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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

HIGHLIGHTS

1. Revenue in 2011 was RMB2,835.1 million, an increase of 58.9% compared with 2010.
2. Gross profit increased 12.8% to RMB361.4 million (2010: RMB320.5 million).
3. Gross profit margin in 2011 was 12.8%, while that of 2010 was 18.0%.
4. Operating profit was approximately RMB53.7 million for 2011, decreased by RMB88.2 million compared with 2010.
5. Profit for the year was approximately RMB19.0 million, decreased by 79.8% from RMB94.0 million of 2010.
6. As at 31 December 2011, we have a total of 61 self-operated stores, an increase of 15.1% from 53 stores at the end of 2010. Retail revenue represented 38.1% of the total revenue of the Group for 2011 (43.1% in 2010).

The board (the "Board") of directors (the "Directors") of Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively the "Group" or "Huiyin Household Appliances") for the year ended 31 December 2011 together with the comparative figures for 2010.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	7	**2,835,129**	1,784,450
Cost of sales		**(2,473,727)**	(1,463,968)
Gross profit		**361,402**	320,482
Other income		**17,952**	16,074
Other losses – net		**(10,342)**	(1,090)
Selling and marketing expenses		**(172,752)**	(96,755)
Administrative expenses		**(142,603)**	(96,874)
Operating profit		**53,657**	141,837
Finance income		**9,195**	3,749
Finance costs		**(21,799)**	(5,145)
Finance costs – net		**(12,604)**	(1,396)
Profit before income tax		**41,053**	140,441
Income tax expense	8	**(22,023)**	(46,413)
Profit for the year		**19,030**	94,028
Attributable to:			
– Equity holders of the Company		**15,509**	91,719
– Non-controlling interests		**3,521**	2,309
		19,030	94,028
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	9	**1.48**	9.36
– Diluted	9	**1.40**	9.19
Dividends	10	**—**	58,802

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**19,030**	94,028
Other comprehensive income	**—**	—
Total comprehensive income for the year	**19,030**	94,028
Attributable to:		
– Equity holders of the Company	**15,509**	91,719
– Non-controlling interests	**3,521**	2,309
	19,030	94,028

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Land use rights		**17,792**	18,228
Prepayments for land use rights		**125,047**	—
Property, plant and equipment		**186,609**	140,539
Investment properties		**23,456**	24,092
Intangible assets		**73,355**	41,169
Deferred income tax assets		**30,161**	11,399
		456,420	235,427
Current assets			
Inventories		**382,661**	276,441
Trade and bills receivables	5	**173,653**	166,962
Prepayments, deposits and other receivables		**967,474**	789,442
Restricted bank deposits		**411,312**	206,976
Cash and cash equivalents		**123,715**	181,632
		2,058,815	1,621,453
Total assets		**2,515,235**	1,856,880
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**7,162**	7,162
Reserves		**1,058,050**	1,049,810
		1,065,212	1,056,972
Non-controlling interests in equity		**40,938**	15,317
Total equity		**1,106,150**	1,072,289
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**5,370**	1,722
Other non-current liabilities		**8,211**	5,455
		13,581	7,177
Current liabilities			
Trade and bills payables	6	**547,246**	526,850
Accruals and other payables		**137,321**	86,806
Dividend payable		**—**	275
Borrowings		**599,089**	50,000
Current income tax liabilities		**70,288**	80,278
Other current liabilities		**41,560**	33,205
		1,395,504	777,414
Total liabilities		**1,409,085**	784,591
Total equity and liabilities		**2,515,235**	1,856,880
Net current assets		**663,311**	844,039
Total assets less current liabilities		**1,119,731**	1,079,466

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

The Group's businesses were primarily carried out by Yangzhou Huiyin Household Appliance Co., Ltd. ("Yangzhou Huiyin") and its subsidiaries. In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), certain reorganisation steps (the "Reorganisation") were carried out in 2008. After the completion of the Reorganisation on 3 April 2008, the Company became the holding company of the subsidiaries comprising the Group.

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

2 BASIS OF PREPARATION

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

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

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

3 ACCOUNTING POLICIES

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

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

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

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

The adoption of the above revised standards and amendment starting from 1 January 2011 did not give rise to significant impact on the Group's results of operations and financial position for the year ended 31 December 2011.

4 SEGMENT INFORMATION

The chief operating decision-maker ("CODM"), being the board of directors of the Company, reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

Geographical segment is not presented as 100% of the Group's sales and business activities are conducted in the PRC.

The principal operation of the Group is organised into two main operating segments:

- Retail sales operation
- Bulk distribution sales operation which includes sales to franchisees and other retailers and distributors

Other operations of the Group mainly comprise provision of maintenance and installation services to customers, and real estate business.

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

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

The segment results for the year ended 31 December 2010 are as follows:

Segment results	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Unallocated* RMB'000	Group RMB'000
Segment revenue	769,364	1,754,732	14,660	—	2,538,756
Inter-segment revenue	—	(754,306)	—	—	(754,306)
Revenue	769,364	1,000,426	14,660	—	1,784,450
Operating profit/(loss)	91,387	63,919	4,903	(18,372)	141,837
Finance costs - net					(1,396)
Profit before income tax					140,441
Income tax expense					(46,413)
Profit for the year					94,028
Other segment items are as follows:					
Capital expenditure	60,042	16,280	—	—	76,322
Depreciation charge	6,279	7,020	—	—	13,299
Amortisation charge	985	1,264	—	—	2,249

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

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

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

Segment assets and liabilities as at 31 December 2010 are as follows:

Segment assets and liabilities	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
Segment assets	329,378	1,503,734	10,647	1,843,759
Unallocated assets				13,121
Total assets				1,856,880
Segment liabilities	63,603	584,718	3,766	652,087
Unallocated liabilities				132,504
Total liabilities				784,591

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables and operating cash and mainly exclude deferred tax assets and corporate assets.

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

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

5 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**144,830**	71,709
Less: Provision for impairment	**(871)**	(1,362)
Trade receivables, net	**143,959**	70,347
Bills receivables	**29,694**	96,615
Trade and bills receivables, net	**173,653**	166,962

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
0 – 30 days	**59,825**	41,367
31 – 90 days	**65,240**	17,583
91 – 365 days	**18,894**	11,397
1 year – 2 years	**871**	1,140
2 years – 3 years	**—**	—
Over 3 years	**—**	222
Total	**144,830**	71,709

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

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

As at 31 December 2011, trade receivables of RMB 871,000 (2010: RMB 1,362,000) were passed due, impaired and provided for. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
91 – 365 days	**—**	—
1 year – 2 years	**871**	1,140
2 years – 3 years	**—**	—
Over 3 years	**—**	222
Total	**871**	1,362

As at 31 December 2011, trade receivables of RMB 21,226,000 (2010: RMB 18,237,000) 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	
	2011	2010
	RMB'000	RMB'000
31 – 90 days	**2,332**	6,840
91 – 365 days	**18,894**	11,397
Total	**21,226**	18,237

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
At beginning of the year	**1,362**	2,504
Reversal of provision for receivable impairment	**(491)**	(1,142)
At end of the year	**871**	1,362

Bills receivable do not contain impaired assets.

As at 31 December 2011, no bills receivable had been pledged as collateral for the Group's bank acceptance bills.

As at 31 December 2010, bills receivable with a carrying amount of RMB 50,000,000 had been pledged as collateral for the Group's bank acceptance bills of RMB 45,000,000 (Note 6).

6 TRADE AND BILLS PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables	**35,016**	31,050
Bills payable	**512,230**	495,800
	547,246	526,850

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
0 – 30 days	**13,622**	11,228
31 – 90 days	**9,223**	18,381
91 – 365 days	**10,994**	1,077
1 year – 2 years	**1,177**	364
	35,016	31,050

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

As at 31 December 2011, restricted bank deposits of RMB 195,480,000 (2010: RMB 205,976,000) had been pledged as collateral for bank acceptance bills of RMB 435,030,000 (2010: RMB 430,800,000).

As at 31 December 2011, restricted bank deposits of RMB 2,500,000 (2010: RMB 10,000,000) had been pledged as collateral for bank acceptance bills of RMB 4,500,000 (2010: RMB 20,000,000), together with a personal guarantee of RMB 2,000,000 (2010: RMB10,000,000) provided by a third party.

As at 31 December 2011, restricted bank deposits of RMB 31,317,000, together with certain land use rights, buildings and investment properties with a total net book value of RMB 88,352,000 had been pledged as collateral for bank acceptance bills of RMB 72,700,000 and bank borrowings of RMB 86,400,000.

As at 31 December 2010, bills receivable with a carrying amount of RMB 50,000,000 had been pledged as collateral for the Group's bank acceptance bills of RMB 45,000,000 (Note 5).

7 REVENUE

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

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Sales of goods		
– Retail	**1,080,486**	769,364
– Bulk distribution	**1,735,057**	1,000,426
including:		
Sales to franchisees	**691,714**	448,167
Sales to other retailers and distributors	**1,043,343**	552,259
	2,815,543	1,769,790
Rendering of services		
– Maintenance service	**1,327**	1,604
– Installation service	**18,259**	13,056
	19,586	14,660
Total revenue	**2,835,129**	1,784,450

8 INCOME TAX EXPENSE

	Year ended 31 December 2011 RMB'000	2010 RMB'000
PRC enterprise and withholding income taxes		
– Current income tax	**41,146**	84,273
– Deferred income tax	**(19,123)**	(37,860)
	22,023	46,413

(a) **Hong Kong profits tax**

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the year (2010: Nil).

(b) **PRC enterprise income tax**

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

(c) **PRC withholding income tax**

According to the new CIT law, starting from 1 January 2008, a 10% withholding tax is levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. Such withholding income tax is included in deferred income tax. The Group accrues for the PRC withholding income tax based on the tax rate of 10% for the year ended 31 December 2011 (2010: 5%).

9 EARNINGS PER SHARE

(a) **Basic**

Basic earnings per share 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. In determining the weighted average number of ordinary shares in issue during the year ended 31 December 2010, the 730,000,000 shares issued and allotted through capitalisation of the share premium account arose from the Listing of the Company on 25 March 2010 have been regarded as if these shares were in issue since 1 January 2010.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	**15,509**	91,719
Weighted average number of ordinary shares in issue (thousand)	**1,048,342**	979,580
Basic earnings per share (RMB cents)	**1.48**	9.36

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under the Pre-IPO Option Scheme, the warrants and settlement in ordinary shares for contingent consideration arising from business combination assuming they were exercised.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	**15,509**	91,719
Weighted average number of ordinary shares in issue (thousand)	**1,048,342**	979,580
Adjustment for:		
– Share options granted under the Pre-IPO Option Scheme (thousand)	**–**	11,618
– Warrants (thousand)	**–**	67
– Settlement in ordinary shares for the contingent consideration arising from the business combination (thousand)	**58,709**	6,689
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**1,107,051**	997,954
Diluted earnings per share (RMB cents)	**1.40**	9.19

10 DIVIDENDS

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Special dividend declared (note(a))	**–**	40,980
Final dividend proposed (note(b))	**–**	17,822
	–	58,802

(a) In March 2010, the board of directors of the Company approved to declare a one-off and non-recurring dividend of approximately HK$ 46,600,000, equivalent to RMB 40,980,000, arising from the PRC subsidiaries, payable to the shareholders of the Company as of 6 March 2010 on the condition that the Listing of the Company is completed. As at 31 December 2011, all the amounts had been paid to those shareholders.

(b) The board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2011.

A final dividend of HK 2.0 cents (equivalent to approximately RMB 1.7 cents) per share, amounting to approximately HK$ 20,967,000 (equivalent to RMB 17,822,000) for the year ended 31 December 2010 had been approved by the shareholders at the annual general meeting of the Company held on 17 June 2011. The final dividend had all been paid to the shareholders as at 31 December 2011.

11 SUBSEQUENT EVENTS

In January and February 2012, the Group obtained unsecured bank borrowings totalling RMB 90,000,000. Meanwhile in January 2012, the Group obtained a bank borrowing of USD 5,000,000, which is secured by restricted bank deposits of RMB 31,500,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Innovative and unique integrated business model

The Group has always strived to become a leader in the third and fourth-tier home appliance markets in China since its establishment. Facing the rapidly developing rural markets, the Group actively captured opportunities and leveraged its extensive sales network in the third and fourth-tier markets. The Group also combined its unique integrated business model and brand advantage, integrating retail, bulk distribution (including sales to franchised stores) and after-sales services to further increase its share in target markets as well as revenue.

In recent years, the Group had rapidly expanded its retail network through self-operated stores and its extensive franchise network. The Group was also a distributor to its franchised stores as well as other independent third parties, which not only served as support to its existing retail business, but also effectively enhanced customer loyalty through its extensive after-sales services network.

The Group achieved more effective use of existing resources through the optimization of outlet management and steady expansion across all business segments. The Group recorded revenue growth across all business segments during the year under review. For the year ended 31 December 2011, revenue of the Group increased to RMB2,835.1 million, up 58.9% as compared with RMB1,784.5 million of the last year. Net profit of the Group decreased to RMB19.0 million representing a year-on-year decrease of 79.8% and gross profit margin decreased to 12.8%, representing a year-on-year decrease of 5.2%. The drop was attributable to the macro policy, increased cost pressure in the home appliance industry, certain provisions made by the Group in respect of the amounts due from suppliers after taking into account of increased operating pressure in the upstream industry during the second half of 2011, and one-off differences arising from the consideration payable to the joint venture partner for its transfer of inventory, fixed assets and employees to the joint venture, namely Huainan City Four Seas Huiyin Household Appliances Co., Ltd. (淮南市四海滙銀家電有限責任公司).

1. Retail business

Self-operated stores

The Group's self-operated stores provided a variety of products. Approximately 6,100 product models were available at its self-operated stores as of 31 December 2011. During the year, the Group carried out optimized management based on outlet classification and made proper adjustment according to the different grades determined by actual sales information of each store. The Group aimed to enhance competitive advantage and operation performance of the outlet network through various reforms such as resource integration, improvement of staff skills, planning and advertisement, alliance across different industries and the integration of supply chain. Through optimized management, the Group also maintained the advantage of the excellence outlets to enhance the influence of ''Huiyin'' brand in the target markets.

As at 31 December 2011, the number of self-operated stores of the Group reached 61, representing a year-on-year increase by 8 stores or 15.1%, of which 6 were opened in Jiangsu Province, located in Yangzhou, Taizhou, Nanjing, and Zhenjiang respectively, and the number of stores in Jiangsu Province increased to 44. In addition, Anhui Province, another focus of the Group's expansion, has 4 new self-operated stores as compared to that of last year. The Group also opened 17 outlets in Huainan, Xuancheng, Wuhu and some other places, proving the success of the Group's expansion program in Anhui Province and greatly enhancing its local awareness and influence.

In order to meet the unique market demands in different regions, the Group continued to make flexible adjustments to product variety. With the rapid development of the IT industry and internet, the application of e-commerce became increasingly common. In light of this, the Group began to introduce mobile phone-related products to increase the proportion of "3C products" (i.e. computers, communication products and consumer electronic products). Huiyin Household Appliance held an opening ceremony and agency promotion meeting of pinyi108.com (滙銀品易網) on 29 October 2011 in Yangzhou, meaning that the Group officially entered into the e-commerce business.

As at 31 December 2011, together with its Yangzhou flagship store, the Group had a total of 45 general stores, 6 shop-in-shops located in department stores mainly offering high-end home appliances and consumer electronics, and 10 brand retail stores specializing in selling a number of products and brands. During the year, revenue of the self-operated stores of the Group reached RMB1,080.5 million, up approximately 40.4% from the previous year.

Franchised stores

Most of the franchised stores of the Group were operated under the registered brand of "Huiyin", offering more than 1,000 product models for clients in the third and fourth-tier markets. During the year, the Group continued to optimize its franchise network to maintain a steady growth in the franchise business. In 2011, the business focus of the Group was on the development of self-operated stores. The accelerating urbanization process in some areas also contributed to the integration of some stores located in urban and rural areas. As a result, the number of franchised stores under the Group decreased by 70 to 157 from the previous year. To enhance the competitiveness and service quality of outlets, the Group has put the development strategy focus of its franchised stores on the enhancement of quality. The operation and management standards of franchised stores were generally enhanced through the franchise consolidation management. In addition, the Group's franchise consolidation management committee continued to speed up the full integration of franchised stores and self-operated stores in terms of, among other things, store and booth design, product variety, promotion and value-added services.

During the year, the Group introduced a resource planning system and a store information management system to monitor real-time sales performance and the inventory level of franchised stores, which maintained the profitability and operating efficiency of franchised stores. Revenue of the Group derived from franchised stores, which was the major bulk distribution clients of the Group, amounted to RMB691.7 million for the year ended 31 December 2011, up approximately 54.3% from the previous year, and accounted for 24.4% of the total sales revenue of the Group.

Outlet network

To further strengthen its position in the highly scattered third and fourth-tier markets, the Group focus on self-operated stores expansion to continously penetrate into the target markets.

Since the opening of its first self-operated store in Yangzhou in 2003, the retail network of the Group had expanded rapidly. As at 31 December 2011, the Group had an extensive retail network with 218 stores in 31 cities/districts of Jiangsu and Anhui Provinces, of which 61 and 157 were self-operated stores and franchised stores respectively, and the total number of self-operated stores and franchised stores in Anhui Province increased to 19. Anhui Province had become another expansion focus of the Group.

The distribution of self-operated stores and franchised stores of the Group as at 31 December 2011 is set out below:

	Self-operated stores	Franchised stores
Jiangsu Province		
Yangzhou	21	114
Taizhou	6	29
Nanjing	7	2
Huai'an	4	—
Zhenjiang	2	4
Suzhou	2	—
Yancheng	1	2
Nantong	1	1
Changzhou	—	1
Wuxi	—	1
Lianyungang	—	1
Sub-total	44	155
Anhui Province		
Huainan	9	—
Xuancheng	4	—
Wuhu	2	—
Chuzhou	1	2
Ma'anshan	1	—
Sub-total	17	2
Total	61	157

2. **Bulk distribution business**

In order to support its retail business, the Group as a supplier distributes products to its franchised stores as well as other independent third parties, including home electronic products retailers and corporate customers. Currently, the Group is a bulk distributor of products for more than 20 internationally or domestically renowned brands and has maintained close relationships with suppliers. The bulk distribution business is complementary to the retail business and provides reliable supply for self-operated stores and franchised stores. Furthermore, the position as an exclusive supplier to franchised stores has secured a stable source of income for the Group.

This operating model was well received by suppliers as they benefited from the Group's one-stop services ranging from delivery, warehousing to customer management and distribution logistics. Suppliers were still able to deeply penetrate into the target markets of the Group even if they have not established their branches in such markets, thereby helping reduce their operating risks.

Huiyin Household Appliances had profound experience and an extensive sales network in the retail industry in Jiangsu Province and Anhui Province, which helped the branded home appliances and consumer electronics deeply penetrate into such markets. Leveraging its extensive sales network as well as a deep understanding of consumption patterns in the third and fourth-tier markets, the Group kept abreast of consumers' preferences and demand, which helped the Group remain a long-standing bulk distributor for these home appliances and consumer electronic brands. In addition to maintaining good relationships with the existing client brands, the Group actively acquired peers with growth potential to expand its branded product mix for distribution. In August 2011, the Group was authorized to be the sole agency of a well-known domestic air-conditioning brand in Xuancheng, Anhui Province where the Group had form major outlets. This bulk distribution business not only facilitated the growth in the Group's sales business in Anhui Province but also greatly heightened its local advantage in supply chain.

3. **After-sales services**

After-sales services are one of the important steps to the continued expansion of the Group's retail and bulk distribution businesses as well as a key advantage of the Group. The Group offered a broad range of installation and maintenance services for the products purchased from the Group or from other third party vendors, and provided retail business support. Operating through authorized arrangements with independent third party operators allowed the Group to extend the geographic coverage of its after-sales customer service with less capital and operational risks. As at 31 December 2011, the Group operated and managed a total of 63 service centers, of which 8 were self-operated service centers and 55 were authorized service centers, providing quality maintenance services for customers across a broad geographical area.

The Group was committed to enhancing the service quality through the introduction of diversified after-sales services, which in turn boosted customer loyalty and enhance consumer brand recognition. During the year, the Group launched an extended warranty plan ("匯金保" 延保計劃), under which customers may choose to extend their warranty period by paying a minimal one-off extended warranty fee. The plan covered various home appliances and has been well received by customers since its launch, reflecting high recognition of the Group's efforts by consumers.

Accurate customer marketing and brand promotion strategies

In response to different demands in different markets, the Group adopted diversified customers marketing and brand promotion strategies and flexibly arranged strategic store locations in different areas in 2011.The Group conducted market research and surveys regularly in order to collect data in relation to consumer behaviour and feedback from customers on various marketing tactics adopted by stores. In addition, the Group made use of media channels including websites, TV, newspapers and magazines to launch promotional activities and post different types of advertisements, and launched regular sales promotions. The Group conducted group purchase activities in agreement with several home appliance brands, under which discounts were offered to customers according to the group purchase sizes. As a result, sales were boosted and the awareness as well as popularity of "Huiyin" were enhanced.

During the year, the Group carried out various promotion activities in the community and follow-up services, thereby strengthening communication between the Group and customers, enhancing the Huiyin brand image and increasing its penetration into the community. The Group also launched timely promotion activities during major festivals such as the Labour Day holiday, National Day Golden Week and New Year holiday. These large sales promotions provided customers with more new offerings and special offers, which directly stimulated growth in the Group's sales revenue. Its online sales promotion also saw considerable progress. The Group's pinyi108.com officially went live in 2011 and it had attracted extensive attention in various cities during the year.

Close supplier partnership and unique purchase strategy

The Group is always committed to providing diversified goods for customers and maintaining a stable supply of goods to meet different consumer demands. The Group has established good business relationships with its suppliers via its unique purchase strategy so as to ensure a unified and stable source of goods for each retail outlet. During the year, certain provisions were made by the Group in respect of the amounts due from suppliers to take into account the increasing operating pressure of the upstream industry. As for product selection, the procurement department of the Group conducted product inspection from time to time, aiming to maintain the quality and variety of consumer electronic products to further enhance its competitive strength in the industry. Due to the rapid growth of e-commerce, the Group initiated its brand strategy planning concerning the introduction of 3C digital products during the year under review. By introdcuing 3C digital products of several world-wide recognized brands, the Group has achieved regional strategic cooperation on such products.

In addition, during the year, the Group launched the "Promotion of Commodity Program System" ("關於商品專案制度推廣") and "Commodity Program-Based Bonus System" ("商品專案制分紅") on a trial basis, which led to sales program with guaranteed volume and revenue through defining specific product models, thus stepping up its cooperation with the suppliers, and further establishing its sales drives and improving sales profit.

Enhancement of information technology system construction and information monitoring

As a vital support for the Group's operation, the information system should be improved from time to time in line with the growth of the Group. During the year, the Group integrated its existing information management system and optimized its procedures and used the supply chain system at some of the franchised stores to facilitate the central management of franchised stores' supply chain by the Group. The revolutionary information technology system of the Group extended the scope of information sharing between the Group and some of its franchisees, which allowed it to effectively track the sales performance and inventory level of its franchised stores on a real-time basis and ultimately facilitating its operation management in such areas as sourcing, inventory, replenishments and logistics.

Excellent talent resources management

In order to support its business reform program and enhance staff quality, the Group proactively enhanced its human resources management and implemented overall staff incentive management strategy. The Group has a sound training system, with its diversified training courses covering, among other things, product knowledge, sales and management skills, which can raise the overall quality of employees at all levels. During the year, the Group organized more than 3,300 training sessions with more than 28,000 participants. In addition, the Group's "Huiyin Business School" had conducted its fourth session in 2011. Such education and training platform continues to provide the employees of the Group with standardized, systematic and differential education and training. With the launch of e-commerce and other emerging programs during the year, the Group actively brought in relevant technical talents. As at 31 December 2011, the Group had a total of 1,375 employees.

FINANCIAL REVIEW

Revenue

During the year, due to the business development, the booming growth in the third and fourth-tier household appliances consumer market and accelerated urbanization of rural area despite impact of macro-economic slowdown and expiration of the Change of the Old for New Program at the end of year, the Group's revenue was approximately RMB2,835.1 million, representing an increase of 58.9% from RMB1,784.5 million in 2010.

Turnover of the Group comprises revenues by operation as follows:

	2011 RMB'000		2010 RMB'000	
Retail	**1,080, 486**	**38.1%**	769,364	43.1%
Bulk Distribution				
– Sales to franchisees	**691,714**	**24.4%**	448,167	25.1%
– Sales to other retailers and distributors	**1,043,343**	**36.8%**	552,259	31.0%
Rendering of services	**19,586**	**0.7%**	14,660	0.8%
Total revenue	**2,835,129**	**100.0%**	1,784,450	100.0%

During the year, 43 self-operated stores of the Group which already operated in 2010 accounted for 70.5% of the total number of the self-operated stores in the year. The increase in retail sales was also attributable to the robust demand in third and four-tier market, especially an increase of retail sales in Anhui Province, as well as an increase in sales per self-operated store due to our enhanced brand recognition, improved store management and beneficial market conditions in 2011.

During the year, sales to franchisees increased primarily as a result of an increase in sales per franchised store. Accelerating the rural urbanization process, raising farmers' income and stimulating consumption in rural area were the focus of the economic policies for 2011. The franchised stores grasped market opportunities through upgrading and improving the store image, product selection, promotion skills and quality of services, etc.

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

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

	2011 RMB'000		2010 RMB'000	
Air-conditioners	**1,561,737**	**55.5%**	1,100,581	62.2%
TV sets	**621,872**	**22.1%**	324,918	18.4%
Refrigerators	**215,239**	**7.6%**	142,883	8.1%
Washing machines	**164,748**	**5.9%**	91,170	5.1%
Other small appliances	**251,947**	**8.9%**	110,238	6.2%
Total revenue	**2,815,543**	**100.0%**	1,769,790	100.0%

The percentage of air-conditioner sales decreased in 2011, which was mainly due to the diversification of product lines, therefore the percentage of air-conditioner sales decreased.

The percentage of TV sets sales increased, which was mainly due to an increase in sales of new products, such as Smart TVs and 3D TVs. The drive of replacement and upgrade stimulated demand and increased the capacity of consumer market.

Cost of sales

Cost of sales increased by approximately 69.0% from RMB1,464.0 million for 2010 to RMB2,473.7 million for 2011, primarily due to an increase in sales volume. The rate of increase in cost of sales was higher than that of our sales growth principally because: (i) the sales volume of our bulk distribution operation increased at a faster rate than that of retail operation, as the prices that we charge for merchandise through our bulk distribution operation were generally lower than the prices of similar products sold at our self-operated store; and (ii) the Group suffered costing pressure due to the inflated costs and expenses of home appliances' manufactures, and the expiration of subsidies to the energy-saving appliances on 31 May 2011.

Gross profit

As a result of the above principal factors, our gross profit increased by approximately 12.8% from RMB320.5 for 2010 to RMB361.4 for 2011.

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

	2011	2010
Retail	**17.8%**	23.5%
Bulk Distribution	**9.3%**	13.5%
Rendering of services	**39.5%**	33.4%
Overall	**12.8%**	18.0%

During the year, the gross profit margin of the Group decreased, mainly due to the impact of macro-economic policies and the increasing cost pressure in the industry.

The gross profit margin of retail operation decreased because: (i) the production cost increased in this industry and the subsides to the energy-saving appliances was cancelled, while the sales price could not be reflected immediately due to customers' price sensitivities; and (ii) the sales percentage of the whole retail business in Anhui Province increased from 6.5% in 2010 to 16.6% in 2011, while the gross profit margin in Anhui was lower than that in Jiangsu.

The gross profit margin of our bulk distribution operation was hurt by not only economic slowdown, but also pricing pressure in market while costs ran higher in production industry.

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

	2011	2010
Air-conditioners	**9.2%**	17.5%
TV sets	**14.3%**	17.9%
Refrigerators	**16.3%**	15.9%
Washing machines	**17.5%**	16.8%
Other small appliances	**22.6%**	24.3%
Overall	**12.6%**	17.8%

The gross profit margin of air-conditioners decreased because: (i) the impact of macro-economic policies and increasing cost pressure in upstream industry; and (ii) under our bulk distribution operation, merchandise is often sold to our franchisees and other third parties with volume discounts. The volume discounts are assessed based on the anticipated annual purchases by a particular customer and periodic discount policy agreed between the customer and us in advance. Due to the development of bulk distribution business, such as new areas of certain brands, the Group provided new customers with larger amount of volume discounts in 2011, which led to the decrease of the gross profit margin of air-conditioners.

The gross profit margin of TV series decreased primarily due to an increase in percentage of bulk distribution sales, while the gross profit margin of TV series for bulk distribution operation was lower than that for retail operation.

Other income

During the year, the Group's other income amounted to approximately RMB18.0 million, representing an increase from RMB16.1 million in 2010, which was mainly due to the impact of an increase in promotion and store display income and also subsidies of transportation and old merchandise arising from the Change of the Old for New Program offset by a decrease in government subsidies.

Other losses

During the year, the Group's other losses amounted to approximately RMB10.3 million, representing a significant increase from RMB1.1 million in 2010, which was mainly due to the fair value losses amounting to RMB11.1 million arising from the consideration payable to the joint venture partner.

Selling and marketing expenses

During the year, the Group's total selling and marketing expenses amounted to approximately RMB172.8 million, representing an increase from RMB96.8 million for 2010, which was mainly due to the increase of operating lease expenses in respect of buildings and warehouses and other expenses related to newly opened retail stores in 2011, such as employee benefit expenses, service charges, utilities and telephone expenses and etc.

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

	2011	2010
Employee benefit expenses	**1.09%**	0.86%
Service charges	**0.53%**	0.29%
Operating lease expenses in respect of buildings and warehouses	**1.66%**	1.09%
Promotion and advertising expenses	**1.00%**	1.49%
Depreciation of property, plant and equipment	**0.73%**	0.65%
Utilities and telephone expenses	**0.31%**	0.08%
Transportation expenses	**0.48%**	0.49%
Travelling expenses	**0.11%**	0.18%
Others	**0.17%**	0.29%
Total selling and marketing expenses	**6.08%**	5.42%

The percentage of operating lease expenses in respect of buildings and warehouses increased, which was mainly due to the leasing pressure of self-operated stores newly opened since the second half year of 2011.

The percentage of promotion and advertising expenses decreased, which was mainly due to the increasing sales volume and the smooth growth of promotion and advertising expense benefit from higher efficiency of marketing management.

Administrative expenses
During the year, the Group's total administrative expenses amounted to approximately RMB142.6 million, increasing from RMB96.9 million in 2010, which was mainly due to the increase of the employee benefit expenses, operating lease expenses, and provision for impairment on receivables.

The following table sets out a summary for administrative expenses:

	2011	2010
Employee benefit expenses	**35,971**	28,483
Pre-IPO Option Scheme expenses	**10,553**	15,840
Operating lease expenses in respect of buildings	**10,403**	5,510
Amortization and depreciation	**6,564**	3,889
Utilities and telephone expenses	**2,085**	5,013
Travelling expenses	**4,009**	4,113
Professional fees for the Listing of the Company	**—**	7,468
Auditors' remuneration	**3,825**	3,750
Consulting expenses	**3,108**	4,302
Provision for impairment on receivables	**32,910**	—
Others	**33,175**	18,506
Total administrative expenses	**142,603**	96,874

The increase of provision for impairment on receivables was mainly due to making of certain provision for receivables from suppliers after having considered the increased operating pressure of upstream companies in the industry in the second half of 2011.

Finance costs – net
During the year, the Group's net finance costs was approximately RMB12.6 million, compared to RMB1.4 million of net finance costs in 2010, which was mainly due to the fact that much more borrowings were incurred in 2011 compared with 2010.

Profit before income tax
During the year, the Group's profit before income tax was approximately RMB41.1 million, decreased by approximately 70.7% from RMB140.4 million in 2010.

Income tax
During the year, the Group's income tax was approximately RMB22.0 million, representing 53.6% of the profit before income tax, compared with approximately RMB46.4 million representing 33.1% of the profit before income tax in 2010. The higher effective tax rate during the year was mainly due to the increase of certain non-deductible expenses, including fair value losses on contingent consideration liabilities, impairment loss against goodwill and etc.

Profit attributable to equity holders of the Company
The Group's profit attributable to equity holders for 2011 and 2010 were approximately RMB15.5 million and RMB91.7million respectively, representing a decrease of 83.1%. If the impact of Pre-IPO Option Scheme expenses, professional fees for the Listing of the Company, fair value changes on contingent liabilities and amortization expense on intangible assets arising from acquisitions of business is excluded, the decrease rate would be approximately 62.7%.

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

Cash and cash equivalents
As at 31 December 2011, the Group's cash and cash equivalents were approximately RMB123.7 million, representing a decrease of 31.9% from 181.6 million as at December 2010.

Inventories
As at 31 December 2011, the Group's inventories amounted to approximately RMB382.7 million, increasing from RMB276.4 million as at 31 December 2010, which was in line with the business expansion of the Group.

Prepayments, deposits and other receivables
As at 31 December 2011, prepayments, deposits and other receivables of the Group amounted to approximately RMB967.5 million, increasing from RMB789.4 million as at 31 December 2010.

Trade and bills receivables
As at 31 December 2011, trade and bills receivables of the Group amounted to approximately RMB173.7 million, representing a slight increase from RMB167.0 million as at 31 December 2010, which was mainly due to the increase of bills receivable. Trade and bills receivables turnover days were 22 days for 2011, which represented a decrease compared with 28 days for 2010.

Trade and bills payables
As at 31 December 2011, trade and bills payables of the Group amounted to approximately RMB547.2 million, representing a slight increase from RMB526.9 million as at 31 December 2010, which was mainly due to the increase of bills payable. Trade and bills payables turnover days were 79 days for 2011, which represented a decrease compared with 90 days for 2010.

Gearing ratio and the basis of calculation
As at 31 December 2011, gearing ratio of the Group was 35.1%, representing an increase from 4.5% as at 31 December 2010, which was mainly due to the significant increase of borrowing balance. The gearing ratio is equal to total borrowing divided by total balances of equity and borrowings.

Capital expenditure
During the year, capital expenditure of the Group amounted to approximately RMB232.5 million, increasing from RMB76.3 million in 2010. The increase of the capital expenditure was mainly due to the prepayments for the land use rights, addition of logistics center construction costs and distribution agreements arising from the acquisition of a subsidiary amounting to approximately RMB125.0 million, RMB44.2 million and RMB22.9 million respectively in 2011.

Cash flow
During the year, net cash outflow from operating activities of the Group amounted to approximately RMB202.2 million as compared to RMB122.8 million in 2010. Higher net cash outflow from operating activities in 2011 was mainly due to the impact of increase in inventory and prepayments, deposits, trade and bills receivables and other receivables.

Net cash outflow from investing activities amounted to approximately RMB227.0 million, representing an increase from RMB39.6 million in 2010, which was mainly due to the prepayment for land use rights, amounting to approximately RMB125.0 million.

Net cash inflow from financing activities amounted to approximately RMB371.4 million, a substantially increase as compared to RMB328.2 million in 2010, which was mainly due to fact that much more borrowings were incurred in 2011 as compared with 2010.

Capital structure

As at 31 December 2011, the Group's cash and bank balances were mainly held in Renminbi, and the Group's short term bank borrowings were denominated in Renminbi and in US dollar with floating interest rate.

As at 31 December 2011, equity attributable to shareholders of the Group amounted to approximately RMB1,065.2 million, compared to RMB1,057.0 million as at 31 December 2010.

Liquidity and financial resources

During the year, the Group's working capital, capital expenditure and cash for investment were funded from cash on hand, bank borrowings and IPO proceeds. As at 31 December 2011, the interest-bearing bank borrowings of the Group amounted to RMB599.1 million, representing a substantially increase from RMB50 million as at 31 December 2010.

Of all the short term bank borrowings, the two bank borrowing balances of US$15.8 million, equivalent to RMB99.7 million, were utilized in the Mainland China in the form of additional capital injection, which were registered at local administration of foreign exchange. The Group was under negotiation with the relevant banks for the change of utilization of the two borrowings as specified in the loan agreements.

As announced by the Company on 26 April 2011, a wholly-owned subsidiary of the Company proposes to issue Medium-Term Notes in the PRC with an aggregate principal amount of not more than RMB400 million. Application had been made for the registration of the Medium-Term Notes with the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會). The Board believes that the proposed issue of the Medium-Term Notes will provide the Group with additional source of funding for its business development and expansion.

Pledging of assets

As at 31 December 2011, the Group's pledged bank deposits amounted to RMB411.3 million, representing an increase from RMB207.0 million as at 31 December 2010. Certain land use rights, buildings and investment properties with a total net book value of RMB88.4 million had been pledged.

Contingent liabilities

As at 31 December 2011, the Group had no contingent liabilities which have not been properly accrued for.

Capital commitments

As at 31 December 2011, the Group had commitments for capital and property development expenditure amounted to approximately RMB120.4 million.

Foreign currencies and treasure policy

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

USE OF FUNDS RAISED FROM INITIAL PUBLIC OFFERING

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

As stated in the prospectus of the Company dated 12 March 2010, we intend to use approximately HK$156.5 million (equivalent to approximately RMB137.6 million) for expansion of our retail network, approximately HK$203.2 million (equivalent to approximately RMB178.6 million) for potential acquisitions of home appliances and electronics retail enterprises in eastern China which target at the third and fourth-tier markets, approximately HK$55.0 million (equivalent to approximately RMB48.4 million) for expansion of our existing distribution and logistics centers in Jiangsu Province, approximately HK$5.0 million (equivalent to approximately RMB 4.4 million) for improving our existing information and management systems, and approximately HK$39.2 million (equivalent to approximately RMB34.5 million) as our general working capital.

As at 31 December 2011, our use of net proceeds raised from IPO was as follows:

	Net proceeds from IPO	
	Available to Utilise (RMB million)	Utilised (up to 31 December 2011) (RMB million)
Expansion of retail network	**137.6**	137.6
Acquisitions of home appliances and electronics retail enterprises	**178.6**	68.3
Expansion of distribution and logistics centers in Jiangsu Province	**48.4**	48.4
Improving information and management systems	**4.4**	2.1
General working capital	**34.5**	34.5
	403.5	290.9

EMPLOYMENT AND REMUNERATION POLICY

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

HUMAN RESOURCES

As at 31 December 2011, the Group had 1,375 employees, down 15.3% from 1,624 at the end of 2010.

FINAL DIVIDEND

The Board of the Company does not recommend to make any final dividend for the year ended 31 December 2011 (2010: HK 2.0 cents).

OUTLOOK

Uncertainties continue to cast shadow on the global economic recovery. Inflation, rising production costs and other factors have resulted in a more challenging environment in China. Looking ahead, the Group will consolidate and maintain the brand awareness of “Huiyin” in the Chinese home appliance market, as well as the strength of supply chain in the third and fourth-tier markets in China by continually leveraging its unique business model and adhering to the cautiously optimistic marketing and promotion strategies. The Group will enhance its outlet management efficiency by leveraging its optimized business model while continuing its close communication with customers in order to understand their needs. This will not only help control operating costs, but also enhance competiveness and create a win-win situation for its partnerships with suppliers.

The Rural Appliance Rebate Program and the Old for New Program are coming to an end. Although a new round of consumption stimulus policy is expected to be launched in 2012, it is widely believed that the home appliance market would see a slower growth. Home appliance companies will need to adjust their development strategies to maintain business development. On the other hand, with the accelerating urbanization process in China, the home appliance markets in rural areas still enjoy huge room for development. Benefiting from the rapid growth in rural household income and the steady improvement in living standards of rural residents, the demand for home appliances is expected to continue its growth in the third and fourth-tier markets and rural markets. It is expected that the development in such markets is still blooming. Looking ahead, as a leader in the third and fourth-tier home appliance markets, the Group is prepared to fully promote the development of e-commerce and direct sales in addition to strengthening its sales channels and introducing more diversified products types. During the year, the Group began to consolidate its markets and upgrade its industry chain and introduced its brand strategy planning for 3C digital products, striving to offer consumers with high-quality and diversified consumer electronic products to further strengthening its competitive strength. Leveraging its profound experience in sales, customer service, logistics and other aspects, coupled with the integration of the existing information management system and optimized procedures and professional department staff training, the Group will be able to continue to improve its operating efficiency and build an extensive and stable customer base.

The Group will strive to enhance its brand and profitability from all aspects through various business models and adjusting operating structure. As for the marketing strategy and product promotion, the Group will continue to strengthen its sales channel and its close relationships with suppliers, and further expand the coverage of 3C products in its outlets as well as share of strategic brands in order to offer customers with more quality products. As for internal control, the Group will continue to improve its performance evaluation system including efficiency of capital use, cost control system, establishment of internal procedures, risk management and staff development.

As a leading chain store operator and distributor of quality home appliances and consumer electronic products in eastern China, the Group has always strived to become a leader in the third and fourth-tier home appliance markets in China. The Group has established a solid foundation for its future long term development, and believes that the effective implementation of the above strategies will enable itself to achieve sustainable business growth, enhance profitability and operating efficiency, thereby generating higher returns for shareholders and investors.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") (to the extent that such provisions are applicable) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2011, except for the code provision A.2.1.

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

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

AUDIT COMMITTEE

The Audit Committee of the Group was established in 2010. Currently, it comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Tan Bien Kiat and Mr. Zhou Shuiwen. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the CG Code issued by the Stock Exchange. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2011 and the auditor's report thereon.

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 1 June 2012, to Tuesday, 5 June 2012, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 31 May 2012.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Tuesday, 5 June 2012, the notice of which will be published and dispatched to shareholders as soon as practicable in accordance with the Company's Articles of Association and the Listing Rules.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The 2011 Annual Report of the Company will be dispatched to shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hyjd.com in due course. This announcement can also be accessed on these websites.

By order of the Board
Huiyin Household Appliances (Holdings) Co., Ltd.
Cao Kuanping
Chairman

Hong Kong, 20 March 2012

As at the date of this announcement, the executive Directors are Mr. Cao Kuanping, Mr. Mo Chihe, Mr. Mao Shanxin, Mr. Wang Zhijin and Mr. Lu Chaolin, the non-executive Director is Mr. Li Jung-Hsing, and the independent non-executive Directors are Mr. Zhou Shuiwen, Mr. Tam Chun Chung and Mr. Tan Bien Kiat.