accrued as earned and are recorded initially as a reduction in inventory with a subsequent reduction in cost of sales when the related merchandise is sold. The supplier rebates are estimated by experience, which is assessed based on anticipated annual purchases from the suppliers and periodic policies granted by the suppliers, and are adjusted to the actual amounts when these become finalised. There were no significant over or under estimations of supplier rebates recorded during the Track Record Period. For the three years ended 31 December 2007, 2008 and 2009, our supplier rebates recognised as a reduction in the cost of sales amounted to approximately RMB97.0 million, RMB161.1 million and RMB269.0 million, respectively, representing approximately 19.0%, 15.7% and 20.6% of our cost of merchandise sold (before deducting supplier rebates), respectively. The general trend of increasing supplier rebates during the Track Record Period was primarily attributable to an increase in our purchase volume and our prepayments made to suppliers during the Track Record Period. For the year ended 31 December 2008, our supplier rebates as a percentage of our cost of sales was relatively lower as a result of lower amount of supplier rebates given by our suppliers in light of the poor market conditions for household appliances in China in 2008, principally as a result of a number of natural disasters in China in 2008.

Gross profit and gross profit margin

Our gross profit is our revenue less cost of sales. Our gross profit varies principally as a result of the composition of our retail and distribution network, changing conditions of the retail and wholesale markets for home appliances and consumer electronics products, and their effect on product pricing, product mix and our cost of sales.

Generally, the gross profit margin of merchandise sold through our retail operation is higher than the gross profit margin of merchandise sold through our bulk distribution operation, as pricing for products sold through our bulk distribution operation is set on the basis of purchase price and expected profit margin, being a rate which is lower than the profit margin expected from our retail operations, as determined by our management. Under our bulk distribution operation, the gross profit margin of merchandise sold to franchisees is generally higher than the gross profit margin of merchandise sold to other third parties, principally due to the fact that the volume of merchandise purchased by other third parties is generally larger than the volume of merchandise purchased by our franchisees. Accordingly, the amount of volume discounts provided to other third parties has been higher.

By operation categories

The following table sets forth our gross profit by operation categories during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB'000	*% of total gross profit*	*RMB'000*	*% of total gross profit*	*RMB'000*	*% of total gross profit*
(i) Retail Operation	52,377	61.8	59,215	49.0	100,368	48.7
(ii) Bulk Distribution Operation	28,638	33.8	59,119	48.9	102,561	49.8
Franchisees	20,719	24.5	30,626	25.4	52,753	25.6
Other third parties	7,919	9.4	28,493	23.6	49,808	24.2
(iii) Service Income	3,674	4.3	2,457	2.0	3,159	1.5
Total	84,689	100.0	120,791	100.0	206,088	100.0

The table below sets forth our gross profit margins by operation categories during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	%	%	%
(i) Retail Operation	21.7	17.9	22.8
(ii) Bulk Distribution Operation	11.3	9.1	12.8
Franchisees	13.4	10.7	14.1
Other third parties	8.1	7.8	11.7
(iii) Service Income	56.6	28.3	34.7
Overall	16.9	12.2	16.5

By product categories

The following table sets out our gross profit by product categories during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	RMB'000	*% of total gross profit derived from sales of merchandise*	*RMB'000*	*% of total gross profit profits derived from sales of merchandise*	*RMB'000*	*% of total gross profit profits derived from sales of merchandise*
Air conditioners	53,002	65.4	87,606	74.0	152,639	75.2
TV sets	12,729	15.7	13,352	11.3	25,410	12.5
Refrigerators	7,620	9.4	8,331	7.0	8,782	4.3
Washing machines	2,385	2.9	3,082	2.6	4,693	2.3
Other small appliances	5,279	6.6	5,963	5.1	11,405	5.7
Total	81,015	100.0	118,334	100.0	202,929	100.0

The table below sets forth our gross profit margins by product categories during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	%	%	%
Air conditioners	18.6	12.5	18.2
TV sets	15.3	11.7	13.0
Refrigerators	13.2	10.0	10.0
Washing machines	11.4	9.2	10.0
Other small appliances	11.1	13.3	16.5
Overall	16.4	12.1	16.4

Other income

Our other income consists of royalty income from Franchised Stores, promotion and store display income from our suppliers, rental income from our investment properties and one-off government subsidy. We collect royalty income from Franchised Stores as at the end of each year. We generate promotion and store display income when we conduct promotional or store display activities on behalf of our suppliers in our Stores.

For the three years ended 31 December 2007, 2008 and 2009, the amount of royalty income from Franchised Stores amounted to approximately RMB9.9 million, RMB4.7 million, and nil, respectively. We ceased the annual royalty fees requirement for all of our Franchised Stores starting from 2009 for the purpose of boosting the development of our franchise operations.

Other gains/(losses) — net

Our other gains consist wholly of negative goodwill resulted from acquisition of a subsidiary, namely, Changzhou Keyi. Our other losses solely represent net losses on disposal of property, plant and equipment.

Operating expenses

Our total operating expenses consist of selling and marketing expenses and administrative expenses.

Selling and marketing expenses

Selling and marketing expenses consist primarily of the cost of operating leases of our Self-operated Stores and warehouses, promotion and advertising expenses, service charges, employee benefit expenses (which includes wages, salaries, social security costs and welfare of sales-level staff), transportation expenses, other selling expenses and depreciation costs principally for our distribution and logistics centres. For the three years ended 31 December 2007, 2008 and 2009, our total selling and marketing expenses accounted for approximately 5.6%, 4.2% and 4.1%, respectively, of our revenue.

The following table sets forth the principal components of our selling and marketing expenses and their respective percentages of our total selling and marketing expenses for the periods indicated:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of total selling and marketing expenses*	*RMB ('000)*	*% of total selling and marketing expenses*	*RMB ('000)*	*% of total selling and marketing expenses*
Operating leases	5,566	19.8	9,023	21.6	11,835	23.1
Promotion and advertising expenses	7,180	25.5	11,410	27.3	15,180	29.6
Service charges	2,047	7.3	1,420	3.4	1,111	2.2
Employee benefit expenses	2,096	7.4	5,446	13.0	4,367	8.5
Transportation expenses	1,799	6.4	3,969	9.5	4,803	9.4
Utilities and telephone expenses	584	2.1	1,764	4.2	1,355	2.6
Travelling expenses	386	1.4	1,300	3.1	1,215	2.4
Depreciation costs	3,109	11.0	5,570	13.3	9,955	19.4
Entertainment expenses	342	1.2	881	2.1	391	0.8
Office expenses	214	0.8	226	0.5	541	1.1
Others	4,840	17.2	754	1.8	473	0.9
Total	28,163	100.0	41,763	100.0	51,226	100.0

Administrative expenses

Administrative expenses consist primarily of employee benefit expenses (which includes wages, salaries, social security costs and welfare of management-level staff), service charges, entertainment expenses, cost of operating leases for our office premises, amortisation costs (which includes amortisation costs of our land use rights, intangible assets and investment properties), listing expenses in connection with the Global Offering, consulting expenses in connection with our business operation and the Global Offering, other administrative costs and depreciation costs principally for our office building. For the three years ended 31 December 2007, 2008 and 2009, our total administrative expenses accounted for approximately 3.2%, 3.9%, and 3.3%, respectively, of our revenue.

The following table sets forth the principal components of our administrative expenses and their respective percentage of our total administrative expenses for the periods indicated:

	Year ended 31 December					
	2007		2008		2009	
	RMB ('000)	*% of total administrative expenses*	*RMB ('000)*	*% of total administrative expenses*	*RMB ('000)*	*% of total administrative expenses*
Write-off of prepayments	429	2.7	—	—	—	—
Employee benefit expenses	3,146	19.8	8,168	21.2	12,811	31.0
Service charges	3,071	19.3	1,879	4.9	2,158	5.2
Entertainment expenses	1,010	6.4	1,013	2.6	2,270	5.5
Utilities and telephone expenses	1,416	8.9	1,169	3.0	2,197	5.3
Bank charges	782	4.9	1,001	2.6	1,528	3.7
Office expenses	593	3.7	822	2.1	846	2.0
Auditors' remuneration	83	0.5	111	0.3	276	0.7
Amortisation costs	1,220	7.7	3,192	8.3	2,829	6.8
Depreciation costs	542	3.4	907	2.4	1,148	2.8
Property tax and other taxes	107	0.7	279	0.7	439	1.1
Operating leases	248	1.6	1,959	5.1	3,607	8.7
Provision for impairment on receivables	1,245	7.8	190	0.5	677	1.6
Travelling expenses	507	3.2	804	2.1	1,327	3.2
Transportation expenses	223	1.4	573	1.5	—	—
Listing expenses	—	—	5,178	13.5	4,809	11.6
Consulting expenses	—	—	4,680	12.1	373	0.9
Others	1,278	8.0	6,569	17.1	4,044	9.8
Total	15,900	100.0	38,494	100.0	41,339	100.0

Finance income and finance costs

Our finance income consists of interest income from banks for restricted bank deposits and deposits of cash and cash equivalents, interest income derived from the purchase of discounted bank notes receivables from an Independent Third Party and interest income from an interest bearing loan made to Yangzhou Yintai, a related party, which was secured by certain land use rights owned by Yangzhou Yintai.

Our finance costs represent interest expenses on our bank borrowings.

Income tax expense

Income tax expense represents the amounts of Mainland China enterprise income tax ("EIT") we pay. We were not subject to Hong Kong profits tax or any income tax in the Cayman Islands and the British Virgin Islands during the Track Record Period.

Enterprises incorporated in the PRC are normally subject to EIT at the rate of 33% prior to 1 January 2008. The taxation on our Group's profit before income tax differs from the theoretical amount which would arise using the statutory tax rate of 33% due to the fact that certain of our subsidiaries enjoy preferential tax treatment. Yangzhou Huiyin obtained approvals from the relevant tax authorities in the PRC for their entitlement to an exemption from EIT for the first three years commencing from 2004 and a 50% reduction in EIT for the two years thereafter. Yangzhou Huihou was subject to EIT at the rate of 27% for 2007 and Nanjing Huize was subject to EIT at the rate of 18% for 2007. Our Directors confirm that the relevant tax authorities in the PRC granting the aforesaid preferential tax treatment to us are the appropriate competent authorities. Our effective tax rate for the years ended 31 December 2007, 2008 and 2009 was 17.4%, 30.9% and 27.0%, respectively. In accordance with the Corporate Income Tax Law of the PRC which came into effect on 1 January 2008, the corporate income tax rate applicable to all of our PRC subsidiaries starting from the year 2008 was 25%.

Our Directors are of the view that our Group had made all required tax filings under the relevant laws and regulations in the PRC, had paid all outstanding tax liabilities (except for the year ended 31 December 2009 which is expected to be paid by our Group in April 2010) and is not subject to any dispute or potential dispute with the tax authorities as at the Latest Practicable Date. For more details of the our tax treatment, please refer to the paragraphs headed "Factors affecting our financial condition and results of operations — PRC tax incentives" above.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

Revenue increased by approximately 26.3% from RMB988.2 million for the year ended 31 December 2008 to RMB1,247.8 million for the year ended 31 December 2009, primarily as a result of an increase in sales volume in both our retail and our bulk distribution operations. The increase in sales volume in both our retail and bulk distribution operations was principally due to (i) our organic growth and (ii) higher sales as a result of the Rural Appliance Rebate Program and the Change of the Old for New Program, under which we were appointed as an authorised distributor and an authorised sales enterprise and authorised recycling enterprise in February 2009 and August 2009, respectively. Approximately 6.0% of our revenue for the year ended 31 December 2009 was generated from the sale of merchandise eligible for rebate under Rural Appliance Rebate Program. Approximately 8.4% of our revenue for the year ended 31 December 2009 was generated from the sales of merchandise under the Change of the Old for New Program.

(i) *Retail Operation*

Revenue from sales of merchandise through our retail operation increased by approximately 33.3% from RMB330.4 million for the year ended 31 December 2008 to RMB440.3 million for the year ended 31 December 2009, primarily as a result of an increase in sales volume at our Self-operated Stores. The increase in sales volume at our retail operation was principally attributable to (i) the Rural Appliance Rebate Program and the Change of the Old for New Program, (ii) an increase in the number of our Self-operated Stores from 20 as at 31 December 2008 to 27 as at 31 December 2009, and (iii) an increase in sales per Self-operated Store due to our enhanced brand recognition, improved store management and improved market conditions in 2009.

(ii) *Bulk Distribution Operation (including sales to our franchisees)*

Revenue from sales of merchandise through our bulk distribution operation as a whole increased by approximately 23.0% from RMB649.1 million for the year ended 31 December 2008 to RMB798.4 million for the year ended 31 December 2009, primarily as a result of an increase in sales volume due to an expansion of our distribution network and the Rural Appliance Rebate Program.

- *Sales to our franchisees*

Revenue from sales of merchandise to Franchised Stores increased by approximately 30.8% from RMB285.3 million for the year ended 31 December 2008 to

RMB373.3 million for the year ended 31 December 2009, primarily as a result of an increase of Franchised Stores from 186 as at 31 December 2008 to 220 as at 31 December 2009 and increase in sales volume due to the Rural Appliance Rebate Program.

- *Sales to other third parties*

Revenue from sales of merchandise to Independent Third Parties increased by approximately 16.9% from RMB363.8 million for the year ended 31 December 2008 to RMB425.1 million for the year ended 31 December 2009 primarily as a result of an increase in sales volume due to the Rural Appliance Rebate Program.

(iii) *Service Income*

Revenue generated from maintenance and installation services increased by approximately 5.1% from RMB8.7 million for the year ended 31 December 2008 to RMB9.1 million for the year ended 31 December 2009, primarily due to an increase in sales of merchandise and corresponding increase in maintenance and installation services.

Cost of sales

Cost of sales increased by approximately 20.1% from RMB867.4 million for the year ended 31 December 2008 to RMB1,041.7 million for the year ended 31 December 2009, primarily due to an increase in sales volume. The rate of increase in cost of sales was lower than that of our revenue growth principally because the sales volume of our retail operation increased at a faster rate than that of our bulk distribution operation, as the prices that we charge for merchandise at our Self-operated Stores are generally higher than the prices of similar products sold through our bulk distribution operation.

Gross profit and gross profit margin

As a result of the above principal factors, our gross profit increased by approximately 70.6% from RMB120.8 million for the year ended 31 December 2008 to RMB206.1 million for the year ended 31 December 2009. Our overall gross profit margin increased from approximately 12.2% for the year ended 31 December 2008 to approximately 16.5% for the year ended 31 December 2009.

(i) *Retail Operation*

The gross profit of our retail operation increased by approximately 69.5% from RMB59.2 million for the year ended 31 December 2008 to RMB100.4 million for the year ended 31 December 2009. The gross profit margin of our retail operation increased from 17.9% for the year ended 31 December 2008 to 22.8% for the year ended 31 December 2009. The gross profit margin of our retail operation for the year ended 31 December 2008 was relatively lower due to an increase in sales promotions held by us (under which products were sold at lower prices and with lower gross profit margins) in light of the relatively poor market conditions for household appliances in China in 2008, principally as a result of a number of natural disasters in China, namely the snowstorm at the beginning of 2008 and earthquakes in May and June 2008. The gross profit margin of our retail operation for the year ended 31 December 2009 was relatively higher due to improved market conditions and an increase in sales volume of merchandise covered under the Rural Appliance Rebate Program and the Change of the Old for New Program, under which we were appointed as an authorised distributor and an authorised sales enterprise and authorised recycling enterprise in February 2009 and August 2009, respectively. Our Directors are of the view that products sold under the Rural Appliance Rebate Program and the Change of the Old for New Program generate higher gross profit margins generally as customers' price sensitivities on the merchandise to be purchased are reduced due to the effect of the rebates or discounts provided by the PRC Government for the merchandise under these programs.

(ii) *Bulk Distribution Operation*

The gross profit of our bulk distribution operation as a whole increased by approximately 73.5% from RMB59.1 million for the year ended 31 December 2008 to RMB102.6 million for the year ended 31 December 2009. The gross profit margin of our bulk distribution operation as a whole increased from 9.1% for the year ended 31 December 2008 to 12.8% for the year ended 31 December 2009.

- *Sales to our franchisees*

  The gross profit from sales to our franchisees under the bulk distribution operation increased by approximately 72.2% from RMB30.6 million for the year ended 31 December 2008 to RMB52.8 million for the year ended 31 December 2009. The gross profit margin of sales to our franchisees under the bulk distribution operation increased from 10.7% for the year ended 31 December 2008 to 14.1% for the year ended 31 December 2009. The gross profit margin in this segment for the year ended 31 December 2008 was relatively lower principally due to (i) the relatively poor market conditions for household appliance sales in China in 2008 as described above, which resulted in a lower amount of supplier rebates given by our suppliers and (ii) the larger amount of volume discounts provided by us or lower prices charged by us to our new franchisees in new markets in 2008, namely Nanjing and Changzhou. The gross profit margin in this segment for the year ended 31 December 2009 increased, primarily due to an increase in sales volume of merchandise covered under the Rural Appliance Rebate Program and Change of the Old for the New Program (under which products are generally sold with higher gross profit margins on the basis of our Directors' belief). Our appointment as an authorised distributor under the Rural Appliance Rebate Program also strengthened our bargaining power with our franchisees in relation to other products not covered under the program, as our franchisees were incentivised to enhance their relationship with us in order to purchase merchandise covered under the program.

- *Sales to other third parties*

  The gross profit from our sales to other third parties under the bulk distribution operation increased from by approximately 74.8% from RMB28.5 million for the year ended 31 December 2008 to RMB49.8 million for the year ended 31 December 2009. The gross profit margin of our sales to other third parties under the bulk distribution operation increased from 7.8% for the year ended 31 December 2008 to 11.7% for the year ended 31 December 2009. For the year ended 31 December 2008, the prices of some of our merchandise sourced from our suppliers increased. Due to the relatively poor market conditions for household appliances in China in 2008, we were not able to pass all of such price increases onto third party customers, thus resulting in a decrease in our gross profit margin for the year ended 31 December 2008. The increase in gross profit margin for the year ended 31 December 2009 was primarily due to the improved market conditions and an increase in sales of merchandise covered under the Rural Appliance Rebate Program as described above. Similarly, our appointment as an authorised distributor under the Rural Appliance Rebate Program also strengthened our bargaining power with third party customers in relation to other products not covered under the Rural Appliance Rebate Program.

(iii) *Service Income*

The gross profit from our maintenance and installation services increased by 28.6% from RMB2.5 million for the year ended 31 December 2008 to RMB3.2 million for the year ended 31 December 2009. The gross profit margin of our maintenance and installation services increased from 28.3% for the year ended 31 December 2008 to 34.7% for the year ended 31 December 2009, primarily due to the fact that we charged lower prices for our maintenance and installation services, which were value-added services in nature, in light of the relatively poor market conditions for household appliances in China in 2008.

Other income

Other income increased by approximately 35.2% from RMB8.6 million for the year ended 31 December 2008 to RMB11.6 million for the year ended 31 December 2009. The increase was primarily due to an increase in government subsidies and an increase in promotion and store display income, partially offset by a decrease of royalty fees collected from Franchised Stores from RMB4.7 million in 2008 to nil in 2009. The increase in government subsidies represented a one-off unconditional government subsidy received from the Ministry of Social Security of Yangzhou City for the employment of unemployed workers previously laid-off by other companies in the amount of approximately RMB0.5 million and a one-off unconditional government subsidy received from the Ministry of Finance of Hanjiang District of Yangzhou City for the finance subsidy in the amount of approximately RMB4.7 million, both of which was paid to us in cash and were not subject to any conditions. The increase in promotion and store display income in 2009 was primarily due to the increase in promotional activities organised on behalf of suppliers in our Stores with an aim to improve revenue, particularly in light of the global financial crisis which began at the end of 2008. We ceased the annual royalty fees requirement for all of our Franchised Stores starting from 2009. In each year during our Track Record Period, franchise royalty income represented less than 2.0% of our revenue. By not requiring our Franchised Stores to pay annual royalty fees, we believe that it will help to attract potential franchisees, which should allow us to expand our distribution network.

Other gains/(losses) — net

Other net gains amounted to RMB170,000 for the year ended 31 December 2008 while there was a net loss of RMB52,000 for the year ended 31 December 2009. The net gains in 2008 was primarily due to negative goodwill in the amount of RMB193,000 resulted from the acquisition of 90% equity interest in Changzhou Keyi during the year ended 31 December 2008.

Selling and marketing expenses

Selling and marketing expenses increased by approximately 22.7% from RMB41.8 million for the year ended 31 December 2008 to RMB51.2 million for the year ended 31 December 2009. This increase was primarily due to (i) an increase in depreciation costs for our Self-operated Stores and distribution and logistics centres, particularly our new distribution and logistics centre, (ii) an increase in operating lease costs of our Self-operated Stores principally as a result of an increase in the number of our Self-operated Stores from 20 as at 31 December 2008 to 27 as at 31 December 2009, and (iii) an increase in promotion and advertising expenses as a result of an increase in promotional activities with an aim to improve sales, particularly in light of the global financial crisis which began at the end of 2008.

Administrative expenses

Administrative expenses increased by approximately 7.4% from RMB38.5 million for the year ended 31 December 2008 to RMB41.3 million for the year ended 31 December 2009, primarily as a result of increases in wages, salaries, social security costs and welfare of management staff, cost of operating leases for our office premises and entertainment expenses as a result of growth of our business.

Profit from operations

Profit from operations increased by approximately 153.7% from RMB49.3 million for the year ended 31 December 2008 to RMB125.1 million for the year ended 31 December 2009, primarily as a result of the factors described above.

Finance income

Finance income decreased by approximately 31.2% from RMB6.9 million for the year ended 31 December 2008 to RMB4.7 million for the year ended 31 December 2009. The decrease was primarily due to the fact that (i) the secured and interest bearing loan made by us to Yangzhou Yintai in 2007 was repaid by installments from January 2008 to July 2008 and was entirely repaid by July 2008 and (ii) the discounted bank notes receivables purchased by us from an Independent Third Party in 2008 were endorsed to our suppliers at the end of 2008.

Finance costs

Finance costs increased by approximately 649.0% from RMB0.4 million for the year ended 31 December 2008 to RMB2.9 million for the year ended 31 December 2009 as a result of an increase in our net bank borrowings in the amount of RMB70.0 million in the year ended 31 December 2009.

Income tax expense

Income tax expense increased by approximately 98.8% from RMB17.2 million for the year ended 31 December 2008 to RMB34.3 million for the year ended 31 December 2009. Our effective income tax rate decreased slightly from approximately 30.9% in the year ended 31 December 2008 to approximately 27.0% in the year ended 31 December 2009.

Profit for the year

Profit for the year increased by approximately 140.2% from RMB38.6 million for the year ended 31 December 2008 to RMB92.6 million for the year ended 31 December 2009. As a percentage of our revenue, profit for the year increased from 3.9% to 7.4%, primarily attributable to an increase in gross profit margin from 12.2% for the year ended 31 December 2008 to 16.5% for the year ended 31 December 2009, which was principally as a result of improved market conditions for household appliances in China in 2009 as compared to 2008 and higher gross profit margin for products sold under the Rural Appliances Rebate Program in 2009 as described above.

Profit for the year attributable to equity holders

Due to the decrease in finance income and increase in finance costs described above, our profit for the year attributable to equity shareholders increased by approximately 139.5% from RMB38.2 million for the year ended 31 December 2008 to RMB91.5 million for the year ended 31 December 2009, as compared to the 153.7% increase in profit from operations.

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

Revenue increased by approximately 97.5% from RMB500.5 million for the year ended 31 December 2007 to RMB988.2 million for the year ended 31 December 2008, primarily as a result of an increase in sales volume of our bulk distribution operations. The increase in sales volume was primarily attributable to the expansion of our distribution network and the opening of additional Franchised Stores as well as certain authorised distribution rights obtained by us for selected types of Gree and Midea products.

(i) *Retail Operation*

Revenue from sales of merchandise through our retail operation increased by approximately 36.8% from RMB241.6 million for the year ended 31 December 2007 to RMB330.4 million for the year ended 31 December 2008, primarily as a result of an increase in sales volume of our Self-operated Stores. The increase in sales volume of our retail operation was principally attributable to the increase in our number of Self-operated Stores from 12 as at the end of 2007 to 20 as at the end of 2008, as well as enhanced recognition of our brand and a general increase in demand for household appliances in China.

(ii) *Bulk Distribution Operation (including sales to our franchisees)*

Revenue from sales of merchandise through our bulk distribution operation as a whole increased by approximately 157.2% from RMB252.4 million for the year ended 31 December 2007 to RMB649.1 million for the year ended December 2008, primarily as a result of an increase in sales volume. The increase in sales volume of our bulk distribution operation (including sales to Franchised Stores and Independent Third Parties) was primarily due to the fact that (i) we acquired a 90% equity interest in Changzhou Keyi, which enabled us to obtain the authorised distribution rights for selected types of Gree products within prescribed territories primarily in Changzhou and (ii) we obtained the authorised distribution rights for selected types of Midea products within prescribed territories in Yangzhou. The increase in sales volume was also attributable to the enhanced recognition of our brand, the expansion of our distribution network and the increase in the number of Franchised Stores as well as the general increase in demand for household appliances in China.

- *Sales to our franchisees*

  Sales of merchandise to our Franchised Stores increased by approximately 84.1% from RMB155.0 million for the year ended 31 December 2007 to RMB285.3 million for the year ended 31 December 2008, primarily due to an increase in the number of our Franchised Stores and an increase in sales volume as we acquired authorised distribution rights for selected types of Gree and Midea products.

- *Sales to other third parties*

Sales of merchandise to Independent Third Parties increased by approximately 273.5% from RMB97.4 million for the year ended 31 December 2007 to RMB363.8 million for the year ended 31 December 2008. The relatively large growth in sales of merchandise to Independent Third Parties was primarily due to the fact that (i) we acquired authorised distribution rights for selected types of Gree and Midea products as described above and (ii) some of our Franchised Stores, which are located far away from our logistics centre in Yangzhou, sourced their merchandise from Independent Third Parties which sourced merchandise from us. Our Directors believe that this indirect sourcing arrangement supports our franchise network in geographically more remote areas as well as decreases our logistics costs.

(iii) *Service Income*

Revenue generated from maintenance and installation services increased by approximately 33.5% from RMB6.5 million for the year ended 31 December 2007 to RMB8.7 million for the year ended 31 December 2008, primarily due to an increase in sales volume.

Cost of sales

Cost of sales increased by approximately 108.6% from RMB415.8 million for the year ended 31 December 2007 to RMB867.4 million for the year ended 31 December 2008, primarily due to an increase in sales volume. The rate of increase in cost of sales was higher than that of our revenue growth principally because the sales volume of our bulk distribution operation increased at a faster rate than that of our retail operation. The prices that we charge for products sold through our bulk distribution operation are generally lower than the prices that we charge for similar merchandise at our Self-operated Stores. In addition, the purchase prices for some of our products increased during the year, some of which we were not able to pass onto our customers in light of the relatively poor market conditions.

Gross profit and gross profit margin

As a result of the above principal factors, our gross profit increased by approximately 42.6% from RMB84.7 million for the year ended 31 December 2007 to RMB120.8 million for the year ended 31 December 2008. Our overall gross profit margin decreased from approximately 16.9% for the year ended 31 December 2007 to approximately 12.2% for the year ended 31 December 2008, principally due to a higher percentage increase in sales volume of our bulk distribution operation (under which our products are generally sold at lower prices with lower gross profit margins) when compared to our retail operation (under which our products are generally sold at higher prices with higher gross profit margins).

(i) *Retail Operation*

The gross profit from our retail operation increased by approximately 13.1% from RMB52.4 million for the year ended 31 December 2007 to RMB59.2 million for the year ended 31 December 2008. The gross profit margin of our retail operation decreased from 21.7% for the year ended 31 December 2007 to 17.9% for the year ended 31 December 2008, primarily due to an increase in promotions held by us (under which products were sold at lower prices with lower gross profit margins) in 2008 as described above.

(ii) *Bulk Distribution Operation*

The gross profit from our bulk distribution operation as a whole increased by approximately 106.4% from RMB28.6 million for the year ended 31 December 2007 to RMB59.1 million for the year ended 31 December 2008. The gross profit margin of our bulk distribution operation as a whole decreased from 11.3% for the year ended 31 December 2007 to 9.1% for the year ended 31 December 2008.

- *Sales to our franchisees*

  The gross profit from our sales to our franchisees under the bulk distribution operation increased by approximately 47.8% from RMB20.7 million for the year ended 31 December 2007 to RMB30.6 million for the year ended 31 December 2008. The gross profit margin of our sales to our franchisees under the bulk distribution operation decreased from 13.4% for the year ended 31 December 2007 to 10.7% for the year ended 31 December 2008. Gross profit margin in this segment for the year ended 31 December 2008 was relatively lower principally due to (i) the relatively poor market conditions for household appliance sales in China in 2008 as described above, which resulted in a lower amount of supplier rebates given by our suppliers and (ii) the larger amount of volume discounts provided by us or lower prices charged by us to our new franchisees in new markets in 2008, namely Nanjing and Changzhou.

- *Sales to other third parties*

  The gross profit from our sales to other third parties under the bulk distribution operation increased by approximately 259.8% from RMB7.9 million for the year ended 31 December 2007 to RMB28.5 million for the year ended 31 December 2008. The gross profit margin of our sales to other third parties under the bulk distribution operation decreased from 8.1% for the year ended 31 December 2007 to 7.8% for the year ended 31 December 2008, primarily due to the fact that we secured certain new third party customers as a result of our acquisition of authorised distribution rights of selected types of Midea and Gree products and committed first time sales to these third parties in 2008 on less aggressive terms, particularly in light of the bad market conditions for household appliances in China in 2008 and the global financial crisis which occurred at the end of 2008.

(iii) *Service Income*

The gross profit from our maintenance and installation services decreased by approximately 33.1% from RMB3.7 million for the year ended 31 December 2007 to RMB2.5 million for the year ended 31 December 2008. The gross profit margin of our maintenance and installation services decreased from 56.6% for the year ended 31 December 2007 to 28.3% for the year ended 31 December 2008, primarily due to the fact that we charged lower prices for our maintenance and installation services in 2008 as described above.

Other income

Other income decreased by approximately 34.7% from RMB13.2 million for the year ended 31 December 2007 to RMB8.6 million for the year ended 31 December 2008, primarily as a result of a decrease of RMB5.2 million, or 52.4%, in royalty income received from Franchised Stores, which was partially offset by an increase in government subsidy. We waived the royalty fees for some of the new Franchised Stores in 2008 as an incentive for them to become our franchisees and to support our franchisees at the beginning stage of the establishment of new Franchised Stores, particularly in light of the global financial crisis which began at the end of 2008. The increase in government subsidy represented a one-off unconditional government subsidy received from the Ministry of Finance of Yangzhou City in 2008 for the development of service industry in the amount of RMB412,000. This government subsidy was paid to us in cash and was not subject to any conditions.

Other gains/(losses) — net

There were no net gains or losses for the year ended 31 December 2007. For the year ended 31 December 2008, we had a net gains of RMB170,000 primarily due to the recognition of negative goodwill in the amount of RMB193,000 resulted from the acquisition of Changzhou Keyi in 2008.

Selling and marketing expenses

Selling and marketing expenses increased by approximately 48.3% from RMB28.2 million for the year ended 31 December 2007 to RMB41.8 million for the year ended 31 December 2008. This increase was primarily due to an increase in promotion and advertising expenses to enhance recognition of our "*汇银 (Huiyin*)*" brand and an increase in operating leases costs of our Self-operated Stores, employee benefit expenses, travelling expenses, transportation expenses, utility expenses and depreciation costs as a result of an expansion of our operations and our distribution network, including an increase in the number of our Self-operated Stores. Our cost of operating leases of our Self-operated Stores increased from RMB5.6 million for the year ended 31 December 2007 to RMB9.0 million for the year ended 31 December 2008 principally as a result of an increase in the number of our Self-operated Stores from 12 as at 31 December 2007 to 20 as at 31 December 2008.

Administrative expenses

Administrative expenses increased by approximately 142.1% from RMB15.9 million for the year ended 31 December 2007 to RMB38.5 million for the year ended 31 December 2008, primarily as a result of (i) an increase in salaries and welfare benefits for our management and administrative personnel and an increase in our cost of operating lease for our office premises due to an expansion of our team as operations grew, (ii) a one-off consulting expense in the amount of RMB2.0 million paid by us to a related party, of which RMB1.68 million was incurred in 2008, in relation to various advice and strategic consulting services provided by the related party in connection with our Group's business strategy and organisational development, (iii) a one-off consulting expense in the amount of RMB3.0 million incurred by us in relation to consulting services provided to us by a related party in 2008 to enhance our operating, information and logistics management systems, including the ERP System, and to improve our internal control procedures and human resources policies, and (iv) listing expenses in the amount of approximately RMB5.2 million for the Global Offering. Our cost of operating leases of our office premises increased from RMB0.2 million for the year ended 31 December 2007 to RMB2.0 million for the year ended 31 December 2008 primarily as a result of an increase in the number of our management and administrative personnel and accordingly required office space as our operations expanded relatively rapidly in 2008. For the year ended 31 December 2007, prepayments made to our suppliers amounting to approximately RMB0.4 million were written off by us as an administrative expense. They primarily represented long-aged prepayments made to certain third party suppliers with whom our Group had no further business relationship during the Track Record Period.

Profit from operations

Profit from operations decreased by approximately 8.4% from RMB53.8 million for the year ended 31 December 2007 to RMB49.3 million for the year ended 31 December 2008, primarily as a result of the factors described above.

Finance income

Finance income increased by approximately 117.8% from RMB3.2 million for the year ended 31 December 2007 to RMB6.9 million for the year ended 31 December 2008. The increase was primarily due to (i) an increase in bank deposits in 2008 following the capital contribution in 2007 and (ii) interest income derived from the discounted bank notes receivables purchased by us from an Independent Third Party in 2008.

Finance costs

Finance costs decreased by approximately 91.2% from RMB4.4 million for the year ended 31 December 2007 to RMB0.4 million for the year ended 31 December 2008 as a result of our repayment of outstanding bank borrowings in 2008.

Income tax expense

Income tax expense increased from RMB9.1 million for the year ended 31 December 2007 to RMB17.2 million for the year ended 31 December 2008. Our effective income tax rate increased from approximately 17.4% in the year ended 31 December 2007 to approximately 30.9% in the year ended 31 December 2008. The increase in income tax expense and effective income tax rate was primarily a result of the expiration of the 50% tax exemption for Yangzhou Huiyin following the commencement of the Corporate Income Tax Law of the PRC on 1 January 2008 and income tax on expenses not deductible for tax purposes in the amount of approximately RMB3.0 million in 2008.

Profit for the year

Profit for the year decreased by approximately 11.2% from RMB43.4 million for the year ended 31 December 2007 to RMB38.6 million for the year ended 31 December 2008. As a percentage of our revenue, profit for the year decreased from 8.7% to 3.9%, primarily attributable to (i) a decrease in gross profit margin from 16.9% for the year ended 31 December 2007 to 12.2% for the year ended 31 December 2008 principally as a result of a higher percentage increase in sales volume of our bulk distribution operation (under which our products are generally sold at lower prices than products sold through our retail operation) in 2008, (ii) an increase in operating expenses, in particular administrative expenses principally as a result of certain one-off consulting expenses and listing expenses incurred in 2008 and (iii) an increase in income tax expense principally as a result of the expiration of the 50% tax exemption for Yangzhou Huiyin in 2008, as described above.

Profit for the year attributable to equity holders

Due to the increase in income tax expenses in 2008, our profit for the year attributable to equity shareholders decreased by approximately 12.0% from RMB43.4 million for the year ended 31 December 2007 to RMB38.2 million for the year ended 31 December 2008, as compared to the 8.4% decrease in profit from operations.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our operations primarily from cash flows from operating activities, capital contributions to a subsidiary from equity shareholders and short-term borrowings from banks. We require cash primarily for our working capital needs and capital expenditures.

We had cash and cash equivalents of approximately RMB120.7 million, RMB81.7 million and RMB18.2 million as at 31 December 2007, 2008 and 2009, respectively. The decrease in cash and cash equivalents during the Track Record Period was principally due to the increase in prepayments made to our suppliers and increase in inventories proportionate to the growth in our sales volume during the Track Record Period. The decrease in cash and cash equivalents from RMB81.7 million as at 31 December 2008 to RMB18.2 million as at 31 December 2009 was also attributable to (i) an increase in our prepayments made to suppliers for increased purchases of inventories as a result of the improved market conditions for household appliances in China in 2009 and expected market demand for 2010 and (ii) an increase in our trade and bills receivables as at 31 December 2009 due to the fact that we granted most of our customers credit period from 60 days to 90 days near the year-end, resulting in slower settlement from our customers. Please refer to the section headed "Financial Information — Trade and other receivables analysis" for more detailed discussion on our trade and bills receivables during the Track Record Period. Substantially all of our cash and cash equivalents are held in Renminbi on deposit in demand accounts. Our cash position during the Track Record Period has been affected primarily by cash flows from operating activities, purchases of property, plant and equipment, net proceeds from equity issuances and proceeds from bank borrowings. As at 31 January 2010, we had outstanding indebtedness in the amount of RMB133.5 million, consisting of bank borrowings of RMB130.0 million and amounts due to Mr. Cao of RMB3.5 million.

Treasury policies

Our Group's primary treasury policies focus on liquidity management and maintaining an optimal level of liquidity to safeguard our ability to sustain reasonable growth of our business operations with access to financial resources at a reasonable cost. To achieve better risk control and minimise the cost of funds, our Group's treasury activities are centralised and cover five categories, namely, financial budgeting, borrowings management, disbursements management, bank deposits management and cash management. Through financial budgeting, we prepare for expected cash requirements, including prepayments to our suppliers for inventories. Our liquidity and financial requirements are reviewed regularly. During the Track Record Period, financings were raised mainly through capital contributions and short-term bank borrowings. We regularly and closely monitor our overall debt positions and review its funding costs and maturity profile. Our cash is generally deposited in interest-bearing savings accounts or as restricted bank deposits pledged as security for our bills payables, all of which is denominated in Renminbi.

We have established internal control procedures to review and monitor each of the five categories of our treasury activities. Financial budgeting are prepared by each of our subsidiaries and are required to be reviewed and approved by our head office of financial management. Accounting staffs of our head office will review each borrowing agreement to ensure accuracy on the amount borrowed, maturity terms and interest rate. All of our subsidiaries' or employees' applications for disbursement are required to be reviewed and approved by our head office of financial management or head office of Self-operated Stores. Under our bank deposits management policy, the capital department of our head office and various personnel of our head office of financial management are responsible for various check and balance exercises, including assessment, control and monitoring of deposits and withdrawals of funds from our bank accounts. As part of our cash management procedures, our cash and cheques are kept at safe which can only be accessed by authorised personnel. Daily and monthly reports on cash balances are prepared by our personnel of our cash department and monthly reports are reviewed and approved by the management of our accounting department. Please also refer to the section headed "Our Business — Cash management" for details of internal control procedures adopted by us at the level of Self-operated Stores.

Cash flow

The following table sets out selected cash flow data from our consolidated cash flow statements, as set out in the Accountant's Report in Appendix I to this prospectus, for the periods indicated:

	Year ended 31 December		
	2007	2008	2009
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Net cash used in operating activities	(130,859)	(45,667)	(101,468)
Net cash (used in)/generated from investing activities	(50,173)	29,615	(24,093)
Net cash generated from/(used in) financing activities	293,803	(22,946)	62,027
Net increase/(decrease) in cash and cash equivalents	112,771	(38,998)	(63,534)
Cash and cash equivalents at beginning of year	7,911	120,682	81,684
Cash and cash equivalents at end of year	120,682	81,684	18,150

Operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sale of our merchandise. Our working capital cash requirements are typically used to purchase inventory, make prepayments to suppliers for purchase of our inventories, and to pay our vendors. Net cash used in operating activities consists of profit before income tax for the year as adjusted for non-cash expenses, net finance costs or income and changes in working capital.

We recorded significant net cash outflow from operating activities of approximately RMB130.9 million, RMB45.7 million and RMB101.5 million for the three years ended 31 December 2007, 2008 and 2009, respectively. The major factor which contributed to our net cash outflow from operating activities for these periods was the increase in prepayments, deposits and other receivables as a result of increased prepayments made to our suppliers, in particular suppliers of Midea and Gree air conditioners in order to secure authorised distribution rights for selected types of products, to enhance our relationships with suppliers and to increase the likelihood of being able to secure additional authorised distribution rights.

In the long term, our management intends to strengthen our bargaining power with major suppliers by expanding our business operation in Jiangsu province as well as in neighbouring provinces as well as expanding our sales network by increasing the number of our Self-operated Stores and Franchised Stores. The Directors believe that with strengthened bargaining power, we would in time be in a better position to negotiate with suppliers and decrease the amounts of prepayments to be made to the suppliers for our purchases. In the short term, our Directors believe that we may continue to record significant net cash outflow from operating activities. However, our Directors believe that we have the ability to raise additional bank borrowings to cover expected working capital requirements.

In the year ended 31 December 2009, we had net cash used in operating activities of RMB101.5 million. Profit before income tax for the period was RMB126.9 million. Adjustments include net finance income of RMB1.8 million, listing expenses of RMB4.8 million and non-cash expenses of RMB14.0 million, resulting in operating profit before changes in working capital of RMB143.9 million. Changes in working capital represented RMB217.2 million use of cash, primarily driven by an increase in prepayments, deposits and other receivables of RMB118.2 million, an increase in restricted bank deposits of RMB36.4 million and an increase in trade and bills receivables of RMB68.9 million. The increase in prepayments, deposits and other receivables was primarily due to increased prepayments required by our suppliers of Midea and Gree air conditioners for selected products for which we have authorised distribution rights and our decision to voluntarily prepay for certain inventory purchases in order to enhance our relationships with suppliers and to increase the likelihood of being able to secure additional authorised distribution rights. The increase in restricted bank deposits was primarily due to our increased use of bank acceptance notes to settle amounts owed to our suppliers to strengthen our supplier relationships, corresponding to the increase in prepayments as described above. The increase in trade and bills receivables was primarily due to an increase in purchases from our customers near the year-end as a result of the improved market conditions for household appliances in 2009 and expected increase in market demand for 2010 partially due to the Rural Appliance Rebate Program and the Change of the Old for the New Program. These cash outflows were partially offset by an increase in trade and bills payable of RMB18.2 million primarily due to an increase in the volume of inventory purchases.

In the year ended 31 December 2008, we had net cash used in operating activities of RMB45.7 million. Profit before income tax for the year was RMB55.8 million. Adjustments include net finance income of RMB6.5 million, listing expenses of RMB5.2 million and non-cash expenses of RMB9.5 million, resulting in operating profit before changes in working capital of RMB64.0 million. Changes in working capital represented RMB107.8 million use of cash, primarily driven by an increase in prepayments, deposits and other receivables of RMB103.9 million, an increase in inventories of RMB77.8 million and a decrease in trade and bills payable of RMB21.1 million. The increase in prepayments, deposits and other receivables was primarily due to increased prepayments made to our suppliers of Midea and Gree air conditioners to secure authorised distribution rights for selected types of products in 2008. As we obtained authorised distribution rights for selected types of Gree products through our acquisition of Changzhou Keyi and authorised distribution rights for selected types of Midea products, we increased inventory purchases to meet expected sales growth from the availability of additional product lines, resulting in an increase in prepayments made to suppliers. The increase in inventories was primarily due to increased purchases of merchandise from suppliers in order to meet our expected sales growth. The decrease in trade and bills payables was primarily due to our decision to use a portion of our improved cash position to pay our suppliers earlier in order to enhance our relationships with them. These cash outflows were partially offset by a decrease in trade and bills receivables of RMB14.1 million, a decrease in restricted bank deposits of RMB53.9 million and an increase in accruals and other payables of RMB26.9 million. The decrease in trade and bills receivables was primarily due to our decision to improve the settlement process with our franchisees as the number of our Franchised Stores and other corporate customers increased. The decrease in restricted bank deposits was primarily due to our decision to use a portion of our improved cash position to pay our suppliers earlier with cash instead of bank acceptance notes in order to enhance our relationships with them. The increase in accruals and other payables was primarily due to an increase in advances from customers as our sales to franchisees increased and an increase in salary and welfare payables due to an expansion of our staffing levels as our operations grew.

In the year ended 31 December 2007, we had net cash used in operating activities of RMB130.9 million. Profit before income tax for the year was RMB52.5 million. Adjustments include net finance costs of RMB1.3 million and non-cash expenses of RMB4.9 million, resulting in operating profit before changes in working capital of RMB58.7 million. Changes in working capital represented RMB184.2 million use of cash, primarily driven by an increase in prepayments, deposits and other receivables of RMB102.6 million, an increase in trade and bills receivables of RMB40.4 million, an increase in restricted bank deposits of RMB64.1 million, an increase in inventories of RMB29.4 million and a decrease in accruals and other payables of RMB7.8 million. The increase in prepayments, deposits and other receivables was primarily due to increased prepayments made to certain suppliers to secure authorised distribution rights for selected products and increased inventory purchases in order to meet expected sales growth as our operations grew. The increase in restricted bank deposits was primarily due to an increase in the volume of inventory purchases and the corresponding increased use of bank acceptance notes, which were secured by bank deposits. The increase in trade and bills receivables was primarily due to our sales growth as well as our decision to ease our settlement process with our franchisees slightly in order to command greater sales growth at our initial expansion stage. These cash outflows were partially offset by an increase in trade and bills payable of RMB60.1 million primarily due to our sales growth.

Investing activities

Our investing activities principally consist of purchases of property, plant and equipment, and the purchase of land use rights and intangible assets.

In the year ended 31 December 2009, we had net cash used in investing activities of RMB24.1 million, which was primarily due to our payment for the purchase of land use rights in the amount of RMB8.0 million and our purchase of property, plant and equipment in the amount of RMB20.8 million, both primarily relating to our new distribution and logistics centre in Yangzhou. These cash outflows were partially offset by interest income in the amount of RMB4.7 million received on our bank deposits as a result of our improved cash position.

In the year ended 31 December 2008, we had net cash generated from investing activities of RMB29.6 million, which was primarily contributed by the repayment of our unsecured and interest bearing loan in the amount of RMB36.0 million made to Yangzhou Yintai and interest income in the amount of RMB7.6 million received primarily on our bank deposits as a result of our improved cash position. These cash inflows were partially offset by our payment for the purchase of property, plant and equipment in the amount of RMB5.3 million, the purchase price for the acquisition of Changzhou Keyi, our 90% indirectly-owned subsidiary, in the amount of RMB5.9 million and the purchase of intangible assets in the amount of RMB3.0 million primarily in relation to our ERP system.

In the year ended 31 December 2007, we had net cash used in investing activities of RMB50.2 million, which was primarily due to our payment for the purchase of property, plant and equipment in the amount of RMB16.6 million primarily for our first distribution and logistics centre in Yangzhou and the unsecured and interest bearing loan that we made to Yangzhou Yintai in the amount of RMB36.0 million. These cash outflows were partially offset by the interest income in the amount of RMB2.4 million received primarily on our bank deposits and the interest bearing loan made to Yangzhou Yintai.

Financing activities

We derive our cash inflow from financing activities principally from the proceeds from a capital injection and proceeds from bank borrowings. Our cash outflow from financing activities relates primarily to our repayment of principal and interest on our bank loans.

In the year ended 31 December 2009, we had net cash generated from financing activities of RMB62.0 million, consisting principally of proceeds from bank borrowings of RMB95.0 million, partially offset by repayments of bank borrowings in the amount of RMB25.0 million.

In the year ended 31 December 2008, we had net cash used in from financing activities of RMB22.9 million, consisting wholly of repayments of bank borrowings.

In the year ended 31 December 2007, we had net cash generated from financing activities of RMB293.8 million, which was primarily attributable to a capital injection in the amount of RMB319.4 million in Yangzhou Huiyin, primarily for working capital purposes, including without limitation, to secure authorised distribution rights for selected products from suppliers and for the expansion of our operations and our franchise model. These cash inflows were partially offset by the net repayment of bank loans during the year in the amount of RMB25.6 million.

INDEBTEDNESS

Borrowings

The following table sets out our bank borrowings as at 31 December 2007, 2008 and 2009 and 31 January 2010 by maturity date:

	As at 31 December			As at 31 January
	2007	2008	2009	2010
	RMB (million)	*RMB (million)*	*RMB (million)*	*RMB (million)* *(unaudited)*
Within 1 year	21.3	—	70.0	130.0

All borrowings as at 31 December 2007 were either secured by related parties' assets or guaranteed by related parties. All pledges of third parties' assets were released on 30 September 2009. As at 31 December 2009, borrowings in the amount of RMB40.0 million were secured by our inventories and borrowings in the amount of RMB20.0 million were guaranteed by Mr. Cao, our Director. The guarantee given by Mr. Cao in the amount of RMB20.0 million for part of our borrowings as at 31 December 2009 is expected to be released upon the Listing.

All of our bank borrowings are denominated in RMB and the effective interest rates as at 31 December 2007, 2008 and 2009 and 31 January 2010 were approximately 7.1%, nil, 5.5% and 5.5%, respectively. As at the Latest Practicable Date, we did not and had not breached any covenants in our loan agreements. The Directors confirm that there was no delay or default in repayment of our bank borrowings and other borrowings during the Track Record Period.

As at 31 December 2009, our only outstanding non-trade indebtedness was (i) our bank borrowings in the amount of RMB70.0 million for working capital purposes, which is repayable within one year and (ii) an amount due to Mr. Cao, our Director, in the amount of RMB3.5 million. The balance due to Mr. Cao in the amount of RMB3.5 million mainly represented miscellaneous payments that Mr. Cao paid on behalf of our Group.

As at 31 January 2010, the latest practicable date for determining our indebtedness, our Group's total indebtedness amounted to RMB133.5 million, consisting of bank borrowings of RMB130.0 million and amount due to Mr. Cao of RMB3.5 million. On 3 March 2010, the entire balance of the RMB3.5 million due to Mr. Cao was fully settled by us out of internal resources. The additional borrowings in the amount of RMB60.0 million incurred by us in January 2010 were primarily for the purposes of purchasing inventories in preparation of the expected strong demand during Chinese New Year holiday in February 2010 as well as making prepayments to suppliers of air conditioners in preparation of the expected strong demand during the upcoming summer season. As at 31 January 2010, our (i) bank borrowings in the amount of RMB80.0 million were secured by certain of our inventories, land use rights and buildings with the total net book value approximately of RMB152.3 million as at 31 January 2010, (ii) bank borrowings in the amount of RMB20.0 million were guaranteed by Mr. Cao, our Director and (iii) bank borrowings in the amount of RMB30.0 million were unsecured. The guarantee given by Mr. Cao in the amount of RMB20.0 million for part of our borrowings as at 31 January 2010 is expected to be released upon the Listing.

As at 31 January 2010, our Group had available loan facilities in the amount of RMB130.0 million, all of which were utilised.

Save as disclosed above, as at 31 January 2010, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, mortgages, charges, debentures, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases, hire purchase commitments, liabilities under acceptances (other than under normal trade bills) or acceptance credits, guarantees or other material contingent liabilities. There are no material covenants relating to our outstanding debt that would restrict our ability to raise additional capital through debt or equity financing.

Subsequent to 31 January 2010 and up to 28 February 2010, our Group has obtained additional and extended loan facilities, such that our Group has total loan facilities (including utilised and unutilised loan facilities) in the amount of RMB210.0 million as at 28 February 2010. Out of the RMB210.0 million loan facilities, RMB20.0 million will mature in March 2011 and RMB190.0 million will mature after March 2011.

The Directors confirm that, subsequent to 31 January 2010, the latest practicable date for determining our indebtedness and up to the Latest Practicable Date, there has been no material adverse change in the indebtedness position of our Group.

NET CURRENT ASSETS

The following table sets out details of our current assets and current liabilities as at the dates indicated:

	As at 31 December						As at 31 January	
	2007		2008		2009		2010	
	RMB (million)	*% of total current assets/ liabilities*	*RMB (million)*	*% of total current assets/ liabilities*	*RMB (million)*	*% of total current assets/ liabilities*	*RMB (million) (unaudited)*	*% of total current assets/ liabilities (unaudited)*
Current assets								
Inventories	73.6	12.9	161.2	25.2	163.1	21.2	188.4	22.7
Trade and bills receivables	44.2	7.7	33.7	5.3	102.6	13.3	95.5	11.5
Prepayments, deposits and other receivables	198.2	34.7	265.5	41.5	352.9	45.8	406.6	49.0
Restricted bank deposits	134.9	23.6	97.9	15.3	134.3	17.4	121.6	14.7
Cash and cash equivalents	120.7	21.1	81.7	12.8	18.2	2.4	17.3	2.1
Total	571.6	100.0	639.9	100.0	771.1	100.0	829.4	100.0
Current liabilities								
Trade and bills payables	175.9	71.5	177.9	66.7	196.2	59.3	191.9	50.6
Accruals and other payables	39.9	16.2	72.2	27.1	60.9	18.4	54.2	14.3
Borrowings	21.3	8.7	—	—	70.0	21.2	130.0	34.2
Current income tax liabilities	9.0	3.7	16.7	6.3	3.7	1.1	3.5	0.9
Total	246.1	100.0	266.8	100.0	330.7	100.0	379.6	100.0
Net current assets	325.6		373.1		440.4		449.8	

As at 31 December 2007, 2008 and 2009, we had net current assets of approximately RMB325.6 million, RMB373.1 million and RMB440.4 million, respectively. For the year ended 31 December 2007, certain shareholders made a capital injection in Yangzhou Huiyin in the amount of RMB319.4 million, which improved our liquidity and cash position.

Based on our unaudited consolidated management accounts as at 31 January 2010, we had net current assets of approximately RMB449.8 million, consisting of total current assets in the amount of approximately RMB829.4 million and total current liabilities in the amount of approximately RMB379.6 million.

INVENTORY ANALYSIS

During the Track Record Period, inventories were one of the principal components of our current assets. The value of our inventories accounted for approximately 12.9%, 25.2% and 21.2% of our total current assets as at 31 December 2007, 2008 and 2009, respectively.

The following table is a summary of our balance of inventories as at the dates indicated:

	As at 31 December		
	2007	2008	2009
	RMB (million)	*RMB (million)*	*RMB (million)*
Inventories			
Merchandise held for resales	73.7	162.0	163.3
Provision for obsolescence	(0.3)	(0.8)	(0.5)
	73.4	161.2	162.8
Low value consumables	0.3	0.02	0.3
Total	73.6	161.2	163.1

Our inventories increased by approximately 119.0% from RMB73.6 million as at 31 December 2007 to RMB161.2 million as at 31 December 2008 and increased by approximately 1.2% to RMB163.1 million as at 31 December 2009. The increases in 2008 and 2009 were primarily due to increased inventory purchasing to meet expected increases in sales volume.

In January 2010, approximately RMB69.4 million of our inventories as at 31 December 2009 of RMB163.1 million had been sold or consumed.

We carry out physical monthly stock-taking and we make full provision for obsolete merchandise based on our inventory aging analysis. For the three years ended 31 December 2007, 2008 and 2009, we made provisions for obsolescence equal to approximately 0.4%, 0.5% and 0.3% of our total inventories, respectively.

The following table sets out our average inventory turnover days for the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
Average inventory turnover days(1)	52	49	56

Note:

(1) Average inventory turnover days is equal to the average inventory divided by costs of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year and divided by two.

Generally, the average inventory turnover days for merchandise sold under our bulk distribution operation is higher than for merchandise sold under our retail operation, primarily due to the fact that we place orders earlier in advance to suppliers for merchandise to be sold under our bulk distribution operation. Average inventory turnover days for the year ended 31 December 2008 was relatively low primarily attributable to the fact that we adopted a more cautious approach in purchasing merchandise from our suppliers due to the relative poor market conditions for household appliances in China in 2008. The increase in the average inventory turnover days from the year ended 31 December 2008 to the year ended 31 December 2009 was primarily due to the growth in our bulk distribution business over the same period and the fact that we returned to our normal approach in purchasing merchandise from our suppliers as a result of the improved market conditions for household appliance in China in 2009 in order support our business growth.

TRADE AND OTHER RECEIVABLES ANALYSIS

Trade receivables and bills receivable

Our trade and bills receivable primarily relate to receivables for goods sold to our customers under our retail operations and our bulk distribution business. Our trade and bills receivable amounted to RMB44.2 million, RMB33.7 million and RMB102.6 million as at 31 December 2007, 2008 and 2009, respectively.

Our trade and bills receivable decreased by 23.9% from RMB44.2 million as at 31 December 2007 to RMB33.7 million as at 31 December 2008, as we required more advances or cash-on-delivery from our customers as our operations expanded and sales volume increased. Our trade and bills receivables increased by approximately 204.8% from RMB33.7 million as at 31 December 2008 to RMB102.6 million as at 31 December 2009, primarily due to an increase in purchases from our customers near the 2009 year-end as a result of the improved market conditions for household appliances in 2009 and expected increase in market demand for 2010 partially due to the Rural Appliance Rebate Program and the Change of the Old for New Program. Due to the large volume of purchases from our customers, we granted most of our customers credit periods from 60 days to 90 days, which resulted in an increase in our trade and bills receivables as at 31 December 2009.

In January 2010, approximately 41.7 million of our trade and bills receivables of RMB102.6 million as at 31 December 2009 had been settled.

Under our retail operations, our customers are predominantly individual members of the public who typically pay for merchandise purchased at our Self-operated Stores by cash, bank debit cards or credit cards. Under our bulk distribution business, our customers are our franchisees and other Independent Third Parties, which mainly include household electronics retailers and other corporate customers. We normally require our franchisees to prepay certain amounts for purchases and/or to pay cash on delivery. For sales to Independent Third Parties, we generally offer credit periods of 30 to 90 days.

Our bills receivable are payable when due. The following table sets out the aging analysis of our trade receivables, before provision for impairment, as at the dates indicated:

	As at 31 December		
	2007	2008	2009
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Aging analysis of trade receivables			
0 - 30 days	5,722	17,236	82,942
31 - 90 days	10,170	7,816	13,443
91 - 365 days	25,993	1,958	2,529
1 year - 2 years	1,333	512	1,447
2 years - 3 years	149	990	260
Over 3 years	155	304	797
Total trade receivables	43,522	28,816	101,418

We had a larger amount of trade receivables which were past due as at 31 December 2007, primarily due to the fact that we agreed to permit certain customers who had good credit history with us to settle their receivables some time after the due date after they requested additional time for settlement as a result of their cash flow concerns. On average, we granted these customers credit periods of approximately six to seven months. We agreed to grant the extensions in order to strengthen our relationships with such customers and maintain our market shares.

As at 31 December 2007, 2008 and 2009, trade receivables of RMB1.6 million, RMB1.8 million and RMB2.5 million were past due, impaired and provided for. The following table sets out the ageing analysis of these trade receivables as at the dates indicated:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
91 - 365 days	—	21	—
1 year - 2 years	1,333	512	1,447
2 years - 3 years	149	990	260
Over 3 years	155	304	797
Total	1,637	1,827	2,504

In determining the amount of impairment to be provided for, we take into account the collectability, ageing status, creditworthiness and the past collection history of each customer. Our management continuously monitors the level of overdue receivables to ensure that proper actions are promptly taken to lower the risk exposure or to recover overdue balances. Overdue balances are reviewed regularly by senior management. As our operation expands, we intend to demand more advances or cash-on-delivery from our customers. Accordingly, our Directors are of the view that our present credit controls are effective.

As at 31 December 2007, 2008 and 2009, trade receivables of RMB26.1 million, RMB3.8 million and RMB7.9 million were past due but not impaired. We had not made any provisions for such receivables because they were related to customers for whom there were no recent history of default and we still consider the amounts to be recoverable. The ageing analysis of these trade receivables is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
0 - 30 days	—	—	—
31 - 90 days	60	1,817	5,384
91 - 365 days	25,993	1,958	2,529
Total	26,053	3,775	7,913

Our Directors confirm that the trade receivables which were past due but not impaired as at 31 December 2007 and 2008 had been fully settled after each respective balance sheet date. In January 2010, approximately RMB3.9 million of the RMB7.9 million trade receivables which were past due but not impaired as at 31 December 2009 had been settled.

The following table sets out our average trade and bills receivable turnover days for the Track Record Period:

	Year ended 31 December		
	2007	**2008**	**2009**
Average trade and bills receivable turnover days(1)	18	14	20

Note:

(1) Average trade and bills receivable turnover days is equal to the average trade and bills receivable divided by turnover and multiplied by 365 days. Average trade and bills receivables is equal to trade and bills receivable at the beginning of the year plus trade and bills receivable at the end of the year and divided by two.

Average trade and bills receivable turnover days decreased from the year ended 31 December 2007 to the year ended 31 December 2008, primarily due to the fact that we required more advances or cash-on-delivery from our customers as our operations expanded. Average trade and bills receivable turnover days increased from the year ended 31 December 2008 to the year ended 31 December 2009, primarily due to the large increase in our trade and bills receivables as at 31 December 2009 due to the reasons described above.

Prepayments, deposits and other receivables

Prepayment, deposits and other receivables primarily represent prepayments made to our suppliers for merchandise, prepayment made to Yangzhou Yintai for the acquisition and construction for our new distribution and logistics centre, a secured and interest bearing loan made to Yangzhou Yintai, and other receivables from third parties, including without limitation, value added tax recoverable.

Prepayments made to suppliers

Prepayments made to our suppliers amounted to RMB110.6 million, RMB207.0 million and RMB328.3 million as at 31 December 2007, 2008 and 2009, respectively. As at 31 December 2007, 2008 and 2009, our prepayments made to our suppliers accounted for approximately 19.3%, 32.3% and 42.6%, respectively, of our total current assets. For the three years ended 31 December 2007, 2008 and 2009, prepayments were made for approximately 53.9%, 72.6% and 86.9% of the total purchases from our suppliers, respectively. The increase in prepayments made to suppliers during the Track Record Period was primarily due to (i) an increase in our purchases from suppliers proportionate to our sales growth, (ii) increased prepayments required by the suppliers of Midea and Gree air conditioners for selected products for which we were granted with authorised distribution rights, and (iii) our decision to voluntarily prepay certain inventory purchases in order to enhance our relationships with suppliers to increase the likelihood of securing additional authorised distribution rights.

A substantial portion of our Group's prepayments during the Track Record Period was made to suppliers of Midea and Gree air conditioners in order to enhance our relationships with these suppliers and to increase the likelihood of securing additional authorised distribution rights. For the three years ended 31 December 2007, 2008 and 2009, approximately 81.0%, 67.1% and 83.9% of our total prepayments made to the suppliers were made to our suppliers of Midea and Gree air conditioners. As part of our past and present practice and arrangement with suppliers of Midea and Gree air conditioners, payments for Midea and Gree air conditioner purchases are usually made in its entirety by prepayments. Our Directors are of the view that making significant prepayments to suppliers of air conditioners is in line with the practice of the air conditioner industry in China, but we have chosen to make larger amounts of prepayments to our suppliers of Midea and Gree air conditioners in order to enhance our relationships with these suppliers and to increase the likelihood of securing additional authorised distribution rights and higher amounts of supplier rebates. We enter into annual supply agreements with our major suppliers of air conditioners in September each year. As part of our past and present arrangements with these major suppliers of air conditioners, we normally make a larger amount of prepayments at the start of the annual supply agreement, i.e. in September of each year. This arrangement of making larger amounts of prepayments in the low season of the air conditioner industry helps to ensure that our Group is able to source sufficient quantities of air conditioners with larger supplier rebates from these suppliers. The prepayments also help strengthen our relationships with these major suppliers. For other home appliances, payments are usually made by COD or short-term credit basis, although prepayments may be required and are negotiated on a case by case basis.

The amounts of prepayments that we make to our suppliers is negotiated on a case by case basis and is determined on the basis of our annual sales plan and accordingly the amounts we expect to order from the suppliers as well as the relevant terms of our supply agreements. When the products are delivered to us, the amounts of prepayments are used to settle the total amounts outstanding. Any remaining unpaid amounts are recorded as our trade and bills payable.

In respect of our prepayments made to the suppliers of Midea and Gree air conditioners (which made up a substantial portion of our Group's prepayments during the Track Record Period), the products are usually delivered within one week from the making of the prepayments for regular purchases. For irregular purchases with larger amounts of prepayments made to these suppliers, for instance, in September of each year, the average lead time from the making of the prepayments to the delivery of the products is approximately two months. In respect of prepayments made to suppliers of other household appliances, the products are usually delivered between three to ten days from the making of the prepayments. We usually make larger amounts of prepayments to our suppliers of Midea and Gree air conditioners in September and in certain other months depending on the particular supplier rebates policies of the particular supplier at the time and our expected inventory requirements in anticipation of the high season for air conditioners. The following table sets out the aging analysis of our prepayments made to suppliers as at 31 December 2009:

	As at 31 December
	2009
	RMB (million)
Aging analysis of prepayments	
0 - 30 days	238.1
31 - 90 days	89.8
91 - 365 days	0.4
1 year - 2 years	—
Total prepayments	328.3

During the Track Record Period, the Directors confirm that none of the prepayments made to our suppliers was forfeited by our suppliers.

In January 2010, approximately RMB131.4 million of our prepayments of RMB328.3 million as at 31 December 2009 had been settled. Our Directors expect that the remaining balance of our prepayment in the amount of RMB196.9 million will be fully settled by 31 March 2010.

Prepayments for acquisition of properties

Prepayments for acquisition of properties amounted to RMB34.0 million, RMB34.0 million and nil as at 31 December 2007, 2008 and 2009, respectively. Prepayments for acquisition of properties wholly represents prepayment made to Yangzhou Yintai in the total amount of RMB34.0 million for an intended acquisition of commercial properties to be used as our Group's large flagship store in the city of Yangzhou province.

In 2006 and 2007, we intended to acquire certain commercial properties in the city district of Yangzhou province to be used as one of our Group's large flagship store. As the average prices of completed commercial properties in the city district of Yangzhou province were relatively high, our strategy at the time was to purchase part of the commercial properties from a residential properties development project to be developed by Yangzhou Yintai, as the price of such uncompleted commercial properties was lower than completed commercial properties in the same area. Accordingly, prepayments to Yangzhou Yintai in the total amount of RMB34.0 million were recorded in 2007 and 2008 for the intended acquisition of those properties. At the beginning of 2009, our Directors were of the view that our Group's most immediate need was a distribution and logistics centre and decided to use the capital originally intended for the city property purchase to instead purchase from a third party, namely, Jiangsu Kuanrui, a parcel of land near Yangzhou harbour, which our Directors believed was a suitable location to build a distribution and logistics centre. The ultimate shareholder of Jiangsu Kuanrui is a friend of Mr. Cao and Jiangsu Kuanrui also has certain business relationship with Yangzhou Yintai. At our request, Yangzhou Yintai agreed to terminate the sale and purchase of the commercial properties and to transfer the prepayments in the amount of RMB34.0 million to the third party in 2009. A tripartite agreement was entered into by and among Yangzhou Yintai, the third party and us in 2009 in connection with the transfer of the prepayments, the purchase of the parcel of land and the construction of the logistics centre. Under the tripartite agreement, Yangzhou Yintai agreed to transfer the prepayments in the amount of RMB34.0 million to the third party as consideration for the purchase of the parcel of land near Yangzhou harbour and construction cost of the logistic centre as well as guaranteed with the third party to us that the transfer of the parcel of land from the third party to us would be conducted in accordance with applicable law and regulations. Accordingly to the tripartite agreement, we understand that the prepayments in the amount of RMB34.0 million were transferred to the third party in February 2009.

Loan to a related party

Loan to a related party amounted to RMB36.0 million, nil and nil as at 31 December 2007, 2008 and 2009, respectively. Loan to a related party wholly represents a secured and interest bearing loan in the amount of RMB36.0 million made by us to Yangzhou Yintai in 2007, to assist Yangzhou Yintai to accelerate its construction of the commercial properties, namely, a shopping mall, within the residential properties development as described above. This secured and interest bearing loan made to Yangzhou Yintai in the amount of RMB36.0 million was entirely repaid with interest by July 2008.

Please refer to Note 14 of the Accountant's Report in Appendix I to this prospectus for additional information.

TRADE AND OTHER PAYABLES ANALYSIS

Trade and bills payable

Our trade and bills payable primarily relate to our purchases of merchandise from suppliers, with credit terms of 15 to 60 days for trade payables and 90 to 180 days for bills payable. Our trade and bills payable amounted to RMB175.9 million, RMB177.9 million and RMB196.2 million as at 31 December 2007, 2008 and 2009, respectively.

Our trade and bills payable increased slightly by approximately 1.2% from RMB175.9 million as at 31 December 2007 to RMB177.9 million as at 31 December 2008, primarily due to the increased prepayments made to our suppliers as a result of our improved cash position and the adoption of our strategy to source our supplies on COD or very short-term credit basis in order to add to our creditworthiness and enhance our relationships with our suppliers. Our trade and bills payable increased by approximately 10.2% from RMB177.9 million as at 31 December 2008 to RMB196.2 million as at 31 December 2009, primarily due to our sales growth.

In January 2010, approximately RMB56.7 million of our trade and bills payable of RMB196.2 million as at 31 December 2009 had been paid.

The following table sets out the aging analysis of our trade payables as at the dates indicated:

	As at 31 December		
	2007	2008	2009
	RMB (million)	*RMB (million)*	*RMB (million)*
Aging analysis of trade payables			
0 - 30 days	8.5	10.3	8.2
31 - 90 days	0.2	1.9	4.1
91 - 365 days	2.4	3.9	0.8
1 year - 2 years	0.1	0.7	2.1
2 years - 3 years	—	—	0.7
Over 3 years	—	—	0.1
Total trade payables	11.2	16.8	16.0

The following table sets out our average trade and bills payable turnover days for the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
Average trade and bills payable turnover days[1]	128	74	66

Note:

(1) Average trade and bills payable turnover days is equal to the average trade and bills payable divided by cost of sales and multiplied by 365 days. Average trade and bills payable is equal to the trade and bills payable at the beginning of the year plus trade and bills payable at the end of the year and divided by two.

Average trade and bills payable turnover days decreased during the Track Record Period, primarily due to our decreased use of bills payable and trade payables to settle purchases with suppliers as a result of our improved cash position and as part of our strategy to make larger prepayments to enhance our relationships with suppliers.

We have been using bank acceptance bills to settle a portion of our payables as we consider these bills to be a less expensive form of financing. The use of bank acceptance bills enables us to extend our trade payables for a longer credit term, thus enhancing our financing flexibility. We subsequently settle our bills payable by remittance of cash into the relevant bank accounts at or before the maturity of the bills. As at 31 December 2007, 2008 and 2009, restricted bank deposits of RMB134.9 million, RMB97.9 million and RMB134.3 million, respectively, were pledged as collateral for bank acceptance bills. In addition, as at 31 December 2008 and 2009, certain of our land use rights, buildings and investment properties were pledged as collateral for bank acceptance bills of RMB40.0 million and RMB36.0 million, respectively. The said bank acceptance bills of RMB36.0 million as at 31 December 2009 were also secured by a personal guarantee in the amount of RMB26.0 million provided by Mr. Cao, our Director. The guarantee given by Mr. Cao in the amount of RMB26.0 million for part of our bank acceptance bills as at 31 December 2009 is expected to be released upon the Listing.

Accruals and other payables

Accruals and other payables primarily consist of advances from customers, salary and welfare payables, value added tax and other tax payables, amount due to a Director and accrued volume discounts to distributors.

Advances from customers amounted to RMB4.7 million, RMB14.6 million and RMB23.0 million as at 31 December 2007, 2008 and 2009, respectively. The amount of advances to be made by customers is negotiated and determined on a case-by-case basis. Normally, the amount of advances to be made by our customers is determined by reference to the expected purchase amounts and is also related to the amount of volume discounts we give to the customers. Typically, the larger the amount of advances made by our customers, the larger the amount of volume discounts we extend to the customers. When the products are delivered to our customers, the amount of advances are used to settle the total amount outstanding. Any remaining unpaid amounts are recorded as our trade and bills receivables and are subject to our general credit terms. During the Track Record Period, approximately 28.0% to 36.0% of the total amount of purchases made by customers under our bulk distribution operation was prepaid to us in advance. Our Directors confirm that none of the advances from customers was forfeited by us during the Track Record Period. The increase in advances from customers over the Track Record Period was primarily due to the fact that we began to require more advance payments from our customers as we obtained additional authorised distribution rights from our suppliers, which strengthened our bargaining power with customers.

Salary and welfare payables amounted to RMB3.7 million, RMB5.3 million and RMB8.5 million as at 31 December 2007, 2008 and 2009, respectively. The general trend of increases in salary and welfare payables during the Track Record Period was primarily due to an increase in personnel as our operations expanded.

Value added tax and other tax payables amounted to RMB8.8 million, RMB13.4 million and RMB11.4 million as at 31 December 2007, 2008 and 2009, respectively.

Amounts due to Directors amounted to RMB13.3 million, RMB15.3 million and RMB3.5 million as at 31 December 2007, 2008 and 2009, respectively, which principally represented the balances due to Mr. Cao for miscellaneous payments that Mr. Cao paid on behalf of our Group. The entire balance in the amount of RMB3.5 million due to Mr. Cao was fully settled by us out of the cash generated from operating activities on 3 March 2010.

Accrued volume discounts to distributors amounted to RMB6.1 million, RMB12.4 million and RMB5.2 million as at 31 December 2007, 2008 and 2009, respectively. Accrued volume discounts to distributors represented the accrued purchase discounts given by us to Franchised Stores and other Independent Third Parties for their purchases of merchandise under our bulk distribution operation. The increase in accrued volume discounts to distributors as at 31 December 2008 was primarily due to growth in sales volume under our bulk distribution operation. The decrease in accrued volume discounts to distributors as at 31 December 2009 was primarily due to the fact that we settled volume discounts with our Franchised Stores and other third parties faster to maintain and strengthen our relationship with these customers, particularly in light of the fact that we granted lower amounts of volume discounts to our franchisees in 2009 following the cessation of the annual royalty fees requirement for all of our Franchised Stores starting from 2009.

CERTAIN NON-CURRENT ASSETS

Set forth below is a table of certain non-current assets of our Group as at 31 December 2007, 2008 and 2009.

	As at 31 December		
	2007	2008	2009
	RMB (million)	*RMB (million)*	*RMB (million)*
Non-current assets	**123.4**	**127.7**	**174.5**
of which, Property, plant and equipment	69.3	72.6	116.6
of which, Land use rights	11.3	11.0	18.7
of which, Investment properties	33.2	27.3	24.7

Property, plant and equipment

Our property, plant and equipment principally consists of buildings and electronics and office equipment. Property, plant and equipment increased by 60.6% from 31 December 2008 to 31 December 2009, principally relating to our new distribution and logistics centre, phase I of which became operational in the fourth quarter of 2009. As at 31 December 2008 and 31 December 2009, buildings with a net book amount totalling RMB53.5 million and RMB52.7 million were pledged together with certain of our land use rights and investment properties as collateral for bank acceptance notes in the amount of RMB40.0 million and RMB36.0 million, respectively.

Investment properties

Our investment properties principally consist of the portion of our office building that is leased to Independent Third Parties. Our office building contains six floors. Pursuant to an agreement dated 1 July 2007, three of the floors were leased out to other Independent Third Parties for commercial use, and the other three floors were occupied and used by us for our business. Pursuant to a supplemental agreement dated 1 August 2008, we converted certain portion of the areas previously leased out to use as additional space for our business. Upon conversion, such area was no longer characterised as an investment property. As at 31 December 2008 and 31 December 2009, investment properties with a net book amount totalling RMB27.3 million and RMB24.7 million were pledged together with certain of our land use rights and buildings as collateral for bank acceptance notes in the amount of RMB40.0 million and RMB36.0 million, respectively.

Land use rights

Our interests in land use rights represents upfront payments made by us for the right to use certain parcels of land. Land use rights increased by approximately 69.8% from 31 December 2008 to 31 December 2009, principally relating to the land on which our new distribution and logistics centre is located. As at 31 December 2008 and 31 December 2009, land use rights of RMB11.0 million and RMB10.7 million were pledged together with certain of our buildings and investment properties as collateral for our bank acceptance notes in the amount of RMB40.0 million and RMB36.0 million, respectively.

CONTRACTUAL AND CAPITAL COMMITMENTS

Contractual commitments

As at 31 December 2007, 2008 and 2009, we had commitments for future minimum lease payments under non-cancellable operating leases for our Self-operated Stores and office premises, which become due as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB (million)	*RMB (million)*	*RMB (million)*
Minimum lease payments under non-cancellable operating leases			
Within 1 year	8.4	10.6	17.6
After 1 year but within 5 years	17.9	19.8	54.3
After 5 years	3.9	4.3	33.9
Total	30.2	34.7	105.8

Our contractual commitments as at 31 December 2009 primarily related to our Self-operated Stores and office premises. The increase in contractual commitments for the year ended 31 December 2009 was primarily due to a number of new lease agreements entered into by us in relation to our new Self-operated Stores, which are relatively large in floor size, established in 2009 or to be established in 2010. We established seven new Self-operated Stores during the year of 2009 and we expect to establish ten new Self-operated Stores in 2010 (of which we have entered into lease agreements for three of the ten new Self-operated Stores).

Capital expenditure commitments

We did not have any capital commitments which were not provided for in our consolidated financial statements as at 31 December 2007, 2008 and 2009.

CAPITAL EXPENDITURES

The following table sets out our historical capital expenditures during the Track Record Period:

	Year ended 31 December		
	2007	2008	2009
	RMB (million)	*RMB (million)*	*RMB (million)*
Historical capital expenditures			
Property, plant and equipment	12.0	4.8	53.3
Land use rights	—	—	8.0
Intangible assets	0.01	6.0	0.1
Investment properties	—	—	—
Total capital expenditures	12.0	10.8	61.4

Our capital expenditures in 2007, 2008 and 2009 principally consisted of expenditures on construction of property, plant and equipment for our new distribution and logistics centres and our office building.

The following table sets out our projected capital expenditures for the year ending 31 December 2010:

	Year ending 31 December 2010
	RMB (million)
Projected capital expenditures	
Property, plant and equipment	24.9
Land use rights	—
Intangible assets	0.7
Investment properties	—
Total capital expenditures	25.6

We expect that the capital expenditures planned for 2010 will be primarily used for property, plant and equipment and intangible assets. Property, plant and equipment primarily represent projected capital expenditures for an expansion of our new distribution and logistics centre. Intangible assets primarily represent projected capital expenditures for an upgrade of our ERP system.

We expect to fund our projected capital expenditures principally through a portion of the net proceeds from the Global Offering, and cash generated from our operating activities and proceeds from bank loans. Should the necessity for additional funds arise, we cannot assure you that we will be able to raise additional capital on terms acceptable to us or at all.

Our current plan with respect to future capital expenditures is subject to change based on the implementation of our business strategy and market conditions. As we continue to grow our business, we may incur additional capital expenditures.

Our ability to obtain additional funds in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flow; and political, regulatory, economic and other conditions in China and Hong Kong.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration the financial resources presently available to our Group, including internally generated funds, available banking facilities, and the estimated net proceeds of the Global Offering, our Directors are of the opinion that our Group has sufficient working capital for our present requirements at least in the next 12 months commencing from the date of this prospectus.

OFF-BALANCE SHEET TRANSACTIONS

As at the Latest Practicable Date, our Group has not entered into any off-balance sheet transactions.

CONTINGENT LIABILITIES

As at 31 December 2009, our Group had no material contingent liabilities. Our Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving our Group. If our Group was involved in such material legal proceedings, it would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest rate risk

Our fair value interest rate risks mainly relate to our fixed rate borrowings. For the years ended 31 December 2007, 2008 and 2009, our fixed-rate borrowings were RMB21.3 million, nil and RMB70.0 million, respectively. Other than bank deposits with stable interest rate, we have no other significant interest-bearing assets. Our Directors do not consider our Group's exposure of the bank deposits to interest rate risk to be significant as interest rates of bank deposits are not expected to fluctuate significantly. We have not entered into any interest rate hedging contracts or any other derivative financial instruments.

Foreign currency risk

We operate in the PRC and our transactions arising from our principal activities are principally denominated in Renminbi, which is the functional currency of our Group. Therefore, our Group is not exposed to significant foreign exchange risk. Subsequent to this Global Offering, a depreciation of Renminbi would adversely affect the value of any dividends we pay to our offshore shareholders. We currently do not engage and do not plan to engage in foreign exchange hedging activities.

Credit risk

Our credit risk is primarily attributable to cash and cash equivalents, restricted bank deposits, trade and bills receivables and prepayments made to suppliers. We deposit substantially all of our cash and cash equivalents and maintain substantially all of our restricted bank deposits in several nationwide and regional renowned financial institutions in China without significant credit risk. We do not expect any losses to be resulted from non-performance of these financial institutions.

Our trade and bills receivables are primarily concentrated in our five largest customers for the Track Record Period. For the three years ended 31 December 2007, 2008 and 2009, our top five suppliers, in aggregate, accounted for approximately 69.1%, 74.7% and 76.7% of our total purchases, respectively. We have maintained our business relationship with most of our top five suppliers for more than seven years.

Our prepayments made to suppliers are primarily concentrated in suppliers of Midea and Gree air conditioners. For the three years ended 31 December 2007, 2008 and 2009, approximately 81.0%, 67.1% and 83.9% of our total prepayments made to suppliers, respectively, were made to our suppliers of Midea and Gree air-conditioners. The maximum exposure to credit risk is represented by the carrying amount of the above items after deducting any impairment allowance. We have no other financial assets that carry significant exposure to credit risk.

Liquidity risk

We experienced significant cash outflow from operating activities for the three years ended 31 December 2007, 2008 and 2009 and cash outflow from investing activities for the two years ended 31 December 2007 and 2009. We regularly monitor our current and expected liquidity requirements to ensure that sufficient reserves of cash and adequate committed lines of funding are maintained so as to meet its liquidity requirements in the short and long term. As at 31 December 2009, we had current liabilities in the amount of RMB330.7 million. As at 31 December 2009, we had net current assets in the amount of RMB440.4 million.

For an additional discussion of quantitative and qualitative information about market risks, see note 4 to our consolidated financial statements included in the Accountant's Report set out in Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

Our Company had no reserves for distribution to the Shareholders as at 31 December 2009.

DIVIDEND POLICY

Our Company declared a one-off and non-recurring dividend of approximately HK$47.0 million, which is conditional upon the Listing, to the existing Shareholders, namely China Ruike, Pope, Dalton, ARC Huiyin and China Fund in March 2010, which our Company plans to pay after having obtained the necessary approvals from SAFE and other governmental authorities and fund the payment of such dividend by using our internal resources. The persons becoming Shareholders after the Listing will not be entitled to such dividend. We will disclose in our interim report and annual report regarding the status of payment of the relevant dividend until such dividend is paid. Save for the above, no dividend has been paid or declared by our Company since the date of our incorporation.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. The payment and the amount of any dividends will be at the discretion of our Board and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law, including (where required) the approval of Shareholders.

Save for the above, our Board does not expect to declare a dividend in respect of the year ended 31 December 2009. Subject to the availability of our cash, distributable reserves, cash flow and working capital requirements, our Board aims to declare and recommend dividends which would amount in total to not less than 15% of the net profit of our Company according to HKFRSs for the year ending 31 December 2010 and in respect of each financial year thereafter by way of dividends. **Such intention does not amount to any guarantee or representation or indication that our Company must or will declare and pay dividend in such manner and pay any dividend at all.**

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in this prospectus, the Directors confirm that these transactions were conducted at the then prevailing market prices and on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to independent third parties and were fair and reasonable and in the interest of our Shareholders as a whole.

For a discussion of related party transactions, see Appendix I to this prospectus in addition to the other transactions detailed elsewhere in this prospectus.

PROPERTY INTERESTS AND PROPERTY VALUATION

American Appraisal China Limited, an independent property valuer, has valued our property interests as at 31 December 2009 and is of the opinion that the value of our property interests as at such date was an aggregate amount of RMB139.7 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix III to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group was prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2009 as if the Global Offering had taken place on 31 December 2009. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as at 31 December 2009 or any other date following the Global Offering. It is prepared based on our consolidated net assets as at 31 December 2009 as set out in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report in Appendix I to this prospectus.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2009	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company**	**Unaudited pro forma adjusted net tangible assets per Share**	
	RMB ('000)	*RMB ('000)*	*RMB ('000)*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	
Based on an Offer Price of HK$1.29 per Share	569,652	248,018	817,670	0.82	0.93
Based on an Offer Price of HK$1.69 per Share	569,652	330,837	900,489	0.90	1.02

Notes:

(1) The audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2009 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to equity holders of our Company as at 31 December 2009 of approximately RMB572,955,000 with an adjustment for the intangible assets of our Group as of 31 December 2009 of approximately RMB3,303,000.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offering Price of HK$1.29 and HK$1.69 per Share, respectively, after deduction of the estimated related fees and expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Option Scheme, or the options which may be granted under the Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them. For the purpose of the estimated net proceeds from the Global Offering, the translation of Renminbi into HK dollars was made at the rate of RMB1.00 to HK$1.135.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in note (2) above and on the basis that 1,000,000,000 Shares were in issue assuming the Global Offering and the Capitalisation Issue had been completed on 31 December 2009, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Option Scheme or the options which may be granted under the Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them. The unaudited pro forma adjusted net tangible asset per Share is converted into Hong Kong dollars at the rate of RMB1.00 to HK$1.135.

(4) No adjustment has been made to reflect any trading results or other transaction (including the declaration of a one-off and non-recurring dividend of approximately HK$47.0 million (payable to the existing shareholders of our Company as of 6 March 2010 on the condition that the Listing is completed) of our Group entered into subsequent to 31 December 2009.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, there are no circumstances which, had our Group been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2009, and there is no event since 31 December 2009 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

FUTURE PLANS AND PROSPECTS

We have been successfully growing our business in the past. We aim to continue this momentum and strive to stay at a prominent position in the PRC home appliances and electronic products industry through expanding the number of our Self-operated Stores as complemented by our Franchised Stores and our Service Centres both in Jiangsu province and in the neighbouring areas and enhancing the value brought to us by our existing Stores. We also aim to look for appropriate new business and/or investment opportunities in the PRC to synergise our existing business.

Please refer to the section headed "Our Business — Our business strategies" in this prospectus for further details on our future plans.

USE OF PROCEEDS

The aggregate net proceeds from the Global Offering accruing to our Company (assuming an Offer Price of HK$1.49 per Share, being the mid-point of the proposed Offer Price range of HK$1.29 to HK$1.69 per Share) are estimated to be approximately HK$328.5 million (approximately RMB289.4 million). We currently intend to use the net proceeds from the Global Offering to our Company as follows:

- up to approximately HK$156.5 million (approximately RMB137.9 million), representing approximately 47.6% of the net proceeds from the Global Offering to our Company, for expansion of our retail network through the establishment of new Self-operated Stores and Franchised Stores:

  (i) of which up to approximately HK$120.0 million (approximately RMB105.7 million), representing approximately 36.5% of the net proceeds from the Global Offering to our Company, will be used for the opening of up to 16 new Self-operated Stores which offer home appliances and consumer electronic products in Jiangsu and Anhui provinces with an aggregate Gross Floor Area of approximately 29,000 sq. m. by the end of 2011, including as working capital for the new Self-operated Stores and for renovating the new Self-operated Stores, purchasing new facilities, organising marketing and promotional activities and as operational funds;

  (ii) of which up to approximately HK$36.5 million (approximately RMB32.2 million), representing approximately 11.1% of the net proceeds from the Global Offering to our Company, will be used for the development of our franchise network in Jiangsu and Anhui provinces by opening up to 50 new Franchised Stores by the end of 2011, including as operational funds for us to make additional inventory procurements as a result of expected increase in demand by our Franchised Stores;

- up to approximately HK$112.0 million (approximately RMB98.7 million), representing approximately 34.1% of the net proceeds from the Global Offering to our Company, will be used for potential acquisitions of home appliances and electronics retail enterprises in eastern China which target at the third and fourth-tier markets (however, no such target had been identified up to the Latest Practicable Date).

Please refer to the paragraph headed "Store opening" under the section headed "Our business — Management and operations" for details of our selection criteria for acquisition targets and our management decision process in deciding on acquisition targets;

- up to approximately HK$55.0 million (approximately RMB48.4 million), representing approximately 16.8% of the net proceeds from the Global Offering to our Company, will be used for expansion of our existing distribution and logistics centre in Jiangsu province. Please refer to the paragraph headed "Owned properties" under the section headed "Our business — Properties" of, and the description of property no. 3 as set out in Appendix III to, this prospectus for further details of this expansion plan; and

- up to approximately HK$5.0 million (approximately RMB4.4 million), representing approximately 1.5% of the net proceeds from the Global Offering to our Company, will be used for improving our existing information and management systems, including but not limited to improving our ERP System and establishing a franchise store information management system.

If the Over-allotment Option is exercised in full, the net proceeds of the Global Offering would increase by up to approximately HK$68.5 million (approximately RMB60.3 million) (based on the mid-point Offer Price of HK$1.49 per Share). We intend to apply up to 50% of the net proceeds derived from the exercise of the Over-allotment Option for potential acquisitions, and apply the remaining portion as our general working capital.

If the Offer Price is determined at the highest point of the stated range, the net proceeds to our Company would be increased by approximately HK$47.0 million (approximately RMB41.4 million). We intend to apply such additional net proceeds for potential acquisitions, while the amounts to be applied for other purposes would remain unchanged.

If the Offer Price is determined at the lowest point of the stated range, the net proceeds to our Company would be decreased by approximately HK$47.0 million (approximately RMB41.4 million). In such event, the net proceeds that may be applied for investment in potential acquisitions will be reduced accordingly.

To the extent that the net proceeds from the Global Offering to our Company are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interests. We will also disclose the same in the relevant annual report.

No proceeds from the sale of Sale Shares under the Global Offering will accrue to our Company.

Should we decide to re-allocate the intended use of proceeds to other business plans and/or new projects to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

INTERNATIONAL UNDERWRITERS

BNP Paribas Capital (Asia Pacific) Limited
DBS Asia Capital Limited
First Shanghai Securities Limited
Oriental Patron Securities Limited

HONG KONG UNDERWRITERS

BNP Paribas Capital (Asia Pacific) Limited
DBS Asia Capital Limited
First Shanghai Securities Limited
Oriental Patron Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offer on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) has the right, in its sole and absolute discretion, to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement if they see fit upon the occurrence of any of the following events:

(a) there has come to the notice of the Global Coordinator:

(i) that any statement contained in any Offer Documents, considered by the Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole and absolute opinion to be material in relation to the Global Offering, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecasts, expressions of opinion, intention or expectation considered by the Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole and absolute discretion to be material to the Global Offering expressed in any Offer Documents are not, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole and absolute opinion to be material to the Global Offering; or

(iii) any breach, considered by the Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole and absolute opinion to be material to the Global Offering, of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on any of the Underwriters); or

(iv) any change or development involving a prospective change in the conditions, assets, liabilities, business affairs, prospects, profits, losses or the financial or trading position or performance of our Group as a whole which is considered by the Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole and absolute opinion to be material to the Global Offering; or

(v) any breach of any of the warranties contained in the Hong Kong Underwriting Agreement, considered by the Global Coordinator in its sole and absolute opinion to be material to the Global Offering; or

(vi) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with contemplated subscription/purchase of the Offer Shares) or the Global Offering; or

(b) there shall develop, occur, exist or come into effect:

(i) any event, or series of events in the nature of force majeure (including, without limitation, acts of government or orders of any court, strikes, calamity, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreak of diseases, pandemics or epidemics (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1), swine influenza (H1N1) or such related/mutated forms) or interruption or delay in transportation in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States or the European Union (or any member thereof) (the "**Relevant Jurisdiction**"); or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in or representing any change or development involving a prospective change, in local, national, regional, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq Global Market, or a fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency, or any interruption in monetary or trading or securities settlement or clearance service or procedures or matters), in or affecting any of the Relevant Jurisdiction, or

(iii) any new laws, rules, statues, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees, or rulings of any governmental authority ("**Laws**") or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the United States or any other Relevant Jurisdiction; or

(iv) the imposition of any economic sanctions, in whatever form, directly or indirectly, by, or for, the U.S. or the European Union (or any member thereof) on Hong Kong, the PRC or any other Relevant Jurisdiction relevant to any member of our Group; or

(v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investments Laws in Hong Kong, the PRC, the United States or any other Relevant Jurisdiction affecting an investment in the Shares; or

(vi) any change or development involving a prospective change in, or a materialisation of, any of the risks set out in the section headed "Risk factors" in this prospectus; or

(vii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(viii) an executive Director being charged with an indictable offence or prohibited by the operation of Law or otherwise disqualified from taking part in the management of a company; or

(ix) the chairman and chief executive officer of our Company vacating his office; or

(x) the commencement by any governmental, regulatory or political body or organisation of any action against an executive Director in his capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or

(xi) a contravention by any member of our Group of the Companies Ordinance or any of the Listing Rules or any other applicable Laws; or

(xii) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or

(xiii) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other offer documents pursuant to the Companies Ordinance or the Listing Rules; or

(xiv) a petition or an order for the winding-up or liquidation of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution passed for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or

(xv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise), London, or the PRC or any other Relevant Jurisdiction or a disruption in commercial banking or securities settlement or clearance services in any of Hong Kong, the PRC or any other Relevant Jurisdiction,

which in each case or in the aggregate in the sole and absolute opinion of the Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) (1) is or will or is likely to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of our Group as a whole; or (2) has or will have or is likely to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or (3) makes it or will make it impracticable, inadvisable or inexpedient for the Global Offering to proceed or to market the Global Offering; or (4) has or will have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings

Our Company has undertaken to the Stock Exchange, the Global Coordinator and the Hong Kong Underwriters in the Hong Kong Underwriting Agreement that, except pursuant to the Global Offering, the Capitalisation Issue, the exercise of the Over-allotment Option, any options granted under the Pre-IPO Option Scheme or any options which may be granted under the Share Option Scheme, the exercise or surrender of the Warrants or with the prior written consent of the Global Coordinator (for itself and on behalf of the other Underwriters) and unless in compliance with the requirements of the Listing Rules, it will not allot or issue, agree to allot or issue, shares or other securities of our Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants or other rights to subscribe for or convertible or exchangeable into shares or other securities of our Company or repurchase shares or other securities of our Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any shares or securities of our Company or offer to or agree to do any of the foregoing or announce any intention to do so at any time during the period of six months immediately following the Listing Date and in the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of the six months immediately following the expiry of the first six-month period after the Listing Date, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any shares or other securities of our Company.

Pursuant to Rule 10.07(1) of the Listing Rules, each of China Ruike, Mr. Cao, ARC Huiyin, ARC, China Fund, Pope Asset Management, Mr. William P. Wells, Pope and Dalton has undertaken to the Stock Exchange, us, the Sponsor and the Global Coordinator (for itself and on behalf of the Underwriters) that, except pursuant to the Global Offering and the Stock Borrowing Agreement, it or he shall not and shall procure that its or his associates or companies controlled by it or him or nominees or trustees (as the case may be) in whose name the Shares are registered (the "**Relevant Registered Holders**") shall not:

(a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it or he is shown by this prospectus to be the beneficial owner (whether direct or indirect); and

(b) in the period of six months commencing on the date on which the period referred to in (a) above expires (the "Second Six-month Lock-up Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following and as a result of such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, China Ruike, Mr. Cao, ARC Huiyin, ARC, China Fund, Pope Asset Management, Mr. William P. Wells, Pope and Dalton collectively would cease to be the controlling shareholder (as defined in the Listing Rules) of our Company, and Mr. Cao or his associates or companies controlled by him or his Relevant Registered Holders collectively would cease to be the single largest shareholder of our Company.

Each of China Ruike, Mr. Cao, ARC Huiyin, ARC, China Fund, Pope Asset Management, Mr. William P. Wells, Pope and Dalton has also undertaken to the Stock Exchange, us, the Sponsor and the Global Coordinator (for itself and on behalf of the Underwriters) that, within the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, it or he will:

(a) when it or he (or through the Relevant Registered Holder(s)) pledges or charges any Shares beneficially owned by it or him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us in writing of such pledge or charge together with the number of Shares so pledged or charged; and

(b) when it or he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us in writing of such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by China Ruike, Mr. Cao, ARC Huiyin, ARC, China Fund, Pope Asset Management, Mr. William P. Wells, Pope or Dalton and disclose such matters by way of a press announcement which is to be posted on the website of the Stock Exchange and of our Company as soon as possible after being so informed by China Ruike, Mr. Cao, ARC Huiyin, ARC, China Fund, Pope Asset Management, Mr. William P. Wells, Pope or Dalton.

International Placing

In connection with the International Placing, it is expected that, among others, our Company, the Selling Shareholders, the International Underwriters and the Global Coordinator will enter into the International Underwriting Agreement on or around the Price Determination Date. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions, severally agree to subscribe or buy or procure subscribers or purchasers for the International Placing Shares being offered pursuant to the International Placing. The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement.

Our Company is expected to grant to the Global Coordinator the Over-allotment Option, exercisable at any time from the date of the Price Determination Agreement until 30 days after the date of this prospectus, to require our Company to issue and allot up to an aggregate of 47,970,000 additional International Placing Shares representing 15% of the initial number of the Offer Shares, at the same price per Share under the International Placing to cover, among other things, over-allocations (if any) in the International Placing.

It is expected that (i) our Company will agree to indemnify each of the Global Coordinator, the Sponsor and the International Underwriters against certain losses which they may suffer, including, among others, losses arising from their performance of their obligations under the International Underwriting Agreement and (ii) the Selling Shareholders will severally agree to indemnify each of the Global Coordinator, the Sponsor and the International Underwriters against losses they may suffer arising from any breach by the respective Selling Shareholders of the International Underwriting Agreement.

Commission and expenses

The Underwriters will receive an underwriting commission of 2.5% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission will be paid. In addition, an additional incentive fee of up to 0.9% on the aggregate Offer Price of all the Offer Shares will be paid to the Global Coordinator. The underwriting commissions and incentive fee are estimated to amount to approximately HK$11.9 million and HK$2.4 million, respectively (based on an Offer Price of HK$1.49 per Offer Share and assuming that the Over-allotment is not exercised) and are payable by our Company and the Selling Shareholders with reference to the number of Offer Shares issued or sold by each of them under the Global Offering.

The listing fees, Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and other expenses relating to the Global Offering are estimated to amount to approximately HK$51.5 million in total and 62.5% of which is payable by our Company, and the remaining 37.5% of which is payable by the Selling Shareholders with reference to their shareholdings in our Company immediately before the completion of the Global Offering and the number of Shares offered by the relevant Selling Shareholders under the Global Offering.

Other arrangements

Each of China Ruike and Mr. Cao has jointly and severally further undertaken, and each of ARC and ARC Huiyin has jointly and severally further undertaken, each of Pope Asset Management, Mr. William P. Wells and Pope has jointly and severally further undertaken, and each of China Fund and Dalton has severally further undertaken (each of them, collectively, the "**Covenantors**") to each of the Global Coordinator, the Sponsor, our Company and the Underwriters that, inter alia:

(i) during the period commencing from the date of this prospectus and ending on the date which is twelve months from the Listing Date, it shall not, and shall procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Global Coordinator (which consent shall not be unreasonably withheld) and unless as a result of any stock borrowing arrangement with the Global Coordinator as disclosed in this prospectus or otherwise in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any of the Shares or securities of our Company disclosed in this prospectus to be beneficially owned by it or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by him/it) which is directly or indirectly a beneficial owner of any of the Shares or securities of our Company disclosed in this prospectus as aforesaid ("**Relevant Securities**"); or (b) enter into any swap or other arrangement or any transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Relevant Securities; (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above, whether any of the foregoing transactions referred to in paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities, in cash or otherwise;

(ii) it shall, and shall procure that its/his associates and companies controlled by it/him and any nominees or trustees holding in trust for it shall, comply with all the restrictions and requirements under the Listing Rules or otherwise set out above on the sale, transfer or disposal by it/him or by the registered holder controlled by it/him of any Shares.

The Global Coordinator will not give its written consent allowing either of the Covenantors, their respective associates or companies controlled by any of them or their respective Relevant Registered Shareholders to dispose of the Relevant Securities during the period of six months commencing on the date immediately following the expiry date of the six-month period from the Listing Date, if such disposal will render the Covenantors collectively cease to be the controlling shareholder (as defined in the Listing Rules) of our Company, and will render Mr. Cao or his associates or companies controlled by him or his Relevant Registered Holders collectively cease to be the single largest shareholder of our Company.

Each of Pope, Pope Asset Management and Mr. William P. Wells shall jointly and severally, each of ARC Huiyin and ARC shall jointly and severally, and each of Dalton and China Fund shall severally, and irrevocably, grant to BNP Paribas a right of first refusal to act as (or for a nominee or an affiliate of BNP Paribas to act as) its placing agent (including associates or companies controlled by it and nominees and trustees (as the case may be) in whose name the Relevant Securities are registered) in respect of any placement or disposal of the Relevant Securities during the period of six months commencing on the date immediately following the expiry date of the six-month period from the Listing Date. For each placement or disposal of the Relevant Securities (a "**Proposed Placing**"), each of Pope, Pope Asset Management, Mr. William P. Wells, ARC Huiyin, ARC, Dalton and China Fund, shall make an offer or procure an offer to BNP Paribas for the appointment of placing agent in respect of the Proposed Placing and discuss in good faith with BNP Paribas (or the relevant nominee or affiliate of BNP Paribas, as the case may be) with a view to agreeing on the terms of such appointment including the fees and commissions and executing the necessary documentation upon terms as shall be appropriate and customary for internationally recognised investment banking firms for transactions of the type under contemplation. Each of Pope, Pope Asset Management, Mr. William P. Wells, ARC Huiyin, ARC, Dalton and China Fund shall not place or dispose of the Relevant Securities unless (i) BNP Paribas shall first have declined such offer in writing or shall not have accepted such offer within a reasonable period after such offer was made; (ii) it shall first have obtained the written consent from BNP Paribas as referred to in paragraph (i) under the section headed "Underwriting — Underwriting arrangements and expenses — Other arrangements"; and (iii) in the event that the proposed terms for it to appoint a party other than BNP Paribas (or an affiliate of BNP Paribas) (a "**Third Party**") to act as placing agent for such Proposed Placing are more favourable than the ones offered to BNP Paribas, it shall first make the same offer to BNP Paribas and it shall not appoint such Third Party unless BNP Paribas shall first have declined such offer in writing, or shall not have accepted such offer within a reasonable period after such offer was made. For the avoidance of doubt, BNP Paribas is entitled (but no obligated) to be so appointed.

Activities by Syndicate members

Set out below is a variety of activities that the Underwriters of the Hong Kong Public Offer and the International Placing, together referred to as "**Syndicate Members**", may each individually undertake, and which do not form part of the underwriting or the stabilising process. It should be noted that when engaging in any these activities the Syndicate Members are subject to restrictions, including the following:

(a) under the agreement among the Syndicate Members, all of them must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares and entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described under the sections headed "Structure of the Global Offering — International Placing — Over-allotment Option" and "Structure of the Global Offering — Stabilisation". These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares and their share price, and the extent to which this occurs from day to day cannot be estimated.

Underwriters' interests in our Company

Save for their obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in our Company nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares in our Company nor any interest in the Global Offering.

Indemnity

Our Company has agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement. It is expected that (i) our Company will agree to indemnify the International Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the International Underwriting Agreement and any breach by us of the International Underwriting Agreement, and (ii) the Selling Shareholders will severally agree to indemnify the International Underwriters against losses they may suffer arising from any breach by the respective Selling Shareholders of the International Underwriting Agreement.

Sponsor's Independence

BNP Paribas Capital (Asia Pacific) Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer which forms part of the Global Offering. BNP Paribas is the Global Coordinator and Bookrunner of the Global Offering.

The Global Offering initially consists of (subject to adjustment and the Over-allotment Option):

(i) the Hong Kong Public Offer of 31,980,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the paragraph headed "Hong Kong Public Offer" below; and

(ii) the International Placing of 287,820,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) (a) in the United State with QIBs in reliance on Rule 144A or another available exemption from registration under the U.S. Securities Act; and (b) outside the United States in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to QIBs in the United States in reliance on Rule 144A or another available exemption under the U.S. Securities Act, as well as to professional, institutional, corporate and other investors (excluding retail investors) anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdiction outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Placing. Prospective professional, institutional, corporate and other investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to the Price Determination Date.

The number of Offer Shares to be offered under the Hong Kong Public Offer and the International Placing respectively may be subject to reallocation and, in the case of the International Placing only, the Over-allotment Option as set out in the paragraph headed "International Placing — Over-allotment Option" below.

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator, on behalf of the Underwriters, agreeing on the Offer Price. Our Company, the Selling Shareholders, the Global

Coordinator and the International Underwriters, among others, expect to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date. Details of the underwriting arrangements are summarised in the section headed "Underwriting" in this prospectus.

HONG KONG PUBLIC OFFER

Number of Shares initially offered

Our Company is initially offering 31,980,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Shares between (i) the International Placing and (ii) the Hong Kong Public Offer as mentioned below and assuming no exercise of the Over-allotment Option, the number of the Hong Kong Offer Shares will represent approximately 3.20% of our Company's enlarged issued share capital immediately after completion of the Global Offering.

Completion of the Hong Kong Public Offer is subject to the conditions as set out in the section below headed "Conditions of the Hong Kong Public Offer."

Conditions of the Hong Kong Public Offer

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offer will be conditional on, among others:

(i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which fall to be issued pursuant to the exercise or surrender of the Warrants, the exercise of the Over-allotment Option, the options granted under the Pre-IPO Option Scheme and any options which may be granted under the Share Option Scheme;

(ii) the Offer Price having been fixed on or around the Price Determination Date;

(iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements (unless and to the extent such conditions are validly waived on or before such dates and times by the Global Coordinator for and on behalf of the Underwriters) and in any event not later than 8:00 a.m. on the Listing Date, which is currently expected to be Thursday, 25 March 2010.

If, for any reason, the Offer Price is not agreed between the Global Coordinator (on behalf of the Underwriters), our Company (for itself and on behalf of the Selling Shareholders) by Wednesday, 24 March 2010, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at *www.hkexnews.hk* and our website at *www.hyjd.com* on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for Hong Kong Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Wednesday, 24 March 2010 but will only become valid certificates of title at 8:00 a.m. on Thursday, 25 March 2010 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offer — Grounds for termination" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

Allocation

Allocation of the Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offer (after taking into account of any reallocation referred to below) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5.0 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK$5.0 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable and up to the value of pool B). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and may only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 15,990,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares) are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offer and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of the Offer Shares initially available under the Hong Kong Public Offer, then the Offer Shares will be reallocated to the Hong Kong Public Offer from the International Placing so that the total number of Offer Shares available under the Hong Kong Public Offer will be increased to 95,940,000 Offer Shares (in the case of (i)), 127,920,000 Offer Shares (in the case of (ii)) and 159,900,000 Offer Shares (in the case of (iii)) representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option), in each case, the additional Offer Shares reallocated to the Hong Kong Public Offer will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the Global Coordinator deems appropriate. In addition, in certain prescribed circumstances, the Global Coordinator may, at its sole and absolute discretion, reallocate such number of International Placing Shares as it deems appropriate from the International Placing to the Hong Kong Public Offer to satisfy in whole or in part the excess demand in the Hong Kong Public Offer.

If the Hong Kong Offer Shares are not fully subscribed for, the Global Coordinator may, at its sole and absolute discretion, reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportion as the Global Coordinator deems appropriate.

Applications

The Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Shares under Hong Kong Public Offer.

Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sponsor. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum price of HK$1.69 per Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "Price Determination of the Global Offering" below, is less than the maximum price of HK$1.69 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to apply for Hong Kong Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offer.

INTERNATIONAL PLACING

Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription or sale under the International Placing will be 287,820,000 Offer Shares (comprising 218,020,000 New Shares and 69,800,000 Sale Shares and subject to reallocation and the Over-allotment Option), representing approximately 90% of the total number of the Offer Shares initially available under the Global Offering. The International Placing is subject to, among other things, the Hong Kong Public Offer being unconditional. Subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, before taking into account any exercise of the Over-allotment Option, the International Placing Shares will represent approximately 28.78% of our enlarged issue share capital immediately after completion of the Global Offering.

Allocation

The International Placing will include selective marketing of Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, as well as to professional, institutional, corporate and other investors (excluding retail investors) anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the book-building process described in the paragraph headed "Price Determination of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

Over-allotment Option

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Global Coordinator that exercisable by the Global Coordinator.

Pursuant to the Over-allotment Option, the Global Coordinator has the right, exercisable at any time from the date of the Price Determination Agreement until 30 days after the date of this prospectus, to require our Company to issue up to 47,970,000 Shares, representing approximately 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Share under the International Placing to cover, among other things, over-allocation in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 4.58% of our share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

PRICE DETERMINATION OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Friday, 19 March 2010, and in any event on or before Wednesday, 24 March 2010, by agreement between the Global Coordinator (on behalf of the Underwriters) and our Company (for itself and on behalf of the Selling Shareholders).

The Offer Price will be not more than HK$1.69 per Share and is expected to be not less than HK$1.29 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional, corporate and other investors during the book-building process, and with the consent of our Company, reduce the number of the Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at *www.hkexnews.hk* and our website at *www.hyjd.com* notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Global Coordinator (on behalf of the Underwriters) and our Company (for itself and on behalf of the Selling Shareholders), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company (for itself and on behalf of the Selling Shareholders) with the Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offer, are expected to be announced on Wednesday, 24 March, 2010 in the manner set out in the paragraph "How to apply for Hong Kong Offer Shares — Results of allocations" in this prospectus.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

The Global Coordinator has been appointed by our Company as the stabilising manager ("**Stabilising Manager**") for the purposes of the Global Offering in accordance with the

Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Global Offering, the Global Coordinator, its affiliates or any person acting for it, as stabilising manager, may, to the extent permitted by applicable laws of Hong Kong or elsewhere over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on Friday, 16 April 2010, being the 30th day after the last day for lodging of applications under the Hong Kong Public Offer. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Global Coordinator, its affiliates or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Global Coordinator and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be issued by our Company under the Over-allotment Option, namely 47,970,000 Shares, which is approximately 15% of the Shares initially available under the Global Offering.

Stabilising Manager, its affiliates or any person acting for it may take all or any of the following stabilising action in Hong Kong during the stabilisation period:

(i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Shares;

(ii) in connection with any action described in paragraph (i) above;

(a) (1) over-allocation; or

(2) selling or agreeing to sell the Shares so as to establish a short position in them,

for the purpose of preventing or minimising any reduction in the market price of the Shares;

(b) exercise the Over-allotment Option and subscribe for, or agreeing to subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) above;

(c) sell or agree to sell any Shares by it in the course of the stabilising action referred to in the paragraph (i) above in order to liquidate any position held as a result of those purchases; and

(d) offer or attempt to do anything described in (a), (b) and (c) above

Specifically, prospective applicants for and investors in the Shares should note that:

- the Global Coordinator, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty regarding the extent to which and the time period for which the Global Coordinator, its affiliates or any person acting for it, will maintain such a position; Investors should be warned of the possible impact of any liquidation of such long position by the Global Coordinator, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;

- Stabilising action cannot be used to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Friday, 16 April 2010, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and

- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Global Coordinator may over-allocate up to and not more than an aggregate of 47,970,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Global Coordinator at its discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Placing, the Global Coordinator may borrow up to 47,970,000 Shares from China Ruike, equivalent to the maximum number of Shares to be issued by our Company on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Such stock borrowing arrangement will be in compliance with Rule 10.07(3) of the Listing Rules.

DEALING

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 25 March 2010, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:30 a.m. on Thursday, 25 March 2010.

I. METHODS OF APPLICATION

There are three ways to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either (i) **using a WHITE or YELLOW Application Form**; (ii) submitting applications online through the designated website of the **HK eIPO White Form** Service Provider, referred herein as the "**HK eIPO White Form** service"; or (iii) giving **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application by any of the above methods.

II. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- and are not a U.S. Person (as defined in Regulation S), or a legal or natural person of PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the designated website at *www.hkeipo.hk*, referred to herein as the "HK eIPO White Form" service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form service if you are an individual applicant. Corporations or joint applicants may not apply by means of HK eIPO White Form**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Global Coordinator (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We and the Global Coordinator, in their capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of the Shares, our Directors, or chief executive officers or their respective associates or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You should also note that you may apply for the Shares under the Hong Kong Public Offer or indicate an interest for Shares under the International Placing, but may not do both.

III. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

1. Which Application method to use

(a) Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

(b) Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **HK eIPO White Form** service by submitting an application online through the designated website at *www.hkeipo.hk*. Use the **HK eIPO White Form** service if you want the Shares to be registered in your own name.

(c) Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(d) Instead of using a **YELLOW** Application Form, you may give electronic application instruction to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participants stock account or your designated CCASS Participant's stock account.

2. **Where to collect the Application Forms**

(a) You can collect a **WHITE** Application Form and a prospectus, during normal business hours from 9:00 a.m. on Friday, 12 March 2010 until 12:00 noon on Wednesday, 17 March 2010, from:

any of the following addresses of the Hong Kong Underwriters:

BNP Paribas Capital (Asia Pacific) Limited
64th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road
Central
Hong Kong

Oriental Patron Securities Limited
Suite 2701-3 & 2705-8, 27th Floor
Two Exchange Square
8 Connaught Place, Central
Hong Kong

or any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

District	Branch	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	North Point Sub-Branch	442-444 King's Road, North Point
	Wanchai Sub-Branch	G/F., 32-34 Johnston Road
	Aberdeen Sub-Branch	Shop 1B, G/F., Site 5, Aberdeen Centre, 6-12 Nam Ning Street, Aberdeen
Kowloon	Kowloon Sub-Branch	G/F., 563 Nathan Road
	Hunghom Sub-Branch	Flat A6, G/F., Wing Kwai Building, 1-3 Tak Man Street, Whampoa Estate, Hunghom
	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	Kwun Tong Sub-Branch	Shop A G/F., Hong Ning Court, 55 Hong Ning Road, Kwun Tong
New Territories	Shatin Sub-Branch	Shop No.193, Level 3, Lucky Plaza, Shatin
	Tseung Kwan O Sub-Branch	Shop 253-255, Metro City Shopping Arcade, Phase I, Tseung Kwan O
	Tsuen Wan Sub-Branch	G/F, Shop G9B-11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road, Tsuen Wan

(b) You can collect a **YELLOW** Application Form and a prospectus, during normal business hours from 9:00 a.m. on Friday, 12 March 2010 until 12:00 noon on Wednesday, 17 March 2010, from:

(1) the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) your stockbroker, who may have such Application Forms and this prospectus available.

3. **How to complete the Application Form and make payment**

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, amongst other things, you:

(i) agree with us and each Shareholder, and our Company agrees with each of our Shareholders, to observe and comply with the Companies Ordinance, the Memorandum and Articles of Association;

(ii) agree with us and each shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;

(iii) authorise us to enter into a contract on your behalf with each of our Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to the Shareholders as stipulated in the Memorandum and Articles of Association;

(iv) confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(v) agree that we and our Directors are liable only for the information and representations contained in this prospectus and any supplement thereto;

(vi) undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;

(vii) agree to disclose to us, our registrar, receiving banker, the Global Coordinator and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(viii) instruct and authorise us and/or the Global Coordinator as agent for our Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the Application Form;

(ix) represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S);

(x) represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xi) agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xii) warrant the truth and accuracy of the information contained in your application;

(xiii) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(xiv) confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;

(xv) undertake and agree to accept the Shares applied for, or any lesser number allocated to you under the application; and

(xvi) if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of us, the Global Coordinator and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus.

In order for the **YELLOW** Application Forms to be valid:

(i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) **If the application is made by an individual CCASS Investor Participant:**

(a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

(b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(iii) **If the application is made by a joint individual CCASS Investor Participant:**

(a) the Application Form must contain all joint CCASS Investor Participant's names and the Hong Kong Identity Card Number of all the joint CCASS Investor Participants; and

(b) the participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) **If the application is made by a corporate CCASS Investor Participant:**

(a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

(b) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, our Company and the Global Coordinator as its agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company and the Global Coordinator, in the capacity as its agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

4. **How to make payment for the Application**

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the cheque or endorsed on the reverse of the cheque by an authorised signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- be made payable to Bank of Communications (Nominee) Co. Ltd. — Huiyin Public Offer;

- be crossed "Account Payee Only"; and

- not be post dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonored on first presentation. If you pay by banker's cashier order, the banker's cashier order must:

- be in Hong Kong dollars;

- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;

- be made payable to Bank of Communications (Nominee) Co. Ltd. — Huiyin Public Offer;

- be crossed "Account Payee Only"; and

- not be post-dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Wednesday, 17 March 2010. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

5. **Members of the public - Time for applying for Hong Kong Offer Shares**

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 17 March 2010, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of Communications Co., Ltd. Hong Kong Branch listed under the section headed "Where to collect the Application Forms" above at the following times:

Friday, 12 March 2010 — 9:00 a.m. to 5:00 p.m.
Saturday, 13 March 2010 — 9:00 a.m. to 1:00 p.m.
Monday, 15 March 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, 16 March 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, 17 March 2010 — 9:00 a.m. to 12:00 noon

The application lists will be open **from 11:45 a.m. to 12:00 noon on Wednesday, 17 March 2010.**

No proceedings will be taken on applications for the Offer Shares and no allotment of any such Offer Shares will be made until after the closing of the application lists.

6. **Effect of bad weather on the opening of the application lists**

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or

- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 17 March 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon. **Business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

7. **Results of Allocations**

The results of allocations of the Hong Kong Offer Shares in the Hong Kong Public Offer and the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants and the number of the Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- on the website of our Company at *www.hyjd.com* and the Stock Exchange's website at *www.hkexnews.hk* from 9:00 a.m., Wednesday, 24 March 2010 onward;

- on the Hong Kong Public Offer results of allocations website designated by our Company at *www.tricor.com.hk/ipo/result* on a 24-hour basis from 8:00 a.m. on

Wednesday, 24 March 2010 to 12:00 midnight on Tuesday, 30 March 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application form to search for his/her/its own allocation result;

- from the Hong Kong Public Offer allocation results telephone enquiry line designated by our Company. Applicants may find out whether or not their applications have been successful and the number of the Offer Shares allocated to them, if any, by calling 369-18-488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 24 March 2010 to Monday, 29 March 2010 (excluding Saturdays and Sundays); and

- from special allocation results booklets which set out the results of allocations and will be available for inspection during opening hours of the designated branches of the receiving banker of the Hong Kong Public Offer from Wednesday, 24 March 2010 to Friday, 26 March 2010.

8. **Despatch/Collection of share certificates, e-Auto Refund payment instructions and refund cheques**

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the offer price of HK$1.69 per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure of the Global offering — Conditions of the Hong Kong Public Offer" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

(a) for applications on **WHITE** Application Forms or to the designated HK eIPO White Form Service Provider: (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **YELLOW** Application Forms: share certificates for their Offer Shares successfully applied for will be deposited into CCASS as described below); and/or

(b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

(c) for applicants applying through the **HK eIPO White Form** service by paying the application monies through a single bank account and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the maximum Offer Price initially paid on applicant's application, e-Auto Refund payment instructions (if any) will be despatched to application payment bank account on or around Wednesday, 24 March 2010; and/or

(d) for applicants applying through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the maximum Offer Price initially paid on applicant's application, refund cheque(s) will be sent to the address specified in applicant's application instructions to the designated HK eIPO White Form Service Provider on or around Wednesday, 24 March 2010, by ordinary post and at applicant's own risk.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms or to the designated HK eIPO White Form Service Provider; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms or to the designated HK eIPO White Form Service Provider are expected to be posted on or around Wednesday, 24 March 2010. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 25 March 2010 provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offer — Grounds for termination" has not been exercised.

(a) *If you apply using a **WHITE** Application Form:*

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from Tricor Investor Services

Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from Tricor Investor Services Limited at 26th Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on 24 March 2010 or such other place and date as notified by our Company in the newspapers as the place and date of collection/despatch of e-Auto Refund payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/ or share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 24 March 2010, by ordinary post and at your own risk.

(b) *If you apply using a **YELLOW** Application Form:*

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) in person, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 24 March 2010, by ordinary post and at your own risk.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Wednesday, 24 March 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the newspapers on Wednesday, 24 March 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 24 March 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(c) **If you apply using HK eIPO White Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your share certificate(s) and/or refund cheque(s) (where applicable) in person from Tricor Investor Services Limited at 26th, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 24 March 2010, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/refund cheques/e-Auto Refund payment instructions. If you do not collect your share certificate(s) and/or refund cheque(s) (where applicable) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk on Wednesday, 24 March 2010 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money under-paid or applications rejected by the designated **HK eIPO White Form** Service Provider set out below in the paragraph entitled "IV Applying through HK eIPO White Form — 2. Additional information."

IV. APPLYING THROUGH HK eIPO WHITE FORM

1. General

(a) If you are an individual and satisfy the relevant eligibility criteria set out in "Who can apply for Hong Kong Offer Shares" in this section and on the same website, you may apply through HK eIPO White Form by submitting an application to the HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk. If you apply through HK eIPO White Form the Shares will be issued in your own name.

(b) Detailed instructions for application through the HK eIPO White Form service are set out in the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the HK eIPO White Form Service Provider and may not be submitted to our Company.

(c) In addition to the terms and conditions set out in this Prospectus, the HK eIPO White Form Service Provider may impose additional terms and conditions upon you for the use of the HK eIPO White Form service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(d) By submitting an application to the HK eIPO White Form Service Provider through the White Form HK eIPO White Form service, you are deemed to have authorised the eIPO Service Provider to transfer the details of your application to our Company and our registrars.

(e) You may submit an application through the HK eIPO White Form service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.

(f) You should give electronic application instructions through HK eIPO White Form at the times set out in the section headed "6. Time for inputting electronic application instructions" below.

(g) You should make payment for your application made by HK eIPO White Form service in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 17 March 2010, or such later time as described under the section headed "Effect of bad weather on the opening of the application lists” in the section headed below, the HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website www.hkeipo.hk.

(h) Once you have completed payment in respect of any electronic application instruction given by you or for your benefit to the designated eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under HK eIPO White Form more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

(i) Warning: The application for Hong Kong Offer Shares through HK eIPO White Form service is only a facility provided by the eIPO Service Provider to public investors. Our Company, our Directors, the Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the HK eIPO White Form service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the HK eIPO White Form service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit another application. See “How many applications may be made” below.

2. **Additional information**

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **HK eIPO White Form** service to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk will be treated as an applicant. If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated HK eIPO White Form Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated HK eIPO White Form Service Provider on the designated website at www.hkeipo.hk. Otherwise, any monies payable to you due to a refund for any of the reasons is set out below in the paragraph entitled “IX. Refund of Application Monies”.

V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

1. General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza,
199 Des Voeux Road Central,
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to us and our registrars.

2. Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees does the following things on behalf of each such person:

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

- undertakes and confirms that that person has not applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;

- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;

- understands that the above declaration will be relied upon by us, our Directors and the Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

- authorises us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;

- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give electronic application instructions on that person's behalf;

- agrees that we and our Directors are liable only for the information and representations contained in this prospectus;
- agrees to disclose that person's personal data to us, the Global Coordinator and/or their respective agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that that person cannot revoke the **electronic application instructions** before Wednesday, 24 March 2010, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of we agreeing that we will not offer any Hong Kong Offer Shares to any person before Wednesday, 24 March 2010, except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before Wednesday, 24 March 2010 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by us;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- agrees with us, for ourselves and for the benefit of each of the Shareholders (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum and Articles of Association;
- agrees with us (for ourselves and for the benefit of each of the Shareholders) that the Shares in our Company are freely transferable by the holders thereof;
- authorises our Company to enter into a contract on its behalf with each of our Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Memorandum and Articles of Association; and

- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

3. **Effect of giving electronic application instructions to HKSCC**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to us or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

4. **Multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. **Minimum subscription amount and permitted multiples**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms.

6. **Time for inputting electronic application instructions**

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Friday, 12 March 2010	**—**	**9:00 a.m. to 8:30 p.m.[(1)]**
Saturday, 13 March 2010	**—**	**8:00 a.m. to 1:00 p.m.[(1)]**
Monday, 15 March 2010	**—**	**8:00 a.m. to 8:30 p.m.[(1)]**
Tuesday, 16 March 2010,	**—**	**8:00 a.m. to 8:30 p.m.[(1)]**
Wednesday, 17 March 2010	**—**	**8:00 a.m.[(1)] to 12:00 noon**

1 These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 12 March 2010 until 12:00 noon on Wednesday, 17 March 2010 (24 hours daily, except the last application day).

7. **Effect of bad weather on the opening of the application lists**

The latest time for inputting your electronic application instructions will be 12:00 noon on Wednesday, 17 March 2010, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 17 March 2010, the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12 noon on such day.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

8. **Allocation of Hong Kong Offer Shares**

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instructions is given will be treated as an applicant.

9. **Deposit of share certificates into CCASS and refund of application monies**

- No temporary document of title will be issued. No receipt will be issued for application monies received.

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Wednesday, 24 March 2010, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the newspapers on Wednesday, 24 March 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 24 March 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 24 March 2010. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account (if you apply by giving electronic application instruction to HKSCC).

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 24 March 2010. No interest will be paid thereon.

10. **Section 40 of the Companies Ordinance**

For the avoidance of doubt, we, and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

11. **Personal data**

The section of the Application Form entitled "Personal Data" applies to any personal data held by our Company and the Offer Share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

12. **Warning**

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their electronic application instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their electronic application instructions, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, 17 March 2010.

VI. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for Hong Kong Offer Shares if and only if:

You are a nominee, in which case you may both give electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name if each application is made on behalf of different owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated HK eIPO White Form Service Provider;

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated HK eIPO White Form Service Provider and that you are duly authorised to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider;

- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider;

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider for more than 15,990,000 Offer Shares, as more particularly described in the section headed "Structure of the Global Offering — Hong Kong Public Offer"; or

- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company, then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or
- or control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

VII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked:**

  By completing and submitting an Application Form or submitting electronic application instructions to HKSCC or the designated HK eIPO White Form service provider you agree that your application or the application made by HKSCC Nominees or the HK eIPO White Form service provider on your behalf cannot be revoked on or before Wednesday, 24 March 2010. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your electronic application instruction to HKSCC or the HK eIPO White Form service provider and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of we agreeing that we will not offer any Hong Kong Offer Shares to any person before Wednesday, 24 March 2010 except by means of one of the procedures referred to in this prospectus.

  Your application or the application made by HKSCC Nominees or the HK eIPO White Form service provider on your behalf may be revoked on or before Wednesday, 24 March 2010 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees or the HK eIPO White Form service provider on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- **Full discretion of our Company or its agents to reject or accept your application**

Our Company, and the Global Coordinator (as agent for our Company), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

We, the Global Coordinator and the Hong Kong Underwriter(s), in their capacity as the agents of our Company and their agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Offer Shares is void**

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give electronic application instructions or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allotment if:**

- you make multiple applications or suspected multiple applications;

- you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and/or Offer Shares in the International Placing. By filling in any of the Application Forms or apply by giving electronic application instructions to HKSCC, you agree not to apply for Hong Kong Offer Shares as well as Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer;

- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;

- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);

- the Underwriting Agreements do not become unconditional; or

- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

VIII. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK$1.69 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 2,000 Offer Shares you will pay approximately HK$3,414.11. The Application Forms have tables showing the exact amount payable for certain multiples of Offer Shares up to 15,990,000 Offer Shares.

You must pay the amount payable upon application for the Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

IX. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for the benefit of our Company.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the offer price per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, we will refund the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%, without interest.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, 24 March 2010 in accordance with the various arrangements as described above.

All refunds by cheque will be crossed "Account Payee Only", and made out to you (or in case of joint applicants, the first-named applicant on the Application Form). Part of your Hong Kong identity card number/passport number, (or in case of joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant) provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. A banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

X. DEALINGS AND SETTLEMENT

1. Commencement of dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 25 March 2010.

The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares is 1280.

2. **Offer Shares will be eligible for admission into CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

12 March 2010

The Directors
Huiyin Household Appliances (Holdings) Co., Ltd.

BNP Paribas Capital (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out in Sections I to III below, for inclusion in the prospectus of the Company dated 12 March 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The Financial Information comprises the consolidated balance sheets as at 31 December 2007, 2008 and 2009, the balance sheets of the Company as at 31 December 2008 and 2009 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

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. Pursuant to a group reorganisation as described in Note 1(b) of Section II, entitled "Group reorganisation" below, which was completed on 3 April 2008, the Company became the holding company of the subsidiaries comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(c) of Section II below. All of these companies are private companies.

All companies comprising the Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared by the Company as it has not involved in any significant business transactions since its date of incorporation other than the Reorganisation and there is no statutory requirement to do so. The statutory audited financial statements or management financial statements of the subsidiaries of the Company were prepared in accordance with the local applicable accounting standards and regulations enforced in their respective places of incorporation. The statutory financial statements of these subsidiaries, where there is a statutory audit requirement, were not audited by us (except for the directly owned subsidiary, China Yinrui (HK) Investment Holding Company Limited) but by other local auditors in their respective places of incorporation as stated in Note 1(c) of Section II below.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements for each of the years ended 31 December 2007, 2008 and 2009 in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' responsibility

The directors of the Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRSs issued by the HKICPA.

The directors of the Company are also responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Company as at 31 December 2008 and 2009, and of the state of affairs of the Group as at 31 December 2007, 2008 and 2009, and of the Group's results and cash flows for the respective years then ended.

I FINANCIAL INFORMATION OF THE GROUP

(a) Consolidated balance sheets

	Note	As at 31 December 2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Land use rights	7	11,264	10,991	18,664
Property, plant and equipment	8	69,346	72,585	116,587
Investment properties	9	33,196	27,311	24,728
Intangible assets	10	1,190	5,043	3,303
Deferred income tax assets	11	8,442	11,750	11,169
		123,438	127,680	174,451
Current assets				
Inventories	12	73,617	161,200	163,096
Trade and bills receivables	13	44,240	33,660	102,604
Prepayments, deposits and other receivables	14	198,190	265,475	352,896
Restricted bank deposits	15	134,910	97,925	134,347
Cash and cash equivalents	16	120,682	81,684	18,150
		571,639	639,944	771,093
Total assets		695,077	767,624	945,544

	Note	As at 31 December 2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	17	—	142	142
Reserves	18	443,281	481,336	572,813
		443,281	481,478	572,955
Minority interests in equity		—	1,408	2,508
Total equity		443,281	482,886	575,463
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	11	5,708	17,930	39,352
Current liabilities				
Trade and bills payables	19	175,874	177,933	196,167
Accruals and other payables	20	39,899	72,200	60,889
Borrowings	21	21,290	—	70,000
Current income tax liabilities		9,025	16,675	3,673
		246,088	266,808	330,729
Total liabilities		251,796	284,738	370,081
Total equity and liabilities		695,077	767,624	945,544
Net current assets		325,551	373,136	440,364
Total assets less current liabilities		448,989	500,816	614,815

(b) Balance sheets of the Company

	Note	As at 31 December 2008	As at 31 December 2009
		RMB'000	*RMB'000*
ASSETS			
Current assets			
Prepayments, deposits and other receivables		—	3,191
Non-current assets			
Investments in subsidiaries	24	435,330	435,330
Total assets		435,330	438,521
LIABILITIES			
Current liabilities and total liabilities			
Accruals and other payables	20	6,858	15,018
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	142	142
Share premium	18	435,188	435,188
Accumulated losses	18	(6,858)	(11,827)
Total equity		428,472	423,503
Total equity and liabilities		435,330	438,521
Net current liabilities		(6,858)	(11,827)
Total assets less current liabilities		428,472	423,503

(c) Consolidated income statements

	Note	Year ended 31 December 2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*
Revenue	25	500,483	988,214	1,247,825
Cost of sales	28	(415,794)	(867,423)	(1,041,737)
Gross profit		84,689	120,791	206,088
Other income	26	13,199	8,616	11,647
Other gains/(losses) — net	27	—	170	(52)
Selling and marketing expenses	28	(28,163)	(41,763)	(51,226)
Administrative expenses	28	(15,900)	(38,494)	(41,339)
Operating profit		53,825	49,320	125,118
Finance income		3,162	6,887	4,736
Finance costs		(4,438)	(392)	(2,936)
Finance (costs)/income — net	31	(1,276)	6,495	1,800
Profit before income tax		52,549	55,815	126,918
Income tax expense	32	(9,131)	(17,248)	(34,291)
Profit for the year		43,418	38,567	92,627
Attributable to:				
— Equity holders of the Company		43,418	38,197	91,477
— Minority interests		—	370	1,150
		43,418	38,567	92,627
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)				
— Basic	33	2.17	1.91	4.57
— Diluted	33	2.17	1.90	4.51
Dividends	34	—	—	—

(d) Consolidated statements of comprehensive income

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	43,418	38,567	92,627
Other comprehensive income	—	—	—
Total comprehensive income	43,418	38,567	92,627
Attributable to:			
— Equity holders of the Company	43,418	38,197	91,477
— Minority interests	—	370	1,150
	43,418	38,567	92,627

(e) Consolidated statements of changes in equity

	Note	Attributable to equity holders of the Company						Minority interests	Total equity
		Share capital	Share premium	Statutory reserves	Other reserves	Retained earnings	Total		
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2007		—	—	9,922	26,990	43,528	80,440	—	80,440
Capital injection in a subsidiary by the then shareholder	18	—	—	—	319,423	—	319,423	—	319,423
Total comprehensive income for the year		—	—	—	—	43,418	43,418	—	43,418
Appropriation to statutory reserves		—	—	3,948	—	(3,948)	—	—	—
Balance at 31 December 2007		—	—	13,870	346,413	82,998	443,281	—	443,281
Issue of ordinary shares for Reorganisation	1(b)	142	435,188	—	(435,330)	—	—	—	—
Acquisition of a subsidiary	36	—	—	—	—	—	—	1,038	1,038
Total comprehensive income for the year		—	—	—	—	38,197	38,197	370	38,567
Appropriation to statutory reserves		—	—	1,231	—	(1,231)	—	—	—
Balance at 31 December 2008		142	435,188	15,101	(88,917)	119,964	481,478	1,408	482,886
Total comprehensive income for the year		—	—	—	—	91,477	91,477	1,150	92,627
Appropriation to statutory reserves		—	—	276	—	(276)	—	—	—
Dividends paid by a subsidiary to minority interests		—	—	—	—	—	—	(50)	(50)
Balance at 31 December 2009		142	435,188	15,377	(88,917)	211,165	572,955	2,508	575,463

(f) Consolidated cash flow statements

	Note	2007	2008	2009
		Year ended 31 December		
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities:				
Cash used in operations	35(a)	(125,551)	(43,842)	(73,241)
Interest paid		(4,438)	(392)	(2,936)
Income tax paid		(870)	(1,433)	(25,291)
Net cash used in operating activities		(130,859)	(45,667)	(101,468)
Cash flows from investing activities:				
Acquisition of a subsidiary, net of cash acquired	36	—	(5,864)	—
Purchase of land use rights	7	—	—	(8,000)
Purchase of property, plant and equipment		(16,591)	(5,277)	(20,785)
Purchase of intangible assets	10	(7)	(3,005)	(126)
(Loans to)/repayments from a related party	14	(36,000)	36,000	—
Proceeds from disposal of property, plant and equipment	35(b)	—	137	82
Interest received		2,425	7,624	4,736
Net cash (used in)/generated from investing activities		(50,173)	29,615	(24,093)
Cash flows from financing activities:				
Capital injection to a subsidiary by the then shareholder	18	319,423	—	—
Proceeds from bank borrowings	21	70,060	—	95,000
Repayments of bank borrowings	21	(95,680)	(21,290)	(25,000)
Dividends paid by a subsidiary to minority interests		—	—	(50)
Professional fees paid relating to the Listing of the Company		—	(1,656)	(7,923)
Net cash generated from/(used in) financing activities		293,803	(22,946)	62,027
Increase/(decrease) in cash and cash equivalents		112,771	(38,998)	(63,534)
Cash and cash equivalents at beginning of the year	16	7,911	120,682	81,684
Cash and cash equivalents at end of the year	16	120,682	81,684	18,150

II NOTES TO THE FINANCIAL INFORMATION

1 General information and group reorganisation

(a) 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 and is engaged in investment holding. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands. The Company changed its name from China Yinrui Investment Holding Co., Ltd. to Huiyin Household Appliances (Holdings) Co., Ltd. on 8 December 2009.

During the Relevant Periods, the Company and its subsidiaries (together, the "Group") are principally 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").

(b) Group reorganisation

The Group's businesses were primarily carried out by Yangzhou Huiyin Household Appliance Co., Ltd. ("Yangzhou Huiyin"). In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the following reorganisation steps (the "Reorganisation") were carried out:

(i) The Company was incorporated on 5 February 2008 by the major equity holder of Yangzhou Huiyin, Mr. Cao Kuanping, who subsequently transferred his 100% ownership in the Company on 17 March 2008 to his another wholly owned company, China Houde Investment Co., Ltd. ("China Houde").

(ii) China Yinrui (HK) Investment Holding Company Limited ("China Yinrui (HK)") was incorporated on 14 March 2008 as a wholly owned subsidiary of the Company.

(iii) Pursuant to an equity transfer agreement dated 3 April 2008, China Yinrui (HK) acquired 52.47%, 25.18% and 22.35% equity interests (totalling 100%) in Yangzhou Huiyin from the then shareholders of Yangzhou Huiyin, namely China Houde, New Dame Limited ("New Dame") and New Fellow Holdings Limited ("New Fellow") respectively, at a total consideration of US$46,417,000, (equivalent to RMB346,413,000) based on the then registered and paid-up capital of Yangzhou Huiyin.

In consideration of such acquisition and pursuant to a subscription agreement dated 3 April 2008, the Company issued and allotted 10,493,999 shares, 4,470,000 shares, and 5,036,000 shares to the then shareholders of Yangzhou

Huiyin, namely China Houde, New Dame and New Fellow, at a consideration of US$24,355,000, US$10,374,200 and US$11,687,800 respectively (totalling US$46,417,000). The amounts payable by China Houde, New Dame and New Fellow for the subscription of the aforementioned shares were set off against the amounts payable by China Yinrui (HK) to them for the acquisition of the entire equity interest in Yangzhou Huiyin.

After the completion of the Reorganisation on 3 April 2008, the Company became the holding company of the subsidiaries now comprising the Group. As further explained in Note 2, the Reorganisation has been accounted for as a reverse acquisition. For accounting purposes, the total cost for acquisition of Yangzhou Huiyin by China Yinrui (HK) and the total monetary value of the shares issued by the Company as described in note (iii) above are both regarded as amounted to RMB435,330,000, being the historical carrying amount of the net assets of Yangzhou Huiyin prior to the Reorganisation. The total cost for acquisition of Yangzhou Huiyin is recorded as a debit in other reserve under equity and resulted in a net debit of RMB88,917,000 after netting with the paid-up capital of Yangzhou Huiyin of RMB346,413,000 which is also recorded in other reserve. The excess of the monetary value over the nominal value of the shares issued amounting to RMB435,188,000 is recorded in share premium under equity.

(c) Subsidiaries

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest held as at 31 December 2007	2008	2009	Principal activities	Note
Directly owned								
China Yinrui (HK)	Hong Kong 14 March 2008	Limited liability company	HKD 1	—	100%	100%	Investment	(i)
Indirectly owned								
Yangzhou Huiyin 揚州滙銀家電有限公司	Yangzhou Jiangsu, PRC 27 May 2002	Foreign investment enterprise	USD 46,417,000	100%	100%	100%	Bulk distribution sales and provision of after-sales services of household appliances	(iii)
Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. 江蘇滙銀電器連鎖有限公司	Yangzhou Jiangsu, PRC 15 May 2006	Domestic enterprise	RMB 62,500,000	100%	100%	100%	Retail sales and provision of after-sales services of household appliances	(iii)
Changzhou Keyi Air-Conditioner Sales Co., Ltd. ("Changzhou Keyi") 常州可意空調銷售有限公司	Changzhou Jiangsu, PRC 26 August 2003	Domestic enterprise	RMB 5,000,000	—	90%	90%	Bulk distribution sales of Gree air-conditioners	(ii)

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest held as at 31 December 2007	2008	2009	Principal activities	Note
Xinghua Huiyin Household Appliance Co., Ltd. 興化市滙銀家電有限公司	Xinghua Jiangsu, PRC 13 August 2007	Domestic enterprise	RMB 5,000,000	100%	100%	100%	Retail sales of household appliances	(iii)
Yangzhou Huiyin Yuankun Professional Electronics Sales Co., Ltd. 揚州滙銀元坤專業電器銷售有限公司	Yangzhou Jiangsu, PRC 8 January 2008	Domestic enterprise	RMB 5,000,000	—	100%	100%	Bulk distribution sales of Daikin air-conditioners	(iii)
Yangzhou Huihou Electronics Sales Co., Ltd. (Formerly known as "Yangzhou Huiyin Times Electronics Co., Ltd.") 揚州滙厚電器銷售有限公司(原名為"揚州滙銀時代家電有限公司")	Yangzhou Jiangsu, PRC 23 August 2004	Domestic enterprise	RMB 5,000,000	100%	100%	100%	Bulk distribution sales of household appliances	(iii)
Nanjing Huize Electronics Sales Co., Ltd. 南京滙澤電器銷售有限公司	Nanjing Jiangsu, PRC 24 July 2006	Domestic enterprise	RMB 600,000	100%	100%	100%	Retail sales of Gree air-conditioners	(iii)
Tianchang Huiyin Household Appliance Co., Ltd. 天長市滙銀家電有限公司	Tianchang Anhui, PRC 6 April 2006	Domestic enterprise	RMB 3,000,000	100%	100%	100%	Retail sales of household appliances	(iii)
Yangzhou Hengxin Air-conditioner Sales Co., Ltd. 揚州恒信空調銷售有限公司	Yangzhou Jiangsu, PRC 27 August 2004	Domestic enterprise	RMB 5,000,000	100%	100%	100%	Bulk distribution sales of Gree air-conditioners	(i)
Zhenjiang Huize Household Appliance Sales Co., Ltd. 鎮江滙澤電器銷售有限公司	Zhenjiang, Jiangsu, PRC 26 December 2006	Domestic enterprise	RMB 600,000	100%	100%	100%	Bulk distribution sales of Gree air-conditioners	(i)
Yangzhou Huide Electronics Distribution Co., Ltd. 揚州滙德電器營銷有限公司	Yangzhou Jiangsu, PRC 23 October 2006	Domestic enterprise	RMB 5,000,000	100%	100%	100%	Bulk distribution sales of Midea air-conditioners	(i)
Yangzhou Hanshang Huiyin Household Appliance Co., Ltd. 揚州邗上滙銀家電有限公司	Yangzhou Jiangsu, PRC 22 June 2009	Domestic enterprise	RMB 10,000,000	—	—	100%	Retail sales of household appliances	(i)
Huai'an Huiyin Household Appliance Co., Ltd. 淮安滙銀家電有限公司	Huai'an Jiangsu, PRC 2 March 2009	Domestic enterprise	RMB 1,000,000	—	—	100%	Retail sales of Haier products	(i)
Wuhu Yinrui Household Appliance Sales Co., Ltd. 蕪湖市銀瑞家電銷售有限公司	Wuhu Anhui, PRC 11 March 2009	Domestic enterprise	RMB 2,000,000	—	—	100%	Bulk distribution sales of Dakin air-conditioners	(i)
Ningguo Huiyin Household Appliance Sales Co., Ltd. 寧國滙銀家電銷售有限公司	Ningguo Anhui, PRC 23 September 2009	Domestic enterprise	RMB 5,000,000	—	—	100%	Retail sales of household appliances	(i)
Jiangsu Huadong Huiyin Household Appliance Co., Ltd. 江蘇華東滙銀家電有限公司	Kunshan Jiangsu, PRC 1 November 2009	Domestic enterprise	RMB 20,000,000	—	—	100%	Bulk distribution sales of household appliances	(i)

Notes:

(i) No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective places of incorporation.

(ii) This company is acquired from a third party during the Relevant Periods (Note 36).

(iii) The statutory financial statements for the years ended 31 December 2007 and 2008 where applicable, were audited by certified public accountants as follows:

Name of company	For the year ended	Name of auditor
China Yinrui (HK)	31 December 2008	PricewaterhouseCoopers
Yangzhou Huiyin 揚州滙銀家電有限公司	31 December 2007 and 2008	揚州迅達會計師事務所有限公司 Yangzhou Xunda Certified Public Accountants Company Limited
Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. ("Jiangsu Huiyin") 江蘇滙銀電器連鎖有限公司	31 December 2007 and 2008	揚州迅達會計師事務所有限公司 Yangzhou Xunda Certified Public Accountants Company Limited
Yangzhou Huihou Electronics Sales Co., Ltd. (Formerly known as "Yangzhou Huiyin Times Electronics Co., Ltd.") 揚州滙厚電器銷售有限公司(原名為"揚州滙銀時代家電有限公司")	31 December 2007 and 2008	揚州迅達會計師事務所有限公司 Yangzhou Xunda Certified Public Accountants Company Limited
Nanjing Huize Electronics Sales Co., Ltd. 南京滙澤電器銷售有限公司	31 December 2007 and 2008	揚州迅達會計師事務所有限公司 Yangzhou Xunda Certified Public Accountants Company Limited
Tianchang Huiyin Household Appliance Co. Ltd. 天長市滙銀家電有限公司	31 December 2007 and 2008	安徽天華會計師事務所有限公司 Anhui Tianhua Certified Public Accountants Company Limited
Xinghua Huiyin Household Appliance Co., Ltd. 興化市滙銀家電有限公司	31 December 2007 and 2008	揚州迅達會計師事務所有限公司 Yangzhou Xunda Certified Public Accountants Company Limited
Yangzhou Huiyin Yuankun Professional Electronics Sales Co., Ltd. 揚州滙銀元坤專業電器銷售有限公司	31 December 2008	揚州迅達會計師事務所有限公司 Yangzhou Xunda Certified Public Accountants Company Limited
Zhenjiang Huize Electronics Sales Co., Ltd. 鎮江滙澤電器銷售有限公司	31 December 2007 and 2008	揚州迅達會計師事務所有限公司 Yangzhou Xunda Certified Public Accountants Company Limited

Since Changzhou Keyi had more than one investor during the years ended 31 December 2008 and 2009, therefore there is no statutory requirement for such company to submit the audited financial statements to the relevant industry and commercial department for the corresponding years.

There are no audited statutory financial statements of the subsidiaries shown under note (iii) above for the year ended 31 December 2009 as of the date of this report.

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

2 Basis of presentation

The Reorganisation as described in Note 1(b) above has been accounted for as a reverse acquisition under Hong Kong Financial Reporting Standard 3 "Business Combinations" since the completion of the Reorganisation on 3 April 2008 resulted in the Company becoming the holding company of Yangzhou Huiyin, through its wholly owned subsidiary China Yinrui (HK). For accounting purposes, in preparing the Financial Information, Yangzhou Huiyin is treated as the acquirer while the Company and China Yinrui (HK) were deemed to have been acquired by Yangzhou Huiyin. The Financial Information of the Group throughout the Relevant Periods has been prepared as a continuation of the consolidated financial information of Yangzhou Huiyin and of the Group. Accordingly upon the Reorganisation:

(a) The assets and liabilities of Yangzhou Huiyin are recognised and measured in the Financial Information at their historical carrying amounts prior to the Reorganisation;

(b) The retained earnings and other equity balances of Yangzhou Huiyin prior to the Reorganisation are retained in the equity balances in the Financial Information;

(c) The equity structure appearing in the Financial Information (being the number and type of equity instruments issued) reflects the equity structure of the Company (the legal parent) and includes the shares issued for the Reorganisation;

(d) The cost for acquisition of Yangzhou Huiyin (the legal subsidiary) by China Yinrui (HK) (the legal acquirer) is recorded as a debit in other reserve under equity. The cost of acquisition is determined using the historical carrying amount of the net assets of Yangzhou Yinrui prior to the Reorganisation.

3 Summary of significant accounting policies

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") using the historical cost convention, as modified by the revaluation (if any) of warrants which are stated at fair value.

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

As at the date of this report, certain revised standards and amendments to existing standards of HKFRSs have been issued by HKICPA but are not yet effective for annual period beginning on 1 January 2009 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

- HKFRS 3 (Revised) "Business Combinations" (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

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

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The revised standard requires changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in the income statements. Any investment retained in the former subsidiary is measured at its fair value as at the date when control is lost.

- HKAS 24 (Revised) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011). The amendment clarifies and simplifies the definition of a related party.

- HKFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- HKICPA's annual improvements project published in May 2009

  - Amendment to HKFRS 8 "Operating Segments" (effective for periods beginning on or after 1 January 2010). Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the chief operating decision maker.

  - Amendment to HKAS 7 "Statement of Cash Flows" (effective for periods beginning on or after 1 January 2010). Only expenditures that result in a recognised asset are eligible for classification as investing activities.

  - Amendment to HKAS 17 "Leases" (effective for periods beginning on or after 1 January 2010). The amendment removes the specific guidance on the classification of long-term leases of land as operating leases. When classifying land leases, the general principles applicable to the classification of leases should be applied. The classification of land leases has to be reassessed on adoption of the amendment on the basis of information existing at inception of the leases.

  - Amendment to HKAS 36 "Impairment of Assets" (effective for periods beginning on or after 1 January 2010). This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in HKFRS 8.

  - Amendment to HKAS 38 "Intangible Assets" (effective for periods beginning on or after 1 July 2009). This clarifies the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognised separately from goodwill but together with the related item.

The Group will apply the revised standards and amendments described above starting from 1 January 2010. The Group is in the process of making an assessment on the impact of these revised standards and amendments and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position.

3.1 *Consolidation*

(a) *Subsidiaries*

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

Except for the Reorganisation as described in Note 2, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference being negative goodwill is recognised directly in the income statement.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

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

3.2 *Segment reporting*

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

3.3 *Foreign currency translation*

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

3.4 *Land use rights*

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

3.5 *Property, plant and equipment*

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

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

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

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

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

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

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

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

3.6 *Investment properties*

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

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

3.7 *Intangible assets*

(a) *Computer software*

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

(b) *Regional sales license*

Regional sales license arising from the acquisition of a subsidiary (Note 36) is initially recognised at fair value. Regional sales license has a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of regional sales license over the estimated useful lives of 20 months.

3.8 *Impairment of investments in subsidiaries and non-financial assets*

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

3.9 *Derivative financial instruments*

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

3.10 *Inventories*

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

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

3.11 *Trade, bills and other receivables*

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

3.12 *Cash and cash equivalents*

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

3.13 *Share capital*

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

3.14 *Trade, bills and other payables*

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

3.15 *Financial guarantee liabilities*

Financial guarantee contracts issued are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less accumulative amortisation. The liability is derecognised when the obligation under the financial guarantee contracts is discharged or cancelled or expires. The difference between the carrying amount of the liability extinguished and the consideration paid is recognised in the income statement.

3.16 *Borrowings and borrowing costs*

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

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

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

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

3.17 *Current and deferred income tax*

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

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

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

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

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

3.18 *Employee benefits — pension obligations (defined contribution plan)*

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

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

3.19 *Provision and contingent liability*

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

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

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

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

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

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

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

3.20 *Revenue recognition*

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

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

(a) *Sales of goods — bulk distribution*

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

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

(b) *Sales of goods — retail*

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

(c) *Rendering of services*

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

(d) *Interest income*

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

(e) *Franchise fee income*

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

(f) *Promotion and store display income*

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

(g) *Rental income*

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

(h) *Dividend income*

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

3.21 *Government grants*

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

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

3.22 *Operating leases (as a lessee)*

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

3.23 *Dividend distribution*

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

4 Financial risk management

4.1 *Financial risk factors*

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

(a) *Cash flow and fair value interest rate risk*

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

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at fixed rates of RMB 21,290,000 and RMB 70,000,000 as at 31 December 2007 and 2009, respectively, expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 21.

(b) *Credit risk*

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

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

	Rating (note)	As at 31 December		
		2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*
Five largest restricted bank deposits				
— Bank of Communications	BBB+	49,100	29,000	56,230
— CITIC Industrial Bank	N/A	36,010	33,740	42,317
— China Merchants Bank	BBB-	15,400	26,000	26,800
— Agricultural Bank of China	A+	20,400	3,970	5,000
— China Construction Bank	A-	14,000	—	—
		134,910	92,710	130,347
Five largest cash and cash equivalents				
— Agricultural Bank of China	A+	60,715	34,578	4,781
— Bank of Communications	BBB+	21,570	21,305	3,994
— Bank of China	A-	—	—	3,206
— China Construction Bank	A-	2,013	893	2,556
— CITIC Industrial Bank	N/A	21,397	894	844
		105,695	57,670	15,381

Note:

These are Standard and Poor's credit ratings.

Trade receivables are due from wholesale customers with an appropriate financial strength, the Group grants the average credit term to the distributors ranging from 30 days to 90 days, the balances exceeding the credit term are closely monitored by the Group. Rental deposits are placed with various landlords in the PRC and are due upon the expiry of the tenancy agreements and handover of the leased premises. The Group did not experience any significant defaults by the debtors and landlords.

(c) *Liquidity risk*

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

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

	Within 3 months	Between 3 to 6 months	Between 6 to 12 months
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2007			
Borrowings (Note 21)	21,290	—	—
Interest payments on borrowings (note)	98	—	—
Trade and bills payables (Note 19)	72,749	103,125	—
Accruals and other payables, excluding the advances from customers (Note 20)	29,115	—	6,071
	123,252	103,125	6,071
As at 31 December 2008			
Trade and bills payables (Note 19)	166,064	11,869	—
Accruals and other payables, excluding the advances from customers (Note 20)	45,137	—	12,444
	211,201	11,869	12,444
As at 31 December 2009			
Borrowings (Note 21)	—	20,000	50,000
Interest payments on borrowings (note)	956	863	522
Trade and bills payables (Note 19)	141,797	54,370	—
Accruals and other payables, excluding the advances from customers (Note 20)	32,729	—	5,179
	175,482	75,233	55,701

Note:

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2007 and 2009 without taking into account of future borrowings.

4.2 *Capital risk management*

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

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

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

The gearing ratios at 31 December 2007, 2008 and 2009 were as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings (Note 21)	21,290	—	70,000
Total equity	443,281	482,886	575,463
Total capital	464,571	482,886	645,463
Gearing ratio	4.58%	0%	10.84%

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

4.3 *Fair value estimation*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less any estimated credit adjustments of financial assets and liabilities are considered reasonable approximation of their fair values. The fair value of financial liabilities or disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 Critical accounting estimates and judgements

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

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

(a) *Income taxes*

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

As at 31 December 2007, 2008 and 2009, the Group has deferred income tax assets in the amount of approximately RMB 8,442,000, RMB 11,750,000 and RMB 11,169,000, respectively; and deferred income tax liabilities of approximately RMB 5,708,000, RMB 17,930,000 and RMB 39,352,000, respectively. To the extent it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from impairment provision of inventories and receivables, temporary differences arising from depreciation, certain accrual items and unused tax losses.

(b) *Net realisable value of inventories*

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

(c) *Estimated impairment of non-financial assets*

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

(d) *Fair value of derivatives and other financial instruments*

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

(e) *Estimate of fair value of investment properties for disclosure purpose*

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

(f) *Rebates from suppliers*

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

6 Segment information

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.

	Year ended 31 December 2007			
Segment results	**Retail**	**Bulk distribution**	**Other**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2007				
Segment revenue	241,605	508,749	6,494	756,848
Inter-segment revenue	—	(256,365)	—	(256,365)
Revenue	241,605	252,384	6,494	500,483
Operating profit	29,014	21,137	3,674	53,825
Finance costs — net				(1,276)
Profit before income tax				52,549
Income tax expense				(9,131)
Profit for the year				43,418
Other segment items are as follows:				
Capital expenditure	1,249	10,753	—	12,002
Depreciation charge	1,221	2,430	—	3,651
Amortisation charge	972	248	—	1,220

Segment assets and liabilities	**Retail**	**Bulk distribution**	**Other**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2007				
Segment assets	87,567	592,775	5,793	686,135
Unallocated assets				8,942
Total assets				695,077
Segment liabilities	16,042	197,910	1,821	215,773
Unallocated liabilities				36,023
Total liabilities				251,796

Segment results	Retail	Bulk distribution	Other	Group
	Year ended 31 December 2008			
	RMB'000	RMB'000	RMB'000	RMB'000
2008				
Segment revenue	330,417	1,049,395	8,672	1,388,484
Inter-segment revenue	—	(400,270)	—	(400,270)
Revenue	330,417	649,125	8,672	988,214
Operating profit	21,985	26,601	734	49,320
Finance income — net				6,495
Profit before income tax				55,815
Income tax expense				(17,248)
Profit for the year				38,567
Other segment items are as follows:				
Capital expenditure	634	10,129	—	10,763
Depreciation charge	1,542	4,935	—	6,477
Amortisation charge	928	2,264	—	3,192

Segment assets and liabilities	Retail	Bulk distribution	Other	Group
	RMB'000	RMB'000	RMB'000	RMB'000
2008				
Segment assets	83,177	665,255	7,442	755,874
Unallocated assets				11,750
Total assets				767,624
Segment liabilities	14,554	227,921	7,658	250,133
Unallocated liabilities				34,605
Total liabilities				284,738

Segment results	Retail	Bulk distribution	Other	Group
	Year ended 31 December 2009			
	RMB'000	RMB'000	RMB'000	RMB'000
2009				
Segment revenue	440,331	1,248,638	9,114	1,698,083
Inter-segment revenue	—	(450,258)	—	(450,258)
Revenue	440,331	798,380	9,114	1,247,825
Operating profit	62,937	61,235	946	125,118
Finance income — net				1,800
Profit before income tax				126,918
Income tax expense				(34,291)
Profit for the year				92,627
Other segment items are as follows:				
Capital expenditure	10,558	50,860	—	61,418
Depreciation charge	6,156	4,947	—	11,103
Amortisation charge	923	1,906	—	2,829

Segment assets and liabilities	Retail	Bulk distribution	Other	Group
	RMB'000	RMB'000	RMB'000	RMB'000
2009				
Segment assets	104,616	824,336	5,423	934,375
Unallocated assets				11,169
Total assets				945,544
Segment liabilities	21,442	234,200	1,414	257,056
Unallocated liabilities				113,025
Total liabilities				370,081

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables and operating cash and mainly exclude deferred tax assets.

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

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

7 Land use rights

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

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Opening net book amount	11,537	11,264	10,991
Additions (Note 14(i))	—	—	8,000
Amortisation (Note 28)	(273)	(273)	(327)
Closing net book amount	11,264	10,991	18,664
Cost	11,590	11,590	19,590
Accumulated amortisation	(326)	(599)	(926)
Closing net book amount	11,264	10,991	18,664

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

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

As at 31 December 2008 and 2009, land use rights of RMB 10,991,000 and RMB 10,718,000 together with certain buildings (Note 8) and investment properties (Note 9) had been pledged as collateral for bank acceptance bills of RMB 40,000,000 and RMB 36,000,000 respectively (Note 19).

8 Property, plant and equipment

	Buildings	Electronics and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006						
Cost	4,112	4,366	1,640	4,326	48,873	63,317
Accumulated depreciation	(24)	(477)	(566)	(1,248)	—	(2,315)
Net book amount	4,088	3,889	1,074	3,078	48,873	61,002
Year ended 31 December 2007						
Opening net book amount	4,088	3,889	1,074	3,078	48,873	61,002
Additions	2,214	388	1,820	1,050	6,523	11,995
Transfers	44,573	10,823	—	—	(55,396)	—
Depreciation (Note 28)	(657)	(1,486)	(445)	(1,063)	—	(3,651)
Closing net book amount	50,218	13,614	2,449	3,065	—	69,346
At 31 December 2007						
Cost	50,899	15,577	3,460	5,376	—	75,312
Accumulated depreciation	(681)	(1,963)	(1,011)	(2,311)	—	(5,966)
Net book amount	50,218	13,614	2,449	3,065	—	69,346
Year ended 31 December 2008						
Opening net book amount	50,218	13,614	2,449	3,065	—	69,346
Additions	155	790	1,100	2,637	—	4,682
Transfer in (Note 9)	5,115	—	—	—	—	5,115
Acquisition of a subsidiary (Note 36)	—	25	54	—	—	79
Disposals (Note 35)	—	—	(54)	(106)	—	(160)
Depreciation (Note 28)	(1,962)	(1,577)	(766)	(2,172)	—	(6,477)
Closing net book amount	53,526	12,852	2,783	3,424	—	72,585

	Buildings	Electronics and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008					
Cost	56,413	16,401	4,442	7,774	85,030
Accumulated depreciation	(2,887)	(3,549)	(1,659)	(4,350)	(12,445)
Net book amount	53,526	12,852	2,783	3,424	72,585
Year ended 31 December 2009					
Opening net book amount	53,526	12,852	2,783	3,424	72,585
Additions (Note 14(i))	35,463	3,672	1,381	12,776	53,292
Transfer in (Note 9)	1,947	—	—	—	1,947
Disposals (Note 35)	—	(10)	(124)	—	(134)
Depreciation (Note 28)	(2,996)	(1,527)	(874)	(5,706)	(11,103)
Net book amount	87,940	14,987	3,166	10,494	116,587
At 31 December 2009					
Cost	93,934	20,063	5,679	17,927	137,603
Accumulated depreciation	(5,994)	(5,076)	(2,513)	(7,433)	(21,016)
Net book amount	87,940	14,987	3,166	10,494	116,587

Notes:

(a) Depreciation expenses were included in the following categories in the consolidated income statements:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Selling and marketing expenses	3,109	5,570	9,955
Administrative expenses	542	907	1,148
	3,651	6,477	11,103

(b) As at 31 December 2008 and 2009, buildings with net book amounts totalling RMB 53,526,000 and RMB 52,697,000 had been pledged together with certain land use rights (Note 7) and investment properties (Note 9) as collateral for bank acceptance bills of RMB 40,000,000 and RMB 36,000,000 as at 31 December 2008 and 2009 respectively (Note 19).

9 Investment properties

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	34,010	33,196	27,311
Transfer out (Note 8)	—	(5,115)	(1,947)
Amortisation (Note 28)	(814)	(770)	(636)
Closing net book amount	33,196	27,311	24,728
Cost	34,213	28,853	26,796
Accumulated amortisation	(1,017)	(1,542)	(2,068)
Closing net book amount	33,196	27,311	24,728

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

The Group chooses the cost model to account for its investment properties and therefore the difference between the fair value and carrying amount of the investment properties and any changes in fair value are not accounted for in this Financial Information. The carrying amount of the investment properties would have been RMB 35,900,000, RMB 31,800,000 and RMB 28,300,000, respectively, had they been stated at fair values as of 31 December 2007, 2008 and 2009. Such fair values of the investment properties were based on revaluations performed by American Appraisal China Limited, an independent and professional qualified valuer. Fair value was determined by discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question.

As at 31 December 2008 and 2009, the investment properties with a net book amount of RMB 27,311,000 and RMB 24,728,000 had been pledged together with certain land use rights (Note 7) and buildings (Note 8) as collateral for the Group's bank acceptance bills of RMB 40,000,000 and RMB 36,000,000 respectively (Note 19).

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

10 Intangible assets

	Regional sales license	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2006			
Cost	—	1,328	1,328
Accumulated amortisation	—	(12)	(12)
Net book amount	—	1,316	1,316

	Regional sales license	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2007			
Opening net book amount	—	1,316	1,316
Additions	—	7	7
Amortisation (Note 28)	—	(133)	(133)
Closing net book amount	—	1,190	1,190
At 31 December 2007			
Cost	—	1,335	1,335
Accumulated amortisation	—	(145)	(145)
Net book amount	—	1,190	1,190
Year ended 31 December 2008			
Opening net book amount	—	1,190	1,190
Acquisition of a subsidiary (Note 36)	2,997	—	2,997
Additions	—	3,005	3,005
Amortisation (Note 28)	(1,798)	(351)	(2,149)
Closing net book amount	1,199	3,844	5,043
At 31 December 2008			
Cost	2,997	4,340	7,337
Accumulated amortisation	(1,798)	(496)	(2,294)
Net book amount	1,199	3,844	5,043
Year ended 31 December 2009			
Opening net book amount	1,199	3,844	5,043
Additions	—	126	126
Amortisation (Note 28)	(1,199)	(667)	(1,866)
Closing net book amount	—	3,303	3,303
At 31 December 2009			
Cost	2,997	4,466	7,463
Accumulated amortisation	(2,997)	(1,163)	(4,160)
Net book amount	—	3,303	3,303

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

11 Deferred income tax

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

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets:			
— to be recovered within 12 months	3,938	4,866	3,772
— to be recovered after more than 12 months	4,504	6,884	7,397
	8,442	11,750	11,169
Deferred income tax liabilities:			
— to be settled within 12 months	5,708	17,618	38,323
— to be settled after more than 12 months	—	312	1,029
	5,708	17,930	39,352

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

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	2,613	2,734	(6,180)
Acquisition of a subsidiary (Note 36)	—	(749)	—
Recognised in the consolidated income statements (Note 32)	121	(8,165)	(22,003)
At end of the year	2,734	(6,180)	(28,183)

The movement in deferred income tax assets and liabilities during the years ended 31 December 2007, 2008 and 2009, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Tax losses	Accrued volume discounts to the distributors and franchisees	Accrued expenses	Depreciation	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	596	592	591	—	1,906	3,685
Recognised in the consolidated income statements	1,346	926	292	530	1,663	4,757
At 31 December 2007	1,942	1,518	883	530	3,569	8,442
Recognised in the consolidated income statements	1,716	1,243	686	(73)	(264)	3,308
At 31 December 2008	3,658	2,761	1,569	457	3,305	11,750
Recognised in the consolidated income statements	(579)	(1,466)	222	362	880	(581)
At 31 December 2009	3,079	1,295	1,791	819	4,185	11,169

Deferred income tax liabilities

	Withholding taxation on the unremitted earnings of subsidiaries	Arising from the acquisition of a subsidiary	Accrued supplier rebates	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	—	—	1,072	1,072
Recognised in the consolidated income statements	—	—	4,636	4,636
At 31 December 2007	—	—	5,708	5,708
Acquisition of a subsidiary (Note 36)	—	749	—	749
Recognised in the consolidated income statements	312	(449)	11,610	11,473
At 31 December 2008	312	300	17,318	17,930
Recognised in the consolidated income statements	717	(300)	21,005	21,422
At 31 December 2009	1,029	—	38,323	39,352

12 Inventories

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Merchandise held for resale	73,679	162,021	163,284
Provision for obsolescence	(312)	(841)	(523)
	73,367	161,180	162,761
Low value consumables	250	20	335
Total	73,617	161,200	163,096

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

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of merchandise sold	414,485	865,473	1,039,751
Write-down of inventories (Note 28)	147	529	—
Reversal of write-down of inventories (Note 28)	—	—	(318)
	414,632	866,002	1,039,433

As at 31 December 2009, inventories with a total net book value of RMB 75,780,000 had been pledged as collateral for short-term bank borrowings of RMB 40,000,000 (Note 21).

13 Trade and bills receivables

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	43,522	28,816	101,418
Less: Provision for impairment	(1,637)	(1,827)	(2,504)
Trade receivables, net	41,885	26,989	98,914
Bills receivable	2,355	6,671	3,690
Trade and bills receivables, net	44,240	33,660	102,604

The average credit terms granted to customers by the Group ranging from 30 days to 90 days. The bills receivable are collected when they fall due.

The ageing analysis of trade receivables, before provision for impairment as at 31 December 2007, 2008 and 2009 was as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
0 — 30 days	5,722	17,236	82,942
31 — 90 days	10,170	7,816	13,443
91 — 365 days	25,993	1,958	2,529
1 year — 2 years	1,333	512	1,447
2 years — 3 years	149	990	260
Over 3 years	155	304	797
Total	43,522	28,816	101,418

All trade and bills receivables are denominated in RMB and their carrying amounts approximate their fair values as at 31 December 2007, 2008 and 2009.

The maximum exposures of the Group to credit risk as at 31 December 2007, 2008 and 2009 were the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security.

As at 31 December 2007, 2008 and 2009, trade receivables of RMB 1,637,000, RMB 1,827,000 and RMB 2,504,000 were pass due, impaired and provided for. The ageing analysis of these trade receivables is as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
91 — 365 days	—	21	—
1 year — 2 years	1,333	512	1,447
2 years — 3 years	149	990	260
Over 3 years	155	304	797
Total	1,637	1,827	2,504

As at 31 December 2007, 2008 and 2009, trade receivables of RMB 26,053,000, RMB 3,775,000 and RMB7,913,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
0 — 30 days	—	—	—
31 — 90 days	60	1,817	5,384
91 — 365 days	25,993	1,958	2,529
Total	26,053	3,775	7,913

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

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	392	1,637	1,827
Provision for receivable impairment (Note 28)	1,245	190	677
At end of the year	1,637	1,827	2,504

Bills receivable do not contain impaired assets.

14 Prepayments, deposits and other receivables

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Prepayments — advance payments to suppliers	110,608	206,954	328,327
Deposits	410	464	5,476
Other receivables from third parties			
— Value added tax recoverable	5,536	13,882	6,017
— Staff advances	73	343	351
— Amount paid on behalf of a supplier	—	1,036	1,047
— Others	1,200	2,086	1,227
	6,809	17,347	8,642
Prepayment to a related party for acquisition of properties (i) (Note 39(c))	34,000	34,000	—
Loans to a related party (ii) (Note 39(c))	36,000	—	—
Interest receivable from a related party (ii) (Note 39(c))	737	—	—
Prepayment for professional fees	—	—	3,191
Amounts due from related parties (Note 39(c))	5,824	392	160
Prepaid rental	1,537	3,628	5,606
Funds with financial institution (iii)	500	—	—
Other prepayments	1,765	2,690	1,494
	198,190	265,475	352,896

Notes:

(i) The prepayment for purchase of properties represented the amount paid to Yangzhou Yintai Real Estate Co., Ltd ("Yangzhou Yintai"), a related party, to secure the future purchase of properties. A tripartite agreement had been entered into with Yangzhou Yintai and another third party in 2009. The prepayment had been transferred to the third party for the purchase of land use rights and buildings which had been completed in 2009 (Note 7 and Note 8).

(ii) The loan to a related party represented the balance due from Yangzhou Yintai which was secured by Yangzhou Yintai's land use rights and interest was charged from 8.554% to 8.748% per annum. The loan was settled in 2008.

(iii) As at 31 December 2007, the balance represented funds placed with China Construction Bank for money market investments. Based on the underlying terms, an interest of 4.11% per annum was received in 2008.

The prepayments, deposits and other receivables are mainly denominated in RMB and their carrying amounts approximate their fair values as at 31 December 2007, 2008 and 2009.

15 Restricted bank deposits

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Restricted bank deposits	134,910	97,925	134,347

Restricted bank deposits represent bank deposits pledged as collateral for bank acceptance bills (Note 19) of the Group.

All restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair value as at 31 December 2007, 2008 and 2009. The weighted average interest rate per annum on restricted bank deposits was 2.07%, 2.25% and 1.86% at 31 December 2007, 2008 and 2009 respectively.

16 Cash and cash equivalents

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Cash on hand	421	426	333
Cash at bank	120,261	81,258	17,817
	120,682	81,684	18,150

As at 31 December 2007, 2008 and 2009, cash and cash equivalents are all denominated in RMB and the effective interest rate per annum was as follows:

	As at 31 December		
	2007	2008	2009
RMB	0.72%	0.36%	0.36%

17 Share capital

	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
			US$	*RMB'000*
Authorised:				
Ordinary shares of US$0.001 each upon incorporation	(a)	50,000,000	50,000	359
Issued and fully paid:				
Issue of ordinary shares upon incorporation	(a)	1	0.001	—
Issue of ordinary shares for Reorganisation	1(b)(iii)	19,999,999	20,000	142
		20,000,000	20,000	142

Notes:

(a) On 5 February 2008, the Company was incorporated in the Cayman Islands as a limited liability company with authorised share capital of US$50,000 divided into 50,000,000 ordinary shares of US$0.001 each. On the same date, one share was issued to Mr. Cao. On 17 March 2008, Mr. Cao transferred the one share to China Houde. Prior to the incorporation date, the share capital for the Group was nil as at 31 December 2007.

(b) On 3 April 2008, as described in Note 1(b)(iii), the Company issued and allotted 10,493,999 shares, 4,470,000 shares and 5,036,000 shares (totalling 19,999,999 shares) to China Houde, New Dame and New Fellow respectively.

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

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

(c) Pursuant to a shareholders' resolution dated 5 March 2010, conditional on the share premium account of the Company being credited as a result of the successful Listing of the Company, the Company will capitalise an amount of US$730,000, standing to the credit of its share premium account in paying up in full at par 730,000,000 shares, which will be allotted and issued to China Ruike, Pope, Dalton, ARC Huiyin and China Fund, pro-rata to their shareholdings (or as nearly as possible without involving fractions) as at 6 March 2010 in the Company.

18 Reserves

(a) *Group*

	Share premium	Statutory reserves	Other reserves	Retained earnings	Total
	RMB'000	*RMB'000* *Note (a)*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2007	—	9,922	26,990	43,528	80,440
Capital injection to Yangzhou Huiyin by the then shareholder	—	—	319,423	—	319,423
Profit for the year	—	—	—	43,418	43,418
Appropriation to statutory reserves	—	3,948	—	(3,948)	—
Balance at 31 December 2007	—	13,870	346,413	82,998	443,281
Issue of ordinary shares for Reorganisation (Note 1(b))	435,188	—	(435,330)	—	(142)
Profit for the year	—	—	—	38,197	38,197
Appropriation to statutory reserves	—	1,231	—	(1,231)	—
Balance at 31 December 2008	435,188	15,101	(88,917)	119,964	481,336
Profit for the year	—	—	—	91,477	91,477
Appropriation to statutory reserves	—	276	—	(276)	—
Balance at 31 December 2009	435,188	15,377	(88,917)	211,165	572,813

(b) *Company*

	Share premium	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance at 5 February 2008, date of incorporation	—	—	—
Issue of ordinary shares for Reorganisation (Note 1(b))	435,188	—	435,188
Loss for the period	—	(6,858)	(6,858)
Balance at 31 December 2008	435,188	(6,858)	428,330
Loss for the year	—	(4,969)	(4,969)
Balance at 31 December 2009	435,188	(11,827)	423,361

Note:

(a) ***Statutory reserves***

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

19 Trade and bills payables

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	11,249	16,808	16,037
Bills payable	164,625	161,125	180,130
	175,874	177,933	196,167

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 31 December 2007, 2008 and 2009 is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
0 — 30 days	8,538	10,330	8,211
31 — 90 days	177	1,855	4,110
91 — 365 days	2,421	3,852	845
1 year — 2 years	68	685	2,100
2 years — 3 years	45	41	685
Over 3 years	—	45	86
	11,249	16,808	16,037

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

As at 31 December 2007, 2008 and 2009, restricted bank deposits of RMB 134,910,000, RMB 97,925,000 and RMB 134,347,000 had been pledged as collateral for bank acceptance bills (Note 15).

As at 31 December 2008 and 2009, land use rights, buildings and investment properties with a total net book value of RMB 91,828,000, and RMB 88,143,000 had been pledged as collateral for the Group's bank acceptance bills of RMB 40,000,000 and RMB 36,000,000, respectively (Notes 8 and 9). As at 31 December 2009, a related party had also provided a personal guarantee of RMB26,000,000 to the banks in connection with these bank acceptance bills granted to the Group (Note 39(b)).

20 Accruals and other payables

(a) *Group*

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Advances from customers	4,713	14,619	22,981
Salary and welfare payables (Note 39(c))	3,736	5,310	8,508
Accrued expenses	514	4,224	4,637
Payables for purchase of equipment	1,609	1,014	1,493
Value added tax and other tax payables	8,822	13,354	11,437
Amounts due to directors (Note 39(c))	13,293	15,276	3,546
Accrued volume discounts to distributors	6,071	12,444	5,179
Payable for purchase of discounted bank notes (Note 31)	—	4,400	—
Others	1,141	1,559	3,108
Total	39,899	72,200	60,889

(b) *Company*

	As at 31 December	
	2008	2009
	RMB'000	*RMB'000*
Accruals and other payables	6,858	15,018

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

21 Borrowings

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Short term bank borrowings, secured	21,290	—	70,000

All the borrowings are at fixed interest rate. All the borrowings are denominated in RMB and the fair values of the borrowings approximate their carrying amounts as at 31 December 2007 and 2009.

As at 31 December 2009, inventories with a total net book value of RMB 75,780,000 had been pledged as security for short-term bank borrowings of RMB 40,000,000 (Note 12).

As at 31 December 2007 and 2009, short-term bank borrowings, amounting to RMB 3,290,000 and RMB 20,000,000 respectively, were guaranteed by a related party (Note 39(b)).

As at 31 December 2007, short-term bank borrowings, amounting to RMB 18,000,000, had been pledged by third parties' assets. The pledge was released on 30 September 2009.

As at 31 December 2007, 2008 and 2009, the Group has total facilities for bank borrowings amounting to RMB 55,790,000, RMB 10,000,000 and RMB 70,000,000 respectively.

The Group has the following undrawn borrowing facilities:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Fixed rate — Expiring within one year	34,500	10,000	—

The weighted average effective interest rates at the respective balance sheet dates were as follows:

	Year ended 31 December		
	2007	2008	2009
Short-term bank borrowing, secured	7.08%	N/A	5.46%

As at 31 December 2007 and 2009, the Group's borrowings were all repayable within one year.

22 Financial guarantee liabilities

In connection with the 2005 investment agreement of China Huiyin Group Pte. Ltd. ("China Huiyin"), a company wholly owned by Mr. Cao Kuanping, Yangzhou Huiyin issued the corporate guarantee in December 2005, in favour of E2- Capital International Limited, Pope and L.K. Ang Corporate Pte. Ltd. ("L.K. Ang") severally guaranteeing the repayment of USD 2,875,000, USD 2,875,000 and USD 250,000 by China Huiyin and all sums payable by China Huiyin to each of its convertible loan holders in the event of default thereof by China Huiyin. Pursuant to the 2006 restated investment agreement, which replaced the above-mentioned original investment agreement, this corporate guarantee was re-issued by Yangzhou Huiyin to Pope and L.K. Ang severally guaranteeing the repayment of USD 5,750,000 and USD 250,000 by China Huiyin and all sums payable by China Huiyin to each of its convertible loan holders in the event of default thereof by China Huiyin. In March 2007, another corporate guarantee was issued by Yangzhou Huiyin in favour of Pope, Dalton and LIM Asia Arbitrage Fund Inc. ("LIM") severally guaranteeing another repayment of USD 3,000,000, USD 2,000,000 and USD 1,000,000 by China Huiyin and all sums payable by China Huiyin to each of its convertible loan holders in the event of default thereof by China Huiyin. All of the above-mentioned corporate guarantees had been released in accordance with the Deed of Release and Termination entered into between, among others, Pope, L.K. Ang, Dalton and LIM in June 2008.

The fair value of and the provision for these financial guarantees of the Group have been assessed by American Appraisal China Limited and there is no significant impact on the Financial Information.

23 Derivative liabilities

On 8 July 2008, the Company issued warrants to Dalton and Pope which allow Dalton and Pope to subscribe for newly issued shares of the Company up to 121,520 and 182,280 ordinary shares of the Company respectively at a purchase price of USD 7.90 per share (the "Warrants") or, instead of exercising the Warrants for cash, to receive a reduced number of shares by surrender of the Warrants to the Company prior to the Listing of the Company, subject to adjustments pursuant to the terms of the Warrants in respect of the capitalisation issue of shares described in Note 17(c). The Warrants shall be exercisable until the closing date of a qualified public offering (being a firm commitment underwritten registered public offering by the Company of its shares for listing on a stock exchange in accordance with the general terms and conditions approved in writing by the shareholders of a three-fourths majority in voting power of the outstanding shares) or the closing of a sale of the company (whether by sale of shares, assets, or otherwise), whichever is earlier, and shall be void thereafter. The fair value of and the provision for the Warrants have been assessed by American Appraisal China Limited and there is no significant impact on the Financial Information.

24 Investments in subsidiaries

	As at 31 December	
	2008	2009
	RMB'000	RMB'000
At beginning of the year	—	435,330
Investments in China Yinrui (HK) pursuant to the Reorganisation (Note 1 (b))	435,330	—
At end of the year	435,330	435,330

25 Revenue

Turnover of the Group comprises revenues recognised during the Relevant Periods as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Sales of goods			
— Retail	241,605	330,417	440,331
— Bulk distribution	252,384	649,125	798,380
including:			
Sales to franchisees	154,978	285,342	373,294
Sales to other retailers and distributors	97,406	363,783	425,086
	493,989	979,542	1,238,711
Rendering of services			
— Maintenance service	2,263	3,366	2,405
— Installation service	4,231	5,306	6,709
	6,494	8,672	9,114
Total revenue	500,483	988,214	1,247,825

26 Other income

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Franchise fee income	9,852	4,690	—
Promotion and store display income	2,583	2,715	5,475
Rental income	729	799	949
Government subsidies (i)	35	412	5,223
	13,199	8,616	11,647

Note:

(i) The government subsidy income for the year ended 31 December 2007 was granted by the Ministry of Social Security of Yangzhou City for the re-employment of laid-off workers of other companies and was not subject to any conditions. The government subsidy income for the year ended 31 December 2008 were granted by the Ministry of Finance of Yangzhou City for the development of service industry and was not subject to any conditions. The government subsidy income for the year ended 31 December 2009 comprised an amount of RMB501,000 granted by the Ministry of Social Security of Yangzhou City for the re-employment of laid-off workers of other companies and an amount of RMB4,722,000 granted by the Ministry of Finance of Hanjiang District of Yangzhou City as finance subsidy and are not subject to any conditions.

27 Other gains/(losses) — net

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Losses on disposal of property, plant and equipment, net	—	(23)	(52)
Negative goodwill from acquisition of a subsidiary (Note 36)	—	193	—
	—	170	(52)

28 Expenses by nature

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

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Cost of merchandise before deducting supplier rebates	511,449	1,026,528	1,308,799
Supplier rebates	(96,964)	(161,055)	(269,048)
Taxes and levies on main operations	1,162	1,421	2,304
Employee benefit expenses (Note 29)	5,242	13,614	17,178
Service charges	5,118	3,299	3,269
Operating lease in respect of buildings and warehouses	5,814	10,982	15,442
Promotion and advertising expenses	7,180	11,410	15,180
Amortisation of land use rights (Note 7)	273	273	327
Depreciation of property, plant and equipment (Note 8)	3,651	6,477	11,103
Amortisation of intangible assets (Note 10)	133	2,149	1,866
Amortisation of investment properties (Note 9)	814	770	636
Utilities and telephone expenses	2,000	2,933	3,552
Transportation expenses	2,022	4,542	4,803
Entertainment fees	1,352	1,894	2,662
Travelling expenses	893	2,104	2,542
Office expenses	807	1,048	1,387
Provision/(Write back of provision) for obsolescence on inventories (Note 12)	147	529	(318)
Provision for impairment on receivables (Note 13)	1,245	190	677
Write-off of prepayments (Note a)	429	—	—
Property tax and other taxes	107	279	439
Professional fees for the Listing of the Company	—	5,178	4,809
Auditors' remuneration	83	111	276
Bank charges	782	1,001	1,528
Consulting expenses	—	4,680	373
Others	6,118	7,323	4,516
Total of cost of sales, selling and marketing expenses and administrative expenses	459,857	947,680	1,134,302

Note:

a The write-off was primarily due to the long aged prepayments made to certain third party suppliers with whom the Group no longer had any business relationship.

29 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other allowances	3,886	9,322	11,242
Social security costs	1,356	4,292	5,936
	5,242	13,614	17,178

(a) The employees of the subsidiaries of the Group in the PRC participate in defined contribution retirement benefit plans organised by the relevant local governments. For the years ended 31 December 2007, 2008 and 2009, these subsidiaries were required to make monthly defined contributions to these plans at rates ranging from 36.0% to 45.0% of their total salaries subject to certain ceilings.

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

30 Directors' and senior management's emoluments

(a) *Directors' emoluments*

For the years ended 31 December 2007, 2008 and 2009, the remuneration of directors of the Company paid/payable by the Group were as follows:

	For the year ended 31 December 2007			
Name of director	Salaries and others	Bonuses	Social security costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
— Mr. Cao Kuanping	1,200	—	42	1,242
Executive directors				
— Mr. Wang Zhijin	—	—	—	—
— Mr. Mao Shanxin	38	8	4	50
— Mr. Mo Chihe	42	9	10	61
Non-executive director				
— Mr. Li Jung-Hsing	—	—	—	—
— Mr. Ke Shifeng	—	—	—	—
— Mr. Clement Kai Yin Kwong	—	—	—	—
Independent non-executive director				
— Mr. Li Fei	—	—	—	—
— Mr. Zhou Shui Wen	—	—	—	—
— Mr. Tam Chun Chung	—	—	—	—
	1,280	17	56	1,353

	For the year ended 31 December 2008			
Name of director	Salaries and others	Bonuses	Social security costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
— Mr. Cao Kuanping	1,200	—	42	1,242
Executive directors				
— Mr. Wang Zhijin	284	—	42	326
— Mr. Mao Shanxin	41	—	16	57
— Mr. Mo Chihe	53	4	23	80
Non-executive director				
— Mr. Li Jung-Hsing	—	—	—	—
— Mr. Ke Shifeng	—	—	—	—
— Mr. Clement Kai Yin Kwong	—	—	—	—
Independent non-executive director				
— Mr. Li Fei	—	—	—	—
— Mr. Zhou Shui Wen	—	—	—	—
— Mr. Tam Chun Chung	—	—	—	—
	1,578	4	123	1,705

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

In addition to the emoluments as disclosed above, for the years ended 31 December 2008 and 2009, Mr. Clement Kai Yin Kwong, a non-executive director of the Company, received consulting fee from the Group for the strategic consulting services provided by him on the Group's business strategy and organisational development (Note 39). Mr. Ke Shifeng was appointed as a non-executive director on 5 March 2010 to replace Mr. Clement Kai Yin Kwong.

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

(b) ***Five highest paid individuals***

For the years ended 31 December 2007, 2008 and 2009, the five individuals whose emoluments were the highest in the Group include two directors, whose emoluments were reflected in the analysis presented above. The emoluments paid/payable to the remaining 3 individuals during the Relevant Periods were as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other allowances	217	397	197
Bonuses	20	104	154
Social security costs	96	107	80
	333	608	431

For the years ended 31 December 2007, 2008 and 2009, the emoluments of the highest paid individuals of the Group fall within the following bands:

	Year ended 31 December		
	2007	2008	2009
Emoluments bands			
— Nil to HK$1,000,000	4	4	4
— HK$1,000,000 to HK$1,500,000	1	1	1
	5	5	5

(c) *Key management compensation*

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other allowances	1,280	1,578	1,809
Bonuses	17	4	84
Social security costs	56	123	154
	1,353	1,705	2,047

31 Finance income and costs

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
— Interest income on bank deposits	1,810	5,112	4,736
— Interest income from third parties (i)	—	800	—
— Interest income from related party (ii) (Note 39(b))	1,352	975	—
	3,162	6,887	4,736
Interest expenses on bank borrowings	(4,438)	(392)	(2,936)
Net finance (costs)/income	(1,276)	6,495	1,800

Notes:

(i) The interest income from third parties represents the income derived from the purchase of discounted bank notes receivable from a third party (Note 20) and those notes had been endorsed to the suppliers (or collected) during the year ended 31 December 2008.

(ii) Interest income from a related party mainly represented the interest income from the loan to Yangzhou Yintai (Note 14(ii)).

32 Income tax expense

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Mainland China EIT			
— Current income tax	9,252	9,083	12,288
— Deferred income tax (Note 11)	(121)	8,165	22,003
	9,131	17,248	34,291

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 Relevant Periods.

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

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	52,549	55,815	126,918
Tax calculated at the statutory tax rate of 33%/25% for PRC subsidiaries	17,341	13,954	31,729
Effect on change in EIT rate due to the new CIT law	555	—	—
Preferential tax rates on the income of certain subsidiaries	(8,861)	—	—
Income not subject to tax	(49)	(66)	—
Expenses not deductible for tax purpose	145	3,048	1,845
Withholding taxation on the unremitted earnings of PRC subsidiaries	—	312	717
Income tax expense	9,131	17,248	34,291

Enterprises incorporated in the PRC are normally subject to enterprise income tax ("EIT") at rate of 33% before 1 January 2008, which comprises 30% attributable to national enterprise income tax and 3% attributable to local municipal income tax. Certain subsidiaries of the Group enjoyed the preferential EIT rates lower than 33% during the Relevant Periods as approved by the relevant tax authorities in the PRC. Yangzhou Huiyin has obtained approvals from the relevant tax authorities in the PRC for their entitlement to exemption from EIT for the first three years and 50% reduction in EIT for the next two years, commencing from 2004 for being identified as new labour service enterprise in accordance with the relevant tax rules and regulations in the PRC. After the Corporate Income Tax Law of the PRC (the "new CIT law") became effective on 1 January 2008, this preferential tax rate expired accordingly. Besides, some subsidiaries were subject to EIT at rates of 27% and 18% because their annual taxable income are less than RMB 100,000 but over RMB 30,000 and less than RMB30,000 respectively, which is in accordance with the relevant tax regulation.

The particulars of the preferential tax policies that were available by the major PRC subsidiaries during the Relevant Periods were analyzed as follows:

Company name	**Preferential tax rate before 1 January 2008 and preferential tax treatment**	**For the year**
Yangzhou Huiyin	Tax exemption for three years followed by a 50% deduction in tax rate in the next two years	Starting from 2004 (expired in 2008)
Yangzhou Huihou Electronics Sales Co., Ltd.	Preferential tax rate of 27%	Year 2007
Nanjing Huize Household Appliance Sales Co., Ltd.	Preferential tax rate of 18%	Year 2007

In accordance with the new CIT law as approved by the National People's Congress on 16 March 2007 and became effective on 1 January 2008, the EIT rate applicable to all the PRC subsidiaries starting from 2008 has been 25%.

33 Earnings per share

(a) *Basic*

Basic earnings per share for each of the three years ended 31 December 2007, 2008 and 2009 is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, adjusted as if the shares issued by the Company for acquiring Yangzhou Huiyin had been outstanding throughout the year.

	Year ended 31 December		
	2007	**2008**	**2009**
Profit attributable to equity holders of the Company (RMB'000)	43,418	38,197	91,477
Weighted average number of ordinary shares in issue	20,000,000	20,000,000	20,000,000

(b) ***Diluted***

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume exercise of the Warrants as described in Note 23.

	Year ended 31 December		
	2007	**2008**	**2009**
Profit attributable to equity holders of the Company (RMB'000)	43,418	38,197	91,477
Weighted average number of ordinary shares in issue	20,000,000	20,000,000	20,000,000
Adjustment for:			
— Warrants (Note 23)	—	151,900	303,800
Weighted average number of ordinary shares for diluted earnings per share	20,000,000	20,151,900	20,303,800

As there were no dilutive options and other dilutive potential shares in issue as at 31 December 2007, diluted earnings per share is the same as basic earnings per share.

The basic earnings per share and diluted earnings per share as presented on the consolidated income statements have not taken into account the proposed capitalisation issue as described in Note 17(c).

34 Dividends

No dividend has been declared by the Company since its incorporation during the Relevant Periods.

35 Notes to consolidated cash flow statements

(a) Reconciliation of profit before income tax to net cash used in operations

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	52,549	55,815	126,918
Adjustments for:			
— Amortisation of land use rights (Note 7)	273	273	327
— Depreciation of property, plant and equipment (Note 8)	3,651	6,477	11,103
— Depreciation of investment properties (Note 9)	814	770	636
— Amortisation of intangible assets (Note 10)	133	2,149	1,866
— Losses on disposal of property, plant and equipment (Note 27)	—	23	52
— Negative goodwill arising from acquisition of a subsidiary (Note 36)	—	(193)	—
— Finance income (Note 31)	(3,162)	(6,887)	(4,736)
— Interest expenses (Note 31)	4,438	392	2,936
— Professional fees for the Listing of the Company	—	5,178	4,809
Operating profit before working capital changes	58,696	63,997	143,911
Changes in working capital:			
— Increase in inventories	(29,382)	(77,765)	(1,896)
— (Increase)/decrease in trade and bills receivables	(40,360)	14,066	(68,944)
— Increase in prepayments, deposits and other receivables	(102,638)	(103,868)	(118,230)
— (Increase)/decrease in restricted bank deposits	(64,139)	53,885	(36,422)
— Increase/(decrease) in trade and bills payable	60,088	(21,099)	18,234
— (Decrease)/increase in accruals and other payables	(7,816)	26,942	(9,894)
Cash used in operations	(125,551)	(43,842)	(73,241)

(b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Net book amount (Note 8)	—	160	134
Losses on disposal of property, plant and equipment (Note 27)	—	(23)	(52)
Proceeds from disposal of property, plant and equipment	—	137	82

36 Business combinations

On 1 January 2008, the Group acquired 90% of the equity interests of Changzhou Keyi from the independent third parties, Mrs. Ma Xiaoweng and Mr. Liu Linxing. The acquired business contributed revenues of RMB 126,984,000 and net profit of RMB 3,704,000 to the Group for the year ended 31 December 2008. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2008, together with the consequential tax effects.

Details of net assets acquired and negative goodwill generated are as follows:

	RMB'000
Purchase consideration settled in cash	9,150
Fair value of net assets acquired — shown as below	(9,343)
Negative goodwill (Note 27)	(193)

The assets and liabilities as at 1 January 2008 arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	RMB'000	*RMB'000*
Property, plant and equipment (Note 8)	79	79
Intangible assets (Note 10)	—	2,997
Trade and bills receivables	3,486	3,486
Inventories	9,818	9,818
Prepayments, deposits and other receivables	154	154
Restricted bank deposits	16,900	16,900
Cash and cash equivalents	3,286	3,286
Trade and bills payables	(23,158)	(23,158)
Accruals and other payables	(2,432)	(2,432)
Deferred income tax liabilities (Note 11)	—	(749)
Net assets	8,133	10,381
Less: Minority interests (10%)		(1,038)
Fair value of net assets acquired (90%)		9,343
Purchase consideration settled in cash		9,150
Cash and cash equivalents acquired		(3,286)
Cash outflow on acquisition		5,864

37 Operating lease commitments

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

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

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Not later than 1 year	8,411	10,638	17,586
Later than 1 year and not later than 5 years	17,864	19,760	54,301
Later than 5 years	3,910	4,287	33,912
	30,185	34,685	105,799

38 Future operating lease rental receivable

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

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Not later than 1 year	698	707	1,339
Later than 1 year and not later than 5 years	2,091	2,683	2,509
Later than 5 years	158	315	191
	2,947	3,705	4,039

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

39 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

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

Name	Relationship with the Group
Mr. Cao Kuanping	Ultimate shareholder of the Company / Director
China Houde	Intermediate holding company
China Huiyin	Ultimately controlled by Mr. Cao Kuanping, ultimate shareholder of the Company
Yangzhou Huiyin Electromechanical Technology Company Limited (揚州滙銀機電科技有限公司)(i)	Ultimately controlled by Mr. Cao Kuanping, ultimate shareholder of the Company
Shanghai C.P. Jing Cheng Enterprise Development Co., Ltd. ("Shanghai C.P.") (上海正大景成企業發展有限公司)(ii)	A fellow subsidiary of two shareholders of the Company
Yangzhou Yintai(iii)	Common director(iv)
Mr. Clement Kai Yin Kwong	Director

The above names of certain related party companies represented the best effort by management of the Company in translating their Chinese names as they do not have official English names.

Notes:

(i) According to the business license of Yangzhou Huiyin Electromechanical Technology Company Limited, its scope of business is the manufacture and sale of moulds for plastics cutting tools, facilities for drill, for oil and filtration machines, and changing or reprocessing numerical control machine tools.

(ii) According to the business license of Shanghai C.P. Jing Cheng Enterprise Development Co. Ltd., its scope of business is wholesale, retail and commission based agency of building materials for renovation, metals and electrical appliance, and cultural and educational items and the provision of related ancillary services such as warehousing services and after-sales services.

(iii) According to the business license of Yangzhou Yintai, its scope of business is development and sale of properties and property management.

(iv) Mr. Cao Kuanping is one of the directors of Yangzhou Yintai during the Relevant Periods.

(b) Transactions with related parties:

Other than the related party transactions disclosed in Note 30, the following transactions were undertaken by the Group with related parties during the Relevant Periods:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Continuing transactions:			
— Rental expenses to a related party			
Mr. Cao Kuanping (i)	807	660	1,050
— Directors' emoluments			
Salaries, bonus and other welfares (Note 30)	1,353	1,705	2,047
Discontinued transactions:			
— Loan to a related party (Note 14)			
Yangzhou Yintai	36,000	—	—
— Consulting expenses to related parties			
Mr. Clement Kai Yin Kwong (ii)	—	1,680	160
Shanghai C.P. (ii)	—	3,000	—
	—	4,680	160
— Interest income from a related party (Note 31)			
Yangzhou Yintai (iii)	1,352	975	—
— Bank acceptance bills and bank borrowings guaranteed by related parties (Notes 19 and 21)			
Mr. Cao Kuanping	—	—	46,000
Yangzhou Huiyin Electromechanical Technology Company Limited	3,290	—	—
	3,290	—	46,000

Notes:

(i) During the Relevant Periods, the Group has been using the office premises, which are owned by Mr. Cao Kuanping and the rental expenses were determined based on the agreement mutually agreed by the Group and Mr. Cao Kuanping.

(ii) During the Relevant Periods, the consulting expenses paid to Mr. Clement Kai Yin Kwong represented the strategic consulting services provided by him on the Group's business strategy and organisational development. The consulting expenses to Shanghai C.P. mainly represented the training, financial, I.T., human resources and business strategy services provided by Shanghai C.P. to the Group in 2008. The transactions were entered into in accordance with the terms agreed by the relevant parties.

(iii) The interest income was calculated based on the loan agreement entered into between Yangzhou Huiyin and Yangzhou Yintai, details of which are set out in Note 14(ii).

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 companies.

(c) Balances with related parties:

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

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Balances due from related parties:			
Prepayments, deposits and other receivables (Note 14)			
— Yangzhou Yintai	70,737	34,000	—
— China Huiyin	5,811	—	—
— China Houde	13	392	—
— Mr. Clement Kai Yin Kwong	—	—	160
	76,561	34,392	160

The balance due from China Huiyin amounting to RMB 5,811,000 as at 31 December 2007 represented the expenses paid on behalf of China Huiyin and was settled in 2008.

The amounts due from directors have the following terms and conditions:

Name of director	At beginning of the year	Maximum outstanding during the year	At end of the year	Term	Interest rate
	RMB'000	*RMB'000*	*RMB'000*		
For the year ended 31 December 2009					
Mr. Clement Kai Yin Kwong	—	320	160	Payable on demand [(i)]	0%

(i) The balance represented the prepayment of the consulting expenses as stated in Note 39(b)(ii).

For the years ended 31 December 2007 and 2008, no outstanding balance was due from any director.

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Balances due to related parties:			
Accruals and other payables (Note 20)			
— Mr. Cao Kuanping	13,293	13,596	3,546
— Mr. Clement Kai Yin Kwong	—	1,680	—
	13,293	15,276	3,546
Salary and bonus payables to directors (Note 20)			
— Mr. Cao Kuanping	1,897	2,597	3,288
— Mr. Mao Shanxin	12	3	22
— Mr. Mo Chihe	12	8	32
— Mr. Wang Zhijin	—	41	78
	1,921	2,649	3,420

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

Other than the loan to Yangzhou Yintai, all the above balances were unsecured, non-interest bearing and repayable on demand.

40 Contingencies

As at 31 December 2008, the Group had provided guarantees to certain franchisees on their bank acceptance bills of RMB 10,000,000. These guarantees were released on 25 August 2009. The Group had no significant contingencies as at 31 December 2007 and 2009.

41 Subsequent events

(a) In January 2010, the Group obtained additional bank borrowings totalling RMB40,000,000, which are secured by certain land use rights, buildings and inventories with a total net book value of approximately RMB76,500,000 as at 31 January 2010. The Group also obtained a new unsecured bank borrowings of RMB20,000,000. These additional borrowings obtained in January 2010 were primarily for the purpose of purchasing inventories in preparation of the strong demand during Chinese New Year holiday in February 2010 as well as making prepayments to suppliers of air-conditioners in preparation of meeting strong market demand in the forthcoming Summer.

As of 28 February 2010, the Group has total facilities (including utilised and unutilised facilities) for borrowings and bank acceptance bills amounting to RMB210,000,000 and RMB46,000,000 respectively, out of which RMB20,000,000 and RMB26,000,000 respectively relating to facilities for borrowings and bank acceptance bills will be expired in March 2011 and RMB190,000,000 and RMB20,000,000 respectively relating to facilities for borrowings and bank acceptance bills will be expired after March 2011.

(b) The balance due to Mr. Cao Kuanping of RMB 3,546,000 was settled on 3 March 2010 and the guarantee provided by him of RMB 46,000,000 will be fully released upon the Listing of the Company.

(c) The balance due from Mr. Clement Kai Yin Kwong was fully settled in March 2010.

(d) The Board of the Company approved to declare a one-off and non-recurring dividend of approximately HK$47,000,000, arising from the PRC subsidiaries, payable to the existing shareholders of the Company as of 6 March 2010 on the condition that the Listing of the Company is completed. The Company plans to pay the dividend after having obtained the necessary approvals from the relevant PRC government authorities and fund the payment of such dividend by using the internal resources.

(e) The Share Option Scheme was approved by the resolution of the Shareholders on 5 March 2010. The Board 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.

In addition, the Group approved and launched the Pre-IPO Option Scheme on 5 March 2010. Pursuant to the Pre-IPO Option Scheme, the four executive directors and three senior management members were granted the Pre-IPO Options to subscribe for up to 50,000,000 shares of the Company. The Pre-IPO Options will vest in three instalments at each of the first three anniversaries of the Listing date and will only become exercisable from the respective vesting dates up to the fifth anniversary of the Listing date. The subscription price payable upon the exercise of any Pre-IPO Options is fixed at 90% of the final offer price per share for the Listing.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries now comprising the Group in respect of any period subsequent to 31 December 2009. Except as disclosed in this report, no dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31 December 2009.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set out in Appendix I to this prospectus, and is included herein for information only.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

This following is an illustrative and pro forma statement of adjusted net tangible assets of the Group attributable to equity holders of the Company which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2009. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 December 2009 or at any future date.

	Adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2009	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company**	**Unaudited pro forma adjusted net tangible assets per Share**	
	(Note 1)	*(Note 2)*		*(Note 3)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$1.29 per Share	569,652	248,018	817,670	0.82	0.93
Based on an Offer Price of HK$1.69 per Share	569,652	330,837	900,489	0.90	1.02

Notes

(1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2009 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 December 2009 of approximately RMB572,955,000 with an adjustment for the intangible assets of the Group as of 31 December 2009 of approximately RMB3,303,000.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK$1.29 and HK$1.69 per Share, respectively, after deduction of the estimated related fees and expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Option Scheme or the options which may be granted under the Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them. For the purpose of the estimated net proceeds from the Global Offering, the translation of Renminbi into HK dollars was made at the rate of RMB1.00 to HK$1.135.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in note (2) above and on the basis that 1,000,000,000 Shares were in issue assuming the Global Offering and the Capitalisation Issue had been completed on 31 December 2009, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Option Scheme or the options which may be granted under the Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them. The unaudited pro forma adjusted net tangible asset per Share is converted into Hong Kong dollars at the rate of RMB1.00 to HK$1.135.

(4) No adjustment has been made to reflect any trading results or other transaction (including the declaration of a one-off and non-recurring dividend of approximately HK$47.0 million payable to the existing shareholders of the Company as of 6 March 2010 on the condition that the Listing is completed) of the Group entered into subsequent to 31 December 2009.

B. UNAUDITED PRO FORMA EARNINGS PER SHARE

The following unaudited pro forma earnings per Share prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out here to illustrate the effect of the Global Offering as if it had taken place on 1 January 2009.

The unaudited pro forma earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Consolidated net profit attributable to equity holders of our Company for the year ended 31 December 2009	RMB91.5 million (HK$103.9 million)
Unaudited pro forma earnings per Share (2)(3)(4)	RMB0.092(HK$0.104)

Notes:

(1) The consolidated net profit attributable to equity holders of our Company is derived from the audited consolidated income statements of the Group as set out in Appendix I to this prospectus.

(2) The unaudited pro forma earnings per Share is calculated by dividing the consolidated net profit attributable to equity holders of the Company for the year ended 31 December 2009 by 1,000,000,000 Shares assumed to be issued and outstanding during the entire year, as if the Global Offering and the Capitalisation Issue had occurred on 1 January 2009, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Option Scheme or the options which may be granted under the Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them.

(3) On 5 March 2010, the Company has granted options to certain staff of the Group pursuant to the Pre-IPO Option Scheme. Assuming that all the options for 50,000,000 Shares granted under the Pre-IPO Option Scheme had been exercised in full on 1 January 2009 and 1,000,000,000 Shares to be in issue immediately after the Global Offering had been in issue throughout the year ended 31 December 2009, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme or any Shares which may be issued to Pope and Dalton after the exercise or surrender of the Warrants by them, the pro forma diluted earnings per Share for the year ended 31 December 2009 would be approximately RMB0.087 (approximately HK$0.099) based on 1,050,000,000 Shares. This calculation has been prepared on the assumption that we will not receive any proceeds from the exercise of any option under the Pre-IPO Option Scheme and without taking into account the impact of fair value of the Shares on computation of the number of potentially dilutive Shares, and the impact of the fair value of the options under the Pre-IPO Option Scheme on the profit for the year ended 31 December 2009.

(4) Consolidated net profit attributable to equity holders of our Company for the year ended 31 December 2009 and unaudited pro forma earnings per Share are converted into Hong Kong dollar at the rate of RMB1.00 to HK$1.135.

C. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF HUIYIN HOUSEHOLD APPLIANCES (HOLDINGS) CO., LTD.

We report on the unaudited pro forma financial information of Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-3 under the heading of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and "Unaudited Pro Forma Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 12 March 2010 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-3 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 December 2009 with the Accountant's Report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the adjusted net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2009 or any future date; or

— the earnings per share of the Group attributable to equity holders of the Company for the year ended 31 December 2009 or any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 March 2010

The following is the text of a letter with the summary of values and valuation certificates received from American Appraisal China Limited, prepared for the purpose of incorporation in this prospectus, in connection with their valuation as at 31 December 2009 of all the property interests of our Group.

American Appraisal China Limited
1506 Dah Sing Financial Centre
108 Gloucester Road / Wanchai / Hong Kong
美國評值有限公司
香港灣仔告士打道108號大新金融中心1506室
Tel +852 2511 5200 / Fax +852 2511 9626

Leading / Thinking / Performing

American Appraisal

12 March 2010

The Board of Directors
Huiyin Household Appliances (Holdings) Co., Ltd.
Huiyin International Commercial Building
No. 277 Wenchang Zhong Road,
Yangzhou,
Jiangsu Province,
The PRC

Dear Sirs,

In accordance with your instructions to value the property interests of Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections for the property interests, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of such property interests as at 31 December 2009 (the "date of valuation").

This letter that forms part of our valuation report explains the basis and methodology of valuations and clarifies our assumptions made on the ownerships to the property interests and the limiting conditions.

BASIS OF VALUATION

Our valuation is our opinion of the market values which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value. The value of a property is also estimated without regard to costs of sales and purchase, and without offset for any associated taxes.

VALUATION METHODOLOGY

For the property interests in Group I, which are owned and occupied by the Group in the PRC, Cost Approach has been adopted for valuing the Property Nos. 1 and 3. Regarding the buildings and structures (referred to as the "buildings") of the property, we have determined its depreciated replacement cost, which is defined as the gross replacement cost of the buildings, from which appropriate deductions may then be made to allow for age, condition, economic/external and functional obsolescence and environmental factors etc. All of these might result in the existing buildings being worth less to the undertaking in occupation than would a new replacement. For the land portion, we have made reference to the similar transaction in the locality and the published standard land price from the local authorities.

For Property No. 2, the property interests are valued mainly by Income Approach. It is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle an informed buyer would pay no more for a property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk. Apart from Income Approach, we have also valued the property by direct comparison method where comparison of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of the property in order to arrive at a fair comparison of capital value.

For the property interests in Group II, which are rented and occupied by the Group in the PRC, they are considered having no commercial value either because of their non-assignability in the market or because there are prohibitions against subletting and/or assignment contained in the respective leases and/or tenancy agreements or the lack of substantial profit rent.

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the property interests situated in the PRC. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the Group and the PRC legal opinion given by the Group's legal adviser on the PRC law as to the validity of the title of the owners to the property interests.

All legal documents disclosed in this letter and valuation certificates are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificates.

ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the property interests on the market in their existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the property interests.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have assumed that the owner of the property interests has free and uninterrupted rights to use, lease, sell or mortgage the property interests for the whole of the unexpired term of its respective land use rights.

We have also assumed that the property interests are freely disposable and transferable in the market to both local and overseas purchasers for the whole of the respective unexpired terms as granted without any fees or charge incurred unless otherwise stated.

We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the sites are held by the owners or permitted to be occupied by the owners.

We have valued property interest on the assumption that it is developed in accordance with the development proposals or building plans given to us. We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the site are held by the owners or permitted to be occupied by the owners.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation certificates. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificates.

Other special assumptions and qualifications for each property, if any, have been stated in the footnotes of the valuation certificate for the respective property.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, construction costs, site areas and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificates are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services for the proposed development, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

REMARKS

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the RICS Valuation Standards (6th Edition March 2009) published by the Royal Institution of Chartered Surveyors and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Chartered Surveyors.

We enclose herewith the summary of valuation and the valuation certificates.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

Yours faithfully,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED
Eric M. H. Poon
MRICS, MHKIS
Assistant Vice President

Note: Mr. Eric Poon, who is a Chartered Valuation Surveyor, has over 9 years experience in valuation of properties in Hong Kong and the PRC

SUMMARY OF VALUATION

Group I — Property interests owned and occupied by the Group in the PRC

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
1.	An industrial building located on the west of Shawan Road and the south of Yinyan Road in the Guangling Industrial Park, Yangzhou City, Jiangsu Province, the PRC* (中國江蘇省揚州市廣陵產業園內銀焰路南側沙灣路西側的倉庫)	48,200,000
2.	Ziteng Building (6-10 axis) located at No. 277, Wenchang Zhong Road, Yangzhou City, Jiangsu Province, the PRC* (中國江蘇省揚州市文昌中路277號6-10軸紫藤大廈)	42,100,000
3.	A Logistic Centre Development located at the north of Gualiu Road, Yangzhou Economic Development District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市揚州經濟開發區瓜六路北側的物流中心發展項目)	49,400,000
	Sub-total:	**139,700,000**

Group II — Property interests rented and occupied by the Group in the PRC

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
4.	Levels 1-3 of Ruifeng Emporium, No. 248 Wenchang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區文昌中路248號瑞豐商廈一二三層)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
5.	Levels 1-2 of Lanzhuang Commerce and Trade Building, No. 440 Hanjiang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區邗江中路440號蘭莊商貿樓一至二層)	No Commercial Value
6.	1st Floor of No. 35 Anyi Road East, Baoying County, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市寶應縣安宜東路35號的房屋一樓)	No Commercial Value
7.	Retail Portion on Levels 1-2, No. 2 Gongnong Road North, Zhenzhou Town, Yizheng City, Jiangsu Province, The PRC* (中國江蘇省儀征市真州鎮工農北路2號一至二層營業廳)	No Commercial Value
8.	1st Floor to 4th Floor, West Podium, China Construction Bank Co., Ltd. Jiangdu Branch Building, No.1, Jianghuai Road, Huaiyang Residents Committee, Jiangdu Town, Jiangdu City, Jiangsu Province, The PRC* (中國江蘇省江都市江都鎮淮揚居委會江淮路1號 中國建設銀行股份有限公司江都支行大樓西裙樓一至四層)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
9.	Retail Shop on Level 1 and Office on Level 2 of Daguanyuan Emporium, No. 7 Huaiyang Road, Jianshe Residents Committee, Jiangdu Town, Jiangdu City, Jiangsu Province, The PRC* (中國江蘇省江都市江都鎮建設居委會淮揚路7號 大觀園商城一層商鋪和二層辦公用房)	No Commercial Value
10.	Level 3 of Gaoyou Renmin Shangcheng, No.167 Tonghu Road, Gaoyou Town, Gaoyou City, Jiangsu Province, The PRC* (中國江蘇省高郵市高郵鎮通湖路167號高郵人民商城內的三樓)	No Commercial Value
11.	Retail Portion on Level 1 and Storage Portion with Post-Sales Services Area on Level 2 of Xinghua Yingwu Dian in Times Supermarket, Xinghua City, Jiangsu province, The PRC* (中國江蘇省興化市時代超市興化英武店一層部分商鋪和 二層部分倉庫和售後服務範圍)	No Commercial Value
12.	2 units of retail portion on the upper and lower levels of "New Century People's Square" located at No. 262-264 West Avenue, Jiangyan City, Jiangsu Province, The PRC* (中國江蘇省姜堰市西大街262-264號新世紀市民廣場 兩間門面房上下兩層)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
13.	Level 6 of Guorun Department Store, No. 88 Renmin Road South, Jingjiang City, Jiangsu Province, The PRC* (中國江蘇省靖江市人民南路88號國潤百貨六樓)	No Commercial Value
14.	Unit 1303 of a Composite Building located at No. 1 Eastern Commercial Walking Street, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市東方商業步行街1號綜合樓1303室)	No Commercial Value
15.	Levels 2-3 of No. 1 Jianshe Road West, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市建設西路1號二、三層)	No Commercial Value
16.	5 Units of Block 2, Bingdong, Shiliang Road East, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市石梁東路炳東2號樓5間)	No Commercial Value
17.	Levels 1-2 of Block 3, Bingdong, Shiliang Road East, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市石梁東路炳東3號樓一至二層)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
18.	Level 1, No. 659 Nanqiao Road North, Chuzhou City, Anhui Province, The PRC* (中國安徽省滁州市南譙北路659號1層)	No Commercial Value
19.	Level 1 and Level 2 of a commercial building located at No. 18 Nanda Avenue, Zhonglou District, Changzhou City, Jiangsu Province, The PRC (中國江蘇省常州市鐘樓區南大街18號一層和二層)	No Commercial Value
20.	Units 0120 and 0121 on Levels 1 and 2, Block 001, Jixiang Court, Dagang Gangnan Huayuan, Zhenjiangxin District, Zhenjiang City, Jiangsu Province, The PRC* (中國江蘇省鎮江新區大港港南花苑 吉祥苑001幢1-2層0120,0121房)	No Commercial Value
21.	Unit No. 104 of a commercial building located at No. 430 Jiefang Road North, Jingkou District, Zhenjiang City, Jiangsu Province, The PRC* (中國江蘇省鎮江市京口區解放北路430號104門面房屋)	No Commercial Value
22.	A Warehouse (4 simple units) located at No. 311 Gongnong Road North, Zhenzhou Town, Yizheng City, Jiangsu Province, The PRC* (中國江蘇省儀征市真州鎮工農北路311號平頂倉庫(簡易平房4間))	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
23.	Units Nos. 104, F03, 1-105, 106, Block 1, Anshe Qiao, No. 124 Huaihai Road East, Qinghe District, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市清河區淮海東路124號安涉橋1幢104, F03, 1-105, 106)	No Commercial Value
24.	A 4-storey building and its connected 2-storey building located at No. 114 Nantong Road East, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區南通東路114號四層大樓一幢及樓後連體二層)	No Commercial Value
25.	11 units of an old office building 1 located on the East of Zoufu Road Xinbei District, Changzhou City, Jiangsu Province, The PRC* (中國江蘇省常州市新北區鄒傅路東側原辦公樓一棟共11個單位)	No Commercial Value
26.	No. 9 Daqing Road West and No. 1 Gulou Road North, Taixing Town, Taixing City, Jiangsu Province, The PRC* (中國江蘇省泰興市泰興鎮大慶西路9號及鼓樓北路151號)	No Commercial Value
27.	Unit A405 on level 4, New Time Square, No. 48 Walking Street Zhongshan Road, Wuhu City, Anhui Province, The PRC* (中國安徽省蕪湖市中山路步行街48號新時代廣場四樓A405號)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 (RMB)
28	Warehouse No. 2 located at Beima Village, Hailing Industrial Park, Taizhou City, Jiangsu Province, The PRC* (中國江蘇省泰州市海陵工業園區北馬村2號倉庫)	No Commercial Value
29.	Two Warehouses located at the East of Anle Road, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市安樂路東側的兩間倉庫)	No Commercial Value
30.	Level 2 of Warehouse No. 4 No. 10 Gangyi Road, Wuhu City, Anhui Province, The PRC* (中國安徽省蕪湖市港一路10號4號倉庫二樓)	No Commercial Value
31.	No. 35 Dachang Nanhua Xinyi Village, Luhe District, Nanjing City, Jiangsu Province, The PRC* (中國江蘇省南京市六合區大廠南化新一村35號)	No Commercial Value
32.	No. 8 Jiujiangdong Road, Huaiyin District Industrial Park, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市淮陰區工業園九江東路8號)	No Commercial Value
33.	Units 109 and 209, Levels 1-2, Block 1, Guiyuan • Yonghua Fu, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區雍華府 • 貴園 1幢1-2層109 & 209號房)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
34.	Level 4 (Spindle 1-6), Level 5 (Spindle 1-6) (excluding the 70 m^2 portion let to Huide Electronics), Level 6 (Spindle 1-6) and Level 7 (Spindle 1-6) of Huiyin International Commerce and Trade Building located at No. 277 Wenchang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區文昌中路277號滙銀國際商貿大廈第4層1-6軸、第5層1-6軸(不包括租予滙德電器的70平方米的部分)、第6層1-6軸及第7層1-6軸)	No Commercial Value
35.	Portion of Level 5 (Spindle 1-6) (excluding the 2,170 m^2 portion let to Jiangsu Huiyin), Huiyin International Commerce and Trade Building, located at No. 277 Wenchang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區文昌中路277號滙銀國際商貿大廈第五層1-6軸部分(不包括租予江蘇滙銀的2,170平方米的部分))	No Commercial Value
36.	Unit No. 0113 located at No. 460 Xinhua Road, Grand Century Plaza, Dachang Geguan Road Jiucunzhuanpan, Liuhe District, Nanjing City, Jiangsu Province, The PRC* (中國江蘇省南京市六合區大廠葛關路九村轉盤開寧世紀廣場新華路460號0113)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
37.	No. 24 Xiajiawan, Jinkou District Xinsheng Group 6 Rushan County, Zhenjiang City, Jiangsu Province, The PRC* (中國江蘇省鎮江市汝山鄉新生6組(京口區夏家灣24號))	No Commercial Value
38.	Unit No. 44-405 No. 27 Huaihai Road North, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市淮海北路27號44-405)	No Commercial Value
39.	Attic of Unit 601, Block A5, Wenzhou Garden, Qinghe District, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市清河區溫州花苑A5棟601室閣樓)	No Commercial Value
40.	Unit 102 of Block 6, Zone 6 of Chaoyang Xincun, Tinghu District, Yancheng City, Jiangsu Province, The PRC* (中國江蘇省鹽城市亭湖區朝陽新村六區6棟102室)	No Commercial Value
41.	Level 3 located at No. 306 Laodong Road West, Changzhou City, Jiangsu Province, The PRC* (中國江蘇省常州市勞動西路306號三樓)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
42.	A Workshop of Tangwancunzu, Tangmending Village Committee, Beigang Street, Zhonglou District, Changzhou City, Jiangsu Province, The PRC* (中國江蘇省常州市鐘樓區北港街道塘門頂村委塘灣村組的一座車間)	No Commercial Value
43.	A Warehouse Complex located at Sanlicun Industrial Park, Baoying City, Jiangsu Province, The PRC* (中國江蘇省寶應市三里村工業區的倉庫群)	No Commercial Value
44.	2nd Floor of Block 1, Meidu Yangguang Shopping Mall, Jinhe Road West, Ningguo City, Anhui Province, The PRC* (中國安徽省寧國市津河西路美都陽光商城1幢二樓)	No Commercial Value
45.	Levels 1 and 2, No. 231 Yunhe Road West, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市運河西路231號1層和2層)	No Commercial Value
46.	Levels 1 to 3, Main Building of Dahua Supermarket, Dongfengbei Road, Ningguo City, Anhui Province, The PRC* (中國安徽省寧國市東風北路大華超市主體大樓1至3層)	No Commercial Value

No.	Property	Capital Value in existing state as at 31 December 2009 *(RMB)*
47.	Units 101, 102, 201, 202, 301 and 302 in four entrances on Levels 1 to 3, located at Block B of Wanbohua Court, Wannian Main Road, Zhenzhou Town, Yizheng City, Jiangsu Province, The PRC* (中國江蘇省儀征市真州鎮萬年大道路萬博花苑B幢101、102、201、202、301、302號四間門面一至三層)	No Commercial Value
48.	Nos. 24-26 on Levels 1 to 4, located at No. 53 Wenyouzhong Road, Gaoyou City, Jiangsu Province, The PRC* (中國江蘇省高郵市文游中路53號24-26門面一至四層)	No Commercial Value
	Sub-total:	**N/A**
	Grand-total:	**139,700,000**

VALUATION CERTIFICATE

Group I — Property owned and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
1.	An industrial building located on the west of Shawan Road and the south of Yinyan Road in the Guangling Industrial Park, Yangzhou City, Jiangsu Province, the PRC* (中國江蘇省揚州市廣陵產業園內銀焰路南側沙灣路西側的廠房)	The property comprises a 6-storey industrial building erected on a land parcel with a site area of approximately 5,267.20 square metres. The building was completed in 2006. The property has a gross floor area of approximately 13,476.38 square metres. The land use rights of the property have been granted for a term expiring on 5 February 2054 for industrial purpose.	The property was occupied for warehouse use as at the date of valuation.	48,200,000

Notes:

(1) Pursuant to a land transfer agreement* (土地轉讓協議) entered into between Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") ("Party A") and Yangzhou Huiyin Mechanics Technology Co., Ltd* (揚州滙銀機電科技有限公司)("Yangzhou Huiyin Mechanics") ("Party B") dated 15 December 2006, Party B agreed to transfer the land parcel of the property to Party A at a consideration of RMB5,530,000.

(2) Pursuant to a State-owned Land Use Certificate* (國有土地使用證), Yang Guo Yong (2007) No. 062 (揚國用(2007)第062號), issued by the People's Government of Yangzhou City (揚州市人民政府) on 26 January 2007, the land use rights of the property with a site area of 5,267.2 square metres have been granted to Yangzhou Huiyin for a term expiring on 5 February 2054 for industrial purpose.

(3) Pursuant to a Building Ownership Rights Certificate* (房屋所有權證), Yang Fang Quan Zheng Guang Zi No. 305950* (揚房權證廣字第305950號), issued by the Yangzhou City Real Estate Administration Bureau* (揚州市房產管理局) on 2 September 2008, the building ownership rights of the property with a gross floor area of 13,476.38 square metres have been granted to Yangzhou Huiyin. The property was mortgaged to the China CITIC Bank Corporation Limited — Yangzhou Branch commencing on 28 August 2008 for a period of 24 months to secure the loan of an amount of RMB10,000,000.

(4) The PRC legal opinion states, inter alia, that:

a. Yangzhou Huiyin legally owns the land use rights and buildings ownership rights of the property.

b. Yangzhou Huiyin is entitled to use, transfer, lease and mortgage the property or dispose of the property by other lawful means in accordance with the laws of the PRC during the term of the land use rights. However, as the property is subject to a mortgage, Yangzhou Huiyin cannot transfer the property without obtaining the approval from the mortgagee of the property during the mortgage period unless the transferee of the property has paid off the loan and redeemed the mortgage for Yangzhou Huiyin.

c. The aforesaid mortgage of the property is legal and valid.

d. Save for the aforesaid mortgage, the property is not subject to any restrictions arising from any other mortgage, sequestration or any third party's rights.

(5) In the course of our valuation, we have made the following assumptions, which are supported by the PRC legal opinion:

a. The property is legally vested in Yangzhou Huiyin and is freely transferable in the market and is not subject to any encumbrances; and

b. The property has been granted with proper title and all land premium or costs have been fully settled with relevant government authorities.

(6) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
2.	Ziteng Building (6-10 axis) located at No. 277, Wenchang Zhong Road, Yangzhou City, Jiangsu Province, the PRC* (中國江蘇省揚州市文昌中路277號6-10軸紫藤大廈)	The property comprises 6 storeys of a commercial building erected on a land parcel with a site area of 896.3 sq.m. The building was completed in about 1996. The property has a gross floor area of 3,104.60 sq.m. The land use rights of the property have been granted for a term expiring on 7 January 2045 for commercial purpose.	1st floor to 3rd floor of the property were occupied for retail use while the 4th floor to 6th floor were occupied for office use as at the date of valuation.	42,100,000

Notes:

(1) Pursuant to a Certificate of Registered Capital Examination* (驗資報告), Yang Xun Hui Yan (1) (2006) No. 237* (揚迅會驗(一)(2006)237號) issued by Yangzhou Xunda Certified Public Accountants Co., Ltd.* (揚州迅達會計師事務所有限公司) dated 1 September 2006, Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") and Cao Kuanping* (曹寬平) became a 30% and a 70% shareholder of Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin") with a total consideration of RMB57,500,000, with which the property was transferred from Cao Kuanping* (曹寬平) to Jiangsu Huiyin as part of the consideration of RMB43,750,000 while the remaining of RMB13,750,000 in cash was paid by Yangzhou Huiyin.

(2) Pursuant to a State-owned Land Use Certificate* (國有土地使用證), Yang Guo Yong (2006) No. 0537 (揚國用(2006)第0537號), issued by the People's Government of Yangzhou City* (揚州市人民政府) on 1 September 2006, the land use rights of the property with a site area of 896.3 square meters have been granted to Jiangsu Huiyin for a term expiring on 7 January 2045 for commercial purpose.

(3) Pursuant to a Building Ownership Rights Certificate* (房屋所有權證), Yang Fang Quan Zheng Guang Zi No. 284218* (揚房權證廣字第284218號), issued by the Yangzhou City Real Estate Administration Bureau* (揚州市房產管理局) on 14 December 2006, the building ownership rights of the property with a total gross floor area of 3,104.6 square metres have been granted to Jiangsu Huiyin.

(4) Pursuant to two Highest Amount Mortgage Agreements* (最高額抵押合同), 2009 Nian Zui Di Zi Di Shou Nos. 035 and 036* (2009年最抵字第授035&036號), entered into between China Merchants Bank Co., Ltd. — Yangzhou Branch* (招商銀行股份有限公司—揚州分行) ("mortgagee") and Jiangsu Huiyin ("mortgagor), the mortgagor agreed to mortgage the property to the mortgagee for a total loan amount of RMB26,000,000 for a term commencing on 20 March 2009 and expiring on 20 March 2010.

(5) Pursuant to a co-operation agreement, entered into between Jiangsu Huiyin and Tanjie* (談捷) dated 1 July 2007, the former party agreed to lease the 1st floor to 3rd floor retail shops of the property to the latter party for a term of 5 years commencing on 1 July 2007 and expiring on 30 June 2012 at an annual rent of RMB750,000 exclusive of electricity charges for retail purpose.

(6) Pursuant to a supplementary agreement, entered into between Tanjie* (談捷) and Jiangsu Huiyin dated 1 August 2008, the former party agreed to lease back portion of the eastern end of the 1st floor to 3rd floor retail shops of the property to Jiangsu Huiyin commencing on 1 July 2008, and the annual rent payable as stated in the aforesaid co-operation agreement was reduced by RMB420,000 per annum.

(7) The PRC legal opinion states, inter alia, that:

a. Jiangsu Huiyin legally owns the land use rights and buildings ownership rights of the property.

b. Jiangsu Huiyin is entitled to use, transfer, lease and mortgage the property or dispose of the property by other lawful means in accordance with the laws of the PRC during the term of the land use rights. However, as the property is subject to a mortgage, Jiangsu Huiyin cannot transfer the property without obtaining the approval from the mortgagee of the property during the mortgage period unless the transferee of the property has paid off the loan and redeemed the mortgage for Jiangsu Huiyin.

c. The aforesaid mortgage of the property is legal and valid.

d. Save for the aforesaid mortgage, the property is not subject to any restrictions arising from any other mortgage, sequestration or any third party's rights.

e. The co-operation agreement and its supplementary agreement are valid and legally binding.

(8) In the course of our valuation, we have made the following assumptions, which are supported by the PRC legal opinion:

a. The property is legally vested in Yangzhou Huiyin and is freely transferable in the market and is not subject to any encumbrances; and

b. The property has been granted with proper title and all land premium or costs have been fully settled with relevant government authorities.

(9) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
3.	A Logistic Centre Development located at the north of Gualiu Road, Yangzhou Economic Development District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市揚州經濟開發區瓜六路北側的物流中心發展項目)	The property is a logistic centre development (Phase I – Phase III) with a site area of approximately 23,615.1 square metres. Phase I of the development was completed at the end of 2009. Upon completion, the property will have a total gross floor area of approximately 29,800 square metres (inclusive of basement floor).	The property is currently under construction as at the date of valuation.	49,400,000

Buildings	GFA (sq.m.)	Completion Date
Phase I		
Logistic Centre (#4 Warehouse)	11,700	December 2009
Phase II		
Exchange Square	12,280	—
Ancillary space in basement	2,340	—
Phase III		
Logistic Centre (#3 Warehouse)	3,456	—
Guard room	24	—
Total	**29,800**	
Total (without basement)	**27,460**	

The land use rights of the property have been granted for a term expiring on 27 February 2059 for storage purpose.

Notes:

(1) Pursuant to a Construction Corporation Agreement* (合作建房協議) entered into between Yangzhou Huiyin Household Appliance Co., Ltd. (揚州滙銀家電有限公司) ("Yangzhou Huiyin") (Party A), Yangzhou Yintai Real Estate Co., Ltd.* (揚州銀泰房產置業有限公司) ("Yangzhou Yintai Real Estate") (Party B) and Jiangsu Kuanrui Logistics and Trade Development Co., Ltd.* (江蘇寬瑞物流貿易發展有限公司) ("Jiangsu Kuanrui Logistics") (Party C) dated 12 February 2009, Party B agreed to sell the property to Party A through Party C at a consideration of RMB20,886,000, which has already been fully paid as advised by the Company. Party C agreed to complete the construction works of Phase I of the property and assist Party A to carry out the constructions of Phase II and III of the property later on. Upon the completion of Phase I of the property, Party C agreed to assist Party A to apply for the relevant State-owned Land Use Certificate and Building Ownership Certificate for Phase I of the property.

(2) Pursuant to a supplementary agreement entered into between the above Party A, Party B and Party C dated 28 September 2009, Party A acquired the property with a site area of 35.4 mu from Party C at a land premium of RMB224,000/mu in addition to the demolition and relocation fee of RMB366,000/mu.

(3) Pursuant to a State-owned Land Use Certificate* (國有土地使用證), Yang Guo Yong (2009) Di No. 0549* (揚國用(2009)第0549號), issued by the People's Government of Yangzhou City* (揚州市人民政府) dated 18 September 2009, the land use rights of the property with a site area of 23,615.1 square metres have been granted to Yangzhou Huiyin for a term expiring on 27 February 2059 for storage purpose.

(4) Pursuant to a Construction Land Planning Permit* (建設用地規劃許可證), No. 3210002008k0006, dated 1 April 2008, the planning of construction land of the property was permitted.

(5) Pursuant to a Construction Works Planning Permit* (建設工程規劃許可證), Jian Zi Di No. 3210002008K0152* (建字第3210002008K0152), issued by Yangzhou City Planning Bureau* (揚州市規劃局) dated 31 December 2008, the planning of construction works of #4 warehouse with a gross floor area of 11,723 square metres of the property was permitted.

(6) Pursuant to a Construction Works Commencement Permit (建築工程施工許可證), No. 321000200906040001A, issued by Yangzhou Construction Bureau (揚州建設局) dated 4 June 2009, the commencement of the construction works of #4 warehouse with a gross floor area of 11,723 square metres of the property was permitted.

(7) Pursuant to a Fire Control System Consent Opinion of the Construction of No. 4 Warehouse of Huiyin Logistic Centre Zone* (關於同意滙銀物流庫區四號庫工程消防驗收合格的意見), Yang Gong Xiao Yan [2009] No. 0019 (揚公消驗[2009]第0019號), issued by Yangzhou City Police Fire Control Sub-branch* (揚州市公安消防支隊) dated 24 September 2009, the fire protection system of the construction works of #4 warehouse of the property has been approved.

(8) Pursuant to a Jiangsu Province Yangzhou City Construction Works Completion Permit Record* (江蘇省揚州市工程竣工驗收備案証明書), issued by Yangzhou City Construction Bureau* (揚州市建設局) dated 24 December 2009, the completion of the construction works of #4 warehouse of the property has been approved and recorded.

(9) As confirmed by the Company, Phase I of the property was completed at the end of 2009 while the expected total construction cost of Phase I is about RMB42,991,500 and the construction cost paid as at the date of valuation is about RMB41,498,268. The construction works of Phase II of the property are expected to commence in the second half of 2010, while the estimated total construction cost of Phase II and Phase III of the property is about RMB51,000,000.

(10) Pursuant to a Building Ownership Certificate* (房屋所有權証), Yang Fang Quan Zheng Kai Zi No. 2010000367* (揚房權証開字第2010000367號), issued by the Yangzhou City Real Estate Administrative Bureau* (揚州市房產管理局) dated 19 January 2010, the building ownership rights of the 2-storey warehouse building of the property with a gross floor area of 11,700 sq.m. have been granted to Yangzhou Huiyin.

(11) Pursuant to two Highest Amount Mortgage Agreements* (最高額抵押合同), Nos. 32906201000000639 and 32906201000000640, entered into between Agricultural Bank of China — Yangzhou Runyang Sub-branch* (中國農業銀行股份有限公司揚州潤揚支行) ("mortgagee") and Yangzhou Huiyin ("mortgagor") both dated 21 January 2010, the mortgagor agreed to mortgage the land use rights of the property and the building ownership rights of No. 4 warehouse of the property to the mortgagee for a total loan amount of RMB20,500,000 for a term commencing on 21 January 2010 and expiring on 21 January 2013.

(12) The PRC legal opinion states, inter alia, that:

a. Yangzhou Huiyin legally owns the land use rights of the property and the building ownership rights of the #4 Warehouse of the property.

b. Yangzhou Huiyin is entitled to use, transfer, lease and mortgage the land use rights of the property or dispose of the land use rights of the property by other lawful means in accordance with the laws of the PRC during the term of the land use rights. However, as the land use rights of the property is subject to a mortgage, Yangzhou Huiyin cannot transfer the land use rights of the property without obtaining the approval from the mortgagee during the mortgage period unless the transferee of the land use rights of the property has paid off the loan and redeemed the mortgage for Yangzhou Huiyin.

c. Yangzhou Huiyin is entitled to use, transfer, lease and mortgage the building ownership rights of No. 4 warehouse of the property or dispose of the building ownership rights of No. 4 warehouse of the property by other lawful means in accordance with the laws of the PRC during the term of the land use rights. However, as the building ownership rights of No. 4 warehouse of the property is subject to a mortgage, Yangzhou Huiyin cannot transfer the building ownership rights of #4 warehouse of the property without obtaining the approval from the mortgagee during the mortgage period unless the transferee of the building ownership rights of No. 4 warehouse of the property has paid off the loan and redeemed the mortgage for Yangzhou Huiyin.

d. The aforesaid mortgage of the property is legal and valid.

e. Save for the aforesaid mortgage, the property is not subject to any restrictions arising from any other mortgage, sequestration or any third party's rights.

(13) In the course of our valuation, we have made the following assumptions, which are supported by the PRC legal opinion:

a. The property is legally vested in Yangzhou Huiyin and is freely transferrable in the market and is not subject to any encumbrances;

b. The property has been granted with property title and all land premium or costs have been fully settled with relevant government authorities; and

c. The construction works has complied with all relevant regulations and laws in the PRC and duly approved by relevant authorities.

(14) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II — Properties rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
4.	Levels 1-3 of Ruifeng Emporium, No. 248 Wenchang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市文昌中路248號瑞豐商廈一二三層)	The property comprises 3 storeys of retail shops of a commercial building. The property has a total gross floor area of approximately 3,100 square metres. The property was leased to the Group by Yangzhou City Ruifeng Emporium Co., Ltd.* (揚州市瑞豐商廈有限責任公司) ("Ruifeng Emporium"), an independent third party, for a term of 10 years commencing on 20 November 2009 and expiring on 19 November 2019 at a current annual rent of RMB1,800,000 exclusive of water and electricity charges for retail and office purposes.	The property was occupied by the Group for retail and ancillary office uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (租賃合同), entered into between Ruifeng Emporium and Yangzhou Huiyin Household Appliance Co., Ltd. (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 21 November 2006, the former agreed to lease the property with a total gross floor area of 3,100 sq.m. to the latter party for a term of 10 years commencing on 20 November 2009 and expiring on 19 November 2019 at the following rent exclusive of water and electricity charges for retail and office purposes. The rental has been divided into 2 parts:

i. from 20 November 2009 to 19 November 2014 at an annual rent of RMB1,800,000

ii. from 20 November 2014 to 19 November 2019 at an annual rent of RMB1,980,000

(2) Pursuant to an authorization letter, issued by Yangzhou City Hanjiang District Liangshigouxiao Co., Ltd.* (揚州市邗江區糧食購銷公司) dated 25 November 2006, Ruifeng Emporium has been authorized to lease the property to Yangzhou Huiyin.

(3) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained lawful authorization from the property owner to let the property.

b. The lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the lease agreement.

c. The lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(4) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
5.	Levels 1-2 of Lanzhuang Commerce and Trade Building, No. 440 Hanjiang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區邗江中路440號蘭莊商貿樓一至二層)	The property comprises two levels of retail shops within a residential development. The property has a gross floor area of approximately 1,100 square metres. The property was leased to the Group by Yangzhou City Hanjiang District Hanshang Street Lanzhuang Community Residents Committee* (揚州市邗江區邗上街道蘭莊社區居民委員會) ("Lanzhuang Community Residents Committee"), an independent third party, for a term of 8 years commencing on 1 July 2009 and expiring on 30 June 2017 at a current annual rent of RMB700,000 exclusive of water and electricity charges for retail and office purposes.	The property is occupied by the Group for retail and ancillary office uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房房租賃合同), entered into between the Lanzhuang Community Residents Committee and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin"), dated 5 June 2009, the property was rented by the latter party for a term of 8 years commencing on 1 July 2009 and expiring on 30 June 2017 at the following rental exclusive of water and electricity charges for retail and office purposes. The rental has been divided into 3 parts:

i. from 1 July 2009 to 30 June 2012 at an annual rent of RMB700,000

ii. from 1 July 2012 to 30 June 2015 at an annual rent of RMB742,000

iii. from 1 July 2015 to 30 June 2017 at an annual rent of RMB786,520

(2) Pursuant to an agreement entered into between the Lanzhuang Community Residents Committee, an independent third party and Jiangsu Huiyin dated 5 June 2009, Jiangsu Huiyin agreed to pay a lump sum of RMB80,000 to Lanzhuang Community Residents Committee for early termination of the lease agreement between Lanzhuang Community Residents Committee and the former lessee.

(3) The PRC legal opinion states, inter alia, that:

a. The property has not been granted with any title documents and there may be legal impediments in obtaining the title document.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use the property normally because the property has not obtained a building ownership certificate. However, the lessor has confirmed that he is in the process of applying for a building ownership certificate of the property and covenanted that the lessor will be wholly liable if the lessee's normal use of the property is affected by a third party due to the title defect in the property.

(4) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
6.	1st Floor of No. 35 Anyi Road East, Baoying County, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市寶應縣安宜東路35號的房屋一樓)	The property comprises a retail shop on 1st floor of a commercial building. The property has a gross floor area of approximately 1,256.16 square metres. The property was leased to the Group by Wen Congxian* (問從先), an independent third party, for a term of 8 years commencing on 1 June 2004 and expiring on 1 June 2012 at a current annual rent of RMB 800,000 inclusive of water charges and electricity voltage increase charges of no more than RMB20,000 for home appliances shopping mall purpose.	The property was occupied by the Group for retail and after-sales service uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同), entered into between Wen Congxian (問從先) and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 17 March 2004, the property was rented by the latter party for a term of 8 years commencing on 1 June 2004 and expiring on 1 June 2012 at the following rental inclusive of water charges and electricity voltage increase charges of no more than RMB20,000 for home appliances shopping mall purpose. The rental has been divided into 2 parts:

i. from 1 June 2004 to 31 May 2008 at an annual rent of RMB760,000

ii. from 1 June 2008 to 1 June 2012 at an annual rent of RMB800,000

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
7.	Retail Portion on Levels 1-2, No. 2 Gongnong Road North, Zhenzhou Town, Yizheng City, Jiangsu Province, The PRC* (中國江蘇省儀征市真州鎮工農北路2號一至二層營業廳)	The property comprises two levels of retail shops of a multi-storey residential and commercial mixed building. The property has a gross floor area of approximately 2,000 square metres. The property was leased to the Group by Yizheng City Gumao Mansion* (儀征市谷貿大廈) ("Yizheng City Gumao"), an independent third party, for a term of 12 years commencing on 1 September 2006 and expiring on 31 August 2018 at an annual rent of RMB310,000 exclusive of water and electricity charges for retail purpose.	The property was occupied by the Group for retail and after-sales service uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同) entered into between Yizheng City Gumao and Yangzhou Huiyin Household Appliance Co. Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 5 June 2006, the property was rented by the latter party for a term of 12 years commencing on 1 September 2006 and expiring on 31 August 2018 at an annual rent of RMB310,000 exclusive of water and electricity charges for retail purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
8.	1st Floor to 4th Floor, West Podium, China Construction Bank Co., Ltd. Jiangdu Branch Building, No.1, Jianghuai Road, Huaiyang Residents Committee, Jiangdu Town, Jiangdu City, Jiangsu Province, The PRC* (中國江蘇省江都市江都鎮淮揚居委會江淮路1號中國建設銀行股份有限公司江都支行大樓西裙樓一至四層)	The property comprises 5-storey of retail shops of a commercial building. The property has a gross floor area of approximately 1,649.38 square metres. The property was leased to the Group by China Construction Bank Co., Ltd Jiangdu Branch* (中國建設銀行股份有限公司江都支行) ("China Construction Bank"), an independent third party, for a term of 5 years commencing on 13 December 2009 and expiring on 12 December 2014 at an annual rent of RMB550,000 exclusive of water, electricity, security and management charges for retail purpose.	As per our site inspection, the property was a 2-storey commercial building and was occupied by the Group for retail use.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議書), entered into between China Construction Bank and Yangzhou Huiyin Household Appliance Co., Ltd. — Jiangdu Branch* (揚州滙銀家電有限公司江都分公司) ("Yangzhou Huiyin — Jiangdu Branch"), the property was rented by the latter party for a term of 5 years commencing on 13 December 2009 and expiring on 12 December 2014 at an annual rent of RMB550,000 exclusive of water, electricity, security and management charges for retail purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Yangzhou Huiyin — Jiangdu Branch is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
9.	Retail Shop on Level 1 and Office on Level 2 of Daguanyuan Emporium, No. 7 Huaiyang Road, Jianshe Residents Committee, Jiangdu Town, Jiangdu City, Jiangsu Province, The PRC* (中國江蘇省江都市江都鎮建設居委會淮揚路7號大觀園商城一層商舖和二層辦公用房)	The property comprises a shop on level 1 and an office unit on level 2 of a 3-storey commercial building. The property has a gross floor area of approximately 1,800 square metres for retail portion on level 1 and 250 square metres for office portion on level 2. The property was leased to the Group by Jiangdu City Daguanyuan Emporium* (江都市大觀園商城) ("Jiangdu Daguanyuan"), an independent third party, for a term of 5 years commencing on 1 September 2005 and expiring on 31 August 2010 at a current annual rent of RMB889,000 exclusive of water and electricity charges for retail and office purposes.	As advised by the Group and as per our site inspection, portion of the property was occupied by the Group for retail use and portion of the property was occupied by the Group for storage and ancillary office uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同), entered into between Jiangdu Daguanyuan and Yangzhou Huiyin Household Appliance Co. Ltd.,* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 31 August 2005, the property was rented by the latter party for a term of 5 years commencing on 1 September 2005 and expiring on 31 August 2010 at the following rental exclusive of water and electricity charges for retail and office purposes. The rental has been divided into 4 parts:

i. 1st Year to 2nd Year of the lease term at an annual rent of RMB650,000

ii. 3rd Year of the lease term at an annual rent of RMB715,000

iii. 4th Year of the lease term at an annual rent of RMB793,000

iv. 5th Year of the lease term at an annual rent of RMB889,000

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
10.	Level 3 of Gaoyou Renmin Shangcheng, No.167 Tonghu Road, Gaoyou Town, Gaoyou City, Jiangsu Province, The PRC* (中國江蘇省高郵市高郵鎮通湖路167號高郵人民商城內的三樓)	The property comprises the entire third floor of a 4-storey commercial building. The property has a gross floor area of approximately 1,700 square metres for retail portion and 460 square metres for storage portion on level 3. The property was leased to the Group by Gaoyou Renmin Shangcheng Co., Ltd.* (高郵人民商城有限公司) ("Gaoyou Renmin Shangcheng"), an independent third party, for a term of 5 years commencing on 31 December 2007 and expiring on 31 December 2012 at an annual rent of RMB550,000 exclusive of electricity charges for home or commercial appliances retail and storage purposes.	As advised by the Group and as per our site inspection, portion of the property was occupied by the Group for retail use and portion of the property was occupied by the Group for after-sales service and storage uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (場地租賃合同), entered into between Gaoyou Renmin Shangcheng and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin") dated 10 December 2007, the property was rented by the latter party for a term of 5 years commencing on 31 December 2007 and expiring on 31 December 2012 at an annual rent of RMB550,000 exclusive of electricity charges for home or commercial appliances retail and storage purposes.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the lease agreement.

c. The lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
11.	Retail Portion on Level 1 and Storage Portion and Post-Sales Services Area on Level 2 of Xinghua Yingwu Dian in Times Supermarket, Xinghua City, Jiangsu province, The PRC* (中國江蘇省興化市時代超市興化英武店一層部份商舖和二層部份倉庫和售後服務範圍)	The property comprises a retail portion on Level 1 and a storage portion and post-sales services area on Level 2 of a 3-storey commercial building. The property has a gross floor area of approximately 1,487 square metres for retail portion on level 1 and approximately 600 square metres for storage and post-sales services area on level 2. The property was leased to the Group by Jiangsu Times Supermarket Co., Ltd.* (江蘇時代超市有限公司) ("Jiangsu Times Supermarket"), an independent third party, for a term of 5 years commencing on 1 August 2007 and expiring on 31 July 2012 at an annual rent of RMB580,000 exclusive of water, electricity, management, taxes and other relevant charges for retail, storage and post-sales services purposes.	As advised by the Group and as per our site inspection, portion of the property was occupied by the Group for retail use and portion of the property was occupied for storage and after-sales services uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a large project and catering category lease agreement* (大型項目、餐飲類租賃合同), entered into between Jiangsu Times Supermarket and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin") dated 25 July 2007, the property was rented by the latter party for a term of 5 years commencing on 1 August 2007 and expiring on 31 July 2012 at an annual rent of RMB580,000 exclusive of water, electricity, management, taxes and other relevant charges for retail, storage and post-sales services purposes.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the lease agreement.

c. The lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
12.	2 units of retail portion on the upper and lower levels of "New Century People's Square" located at Nos. 262-264 West Avenue, Jiangyan City, Jiangsu Province, The PRC* (中國江蘇省 姜堰市 西大街262-264號 新世紀市民廣場 兩間門面房上下兩層)	The property comprises two retail units on levels 1 and 2 within a residential development. The property has a gross floor area of approximately 455 square metres. The property was leased to the Group by Jiangyan City Lüjin Real Estate Co., Ltd.* (姜堰市綠錦房地產有限公司) ("Jiangyan Lüjin Real Estate"), an independent third party, for a term of 3 years commencing on 12 April 2009 and expiring on 11 April 2012 at an annual rent of RMB350,000 exclusive of water, management and electricity charges for retail and office purposes.	The property was occupied by the Group for retail and ancillary office uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同) entered into between Jiangyan Lüjin Real Estate and Jiangsu Huiyin Electronics Chain-Stores Co. Ltd.*, (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin") dated 16 March 2009, the property was rented by the latter party for a term of 3 years commencing on 12 April 2009 and expiring on 11 April 2012 at an annual rent of RMB350,000 exclusive of water, management and electricity charges for retail and office purposes.

(2) The PRC legal opinion states, inter alia, that:

a. The property has not obtained a building ownership certificate and there may be legal impediments in obtaining the title document.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use the property normally because the property has not obtained a building ownership certificate. The lessor has already obtained the State-owned Land Use Rights Certificate, Planning Permit for Construction Works and Pre-sale Permit for Commodity Housing and has confirmed that he is in the process of applying for a building ownership certificate of the property.

c. Mr. Cao Kuanping has warranted that if the lessee is unable to use the property for whatever reason during the term of the tenancy, he will be responsible for all losses suffered by the lessee as a result thereof.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
13.	Level 6 of Guorun Department Store, No. 88 Renmin Road South, Jingjiang City, Jiangsu Province, The PRC* (中國江蘇省靖江市人民南路88號國潤百貨六樓)	The property comprises an entire level 6 of a 7-storey department store. The property has a gross floor area of approximately 900 square metres. The property was leased to the Group by Jingjiang City Guorun Department Store Co., Ltd.* (靖江市國潤百貨有限公司) ("Jingjiang Guorun"), an independent third party, for a term of 5 years commencing on 16 June 2008 and expiring on 15 June 2013 at an annual rent of RMB300,000 exclusive of water and electricity charges for home appliances retail purpose.	The property was occupied by the Group for home appliances retail and after-sales services uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同) dated 23 May 2008, entered into between Jingjiang Guorun and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin"), the property was rented by the latter party for a term of 5 years commencing on 16 June 2008 and expiring on 15 June 2013 at an annual rent of RMB300,000 exclusive of water and electricity charges for home appliances retail purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
14.	Unit 1303 of a Composite Building located at No. 1 Eastern Commercial Walking Street, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市東方商業步行街1號綜合樓1303室)	The property comprises an office unit of a commercial building. The property has a gross floor area of approximately 89.58 square metres. The property was leased to the Group by Cai Dengxiang* (蔡登祥), an independent third party, for a term of 2 years commencing on 3 February 2009 and expiring on 3 February 2011 at an annual rent of RMB36,000 exclusive of water, electricity, telecommunication, cable TV, hygiene security and management charges for office purpose.	The property was occupied by the Group for office use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議), entered into between Cai Dengxiang* (蔡登祥), an independent third party and Huaian Huiyin Household Appliance Co., Ltd.* (淮安滙銀家電有限公司) ("Huaian Huiyin") dated 17 January 2009, the property was rented by the latter party for a term of 2 years commencing on 3 February 2009 and expiring on 3 February 2011 at an annual rent of RMB36,000 exclusive of water, electricity, telecommunication, cable TV, hygiene security and management charges for office purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Huaian Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
15.	Levels 2-3 of No. 1 Jianshe Road West, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市建設西路1號二、三層)	The property comprises a retail unit of a commercial building. As advised by the Company, the property has a gross floor area of approximately 1,638 square metres. The property was leased to the Group by Mao Wei Zhong* (茅衛忠), an independent third party, for a term of approximately 4.5 years commencing on 28 April 2006 and expiring on 10 October 2010 at an annual rent of RMB172,000 for retail purpose.	The property was occupied by the Group for retail and after-sales services uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a sub-lease agreement* (轉租合同), entered into between Mao Wei Zhong* (茅衛忠), an independent third party and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 6 March 2006, the property was rented by the latter party for a term commencing on 28 April 2006 and expiring on 10 October 2010 at an annual rent of RMB172,000 for retail use.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained lawful authorisation from the property owner and has a right to sub-let the property.

b. The sub-lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the sub-lease agreement.

c. The sub-lease agreement has not been registered at the relevant authority. However, non-registration of the sub-lease agreement will not invalidate the sub-lease agreement or make the sub-lease agreement unenforceable.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
16.	5 Units of Block 2, Bingdong, Shiliang Road East, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市石梁東路炳東2號樓5間)	The property comprises 5 retail units out of 14 units of an one-storey commercial building. The property has a gross floor area of approximately 200 square metres. The property was leased to the Group by Ding Changchun* (丁長春), an independent third party, for a term of 5 years commencing on 18 February 2009 and expiring on 17 February 2014 at a current annual rent of RMB120,000 exclusive of water and electricity charges for commercial activity purpose.	The property was occupied by the Group for retail use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議), entered into between Changdongxin District Yongfu Community Bingdong Residents Union* (城東新區永福社區炳東居民組) and Ding Changchun* (丁長春) dated 12 January 2009, the property was rented by the latter party for a term of 6 years commencing on 12 January 2009 and expiring on 11 January 2015 at an annual rent of RMB86,000 exclusive of water and electricity charges for commercial purpose. The former party has agreed that the latter party can sub-lease the property to third parties within the lease term for a maximum term of 5 years.

(2) Pursuant to a real estate lease agreement* (房地產租賃協議) entered into between Ding Changchun* (丁長春) and Tianchang Huiyin Household Appliance Co., Ltd.* (天長市滙銀家電有限公司) ("Tianchang Huiyin") dated 23 January 2009, the property was sub-leased to the latter party for a term of 5 years commencing on 18 February 2009 and expiring on 17 February 2014 at the following rent exclusive of water and electricity charges for commercial activity purpose. The former party has agreed that the latter party can sub-lease the property to others during the lease term. The rental has been divided into 2 parts:

i. from 18 February 2009 to 17 February 2012 at an annual rent of RMB120,000

ii. from 18 February 2012 to 17 February 2014 at an annual rent of RMB130,000

(3) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained lawful authorisation from the property owner and has a right to sub-let the property.

b. The sub-lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the sub-lease agreement.

c. The sub-lease agreement has not been registered at the relevant authority. However, non-registration of the sub-lease agreement will not invalidate the sub-lease agreement or make the sub-lease agreement unenforceable.

(4) Tianchang Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
17.	Levels 1-2 of Block 3, Bingdong, Shiliang Road East, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市石梁東路炳東3號樓一至二層)	The property comprises the entire floors of level 1 and level 2 of a 5-storey commercial services building. The property has a total gross floor area of approximately 1,391.61 square metres. The property was leased to the Group by Ding Changchun* (丁長春), an independent third party, for a term of approximately 8 years commencing on 8 June 2006 and expiring on 7 June 2014 at a current annual rent of RMB405,000 exclusive of water and electricity charges for home appliances retail purpose.	The property was occupied for retail use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to an agreement, entered into between Changdongxin District Yongfu Community Bingdong Residents Union* (城東新區永福社區炳東居民組) and Ding Changchun* (丁長春) dated 10 May 2006, portion of the property with an area of 213 square metres was rented by the latter party for a term of 10 years commencing on 10 May 2006 and expiring on 10 May 2016 at an annual rent of RMB80,000.

(2) Pursuant to a real estate lease agreement* (房地產租賃協議), entered into between Ding Changchun* (丁長春) and Tianchang Huiyin Household Appliance Co., Ltd.* (天長市滙銀家電有限公司) ("Tianchang Huiyin") dated at 18 May 2006, the property was rented by the latter party for a term of 8 years commencing on 8 June 2006 and expiring on 7 June 2014 at the following rent exclusive of water and electricity charges for home appliance retail purpose. The rental has been divided into 3 parts:

i. 1st Year to 2nd Year of the lease term at an annual rent of RMB375,000

ii. 3rd Year to 5th Year of the lease term at an annual rent of RMB405,000

iii. 6th Year to 8th Year of the lease term at an annual rent of not more than RMB500,000

(3) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights or lawful authorization from the property owner of part of the property with an area of 1,121.67 square metres and has a right to let this portion of the property. The real estate lease agreement in note (2) is valid and legally binding in so far as it relates to this portion of the property and the lessee has the right to use this portion of the property in accordance with the real estate lease agreement.

b. Part of the property with an area of 269.94 square metres has not obtained a title certificate and there may be legal impediments in obtaining the title document. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use this portion of the property normally because the property has not obtained a title certificate. Mr. Cao Kuanping has warranted that if the lessee is unable to use this portion of the property for whatever reason during the term of the tenancy, he will be responsible for all losses suffered by the lessee as a result thereof.

c. The real estate lease agreement has not been registered at the relevant authority. However, non-registration of the real estate lease agreement will not invalidate the real estate lease agreement or make the real estate agreement unenforceable.

(4) Tianchang Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
18.	Level 1, No. 659 Nanqiao Road North, Chuzhou City, Anhui Province, The PRC* (中國安徽省滁州市南譙北路659號1層)	The property comprises the entire first level of a 4-storey commercial building. The property has a gross floor area of approximately 180 square metres. The property was leased to the Group by Chuzhou City Tianranju Business and Trading Co., Ltd.* (滁州市天然居商貿有限責任公司) ("Chuzhou Tianranju"), an independent third party, for a term of 3 years commencing on 1 March 2009 and expiring on 28 February 2012 at an annual rent of RMB330,000 exclusive of water and electricity charges for commercial activity purpose.	The property was occupied by the Group for retail use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a real estate lease agreement* (房地產租賃協議), entered into between Chuzhou Tianranju and Tianchang Huiyin Household Appliance Co., Ltd.* (天長市滙銀家電有限公司) ("Tianchang Huiyin") dated 28 February 2009 the property is rented by the latter party for a term of 3 years commencing on 1 March 2009 and expiring on 28 February 2012 at an annual rent of RMB330,000 exclusive of water and electricity charges for commercial activity purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The real estate lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the real estate lease agreement.

c. The real estate lease agreement has not been registered at the relevant authority. However, non-registration of the real estate lease agreement will not invalidate the real estate lease agreement or make the real estate lease agreement unenforceable.

(3) Tianchang Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
19.	Level 1 and Level 2 of a commercial building located at No. 18 Nanda Avenue, Zhonglou District, Changzhou City, Jiangsu Province, The PRC* (中國江蘇省常州市鐘樓區南大街18號一層和二層)	The property comprises the entire level 1 and level 2 of a 2-storey commercial building. The property has a gross floor area of approximately 186.22 square metres. The property was leased by the Group by Zhang Zhihe* (章志和), an independent third party, for a term of 3 years commencing on 1 January 2007 and expiring on 31 December 2009 at a current annual rent of RMB380,000 exclusive of facilities, management, water, electricity and air-conditioning charges for air conditioner specialized store purpose.	The property was occupied by the Group for wholesale use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (租約合同), entered into between Zhang Zhihe* (章志和), and Changzhou Keyi Air-conditioner Sales Co., Ltd.* (常州可意空調銷售有限公司) ("Changzhou Keyi") dated 5 December 2006, the property was rented by the latter party for a term of 3 years commencing on 1 January 2007 and expiring on 31 December 2009 at the following rent exclusive of facilities, management, water, electricity and air-conditioning charges for air conditioner specialized store purpose. The rental has been divided into 3 parts:

i. from 1 January 2007 to 31 December 2007 at an annual rent of RMB300,000

ii. from 1 January 2008 to 31 December 2008 at an annual rent of RMB320,000

iii. from 1 January 2009 to 31 December 2009 at an annual rent of RMB380,000

(2) As confirmed by the Group, they will not extend the lease term after its expiration.

(3) As advised by the PRC legal advisers, Beijing Zhonglun Law Firm, the lease agreement as mentioned in note (1) was valid and legally binding and the lessee had the right to use the property in accordance with the lease agreement.

(4) Changzhou Keyi is a 90% indirectly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
20.	Units 0120 and 0121 on Levels 1 and 2, Block 001, Jixiang Court, Dagang Gangnan Huayuan, Zhenjiangxin District, Zhenjiang City, Jiangsu Province, The PRC* (中國江蘇省鎮江市鎮江新區大港港南花苑吉祥苑001幢1-2層0120、0121房)	The property comprises two retail units of a 2-storey commercial building. As advised by the Company, Unit 0120 has a gross floor area of approximately 101.5 square metres while Unit 0121 has a gross floor area of approximately 105.58 square metres. The property was leased to the Group by Zhai Fuxi* (翟富喜), an independent third party, for a term of 4 years commencing on 15 December 2006 and expiring on 14 December 2010 at an annual rent of RMB60,000 exclusive of water and electricity charges for retail purpose.	The property was occupied by the Group for retail use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (租房合同), entered into between Zhai Fuxi* (翟富喜), and Zhenjiang Huize Electronics Sales Co., Ltd.* (鎮江滙澤電器銷售有限公司) ("Zhenjiang Huize") dated 10 December 2006, the property was rented by the latter party for a term of 4 years commencing on 15 December 2006 and expiring on 14 December 2010 at an annual rent of RMB60,000 exclusive of water and electricity charges for retail purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the lease agreement.

c. The lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(3) Zhenjiang Huize is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
21.	Unit No. 104 of a commercial building located at No. 430 Jiefang Road North, Jingkou District, Zhenjiang City, Jiangsu Province, The PRC* (中國江蘇省鎮江市京口區解放北路430號104門面房屋)	The property comprises a retail unit on the first level of a multi-storey residential and commercial mixed building. The property has a gross floor area of approximately 162.59 square metres. The property was leased to the Group by Zhenjiang City Songsheng Land Complex Development Co., Ltd.* (鎮江市松盛土地綜合開發有限責任公司) ("Zhenjiang Songsheng Land"), an independent third party, for a term commencing on 28 November 2006 and expiring on 8 January 2012 at a current annual rent of RMB230,000 exclusive of water, electricity, gases, telecommunication and cable TV charges for retail and office purposes.	The property was occupied by the Group for retail and ancillary office uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a real estate lease agreement* (房產租賃協議), entered into between Zhenjiang Songsheng Land and Zhenjiang Huize Electronics Sales Co., Ltd.* (鎮江滙澤電器銷售有限公司) ("Zhenjiang Huize") dated 3 November 2006, the property was rented by the latter party for a term commencing on 28 November 2006 and expiring on 8 January 2012 at the following rent exclusive of water, electricity, gases, telecommunication and cable TV charges for retail and office purposes. The rental has been divided into 3 parts:

i) 1st year to 3rd year at an annual rent of RMB230,000

ii) 4th year at an annual rent of RMB241,500

iii) 5th year at an annual rent of RMB253,575

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The real estate lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the real estate lease agreement.

c. The real estate lease agreement has not been registered at the relevant authority. However, non-registration of the real estate lease agreement will not invalidate the real estate lease agreement or make the real estate lease agreement unenforceable.

(3) Zhenjiang Huize is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
22.	A Warehouse (4 simple units) located at No.311 Gongnong Road North, Zhenzhou Town, Yizheng City, Jiangsu Province, The PRC* (中國江蘇省儀征市真州鎮工農北路311號平頂倉庫(簡易平房4間))	The property comprises a warehouse with 4 units. As advised by the Company during our inspection, the gross floor area of the property is approximately 580 square metres. The property was leased to the Group by Yizheng City Feed Factory* (儀征市飼料廠), an independent third party, for a term of 3 years commencing on 15 August 2009 and expiring on 14 August 2012 at an annual rent of RMB35,000 exclusive of water and electricity charges for operation purpose.	The property was occupied by the group as storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同) entered into between Yizheng City Feed Factory* (儀征市飼料廠) and Yangzhou Huiyin Household Appliance Co., Ltd. — Yizheng Branch* (揚州滙銀家電有限公司儀征分公司) now known as Yangzhou Huihou Electronics Sales Co., Ltd.* (楊州滙厚電器銷售有限公司) ("Yangzhou Huihou") dated at 28 July 2009, the property was rented by the latter party for a term of 3 years commencing on 15 August 2009 and expiring on 14 August 2012 at an annual rent of 35,000 for operation purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(3) Yangzhou Huihou is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
23.	Units Nos. 104, F03, 1-105, 106, Block 1, Anshe Qiao, No. 124 Huaihai Road East, Qinghe District, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市清河區淮海東路124號安涉橋1 幢104, F03, 1-105, 106)	The property comprises four retail units of a 6-storey commercial building. The property has a total gross floor area of approximately 384 square metres. Portion of the property with an area of approximately 111 square meters was leased to the Group by Zhang Yuehong* (張月紅), an independent third party, for a term of 3 years commencing on 24 March 2009 and expiring on 23 March 2012 at an annual rent of RMB280,000 exclusive of water, electricity, security, cleaning, fire services and telecommunication charges for commercial purpose. Portion of the property with an area of approximately 273 Square meters was leased to the Group by Maohong* (毛紅), an independent third party, for a term of 3 years commencing on18 March 2009 and expiring on 17 March 2012 at an annual rent of RMB350,000 exclusive of water, electricity, security, cleaning, fire services and telecommunication charges for commercial purpose.	The property was occupied by the Group for retail use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (租賃合同) entered into between Zhang Yuehong* (張月紅), and Huaian Huiyin Household Appliance Co., Ltd.* (淮安滙銀家電有限公司) ("Huaian Huiyin") dated 4 March 2009; portion of the property with an area of approximately 111 square metres was rented by the latter party for a term of 3 years commencing on 24 March 2009 and expiring on 23 March 2012 at an annual rent of RMB280,000 exclusive of water, electricity, security, cleaning, fire services and telecommunication charges for commercial purpose.

(2) Pursuant to a lease agreement* (租賃合同) entered into between Maohong* (毛紅), and Huaian Huiyin dated 26 February 2009, portion of the property with an area of approximately 273 square metres was rented by the latter party for a term of 3 years commencing on 18 March 2009 and expiring on 17 March 2012 at an annual rent of RMB350,000 exclusive of water, electricity, security, cleaning, fire services and telecommunication charges for commercial purpose.

(3) Pursuant to an authorization letter issued by Xu Shining and Zong Hongsheng (許世寧, 宗洪生) on 7 October 2009, Maohong* (毛紅) was authorized to let the unit F03 of the property out.

(4) The PRC legal opinion states, inter alia, that:

a. The lessors have obtained the ownership rights of the property or lawful authorization from the property owner and have a right to let the property.

b. The lease agreements as mentioned in notes (1) and (2) are valid and legally binding and the lessee has the right to use the property in accordance with the lease agreements.

c. The lease agreements have not been registered at the relevant authority. However, non-registration of the lease agreements will not invalidate the lease agreements or make the lease agreements unenforceable.

(5) Huaian Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
24.	A 4-storey building and its connected 2-storey building located at No. 114 Nantong Road East, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區南通東路114號四層大樓一幢及樓後連體二層)	The property comprises a 4-storey commercial building and its connected 2-storey building. As advised by the Company, portion of the property has a gross floor area of approximately 2,386.45 square metres ("Portion 1") was leased to the Group by Hanjiang County Composite Trading Co.* (邗江縣綜合貿易公司) ("Hanjiang Composite Trading"), an independent third party, for a term of 4 years commencing on 25 February 2006 and expiring on 24 February 2010 at an annual rent of RMB228,000 exclusive of water and electricity charges for retail purpose. Portion of the property with a gross floor area of approximately 279.1 square metres ("Portion 2") was leased to the Group by Yangzhou City Hanjiang Tongxing Trading Co., Ltd.* (揚州市邗江通興商貿有限公司) (the former name of Hanjiang Composite Trading), commencing on 1 August 2004 at an annual rent of RMB20,000 exclusive of water and electricity charges for retail purpose.	The property was occupied by the Group for after-sales service use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同), entered into between Yangzhou City Hanjiang Tongxing Trading Co., Ltd.* (揚州市邗江通興商貿有限公司) (the former name of Hanjiang Composite Trading) and Yangzhou Hengxin Air-Conditioner Sales Co., Ltd.* (揚州恒信空調銷售有限公司) ("Hengxin Air-Conditioner") dated 1 August 2004, Portion 2 of the property with a gross floor area of 279.1 square metres was rented by the latter party commencing on 1 August 2004 at an annual rent of RMB20,000 exclusive of water and electricity charges for retail purpose.

(2) Pursuant to a building lease agreement* (房屋租賃合同書) entered into between Hanjiang Composite Trading and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 28 April 2006, Portion 1 of the property was rented by the latter party for a term of 4 years commencing on 25 February 2006 and expiring on 24 February 2010 at an annual rent of RMB228,000 exclusive of water and electricity charges for retail purpose.

(3) As advised by the Company, they are in the process of renewing the lease agreement.

(4) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of Portion 2 of the property and has a right to let Portion 2 of the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use Portion 2 of the property in accordance with the building lease agreement.

c. Yangzhou Huiyin and the lessor are negotiating the renewal of the building lease agreement as stated in note (2) as at the date of prospectus. The building lease agreement is still valid before it is renewed and the lessee can legally occupy Portion 1 of the property before the lessor terminates the building lease agreement in note (2).

(5) Yangzhou Huiyin and Hengxin Air-Conditioner are indirect wholly-owned subsidiaries of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
25.	11 units of an old office building 1 located on the East of Zoufu Road Xinbei District, Changzhou City, Jiangsu Province, The PRC* (中國江蘇省常州市新北區鄒傅路東側原辦公樓一棟共11個單位)	The property comprises 11 units of a commercial building. The property has a total gross floor area of approximately 500 square metres. The property was leased to the Group by Changzhou City Xingang Water Conservancy Construction Co., Ltd.* (常州市新港水利建築工程有限公司) ("Changzhou Xingang Water"), an independent third party, for a term of 3 years commencing on 10 January 2009 and expiring on 9 January 2012 at an annual rent of RMB35,000 exclusive of water, electricity, gases, telecommunication, TV cables, hygiene and management charges for business operation and home appliances storage purposes.	The property was occupied by the Group for office and dormitory uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同), entered into between Changzhou Xingang Water and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 7 January 2009, the property is rented by the latter party for a term of 3 years commencing on 10 January 2009 and expiring on 9 January 2012 at an annual rent of RMB35,000 (exclusive of water, electricity, gases, telecommunication, TV cables, hygiene and management charges) for business operation and home appliances storage purposes.

(2) The PRC legal opinion states, inter alia, that:

a. The property had not been granted with any title documents and there might be legal impediments in obtaining the title document.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which had not obtained a building ownership certificate in accordance with the laws could not be let. There was a risk that the lessee might not be able to use the property normally because the property had not obtained a title certificate. Mr. Cao Kuanping had warranted that if the lessee was unable to use the property for whatever reason during the term of the tenancy, he would be responsible for all losses suffered by the lessee as a result thereof.

c. The lessee has covenanted that the lessee is in the process of terminating the lease agreement.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
26.	No. 9 Daqing Road West and No. 1 Gulou Road North, Taixing Town, Taixing City, Jiangsu Province, The PRC* (中國江蘇省泰興市泰興鎮大慶西路9號及鼓樓北路151號)	The property comprises a 7-storey commercial building. The property has a total gross floor area of approximately 10,100 square metres. The property was leased to the Group by Guoying Taixing Commercial Building* (國營泰興商業大廈) ("Guoying Taixing"), an independent third party, for a term of 8 years commencing from the date of delivery of vacant possession at a current annual rent of RMB2,600,000 exclusive of water and electricity charges for home appliance retail purpose.	The decoration works of the property were completed at the end of December 2009, it will be occupied by the Group for retail use in early January 2010.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議), entered into between Guoying Taixing and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 3 March 2009, the property was leased by the latter party for a term of 8 years commencing from the date of delivery of vacant possession at the following rent exclusive of water and electricity charges for home appliances retail purpose. The rental has been divided into 2 parts:

i. for the 1st to 4th years at an annual rent of RMB2,600,000

ii. for the 5th to 8th years at an annual rent of RMB2,800,000

(2) Pursuant to a supplementary agreement, entered into between Guoying Taixing and Yangzhou Huiyin dated 3 March 2009, portion of the property with an area of about 2,000 square metres had been leased to a third party for cabaret purpose prior to the creation of the lease as mentioned in Note (1), Guoying Taixing would use its best endeavours to terminate the said lease. In case Guoying Taixing failed to deliver the said portion with an area of 2,000 square metres on the date of delivery of the property to Yangzhou Huiyin, a sum of RMB20,000 would be deducted from the rental each month. Guoying Taixing would be deemed to be in breach of the agreement if it failed to deliver vacant possession of the said portion with an area of 2,000 square metres to Yangzhou Huiyin on or before 30 October 2010.

(3) Pursuant to an authorization letter, issued by Taixing City Biyun Business Co., Ltd.* (泰興市碧雲商貿有限公司) ("Taixing City Biyun") to Yangzhou Huiyin on 24 February 2009, Taixing City Biyun authorized Guoying Taixing to let the property to Yangzhou Huiyin and enter into the building lease agreement and supplementary agreement as mentioned in Note (1) and Note (2) above.

(4) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained lawful authorization from the property owner to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance to the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(5) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
27.	Unit A405 on level 4, New Time Square, No. 48 Walking Street Zhongshan Road, Wuhu City, Anhui Province, The PRC* (中國安徽省蕪湖市中山路步行街48號新時代廣場四樓A405號)	The property comprises an office unit of a commercial building. As advised by the Company, the property has a gross floor area of approximately 170 square metres. The property was sub-leased to the Group by Anhui Hua'an Insurance Agency Co., Ltd.* (安徽華安保險代理有限責任公司) ("Anhui Hua'an Insurance"), an independent third party, for a term of 1 year commencing on 15 February 2009 and expiring on 14 February 2010 at an annual rent of RMB42,000 exclusive of water, electricity, gases, cable TV, telecommunication and management charges for office purpose.	The property was occupied by the Group for office use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議) entered into between Anhui Hua'an Insurance and Tianchang Huiyin Household Appliance Co., Ltd.* (天長市滙銀家電有限公司) ("Tianchang Huiyin") dated 22 January 2009, the property was rented by the latter party for a term of 1 year commencing on 15 February 2009 and expiring on 14 February 2010 at an annual rent of RMB42,000 exclusive of water, electricity, gases, cable TV, telecommunication and management charges for office purpose.

(2) Pursuant to a building lease supplementary agreement* (房屋租賃補充協議), issued by Gao Yihua* (高易華) dated 22 January 2009, Gao Yihua* (高易華) authorized Anhui Hua'an Insurance to sub-lease the property to Tianchang Huiyin according to the lease terms as mentioned in Note (1) above.

(3) Pursuant to a building lease agreement* (房屋租賃協議) entered into between Anhui Hua'an Insurance and Wuhu Yinrui Household Appliance Sales Co., Ltd.* (蕪湖市銀瑞家電銷售有限公司) ("Wuhu Yinrui") dated 4 February 2010, the property was rented by the latter party for a term of 1 year commencing on 15 February 2010 and expiring on 14 February 2011 at an annual rent of RMB44,000 exclusive of water, electricity, gases, cable TV, telecommunications and management charges for office purpose.

(4) Regarding notes(1) and (2), the PRC legal advisers, Beijing Zhonglun Law Firm, advised that:

   a. The lessor had obtained lawful authorization from the property owner to sub-let the property.

   b. The building lease agreement as mentioned in note (1) was valid and legally binding and the lessee had the right to use the property in accordance to the building lease agreement.

(5) Regarding note (3), the PRC Legal Opinion states, inter alia, that

   a. The lessor has obtained lawful authorization from the property owner to sub-let the property.

   b. The building lease agreement as mentioned in note (3) is valid and legally binding and the lessee has the right to use the property in accordance to the building lease agreement.

   c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(6) Tianchang Huiyin and Wuhu Yinrui are indirect wholly-owned subsidiaries of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
28.	Warehouse No. 2 located at Beima Village, Hailing Industrial Park, Taizhou City, Jiangsu Province, The PRC* (中國江蘇省泰州市海陵工業園區北馬村2號倉庫)	The property comprises a Warehouse in a village. The property has a gross floor area of approximately 1,045 square meters. The property was leased to the group by Taizhou Hailing Industrial Park District Beima Village Resident Committee* (泰州市海陵工業園區北馬村村民委員會) ("Taizhou Hailing Industrial Park"), an independent third party, for a term of 3 years commencing on 28 February 2009 and expiring on 27 February 2012 at an annual rent of RMB96,200 exclusive of water and electricity charges for storage purpose.	The property was occupied by the group for storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a warehouse lease agreement* (倉庫租賃合同), entered into between Taizhou Hailing Industrial Park and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. — Taizhou Branch* (江蘇滙銀電器連鎖有限公司泰州分公司) ("Jiangsu Huiyin — Taizhou Branch"), dated at 13 February 2009, the property was rented by the latter party for a term of 3 years commencing on 28 February 2009 and expiring on 27 February 2012 at an annual rent of RMB96,200 exclusive of water and electricity charges for storage purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The property has not been granted with any title documents and there may be legal impediments in obtaining the title document.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use the property normally because the property has not obtained a title certificate. The lessor has confirmed that he is in the process of applying for a building ownership certificate of the property. Mr. Cao Kuanping has warranted that if the lessee is unable to use the property for whatever reason during the term of the tenancy, he will be responsible for all losses suffered by the lessee as a result thereof.

(3) Jiangsu Huiyin - Taizhou Branch is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
29.	Two Warehouses located at the East of Anle Road, Tianchang City, Anhui Province, The PRC* (中國安徽省天長市安樂路東側的兩間倉庫)	The property comprises two warehouses. The property has a total gross floor area of approximately 1,000 square metres. The property was sub-leased to the Group by Zhu Jingang* (朱金剛), an independent third party, for a term of 1 year commencing on 1 April 2009 and expiring on 31 March 2010 at a lump sum rent of RMB75,000 exclusive of water, electricity and management charges for storage purpose.	The property was occupied by the Group for storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (租賃協議) entered into between Anhui Tianyang Industries Co., Ltd. (安徽天洋工貿有限公司) ("Anhui Tianyang") and Zhu Jingang* (朱金剛) dated 24 March 2009, the property was rented by the latter party for a term of 1 year commencing on 2 April 2009 and expiring on 1 April 2010 at an annual rent of RMB60,000 for storage purpose.

(2) Pursuant to a real estate lease agreement* (房地產租賃協議) entered into between Zhu Jingang* (朱金剛) and Tianchang Huiyin Household Appliance Co., Ltd.* (天長市滙銀家電有限公司) ("Tianchang Huiyin") dated 28 March 2009, the property was rented by the latter party for a term of 1 year commencing on 1 April 2009 and expiring on 31 March 2010 at a lump sum rent of RMB75,000 exclusive of water, electricity and management charges for storage purpose.

(3) The PRC legal opinion states, inter alia, that:

a. The property has not been granted with any title documents and the lessor has not obtained lawful authorization and consent from the property owner to sub-let the property.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. Further, the lessor has not obtained lawful authorization and consent from the owner of the property to sub-let the property to the lessee and the owner of the property may terminate the lease agreement. Accordingly, there is a risk that the lessee may not be able to use and occupy the property normally.

c. The lessee has covenanted that if the lessor is unable to produce the title document of the property and proof of lawful authorization to sub-let the property on or before 31 March 2010, the lessee will move out from the property.

(4) Tianchang Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
30.	Level 2 of Warehouse No. 4, No. 10 Gangyi Road, Wuhu City, Anhui Province, The PRC* (中國安徽省蕪湖市港一路10號4號倉庫二樓)	The property comprises the entire 2nd floor of a warehouse. The property has a gross floor area of approximately 380 square metres. The property was leased to the Group by Anhui Waiyun Wuhu Zhujiaqiao Transportation Co.* (安徽外運蕪湖朱家橋儲運公司) ("Anhui Waiyun"), an independent third party, for a term of 1 year commencing on 18 April 2009 and expiring on 17 April 2010 at a monthly rent of RMB3,686 for storage purpose.	The property was occupied by the Group for storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a warehouse lease agreement* (倉儲協議) entered into between Anhui Waiyun and Wuhu Yinrui Household Appliance Sales Co., Ltd.* (蕪湖市銀瑞家電銷售有限公司) ("Wuhu Yinrui") dated 17 April 2009, the property was rented by the latter party for a term of 1 year commencing on 18 April 2009 and expiring on 17 April 2010 at a monthly rent of RMB3,686 for storage purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The warehouse lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the warehouse lease agreement.

c. The warehouse lease agreement has not been registered at the relevant authority. However, non-registration of the warehouse lease agreement will not invalidate the warehouse lease agreement or make the warehouse lease agreement unenforceable.

(3) Wuhu Yinrui is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
31.	No. 35 Dachang Nanhua Xinyi Village, Luhe District, Nanjing City, Jiangsu Province, The PRC* (中國江蘇省南京市六合區大廠南化新一村35號)	The property comprises a warehouse. The property has a gross floor area of approximately 340.57 square metres. The property was leased to the Group by Chen Hongxia* (陳紅霞), an independent third party, for a term of 3 years commencing on 1 March 2008 and expiring on 28 February 2011 at an annual rent of RMB12,000 exclusive of water and electricity charges for storage purpose.	The property was occupied by the Group for storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a Nanjing City building lease agreement* (南京市房屋租賃合同), entered into between Chen Hongxia* (陳紅霞) and Nanjing Huize Electronics Sales Co., Ltd.* (南京滙澤電器銷售有限公司) ("Nanjing Huize") dated 25 February 2008, the property was rented by the latter party for a term of 3 years commencing on 1 March 2008 and expiring on 28 February 2011 at an annual rent of RMB12,000 exclusive of water and electricity charges for storage purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Nanjing Huize is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
32.	No. 8 Jiujiangdong Road, Huaiyin District Industrial Park, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市淮陰區工業園九江東路8號)	The property comprises a warehouse. The property has a gross floor area of approximately 750 square metres. The property was leased to the Group by Wu Xingyang* (吳興陽), an independent third party, for a term of 3 years commencing on 18 March 2009 and expiring on 17 March 2012 at an annual rent of RMB50,000 exclusive of water, electricity, hygiene, fire services and telecommunication charges for storage purpose.	The property was occupied by the Group for storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a warehouse lease agreement* (倉庫租賃合同) entered into between Wu Xingyang* (吳興陽) and Huaian Huiyin Household Appliance Co., Ltd.* (淮安滙銀家電有限公司) ("Huaian Huiyin") dated 11 March 2009, the property was rented by the latter party for a term of 3 years commencing on 18 March 2009 and expiring on 17 March 2012 at an annual rent of RMB50,000 exclusive of water, electricity, hygiene, fire services and telecommunication charges for storage purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The property has not been granted with any title documents and there may be legal impediments in obtaining the title document. The lessor is not the owner of the land use rights of the property but the lessor has obtained the authorization from the owner of the land use rights to let the property.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use the property normally because the property has not obtained a title certificate. The owner of the land use rights of the property has confirmed that he is in the process of applying for a building ownership certificate of the property. Mr. Cao Kuanping has warranted that if the lessee is unable to use the property for whatever reason during the term of the tenancy, he will be responsible for all losses suffered by the lessee as a result thereof.

(3) Huaian Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
33.	Units 109 and 209, Levels 1-2, Block 1, Guiyuan • Yonghua Fu, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區雍華府 • 貴園1幢1-2層109 & 209號房)	The property comprises two retail units on a commercial podium of an11-storey building. The property has a total gross floor area of approximately 302.05 square metres. The property was leased to the Group by Li Ling* (李玲), an independent third party, for a term of 6 years commencing on 1 January 2008 and expiring on 31 December 2013 at a current annual rent of RMB90,000 exclusive of water, electricity and management charges for retail and office purposes.	The property was occupied by the Group for retail and office uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同), entered into between Li Ling* (李玲), and Yangzhou Huiyin Yuankun Professional Electronics Sales Co. Ltd. (揚州滙銀元坤專業電器銷售有限公司) ("Yangzhou Huiyin Yuankun") dated 1 January 2008, the property was rented by the latter party for a term of 6 years commencing on 1 January 2008 and expiring on 31 December 2013 at the following rent exclusive of water, electricity and management charges for retail and office purposes. The rental has been divided into 2 parts:

i. from 1 January 2008 to 31 December 2010 at an annual rent of RMB90,000

ii. from 1 January 2011 to 31 December 2013 at an annual rent of RMB103,500

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Yangzhou Huiyin Yuankun is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
34.	Level 4 (Spindle 1-6), Level 5 (Spindle 1-6) (excluding the 70 m^2 portion let to Huide Electronics), Level 6 (Spindle 1-6) and Level 7 (Spindle 1-6) of Huiyin International Commerce and Trade Building located at No. 277 Wenchang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區文昌中路277號滙銀國際商貿大廈第4層1-6軸、第5層1-6軸(不包括租予滙德電器的70平方米的部分)、 第6層1-6軸以及第7層1-6軸)	The property comprises four office levels of a multi-storey commercial building. The property has a gross floor area of approximately 2,170 square metres. The property was leased to the Group by Cao Kuanping* (曹寬平), a connected party, for a term of 2 years commencing on 1 November 2009 and expiring on 31 October 2011 at a quarterly rent of RMB200,000 inclusive of car parking fees, elevators and electricity facilities maintenance charges for office purpose.	The property will be occupied by the Group for office use.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同) and its amendment agreement* (房屋租賃合同變更協議), entered into between Cao Kuanping* (曹寬平) and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin") dated 1 November 2009 and 22 February 2010 respectively, the property was rented by the latter party for a term of 2 years commencing on 1 November 2009 and expiring on 31 October 2011 at a quarterly rent of RMB200,000 inclusive of car parking fees, elevators and electricity facilities maintenance charges for office purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company while Cao Kuanping is a shareholder of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
35.	Portion of Level 5 (Spindle 1-6) (excluding the 2,170 m^2 portion let to Jiangsu Huiyin), Huiyin International Commerce and Trade Building located at No. 277 Wenchang Zhong Road, Hanjiang District, Yangzhou City, Jiangsu Province, The PRC* (中國江蘇省揚州市邗江區文昌中路277號滙銀國際商貿大廈第5層1-6軸部分(不包括租予江蘇滙銀的2,170平方米的部分))	The property comprises an office unit. The property has a gross floor area of approximately 70 square metres. The property was leased to the Group by Cao Kuanping* (曹寬平), a connected party, for a term of 2 years commencing on 1 November 2009 and expiring on 31 October 2011 at a quarterly rent of RMB6,250 inclusive of car parking fees, elevators and electricity facilities maintenance charges for office purpose.	The property was occupied by the Group for office use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (租賃協議) and its amendment agreement* (房屋租賃合同變更協議), entered into between Cao Kuanping* (曹寬平) and Yangzhou Huide Electronics Distribution Co., Ltd.* (揚州滙德電器營銷有限公司) ("Huide Electronics"), on 1 November 2009 and 22 February 2010 respectively, the property was rented by the latter party for a term of 2 years commencing on 1 November 2009 and expiring on 31 October 2011 at a quarterly rent of RMB6,250 inclusive of car parking fees, elevators and electricity facilities maintenance charges for office purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the lease agreement.

c. The lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(3) Huide Electronics is a 99% indirectly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
36.	Unit No. 0113 located at No. 460 Xinhua Road, Grand Century Plaza, Dachang Geguan Road Jiucunzhuanpan, Liuhe District, Nanjing City, Jiangsu Province, The PRC* (中國江蘇省南京市六合區大廠葛關路九村轉盤開寧世紀廣場新華路460號0113)	The property comprises a retail shop. The property has a gross floor area of approximately 127.1 square metres. The property was leased to the Group by Shen Li* and Song Ge* (沈莉、宋戈), independent third parties, for a term commencing on 26 June 2006 and expiring on 26 July 2011 at an annual rent of RMB100,000 exclusive of water, electricity, cable TV, telecommunication and management charges for retail purpose.	The property was occupied by the Group for retail use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同), entered into between Shen Li* and Song Ge* (沈莉、宋戈), independent third parties, and Yangzhou Huiyin Household Appliance Co. Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 2 July 2006, the property was rented by the latter party for a term commencing on 26 June 2006 and expiring on 26 July 2011 at an annual rent of RMB100,000 exclusive of water, electricity, cable TV, telecommunication and management charges for retail purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
37.	(No. 24 Xiajiawan, Jinkou District) Xinsheng Group 6 Rushan County, Zhenjiang City, Jiangsu Province, The PRC* (中國江蘇省鎮江市汝山鄉新生6組(京口區夏家灣24號))	The property comprises a warehouse. As advised by the Company, the property has a gross floor area of approximately 200 square metres. The property was leased to the Group by Ju Xilin* (居熙霖), an independent third party, for a term of 1 year commencing on 1 December 2008 and expiring on 30 November 2014 at an annual rent of RMB9,600 exclusive of water, electricity and gas charges for warehouse purpose.	The property was occupied by the Group for warehouse use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to an agreement, entered into between Ju Xilin* (居熙霖), an independent third party, and Zhenjiang Huize Electronics Sales Co., Ltd.* (鎮江滙澤電器銷售有限公司) ("Zhenjiang Huize") dated 25 November 2008, the property was rented by the latter party for a term of 1 year commencing on 1 December 2008 and expiring on 30 November 2014 at an annual rent of RMB9,600 exclusive of water, electricity and gas charges for warehouse purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the agreement.

c. The agreement has not been registered at the relevant authority. However, non-registration of the agreement will not invalidate the agreement or make the agreement unenforceable.

(3) Zhenjiang Huize is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
38.	Unit No. 44-405 No. 27 Huaihai Road North, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市淮海北路27號44-405)	The property comprises residential unit. The property has a gross floor area of approximately 65.18 square metres. The property was leased to the Group by Xu Haiyan* (徐海燕), an independent third party, for a term of 1 year commencing on 12 February 2009 and expiring on 11 February 2010 at a monthly rent of RMB600 exclusive of water and electricity charges for residential purpose.	The property was occupied by the Group for dormitory use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議), entered into between Xu Haiyan* (徐海燕), an independent third party, and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 10 February 2009, the property was rented by the latter party for a term of 1 year commencing on 12 February 2009 and expiring on 11 February 2010 at a monthly rent of RMB600 exclusive of water and electricity charges for residential purpose.

(2) As advised by the PRC legal advisers, Beijing Zhonglun Law Firm, the building lease agreement as mentioned in note (1) was valid and legally binding and the lessee had the right to use the property in accordance with the building lease agreement.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
39.	Attic of Unit 601 Block A5, Wenzhou Garden, Qinghe District, Huai'an City, Jiangsu Province, The PRC* (中國江蘇省淮安市清河區溫州花苑A5棟601室閣樓)	The property comprises a residential unit of a 6-storey residential building. The property has a gross floor area of approximately 132.67 square metres. The property was leased to the Group by Min Wenkai* (閔文凱), an independent third party, for a term of 1 year commencing on 21 January 2009 and expiring on 20 January 2010 at a monthly rent of RMB800 exclusive of water, electricity and gases charges for residential purpose.	The property was occupied by the Group for dormitory use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同) entered into between Min Wenkai* (閔文凱), an independent third party, and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 21 January 2009, the property was rented by the latter party for a term of 1 year commencing on 21 January 2009 and expiring on 20 January 2010 at a monthly rent of RMB800 exclusive of water, electricity and gases charges for residential purpose.

(2) As advised by the PRC legal advisers, Beijing Zhonglun Law Firm, the building lease agreement as mentioned in note (1) was valid and legally binding and the lessee had the right to use the property in accordance with the building lease agreement.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 (RMB)
40.	Unit 102 Block 6, Zone 6 of Chaoyang Xincun, Tinghu District, Yancheng City, Jiangsu Province, The PRC* (中國江蘇省鹽城市亭湖區朝陽新村六區6棟102室)	The property comprises a residential unit. The property has a gross floor area of approximately 60 square metres. The property was leased to the Group by Sheng Tongjuan* (盛同娟), an independent third party, for a term of 13 months commencing on 11 January 2009 and expiring on 11 February 2010 at a monthly rent of RMB700 exclusive of water and electricity charges for residential purpose.	The property was occupied by the Group for dormitory use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議) entered into between Sheng Tongjuan* (盛同娟), an independent third party, and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated 11 February 2009, the property was rented by the latter party for a term of 13 months commencing on 11 January 2009 and expiring on 11 February 2010 at a monthly rent of RMB700 exclusive of water and electricity charges for residential purpose.

(2) As advised by the PRC legal advisers, Beijing Zhonglun Law Firm, that:

a. The property had not been granted with any title documents and there might be legal impediments in obtaining the title document.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which had not obtained a building ownership certificate in accordance with the laws could not be let. There was a risk that the lessee might not be able to use the property normally because the property had not obtained a title certificate. Mr. Cao Kuanping had warranted that if the lessee was unable to use the property for whatever reason during the term of the tenancy, he would be responsible for all losses suffered by the lessee as a result thereof.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
41.	Level 3 located at No. 306 Laodong Road West, Changzhou City, Jiangsu Province, The PRC* (中國江蘇省常州市勞動西路306號三樓)	The property comprises an office of a 7-storey building. The property has a gross floor area of approximately 400 square metres. The property was leased to the Group by Changzhou Jinrun Industry Co., Ltd.* (常州金潤實業有限公司) ("Changzhou Jinrun"), an independent third party, for a term of 3 years commencing on 1 April 2008 and expiring on 31 March 2011 at an annual rent of RMB65,000 exclusive of water, electricity and management charges for non-residential purpose.	The property was occupied by the Group for office use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a non-residential building lease agreement* (非住宅房屋租賃合同), entered into between Changzhou Jinrun and Changzhou Keyi Air-Conditioner Sales Co., Ltd.* (常州可意空調銷售有限公司) ("Changzhou Keyi") dated 31 March 2008, the property was rented by the latter party for a term of 3 years commencing on 1 April 2008 and expiring on 31 March 2011 at an annual rent of RMB65,000 exclusive of water, electricity and management charges for non-residential purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Changzhou Keyi is a 90% indirectly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
42.	A Workshop of Tangwancunzu, Tangmending Village Committee, Beigang Street, Zhonglou District, Changzhou City, Jiangsu Province, The PRC* (中國江蘇省常州市鐘樓區北港街道塘門頂村委塘灣村組的一座車間)	The property comprises a workshop. The property has a gross floor area of approximately 3,000 square metres. The property was leased to the Group by Changzhou City Xingang Water Conservancy Construction Co., Ltd.* (常州市新港水利建築工程有限公司) ("Changzhou Xingang Water"), an independent third party, for a term of 2 years commencing on 1 September 2008 and expiring on 31 August 2010 at an annual rent of RMB350,000 exclusive of water and electricity charges for retail and home appliances storage purpose.	The property was occupied by the Group for storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a lease agreement* (租賃協議), entered into between Changzhou Xingang Water and Changzhou Keyi Air-Conditioner Sales Co., Ltd.* (常州可意空調銷售有限公司) ("Changzhou Keyi") dated 20 August 2008, the property was rented by the latter party for a term of 2 years commencing on 1 September 2008 and expiring on 31 August 2010 at an annual rent of RMB350,000 exclusive of water and electricity charges for retail and home appliances storage purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the lease agreement.

c. The lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(3) Changzhou Keyi is a 90% indirectly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
43.	A Warehouse Complex located at Sanlicun Industrial Park, Baoying City, Jiangsu Province, The PRC* (中國江蘇省寶應市三裏村工業區的倉庫群)	The property comprises a warehouse complex with a total gross floor area of approximately 1,380 sq. m. The property was leased to the Group by Yu Weiqing* (郁維清), an independent third party, for a term of 8 years commencing on 22 April 2004 and expiring on 22 April 2012 at an annual rent of RMB75,000 exclusive of water, electricity and sanitary charges for storage purpose.	The property was occupied by the Group for storage use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議) entered into between Yu Weiqing* (郁維清), an independent third party and Yangzhou Huiyin Household Appliance Co., Ltd.* (揚州滙銀家電有限公司) ("Yangzhou Huiyin") dated at 22 April 2004, the property was rented by the latter party for a term of 8 years commencing on 22 April 2004 and expiring on 22 April 2012 at an annual rent of RMB75,000 exclusive of water, electricity and sanitary charges for storage purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The property has not been granted with any title documents and there may be legal impediments in obtaining the title document.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use the property normally because the property has not obtained a title certificate. The lessor has confirmed that he is in the process of applying for a building ownership certificate of the property. Mr. Cao Kuanping has warranted that if the lessee is unable to use the property for whatever reason during the term of the tenancy, he will be responsible for all losses suffered by the lessee as a result thereof.

(3) Yangzhou Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
44.	2nd Floor of Block 1, Meidu Yangguang Shopping Mall, Jinhe Road West, Ningguo City, Anhui Province, The PRC* 中國安徽省寧國市津河西路美都陽光商城1幢二樓	The property is a sales mart of a 2-storey commercial building. The property has a gross floor area of about 2,700 square metres. The property was leased to the Group by Yang Xiaotian, Zheng Haiping, Zou Guangpeng, Zou Peichu, Liu Yaping, Li Lidong* (揚小田、鄭海平、鄒光朋、鄒培楚、劉亞萍、李立東), independent third parties, for a term of 9 years commencing on 12 October 2009 and expiring on 11 October 2018 at a current annual rent of RMB800,000 exclusive of water, electricity and other relevant charges for home appliances sales mart purpose.	The property was occupied by the group as a sales mart as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃合同) entered into between Yang Xiaotian, Zheng Haiping, Zou Guangpeng, Zou Peichu, Liu Yaping, Li Lidong* (揚小田、鄭海平、鄒光朋、鄒培楚、劉亞萍、李立東) and Ningguo Huiyin Household Sales Appliance Co., Ltd* (寧國滙銀家電銷售有限公司) ("Ningguo Huiyin") dated 12 October 2009, the property was rented by the latter party for a term of 9 years commencing on 12 October 2009 and expiring on 11 October 2018 at the following rental exclusive of water, electricity and other relevant charges for home appliances sales mart purpose. The rental has been divided into 2 parts:

i. from 12 October 2009 to 11 October 2013 at an annual rent of RMB800,000

ii. from 12 October 2013 to 11 October 2018 at an annual rent of RMB1,000,000

(2) The PRC legal opinion states, inter alia, that:

a. The property has not been granted with any title documents and there may be legal impediments in obtaining the title document.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use the property normally because the property has not obtained a title certificate. The lessor has obtained the Planning Permit for Construction Works of the property and confirmed that he is in the process of applying for a building ownership certificate of the property. Mr. Cao Kuanping has warranted that if the lessee is unable to use the property for whatever reason during the term of the tenancy, he will be responsible for all losses suffered by the lessee as a result thereof.

(3) Ningguo Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
45.	Levels 1 and 2, No. 231 Yunhe Road West, Yangzhou City, Jiangsu Province, The PRC* 中國江蘇省揚州市運河西路231號1層和2層	The property comprises a 2-storey of retail spaces of a commercial building. The property has a gross floor area of about 2,632 square metres. The property was leased to the Group by Yangzhou Hanjiang No. 1 Department Store Co., Ltd * (揚州市邗江第一百貨商店有限公司) ("Yangzhou Hanjiang"), an independent third party. Level 1 of the property was leased for a term of 8 years commencing on 1 October 2009 and expiring on 30 September 2017 at a current annual rent of RMB1,060,000 exclusive of water, electricity and telecommunication charges. Level 2 of the property was leased for a term commencing on the handover date of Level 2 of the property to the lessee and expiring on 30 September 2017 at a current annual rent of RMB200,000 exclusive of water, electricity and telecommunication charges.	The property was occupied by the group for retail use as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋出租合同) entered into between Yangzhou Hanjiang and Jiangsu Huiyin Electronics Chain-stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司)("Jiangsu Huiyin") dated 31 December 2009, Level 1 of the property was rented by the latter party for a term of 8 years commencing on 1 October 2009 and expiring on 30 September 2017 at the following rental exclusive of water, electricity and telecommunication charges for retail purpose. The rental has been divided into 2 parts:

i. from 1st Year to 4th Year at an annual rent of RMB1,060,000

ii. from 5th Year to 8th Year at an annual rent of RMB1,180,000

while Level 2 of the property was rented by Jiangsu Huiyin for a term commencing on the handover date of the property to the lessee and expiring on 30 September 2017 at the following rental exclusive of water, electricity and telecommunication charges for retail purpose. The rental has been divided into 2 parts:

i. from 1st Year to 4th Year at an annual rent of RMB200,000

ii. from 5th Year to 30 September 2017 at an annual rent of RMB220,000

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
46.	Levels 1 to 3, Main Building of Dahua Supermarket, Dongfengbei Road, Ningguo City, Anhui Province, The PRC* 中國安徽省 寧國市 東風北路 大華超市主體大樓 1至3層	The property is a 3-storey office of a commercial building. The property has a gross floor area of about 4,000 square metres. The property was leased to the Group by Ningguo City Dahua Market Development Co., Ltd * (寧國市大華市場發展有限責任公司) ("Ningguo Dahua"), an independent third party, for a term of 5 years commencing on 12 September 2009 and expiring on 11 September 2014 at an annual rent of RMB1,000,000 exclusive of water, electricity and telecommunication charges for commercial purpose.	As per our site inspection, the property was occupied by the group for retail and office uses as at the date of valuation.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議) entered into between Ningguo Dahua and Ningguo Huiyin Household Appliance Sales Co., Ltd* (寧國滙銀家電銷售有限公司)("Ningguo Huiyin") dated 11 October 2009, the property was rented by the latter party for a term of 5 years commencing on 12 September 2009 and expiring on 11 September 2014 at an annual rent of RMB1,000,000 exclusive of water, electricity and telecommunication charges for commercial purpose.

(2) The PRC legal opinion states, inter alia, that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the building lease agreement will not invalidate the building lease agreement or make the building lease agreement unenforceable.

(3) Ningguo Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
47.	Units 101, 102, 201, 202, 301 and 302 in four entrances on Levels 1 to 3, located at Block B of Wanbohua Court, Wannian Main Road, Zhenzhou Town, Yizheng City, Jiangsu Province, The PRC* 中國江蘇省儀征市真州鎮萬年大道路萬博花苑B幢101、102、201、202、301、302號四間門面 一至三層	The property comprises six retail units on level 1 to level 3 of a multi-storey commercial building. The property has a gross floor area of approximately 886.72 square metres. The property was leased to the Group by Zhou Chong* and Sun Xin* (周翀、孫昕), independent third parties, for a term of 10 years commencing on 1 February 2010 and expiring on 31 January 2020 at a current annual rent of RMB280,000 exclusive of water, electricity, gas, telecommunication, TV cable and management charges for retail purpose.	The property will be occupied by the Group for retail use.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議), entered into between Zhou Chong* and Sun Xin* (周翀、孫昕), and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin"), the property was rented by the latter party for a term of 10 years commencing on 1 February 2010 and expiring on 31 January 2020 at an annual rent of RMB280,000 exclusive of water, electricity, gas, telecommunication, TV cable and management charges for retail purpose. The annual rental amount will be increased by 6% per annum commencing on 1 February 2015.

(2) The PRC legal opinion states, inter alia that:

a. The lessor has obtained the ownership rights of the property and has a right to let the property.

b. The building lease agreement as mentioned in note (1) is valid and legally binding and the lessee has the right to use the property in accordance with the building lease agreement.

c. The building lease agreement has not been registered at the relevant authority. However, non-registration of the lease agreement will not invalidate the lease agreement or make the lease agreement unenforceable.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31 December 2009 *(RMB)*
48.	Nos. 24-26 on Levels 1 to 4, located at No. 53 Wenyouzhong Road, Gaoyou City, Jiangsu Province, The PRC* 中國江蘇省 高郵市 文游中路53號 24-26門面 一至四層	The property comprises a retail shop on level 1 to level 4 of a multi-storey commercial building. The property has a gross floor area of approximately 1,284 square metres. The property was leased to the Group by Guo Wei* (郭偉), an independent third party, for a term of 10 years commencing on 1 January 2010 and expiring on 31 December 2020 at a current annual rent of RMB350,000 exclusive of water, electricity, gas, telecommunication, TV cable and management charges for retail purpose.	As per our inspection in January 2010, level 1 and level 2 of the property were occupied for retail purpose while level 3 and level 4 of the property were occupied for storage purpose.	No Commercial Value

Notes:

(1) Pursuant to a building lease agreement* (房屋租賃協議), entered into between Guo Wei* (郭偉), and Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.* (江蘇滙銀電器連鎖有限公司) ("Jiangsu Huiyin"), the property was rented by the latter party for a term of 10 years commencing on 1 January 2010 and expiring on 31 December 2020 at the following rent exclusive of water, electricity, gas, telecommunication, TV cable and management charges for retail purpose. The rental has been divided into 2 parts:

i. From 1 January 2010 to 31 December 2015 of the lease term at an annual rent of RMB350,000

ii. From 1 January 2016 to 31 December 2020 of the lease term at an annual rent of RMB400,000

(2) The PRC legal opinion states, inter alia that:

a. The property has not been granted with any title documents and there may be legal impediments in obtaining the title documents.

b. According to Rule No. 6 of City Building Leasing Management Regulations (城市房屋租賃管理辦法第六條), a property which has not obtained a building ownership certificate in accordance with the laws cannot be let. There is a risk that the lessee may not be able to use the property normally because the property has not obtained a title certificate. The lessor has confirmed that he is in the process of applying for a building ownership certificate of the property and he has covenanted to provide such certificate to the lessee before 10 December 2010. Mr. Cao Kuanping has warranted that if the lessee is unable to use the property for whatever reason during the term of the tenancy, he will be responsible for all losses suffered by the lessee as a result thereof.

(3) Jiangsu Huiyin is an indirect wholly-owned subsidiary of the Company.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum Of Association

The Memorandum of Association of the Company was adopted on 5 March 2010 (which will take effect from the Listing Date) and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed "Documents available for inspection" in Appendix VI to this prospectus.

2 Articles Of Association

The Articles of Association of the Company were adopted on 5 March 2010 (which will take effect from the Listing Date) and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is US$2,000,000 divided into 2,000,000,000 shares of US$0.001 each.

2.2 *Directors*

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(C) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 *Alteration of Capital*

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(c) sub-divide its shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 *Special resolution — majority required*

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 *Voting rights*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised.

A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.8 *Annual general meetings*

An annual general meeting of the Company must be held in each year other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the Listing Rules, if any) at such time and place as may be determined by the Board.

2.9 *Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 *Notice of meetings and business to be conducted thereat*

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 clear days and any other extraordinary general meeting shall be called by not less than 14 clear days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

(f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 *Transfer of Shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favour of the Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 *Power of the Company to purchase its own Shares*

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.13 *Power of any subsidiary of the Company to own Shares*

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 *Dividends and other methods of distributions*

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividends which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding, or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 *Calls on Shares and forfeiture of Shares*

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 *Inspection of register of members*

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 *Rights of minorities in relation to fraud or oppression*

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 *Procedure on liquidation*

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 *Untraceable members*

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 February, 2008 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5 Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16 Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18 Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company may apply for an undertaking from the Governor in Cabinet:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

 (i) on or in respect of the shares, debentures or other obligations of the Company; or

 (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20 General

Maples and Calder the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

1. FURTHER INFORMATION ABOUT OUR COMPANY

(A) Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 5 February 2008. Our Company has established a place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 22 February 2010, with Ms. Wong Tak Yee and Ms. Ngai Kit Fong both of Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong appointed as the Hong Kong authorised representatives of our Company on 23 February 2010 jointly and severally for the acceptance of the service of process and any notices on behalf of our Company required to be served on the Company in Hong Kong. As our Company was incorporated in the Cayman Islands, its operations are subject to the Companies Law and to its constitution which comprises our Memorandum and Articles of Association. A summary of relevant sections of our Memorandum and Articles of Association and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

(B) Changes in share capital in our Company

(1) On 5 February 2008, our Company was incorporated with an authorised share capital of US$50,000 divided into 50,000,000 Shares of nominal value of US$0.001 each, one Share was issued and allotted for cash at par to the initial subscriber, Offshore Incorporations (Cayman) Limited. On the same date, the said one Share was subsequently transferred to Mr. Cao.

(2) On 17 March 2008, Mr. Cao transferred one Share to China Houde at a consideration of US$0.001.

(3) On 3 April 2008, pursuant to the 2008 Subscription Agreement, our Company allotted and issued 10,493,999 Shares, 5,036,000 Shares, 4,470,000 Shares to China Houde, New Fellow and New Dame, credited as fully paid, for an aggregate consideration of US$46,417,000. The said consideration was settled by setting off the consideration for the acquisition of the entire equity interest in Yangzhou Huiyin by Yinrui HK from China Houde, New Fellow and New Dame according to the provisions of the 2008 Subscription Agreement.

(4) On 6 March 2010, China Houde made a distribution in specie to its shareholders in proportion to their then shareholdings in China Houde pursuant to which an aggregate of 10,494,000 Shares held by China Houde were distributed to China Ruike, Pope and Dalton as to 6,768,630 Shares, 3,216,411 Shares and 508,959 Shares, respectively.

(5) On 6 March 2010, New Fellow and New Dame transferred 5,036,000 Shares and 4,470,000 Shares at consideration of US$41,078,000 and US$46,322,000 respectively, to Queenbury which subsequently made a distribution in specie to its shareholders, namely ARC Huiyin and China Fund, in proportion to their then shareholdings in Queenbury, pursuant to which an aggregate of 9,506,000 Shares were transferred to ARC Huiyin and China Fund as to 5,228,300 Shares and 4,277,700 Shares, respectively.

(6) Conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise an amount of US$730,000 from the amount standing to credit of the share premium account of our Company and that the said sum be applied in paying up in full at par 730,000,000 Shares, such Shares to be allotted and issued, credited as fully paid at par to China Ruike, Pope, Dalton, ARC Huiyin and China Fund, being shareholders of our Company appearing on the register of members of our Company at 11:00 p.m. on 6 March 2010, pro-rata to their then shareholdings (or as nearly as possible without involving fractions) in our Company.

(7) Assuming that the Global Offering becomes unconditional and the Warrants are not exercised, immediately upon completion of the Global Offering 1,000,000,000 Shares will be issued fully paid or credited as fully paid.

(8) Other than pursuant to the Global Offering, the Warrants, the Over-allotment Option or any options which were granted under the Pre-IPO Option Scheme or any options which may be granted under the Share Option Scheme, there is no present intention to issue any part of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(9) Save as aforesaid and as disclosed in the paragraph headed “Written Resolutions passed by our Shareholders”, there has been no alteration in the share capital of our Company since the date of its incorporation.

(C) **Written resolutions passed by our Shareholders**

On 5 March 2010, written resolutions of our Shareholders were passed pursuant to which, amongst other things:

(1) our Company approved and adopted its new Articles of Association with effect from the Listing Date;

(2) conditional on the Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with their respective terms or otherwise within 30 days from the date of this prospectus:

(a) the authorised share capital of our Company shall be increased from US$50,000 to US$2,000,000 by the creation of an additional 1,950,000,000 Shares of US$0.001 each;

(b) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise an amount of US$730,000 from the amount standing to credit of the share premium account of our Company and that the said sum be applied in paying up in full at par 730,000,000 Shares, such Shares to be allotted and issued, credited as fully paid at par to China Ruike, Pope, Dalton, ARC Huiyin and China Fund, being shareholders of our Company appearing on the register of members of our Company at 11:00 p.m. on 6 March 2010, pro-rata to their then shareholdings (or as nearly as possible without involving fractions) in our Company;

(c) the Global Offering (including the Over-allotment Option) was approved and our Directors were authorised to allot and issue up to 250,000,000 Shares pursuant to the terms as set out in this prospectus;

(d) the rules of the Share Option Scheme and the Pre-IPO Option Scheme were approved and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and the Pre-IPO Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme and the Pre-IPO Option Scheme;

(3) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with unissued Shares, otherwise than pursuant to, or in consequence of, the Global Offering, or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to a specific authority granted by our Shareholders in general meeting, such mandate is limited to Shares with a total nominal value not exceeding the sum of (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding Shares which may be issued upon exercise or surrender of the Warrants and exercise of the Over-allotment Option or options which were granted under the Pre-IPO Option Scheme or which may be granted under the Share Option Scheme);

and (ii) the aggregate nominal value of the share capital of our Company which may be repurchased by the Company under the authority referred to in (4) below, such mandate to remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws to be held; or

(c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(4) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose ("**Repurchase Mandate**"), such number of Shares with a total nominal value as will represent up to 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding Shares which may be issued upon exercise or surrender of the Warrants and exercise of the Over-allotment Option or options which were granted under the Pre-IPO Option Scheme or which may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws to be held; or

(c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(5) the general unconditional mandate mentioned in paragraph (3) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (4) above provided that such extended amount shall not exceed 10% of the aggregate of (i) the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding Shares which may be issued upon exercise or surrender of the Warrants and exercise of the Over-allotment Option or options which were granted under the Pre-IPO Option Scheme or which may be granted under the Share Option Scheme).

2. CORPORATE REORGANISATION

For information with regard to our corporate reorganisation, please refer to the section headed "History and business development — Reorganisation" in this prospectus.

3. SUBSIDIARIES

The principal subsidiaries of our Company are listed in the Accountant's Report set out in Appendix I to this prospectus.

(A) Changes in the share capital of subsidiaries of our Company

The following alterations in the share capital of our Company's subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

Yinrui HK

On 14 March 2008, Yinrui HK was incorporated in Hong Kong with limited liability as a wholly-owned subsidiary of our Company. On the same date, one share of HK$1.00 was issued and allotted to our Company at a consideration of HK$1.00.

Yangzhou Huiyin

Yinrui HK acquired the entire equity interest in Yangzhou Huiyin from China Houde, New Fellow and New Dame for an aggregate consideration of US$46,417,000. The acquisition was approved by the Jiangsu COFTEC on 7 May 2008.

Huaian Huiyin

On 2 March 2009, Huaian Huiyin was established in China with a registered capital of RMB1,000,000 as a direct wholly-owned subsidiary of Jiangsu Huiyin.

Wuhu Yinrui

On 11 March 2009, Wuhu Yinrui was established in China with a registered capital of RMB2,000,000 as a direct wholly-owned subsidiary of Jiangsu Huiyin.

Yangzhou Hanshang Huiyin

On 22 June 2009, Yangzhou Hanshang Huiyin was established in China with a registered capital of RMB 10,000,000 as a direct wholly-owned subsidiary of Jiangsu Huiyin.

Ningguo Huiyin

On 23 September 2009, Ningguo Huiyin was established in China with a registered capital of RMB5,000,000 and is owned by Yangzhou Huiyin and Jiangsu Huiyin as to 70% and 30%, respectively.

Jiangsu Huadong Huiyin

On 1 November 2009, Jiangsu Huadong Huiyin was established in China with a registered capital of RMB100 million, of which RMB20 million was paid up and the remaining RMB80 million is required to be paid up in full within two years after the establishment. At the time of its establishment, Jiangsu Huadong Huiyin was owned as to 70% by Yangzhou Huiyin and 30% by Jiangsu Huiyin.

Save as aforesaid, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus.

4. REPURCHASE BY OUR COMPANY OF OUR OWN SECURITIES

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(A) Regulations of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(1) *Shareholders' approval*

All repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

(2) *Source of funds*

Any repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

(3) *Trading restrictions*

A company is authorised to repurchase on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company or warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities (except pursuant to the exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. In addition, all securities repurchased on the Stock Exchange in any given calendar month are limited to a maximum of 25% of the trading volume of such securities as stated in the Stock Exchange daily quotation sheets in the immediately preceding calendar month. A company is also prohibited from making securities repurchases on the Stock Exchange if the result of the repurchases would be that the number of the listed securities in public hands would fall below the relevant prescribed minimum percentage as required by the Stock Exchange, which is currently 25% in the case of our Company.

(4) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relevant certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(5) *Suspension of repurchase*

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of our Directors' decision until the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of the company's interim report, a company may not purchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the Stock Exchange if a company has breached the Listing Rules.

(6) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange in the prescribed form not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following any day on which the issuer makes a repurchase of shares. In addition, a company's annual report and accounts are required to disclose details regarding securities repurchases made during the financial year under review, including the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the aggregate prices paid. The Directors' report is also required to include reference to the purchases made during the year and the Directors' reasons for making such purchases. A company shall make arrangements with its broker who effects the purchase to provide to the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(7) *Connected parties*

A company is prohibited from knowingly purchasing shares on the Stock Exchange from a connected person (as defined under the Listing Rules), and a connected person shall not knowingly sell his shares to our Company on the Stock Exchange.

As at the Latest Practicable Date and to the best of the knowledge of our Directors having made all reasonable enquiries, none of our Directors or their respective associates has a present intention to sell Shares to our Company.

(B) **Exercise of the Repurchase Mandate**

Exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and options which were granted under the Pre-IPO Option Scheme or which may be granted under the Share Option Scheme or the exercise or surrender of the Warrants, would result in up to 100,000,000 Shares being repurchased by the Company during the period prior to the earliest of

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association and the applicable laws and regulations of the Cayman Islands to be held; or

(iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of our Shareholders in general meeting.

(C) **Reasons for repurchases**

Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and its shareholders. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of our Company and/or its earnings per Share.

(D) **Funding of repurchases**

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association of our Company and the applicable laws and regulations of the Cayman Islands. Our Company may not repurchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(E) **General**

There might be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or on its gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate only in accordance with the Listing Rules, the Memorandum and Articles of Association of our Company and the applicable laws and regulations of the Cayman Islands.

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he has a present intention to sell any Shares to our Company or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeover Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeover Code), depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

5. FURTHER INFORMATION ABOUT OUR BUSINESS

(A) **Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

(1) an equity transfer agreement dated 3 April 2008 entered into among China Houde, New Fellow, New Dame and Yinrui HK pursuant to which Yinrui HK acquired the entire equity interest in Yangzhou Huiyin from China Houde, New Fellow and New Dame for an aggregate consideration of US$46,417,000;

(2) a subscription agreement dated 3 April 2008 entered into among China Houde, New Fellow, New Dame, Yinrui HK and our Company pursuant to which our Company allotted and issued 10,493,999 Shares, 5,036,000 Shares, 4,470,000 Shares to China Houde, New Fellow and New Dame, credited as fully paid, for an aggregate consideration of US$46,417,000;

(3) a shareholders' agreement dated 3 April 2008 entered into by Mr. Cao, China Houde, New Fellow, New Dame and our Company ("**Shareholders' Agreement**");

(4) a deed of release and termination dated 30 June 2008 entered into among, Pope, L.K. Ang, Dalton, LIM Asia, MCP International, New Asia, Mr. Cao, Mr. Mao Shan Xin, Yangzhou Huiyin, Mr. Dennis Luan Thuc Nguyen and China Huiyin pursuant to which the rights and obligations of the contracting party arising from or in connection with certain investment documents were discharged;

(5) an amendment agreement to the Shareholders' Agreement entered into among Mr. Cao, China Houde, New Fellow, New Dame and our Company on 8 July 2008 pursuant to which the call option agreement, the put option agreement and the share charge all dated 30 June 2008 among China Houde, China Ruike and ARC Huiyin were thereby acknowledged;

(6) a deed of undertaking dated 11 March 2010 executed by Pope, Pope Asset Management and Mr. William P. Wells in favour of the Global Coordinator, the Sponsor, our Company and the Underwriters pursuant to which, among other things, Pope, Pope Asset Management and Mr. William P. Wells jointly and severally gave a non-disposal undertaking to the Global Coordinator, the Sponsor, our Company and the Underwriters for twelve months in respect of the Shares directly or indirectly owned by them;

(7) a deed of undertaking dated 11 March 2010 executed by ARC and ARC Huiyin in favour of the Global Coordinator, the Sponsor, our Company and the Underwriters pursuant to which, among other things, ARC and ARC Huiyin jointly and severally gave a non-disposal undertaking to the Global Coordinator, the Sponsor, our Company and the Underwriters for twelve months in respect of the Shares directly or indirectly owned by them;

(8) a deed of undertaking dated 11 March 2010 executed by China Fund in favour of the Global Coordinator, the Sponsor, our Company and the Underwriters pursuant to which, among other things, China Fund gave a non-disposal undertaking to the Global Coordinator, the Sponsor, our Company and the Underwriters for twelve months in respect of the Shares directly or indirectly owned by it;

(9) a deed of undertaking dated 11 March 2010 executed by Dalton in favour of the Global Coordinator, the Sponsor, our Company and the Underwriters pursuant to which, among other things, Dalton gave a non-disposal undertaking to the Global Coordinator, the Sponsor, our Company and the Underwriters for twelve months in respect of the Shares directly or indirectly owned by it;

(10) a deed of undertaking dated 11 March 2010 executed by China Ruike and Mr. Cao in favour of the Global Coordinator, the Sponsor, our Company and the Underwriters pursuant to which, among other things, China Ruike and Mr. Cao jointly and severally gave a non-disposal undertaking to the Global Coordinator, the Sponsor, our Company and the Underwriters for twelve months in respect of the Shares directly or indirectly owned by them;

(11) a deed of indemnity dated 11 March 2010 executed by Mr. Cao and China Ruike in favour of the Company pursuant to which Mr. Cao and China Ruike provided taxation and other indemnities for the benefit of our Group as more particularly set out in the paragraph headed "(9) Other Information — (A) Indemnities" in this Appendix;

(12) a non-competition deed dated 11 March 2010 executed by Mr. Cao, China Ruike, Pope, Pope Asset Management, Mr. William P. Wells, Dalton, ARC Huiyin, ARC and China Fund in favour of the Company (for itself and as trustee for the benefit of our subsidiaries from time to time) regarding the non-competition undertakings as more particularly set out in the section headed "Substantial Shareholders — Deed of Non-competition" of this prospectus; and

(13) the Hong Kong Underwriting Agreement.

(B) **Intellectual property**

As at the Latest Practicable Date, the Group possessed the following trademarks which are registered in China and Hong Kong:

China

Trademark	Registered owner	Class	Registration number	Validity period *(YYYY/MM/DD)*
汇 银	Yangzhou Huiyin	9	1916596	2003/02/07 - 2013/02/06
汇 银	Yangzhou Huiyin	11	1922234	2003/02/07 - 2013/02/06
汇 银	Yangzhou Huiyin	37	1958234	2003/01/21 - 2013/01/20
汇 银	Yangzhou Huiyin	36	1958970	2003/01/21 - 2013/01/20

Trademark	Registered owner	Class	Registration number	Validity period *(YYYY/MM/DD)*
	Yangzhou Huiyin	35	1963328	2003/02/21 - 2013/02/20
	Yangzhou Huiyin	3	1973089	2002/11/28 - 2012/11/27
	Yangzhou Huiyin	7	1977318	2003/03/07 - 2013/03/06
	Yangzhou Huiyin	41	1985784	2003/03/14 - 2013/03/13
	Yangzhou Huiyin	42	2005770	2002/12/14 - 2012/12/13
	Yangzhou Huiyin	35	4220386	2008/01/28 - 2018/01/27

Hong Kong

Trademark	Registered owner	Class	Trademark number	Validity period *(YYYY/MM/DD)*
	Yinrui HK	3, 7, 9, 11, 35, 36, 37, 41, 42	301277109	2009/01/23 - 2019/01/22
HUIYIN	Yinrui HK	3, 7, 9, 11, 35, 36, 37, 41, 42	301277118	2009/01/23 - 2019/01/22
汇银	Yinrui HK	3, 7, 9, 11, 35, 36, 37, 41, 42	301277127	2009/01/23 - 2019/01/22

As at the Latest Practicable Date, the Group had registered the following domain names:

Domain name	Registrant	Date of registration	Expiry date *(YYYY/MM/DD)*
www.hyjd.com	Yangzhou Huiyin	30/06/2000	30/06/2013

6. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUBSTANTIAL SHAREHOLDERS, SENIOR MANAGEMENT AND STAFF

(A) Disclosure of our Directors' interests and short positions in the issued share capital of our Company and its associated corporations

Immediately following completion of the Global Offering, the beneficial interests or short positions of our Directors and the chief executives in any Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which once the Shares are listed, will be required (a) to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein once the Shares are listed; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Company to be notified to our Company and the Stock Exchange, are as follows:

Long position and short position in the shares, underlying shares and debentures of our Company or its associated corporations

Name of Director	Name of corporation	Nature of interest	Aggregate number of ordinary shares or underlying shares		Approximate percentage of interest in the corporation
Mr. Cao	The Company	Interest of controlled corporation	253,823,625 Shares	(L)	25.38%
	The Company	Interest of controlled corporation	47,970,000 Shares	(S)(1)	4.80%
	The Company	Beneficial owner	50,000,000 underlying Shares	(L)(2)	5.00%
Mo Chihe	The Company	Beneficial owner	3,000,000 underlying Shares	(L)(2)	0.30%
	The Company	Beneficial owner	3,000,000 underlying Shares	(S)(2)	0.30%
Mao Shanxin	The Company	Beneficial owner	10,000,000 underlying Shares	(L)(2)	1.00%

Name of Director	Name of corporation	Nature of interest	Aggregate number of ordinary shares or underlying shares		Approximate percentage of interest in the corporation
	The Company	Beneficial owner	10,000,000 underlying Shares	(S)[(2)]	1.00%
Wang Zhijin	The Company	Beneficial owner	3,000,000 underlying Shares	(L)[(2)]	0.30%
	The Company	Beneficial owner	3,000,000 underlying Shares	(S)[(2)]	0.30%

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

Notes:

1. Conditional on the Stock Borrowing Agreement expected to be entered into between China Ruike and the Global Coordinator, Mr. Cao will be deemed to have a short position in 47,970,000 Shares under the Stock Borrowing Agreement pursuant to the SFO.

2. The Company granted 25,000,000 Pre-IPO Options, 3,000,000 Pre-IPO Options, 10,000,000 Pre-IPO Options and 3,000,000 Pre-IPO Options to Mr. Cao, Mr. Mo Chihe, Mr. Mao Shanxin and Mr. Wang Zhijin, to subscribe for 25,000,000 Shares 3,000,000 Shares, 10,000,000 Shares and 3,000,000 Shares, respectively, pursuant to the Pre-IPO Option Scheme.

   Each of Mr. 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.

(B) **Persons who have an interest or short position discloseable under Division 2 and 3 of Part XV of the SFO and Substantial Shareholder**

So far as our Directors are aware, the following Shareholders will immediately following the completion of the Global Offering and the Capitalisation Issue, have an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long position and short position in the shares and underlying shares of our Company or other members of our Group Companies

Name of Shareholder	Name of corporation	Nature of Interest	Aggregate number of ordinary shares		Approximate percentage of interest in the corporation
China Ruike	The Company	Beneficial owner	253,823,625	(L)	25.38%
	The Company	Beneficial owner	47,970,000	(S)(Note)	4.80%
Pope	The Company	Beneficial owner	60,351,469	(L)	6.04%
Pope Asset Management, LLC	The Company	Interest of controlled corporation	60,351,469	(L)	6.04%
Mr. William P. Wells	The Company	Interest of controlled corporation	60,351,469	(L)	6.04%
ARC Huiyin	The Company	Beneficial owner	196,061,250	(L)	19.61%
ARC	The Company	Interest of controlled corporation	196,061,250	(L)	19.61%
China Fund	The Company	Beneficial owner	160,413,750	(L)	16.04%
Martin Currie Inc	The Company	Investment manager	160,413,750	(L)	16.04%
Martin Currie Limited	The Company	Interest of controlled corporation	160,413,750	(L)	16.04%
Martin Currie (Holdings) Limited	The Company	Interest of controlled corporation	160,413,750	(L)	16.04%

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

Note:

Conditional on the Stock Borrowing Agreement expected to be entered into between China Ruike and the Global Coordinator, China Ruike will have a short position in 47,970,000 Shares under the Stock Borrowing Agreement pursuant to the SFO.

Save as disclosed herein but taking no account of any Shares which may be taken up under the Global Offering, our Directors are not aware of any person who will immediately following completion of the Global Offering and the Capitalisation Issue be directly or indirectly interested in any interest or any long position in the shares or underlying shares of our Company who would fall to be disclosed to our Company under the provision of Division 2 and 3 of Part VX of the SFO, or, who is, directly or indirectly, interested in 10% or more of the shares then in issue or equity interest in any member of the Group representing 10% or more of the equity interest in such company.

(C) **Particulars of service agreements**

(i) Each of our executive Directors has entered into a service agreement with our Company. Principal particulars of these agreements, except as indicated, are in all material respects identical and are summarised below:

(a) each service agreement is of a term of three years commencing on 5 March 2010. Under the agreement, either party may terminate the agreement at any time by giving to the other not less than six months' prior written notice;

(b) the annual salary of Mr. Cao Kuanping, Mr. Wang Zhijin, Mr. Mo Chihe and Mr. Mao Shanxin shall be RMB1,200,000 (after tax), RMB700,000, RMB300,000 and RMB300,000, respectively;

(c) each of our executive Directors is entitled to a management bonus by reference to the audited consolidated net profits of the group before taxation and minority interests ("**Net Profits**") as the Board may, in its absolute discretion approve provided that the aggregate amount of the management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 7% of the Net Profits for the relevant financial year; and

(d) each of our executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

(ii) Each of Mr. Li Jung-Hsing, Mr. Ke Shifeng, Mr. Li Fei, Mr. Zhou Shuiwen and Mr. Tam Chun Chung has signed a letter of appointment dated 5 March 2010 with our Company under which Mr. Li Jung-Hsing and Mr. Ke Shifeng agreed to act as non-executive Directors and Mr. Li Fei, Mr. Zhou Shuiwen and Mr. Tam Chun Chung agreed to act as independent non-executive Directors for a period of one year and shall continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the appointment letters. The non-executive Directors do not receive any director's fee. The annual director's fee for Mr. Li Fei, Mr. Zhou Shuiwen and Mr. Tam Chun Chung are HK$50,000, HK$50,000 and HK$100,000, respectively.

(iii) Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any other member of the group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(D) **Directors' remuneration**

(i) Approximately RMB2,047,000 was paid to the Directors by the Group as remuneration in respect of the financial year ended 31 December 2009.

(ii) Approximately RMB2,985,000 (excluding any management bonus which may be paid) as remuneration is estimated to be paid to our Directors by the Group in respect of the financial year ending 31 December 2010 pursuant to the present arrangement.

(iii) Save as disclosed in Appendix I, no Director received any remuneration or benefits in kind from the Group for the financial year ended 31 December 2009.

(E) **Disclaimers**

Save as disclosed herein:

(1) none of our Directors has any interest and short position in the shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required (a) to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by the Directors of Listed Company to be notified to our Company and the Stock Exchange once such securities are listed on the Stock Exchange;

(2) none of our Directors nor any of the persons whose names are listed in the subsection headed "Other information — (H) Consent of experts" in this Appendix is interested in the promotion of our Company, or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(3) none of our Directors nor any of the persons whose names are listed in the subsection headed "Other information — (H) Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(4) none of the persons whose names are listed in the sub-section headed "Other information — (H) Consents of experts" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(5) none of our Directors has entered or has proposed to enter into any service agreements with our Company or any members of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);

(6) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Globing Offering or related transaction as mentioned in this prospectus;

(7) so far as is known to our Directors, none of our Directors, their respective associates (as defined in the Listing Rules) or Shareholders who are interested in 5% or more of the issued share capital of our Company have any interests in the five largest customers or the five largest suppliers of the Group.

7. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved by the resolutions of the Shareholders passed on 5 March 2010:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants (as defined in paragraph (iii) below) and for such other purposes as the Board may approve from time to time.

(ii) Conditions

The Share Option Scheme is conditional upon (a) the passing of an ordinary resolution approving the adoption of the Share Option Scheme by the Shareholders and authorising the Directors of our Company to grant rights to subscribe for Shares pursuant to the terms of the Share Option Scheme ("**Options**"), and to allot and issue the Shares pursuant to the exercise of any Options granted under the Share Option Scheme; (b) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; (c) the Listing Committee granting approval of the listing of, and permission to deal in, (1) the Shares in issue and to be issued as mentioned in this prospectus and (2) any Shares to be issued pursuant to the exercise of Options under the

Share Option Scheme; (d) the commencement of dealings in the Shares on the Stock Exchange and (e) the agreement on the Offer Price to be determined between the Global Co-ordinator (on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders). If the above conditions are not satisfied on or before the date which is the 30th day after the date of this prospectus, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

(iii) **Eligible Participants**

The Board may, at its discretion, invite 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 ("**Participants**") to take up Options. In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(iv) **Offer and Grant of Options and payment in relation thereto**

No offer of the grant of an Option shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, on any day on which the financial results of the Company are published and (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (ii) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results, no Option may be granted.

Offer of an Option ("**Offer**") shall be deemed to have been accepted by any Participant who accepts an Offer in accordance with the terms of the Share Option Scheme ("**Grantee**") and the Option to which the Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the Option duly signed by the Grantee together with a remittance in favour of our Company of HK$1.00 by way of consideration for the granting thereof is received by our Company within such period as the Board may determine and specify in the letter of Offer. Such remittance shall in no circumstances be refundable or be considered as part of the Subscription Price.

(v) **Subscription price**

The subscription price for the Shares under the Share Option Scheme will be at least the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an Offer is made by our Company to the Grantee (which date must be a business day, "**Offer Date**"); (b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Offer Date (provided that the Offer Price shall be used as the closing price for any business day falling within the period before listing of the Shares where our Company has been listed for less than 5 business days as at the Offer Date); and (c) the nominal value of a Share.

(vi) **Maximum number of Shares**

(a) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Company shall not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering (being 100,000,000 Shares), unless our Company obtains a fresh approval from the Shareholders pursuant to (b) below.

(b) Subject to (d) below, our Company may seek approval of the Shareholders in general meeting for refreshing the 10% limit set out in (a) above such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any such other share option schemes or exercised options) will not be counted for the purpose of calculating such limit as refreshed. In such a case, our Company shall send a circular to the Shareholders containing the information required under the Listing Rules.

(c) Subject to (d) below, our Company may seek separate approval by the Shareholders in general meeting for granting Options beyond the 10% limit provided the Options in excess of such limit are granted only to Participants specifically identified by our Company before such approval is sought. In such a case, our Company shall send a circular to the Shareholders containing the information required under the Listing Rules.

(d) Notwithstanding any other provisions of the Share Option Scheme, the maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company shall not exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of our Company if this will result in such limit being exceeded.

(vii) **Conditions, restrictions or limitations on Offers of Grant of Options**

Subject to the provisions of the Share Option Scheme and the Listing Rules, the Board may when making an Offer impose any conditions, restrictions or limitations in relation thereto as it may at its absolute discretion think fit.

(viii) **Maximum entitlement of a Participant**

(a) The maximum entitlement for any one Participant is that the total number of the Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

(b) Any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of our Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the Shareholders' approval in general meeting with such Participant and his associates abstaining from voting. The number of Shares subject to the Options to be granted and the terms of the Options to be granted to such Participants shall be fixed before the Shareholders' approval and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price. In such a case, our Company shall send a circular to the Shareholders containing the information required under the Listing Rules.

(ix) **Grant of Options of Connected Persons**

(a) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or their respective associates must be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who is the Grantee).

(b) Where the Board proposes to grant any Option to a Participant who is a substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or an independent non-executive director of our Company, or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the

Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed Offer Date of such grant ("**Relevant Date**"):

(1) representing in aggregate more than 0.1% of the total number of Shares in issue on the Relevant Date; and

(2) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the Relevant Date, in excess of HK$5,000,000,

such proposed grant of Options must be approved by the Shareholders in general meeting. In such a case, our Company shall send a circular to the Shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all other connected persons of our Company must abstain from voting in favour of the resolution at such general meeting. Any vote taken at the meeting to approve the grant of such Options must be taken on a poll.

The Participant and all other connected persons of our Company may vote against the resolution at the general meeting provided that such intention to do so has been stated in the circular. Any such party may change his mind as to whether to abstain or vote against the resolution, in which case our Company shall, if it becomes aware of the change before the date of the general meeting, immediately despatch a circular to the shareholders of our Company or publish an announcement notifying the shareholders of our Company and, if know, the reason for such change. Where the circular is despatched or the announcement is published less than 14 days before the date originally scheduled for the general meeting, the meeting shall be adjourned before considered the relevant meeting, the meeting shall be adjourned before considering the relevant resolution to a date that is at least 14 days from the date of despatch of the circular or publication of the announcement by the chairman.

(x) **Exercise of Options**

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by the Board at its absolute discretion and notified by the Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme ("**Option Period**").

(xi) **Performance Target & Minimum Period before Exercise**

Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

(xii) **Options are personal to the Grantee**

An Option shall be personal to the Grantee and shall not be assignable or transferrable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests (whether legal or beneficial) in favour of any third party over or in relation to any Option. Subject to the above, an Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which a Grantee commits a breach of the foregoing.

(xiii) **Rights on death, or termination of employment, our Directorship, office or appointment**

(a) If the Grantee ceases to be a Participant for any reason other than on his death or the termination of his employment, directorship, office or appointment on one or more of the grounds specified in paragraph (xiii)(c) below, the Option granted to such Grantee will lapse on the date of cessation (to the extent it has not already been exercised) and will not be exercisable unless the Board otherwise determines to grant an extension at the discretion of the Board in which event the Grantee may exercise the Option in accordance with the provisions of the Share Option Scheme within such period of extension and up to a maximum entitlement directed at the discretion of the Board on the date of the grant of extension (to the extent that it has not already been exercised) and subject to other terms and conditions decided at the discretion of the Board. Such period of extension (if any) shall be granted within and in any event ended before the expiration of the period of one month following the date on which the Grantee ceases to be a Participant, which date shall be the last actual working day with the relevant company whether salary is paid in lieu of notice or not, or the last date of office or appointment as director of the relevant company, as the case may be, in the event of which, the date of cessation as determined by a resolution of the board of Directors or governing body of the relevant company shall be conclusive. Subject to the above, an Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(b) If the Grantee dies before exercising the Option in full and none of the events which would be a ground for termination of his employment, directorship, office or appointment under paragraph (xiii)(c) below arises, the personal representative(s) of the Grantee shall be entitled within a period of 6 months or such longer period as the Board may determine from the date of death to exercise the Option up to the entitlement of such Grantee at the date of death (to the extent not already exercised), or, if appropriate, make an election as mentioned in paragraphs (xv) and (xvi). Subject to the above, an Option shall lapse automatically and not be exercisable (to the extent that it has become exercisable and has not already been exercised) on the expiry of the period referred to above.

(c) An Option shall lapse automatically (to the extent not already exercised) on the date on which the Grantee ceases to be an employee or director of our Company or its subsidiaries by reason of the termination of his employment or directorship on the grounds that he has been guilty of misconduct, or has been in breach of material term(s) of the relevant employment contract or service contract, or has stopped payment to creditors generally or been unable to pay his debts within the meaning of any applicable legislation relating to bankruptcy or insolvency, or has become bankrupt or insolvent, or has been served with a petition for bankruptcy, or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board or the board of the relevant subsidiary of our Company, as the case may be) on any other ground on which any employer or any engaging party would be entitled to terminate his employment or directorship at common law or pursuant to any applicable laws or under the Grantee's employment contract or service contract with our Company or the relevant subsidiary of our Company.

(xiv) **Voluntary winding-up of our Company**

In the event a notice is given by our Company to its shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, our Company shall on the same date as or soon after it despatches such notice to convene the general meeting, give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representatives(s)) may, subject to the provisions of all applicable laws, by written notice to our Company (such notice to be received by our Company not later than two business days prior to the proposed general meeting of our Company) exercise the Option (to the extent that it has become exercisable and has not already been exercised) either to its full extent or to the extent specified in such notice, such notice to be accompanied by a payment for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid. Subject to the above, an Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(xv) **Rights on take-over**

(a) In the event a general offer by way of take-over (other than by way of scheme of arrangement referred to in (xv)(b) below) is made to all the holders of the Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) ("**Dissenting Shareholder**") and if such offer becomes or is declared unconditional and the offeror is entitled to and does not give notice pursuant to the Companies Law to acquire Shares held by the Dissenting Shareholders prior to the expiry of the relevant Option Period, the Grantee (or his personal representative(s)) may by notice in writing to our Company within 21 days of the notice of the offeror exercise the Option (to the extent that it has become exercisable on the date of the notice of the offeror and has not already been exercised) to its full extent or to the extent specified in such notice.

(b) If a general offer by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary majority of holders of the Shares at the requisite meetings, the Grantee (or his personal representative(s)) may thereafter (but only until such time as shall be notified by our Company, after which it shall lapse) exercise the Option (to the extent that it has become exercisable and has not already been exercised) to its full extent or to the extent specified in such notice.

(xvi) **Rights on a compromise or arrangement**

Other than a general offer or a scheme of arrangement referred to in (xv) above, if a compromise or arrangement between our Company and its shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the Grantee on the same date as it despatches the notice which is sent to each shareholder or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the Grantee (or his personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of two months thereafter and the date on which such compromise or arrangement is sanctioned by the court of competent jurisdiction, exercise any of his Options (to the extent which it has become exercisable and has not already been exercised) whether in full or in part, but the exercise of an Option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement becoming effective, all Options shall lapse except insofar as previously exercised under the Share Option Scheme. our Company may require the Grantee (or his personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of Options in these circumstances so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(xvii) **Effects of alternations to capital structure**

In the event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation issue, rights issue, sub-division or consolidation of the Shares or reduction of capital of otherwise, excluding any alteration in the capital structure of our Company as a result of an issue of Share as consideration in respect of a transaction to which our Company is a party, such corresponding alterations (if any) certified in writing by an independent financial adviser appointed by our Company or the auditors for the time being of our Company to be in their opinion as fair and reasonable will be made in the number or nominal amount of Shares subject to the Options so far as unexercised and/or the subscription price, provided that such alterations shall give a Grantee as nearly as possible the same proportion of the issued share capital of our Company as that to which he was previously entitled, but so that no such alteration shall be made the effect of which would enable a the Share to be issued at less than its nominal value.

(xviii) **Lapse of Options**

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(1) the expiry of the Option Period;

(2) the expiry of the periods referred to in paragraph (xiii)(a), (xiii)(b) or (xv)(a) respectively;

(3) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (xv)(b);

(4) subject to the compromise or arrangement becoming effective, the expiry of the period referred to in paragraph (xvi);

(5) subject to the expiry of the period of extension (if any) referred to in paragraph (xiii)(a), the date on which the grantee ceases to be a Participant for any reason other than on his death or the termination of his employment or our Directorship on one or more grounds specified in sub-paragraph (6) below;

(6) the date on which the grantee ceases to be a Participant by reason of the termination of his employment or our Directorship on grounds including, but not limited to, misconduct, breach of material terms of employment contract or service contract, bankruptcy, insolvency and conviction of any criminal offence;

(7) the close of two business days prior to the general meeting of our Company held for the purpose of approving the voluntary winding-up of our Company of the date of commencement of the winding-up of our Company;

(8) the date on which the grantee commits a breach referred to in paragraph (xii);

(9) the date on which the Option is cancelled by the Board as set out in paragraph (xxi); or

(10) the non-fulfilment of any condition referred to in paragraph (ii).

(xix) **Ranking of Share allotted upon exercise of Options**

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of our Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

(xx) **Duration of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by resolution of the Shareholders.

(xxi) **Cancellation of Options granted**

The Board may, with the consent of the relevant Grantee, at any time at its absolute discretion cancel any Option granted but not exercised. An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which the Option is cancelled by the Board as provided above.

(xxii) **Termination of the Share Option Scheme**

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect.

(xxiii) **Alteration of the provisions of the Share Option Scheme**

The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board except that provisions relating to the class of persons eligible for the grant of Options and all such other matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the Participants without the prior approval of the Shareholders in general meeting and provided that no such alternation shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the affected Grantees as would be required of the Shareholders under the articles of association of our Company for the time being for a variation of the rights attached to the Shares. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of the Options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

8. PRE-IPO OPTION SCHEME

We adopted the Pre-IPO Option Scheme on 5 March 2010, the principal terms of which are summarised below.

Objective

We adopted the Pre-IPO Option Scheme to recognise the contribution of certain of our Directors and senior management to our growth in the past few years.

Exercise of the Pre-IPO Options

Pre-IPO Options granted to a grantee under the Pre-IPO Option scheme may only become exercisable in accordance with the following vesting schedule:

(i) one-third of the Shares which are subject to the Pre-IPO Options so granted to him (rounded down to the nearest whole number) shall be exercisable at any time during the period commencing on the first anniversary of the Listing Date and ending on the fifth anniversary of the Listing Date;

(ii) another one-third of the Shares which are subject to the Pre-IPO Options so granted to him (rounded down to the nearest whole number) shall be exercisable at any time during the period commencing on the second anniversary of the Listing Date and ending on the fifth anniversary of the Listing Date; and

(iii) the remaining number of Shares which are subject to the Pre-IPO Options so granted to him shall be exercisable at any time during the period commencing on the third anniversary of the Listing Date and ending on the fifth anniversary of the Listing Date.

Subscription price

The subscription price payable upon the exercise of any Pre-IPO Options is fixed at 90% of the final Offer Price per Share.

Maximum number of Shares subject to options

The maximum total number of Shares in respect of which the Pre-IPO Options may be granted under the Pre-IPO Option Scheme is 50,000,000 Shares. The above scheme limit has been fully utilised as at the Latest Practicable Date.

Transfer of options

The Pre-IPO Options shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Pre-IPO Option, except for (1) the transmission of a Pre-IPO Option on the death of the grantee to his personal representative(s) on terms of the Pre-IPO Option Scheme or (2) to any permitted transferee which comprise:

(i) any trustee, acting in its capacity as such trustee, of any trust of which the grantee or his spouse, any child or step-child, natural or adopted, under the age of 18 years of such grantee or of his spouse (together, the “family interests”), is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object and any company (“trustee-controlled company”) in the equity capital of which the trustee, acting in its capacity as such trustee, is directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary (together, the “trustee interests”);

(ii) a holding company of a trustee-controlled company or a subsidiary of any such holding company; and

(iii) any company in the equity capital of which he, his family interests, any trustee referred to in (i) above, acting in its capacity as such trustee, and/or any trustee interests taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary or holding company or a fellow subsidiary of any such holding company.

Others

The other principal terms of the Pre-IPO Option Scheme are similar to those of the Share Option Scheme except as disclosed above and in respect of the following:

(i) there is no provision limiting the maximum number of options that may be granted to any individual grantee under the Pre-IPO Option Scheme;

(ii) the provisions on the granting of options to connected persons (as defined in the Listing Rules) were not included;

(iii) there are no provisions relating to the "refreshing" of the 10% limit or the seeking of separate approval for granting options beyond the 10% limit as anticipated in Note 1 of Rule 17.03(3) of the Listing Rules, or the restrictions on the number of shares issue or to be issued under options in any 12 month period to any participant of the Pre-IPO Option Scheme not exceeding 1% of the Shares in issue as anticipated in the note to Rule 17.03(4) of the Listing Rules;

(iv) options can be offered and granted up to 9:00 a.m. on the business day before the Listing Date. However, our Directors have confirmed that no further options (other than the Pre-IPO Option already granted) will be offered under the Pre-IPO Option Scheme; and

(v) if a grantee ceases to be an employee of any member of the Group for any reason, the option granted to him shall lapse automatically and not be exercisable to the extent not already exercised.

Pursuant to the Pre-IPO Option Scheme, the four executive Directors and three senior management members were granted the Pre-IPO Options to subscribe for up to 50,000,000 Shares, representing approximately 5% of the total issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may fall to be issued pursuant to the exercise or surrender of the Warrants, or the exercise of the Over-allotment Option, the Pre-IPO Options or the options which may be granted under the Share Option Scheme) and approximately 4.76% of the total issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (assuming all Pre-IPO Options are exercised in full and without taking into account the Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme or the exercise or surrender of the Warrants).

Each of the grantees (other than Mr. Cao) 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.

The Pre-IPO Options were granted to the following persons:

Name of grantee	Residential address	Title/position	Time of joining our Group	Number of Shares subject to the options
Cao Kuanping	Block 13, Qi Yue Yuan No. 438, Wang Yue Road Hanjiang District Yangzhou Jiangsu Province PRC	Chairman and executive Director	May 2002	25,000,000
Mo Chihe	Room 506, Block 101 Kangtai Yuan No. 155, East Qiuyu Road Weiyang District Yangzhou Jiangsu Province PRC	executive Director	May 2002	3,000,000
Mao Shanxin	Room 404, Block 9 Lai Fu Garden Yangzhou Jiangsu Province PRC	executive Director	May 2002	10,000,000
Wang Zhijin	Room 1002 Block 148 No. 100, Zhongtan Road Putuo District Shanghai PRC	executive Director and chief financial officer	July 2008	3,000,000
Lu Chaolin	Room 1209 Block 38 Aoduhuacheng Tongsi Street Yangzhou Jiangsu Province PRC	vice general manager of the Company	May 2002	3,000,000

Name of grantee	Residential address	Title/position	Time of joining our Group	Number of Shares subject to the options
Gao Yuan	No. 5-1 Bazongmen Guangling District Yangzhou Jiangsu Province PRC	general manager of Hengxin air-conditioner	May 2002	3,000,000
Sun Qingxiang	Room 501, Block 1 Xiangzhang Yuan Caohexi Road Yangzhou Jiangsu Province PRC	general manager of Huide Electronics	May 2002	3,000,000

Assuming that all Pre-IPO Options had been exercised in full on 1 January 2009 and 1,000,000,000 Shares to be in issue immediately after the Global Offering had been in issue throughout the year ended 31 December 2009, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme or any Shares which may be issued to Pope and Dalton upon the exercise or surrender of the Warrants by them, the pro forma earnings per Share for the year ended 31 December 2009 would be diluted from approximately RMB0.092 to approximately RMB0.087. The calculation has been prepared on the assumption that we will not receive any proceeds from the exercise of any Pre-IPO Option, and without taking into account the impact of fair value of the Shares on computation of the number of potentially dilutive Shares and the impact of the fair value of the Pre-IPO Options on the profit for the year ended 31 December 2009.

9. OTHER INFORMATION

(A) Indemnities

Each of Mr. Cao and China Ruike ("**Indemnifying Parties**") has pursuant to a deed of indemnity referred to in the section headed "Summary of material contracts" in this Appendix, on joint and several basis, given indemnities in connection with, among others, any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Global Offering becomes unconditional (the "**Effective Date**").

The Indemnifying Parties also pursuant to the deed of indemnity, on joint and several basis, undertaken to indemnify our Company (i) any claims, damages, fees, costs, expenses, losses, penalties, liabilities, actions and proceedings our Group may suffer from not having conducting the fire inspection tests or not having obtained all the relevant approvals, permits, licences, certificates under the relevant fire safety laws and regulations in the PRC; (ii) any penalty may be imposed on our Group, or any costs, expenses and losses our Group may suffer in connection with such penalty, due to our Group's failure to observe 住房公積金管理條例 (Housing Provident Fund Administration Regulation) or any other laws and regulations in connection with the employee's welfare and benefits in the PRC; (iii) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings our Group may suffer from not having obtained all relevant approvals, permits, licences, certificates and tests for conducting its businesses, including but not limited to the non-compliances as disclosed in this prospectus; and (iv) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings arising from the relocation by our Group mandated by the lessors' lack of relevant title certificates or documents or the lessors' registration default in relation to the lease agreements to the extent that damages, if any, recovered from the relevant lessor are inadequate to cover the related costs of our Group ((i) to (iv) together, the "**Liability**").

Each of the Indemnifying Parties will, however, not be liable under the deed of indemnity for taxation and Liability where (1) provision has been made for such taxation or Liability in the consolidated audited accounts of our Company or the audited accounts of any member of the Group up to 31 December 2009 ("**Accounts**"); (2) the taxation or Liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the Effective Date; (3) the taxation or Liability would not have arisen but for any act or omission of or delay by any member of our Group voluntarily effected after the date of the deed of indemnity (other than pursuant to a legally binding commitment created on or before the date of the deed of indemnity) without the prior written consent of the Indemnifying Party, and otherwise than in the ordinary course of business; and (4) provision or reserve made for such taxation or Liability in the Accounts for the three years ended 31 December 2009 is established to be an over-provision or an excessive reserve.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of the Cayman Islands or the PRC, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

(B) Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of the Group.

(C) Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Global Offering and Shares to be issued as mentioned herein (including any Shares to be issued pursuant to the Capitalisation Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, any options granted under the Pre-IPO Option Scheme and any options which may be granted under the Share Option Scheme, and pursuant to the exercise or surrender of the Warrants).

(D) **Financial adviser**

N M Rothschild & Sons (Hong Kong) Limited ("**Rothschild**") has been appointed by us as our financial adviser in respect of the Global Offering. The appointment of Rothschild was not made pursuant to the requirements of the Listing Rules, and the appointment of Rothschild is additional to and separate and distinct from the appointment of the Sponsor (which is required to be made by us pursuant to the Listing Rules). The Sponsor is responsible for fulfilling its duties as sponsor to our application for Listing, and the Sponsor has not relied on any of the work performed by Rothschild in fulfilling those duties. Rothschild's role in the Global Offering is different from that of the Sponsor in that it does not act as the principal channel of communication between the Stock Exchange and us, nor act to fulfill the Sponsor's role as prescribed under the Listing Rules but focuses on providing general corporate finance advice to us on matters relating to the Listing and the Global Offering so that we can have an additional source of advice.

(E) **Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK$32.2 million and are payable by our Company.

(F) **Promoter**

Our Company has no promoters.

Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Global Offering or the related transactions described in this prospectus.

(G) **Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
BNP Paribas Capital (Asia Pacific) Limited	A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified public accountants
American Appraisal China Limited	Professional surveyors and valuer
Beijing Zhonglun Law Firm	Qualified PRC lawyers
Maples and Calder	Cayman Islands legal advisers

(H) **Consents of experts**

Each of BNP Paribas Capital (Asia Pacific) Limited, PricewaterhouseCoopers, American Appraisal China Limited, Beijing Zhonglun Law Firm and Maples and Calder has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

(I) **Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

(J) **Commission received**

The Underwriters will receive an underwriting commission of 2.5% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission will be paid. In addition, an additional incentive fee of up to 0.9% on the aggregate Offer Price of all the Offer shares will be paid to the Global Coordinator. Please refer to the section headed "Underwriting — Commission and expenses" in this prospectus for further details.

(K) **Related party transactions**

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note 39 of the Accountant's Report set out in Appendix I and in the section headed "Connected transactions" in this prospectus.

(L) **No material adverse change**

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since 31 December 2009.

(M) **Particulars of the Selling Shareholders**

The particulars of the Selling Shareholders are as follows:

(1)	Name	:	Pope Investments LLC
	Description	:	a limited liability company incorporated under the laws of State of Delaware of the United States of America
	Registered Address	:	The Corporation Trust Center, 1209 Orange Street, Wilmington, United States of America
	Number of Shares to be sold	:	60,263,944 Sale Shares

(2)

Name	:	Dalton Greater China (Master) Fund
Description	:	a limited liability company incorporated under the laws of the Cayman Islands
Registered Address	:	62 Forum Court, Camana Bay, P.O. Box 30239, Grand Cayman KYI-1201, Cayman Islands
Number of Shares to be sold	:	9,536,056 Sale Shares

(N) Bilingual Prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

(O) Miscellaneous

(1) Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) no founders, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued; and

(d) within the two years preceding the date of this prospectus, no commissions (except commissions to sub-underwriters), discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or debentures of our Company or any of its subsidiaries.

(2) None of BNP Paribas Capital (Asia Pacific) Limited, PricewaterhouseCoopers, American Appraisal China Limited, Beijing Zhonglun Law Firm and Maples and Calder:

(a) is interested beneficially or non-beneficially in any shares in any member of our Group; or

(b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

(3) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(4) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE**, **YELLOW** and **HK eIPO White** Application Forms; (ii) copies of each of the material contracts referred to in the subsection headed "Further information about our business — (A) Summary of material contracts" in Appendix V to this prospectus; (iii) the written consents referred to in the subsection headed "Other information — (H) Consents of experts" in Appendix V to this prospectus and (iv) the particulars of our Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Richards Butler in association with Reed Smith LLP at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the memorandum of association of the Company and the Articles of Association;

(b) the Accountant's Report of the Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements of the companies comprising the Group for each of the two years ended 31 December 2008 (or for the period since their respective dates of incorporation where it is shorter);

(d) the report on the unaudited pro forma financial information of the Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;

(e) the letter, summary of values and valuation certificates relating to the property interests prepared by American Appraisal China Limited, the texts of which are set out in Appendix III to this prospectus;

(f) the PRC legal opinions issued by the PRC Legal Advisers in respect of our general matters and property interests matters of the Group;

(g) the letter prepared by Maples and Calder, summarising certain aspects of the Companies Law as referred to in Appendix IV to this prospectus;

(h) the Companies Law;

(i) the material contracts referred to in the subsection headed "Further Information about our business — (A) Summary of material contracts" in Appendix V to this prospectus;

(j) the written consents referred to in the subsection headed "Other information — (H) Consents of experts" in Appendix V to this prospectus;

(k) the rules of the Share Option Scheme;

(l) the rules of the Pre-IPO Option Scheme; and

(m) the statement of particulars of the Selling Shareholders.