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**Hengdeli Holdings Limited**  
**亨得利控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 3389)

**2011 INTERIM RESULTS**

**FINANCIAL HIGHLIGHTS**

| Results                                    | Six months ended 30 June              |                                       |                   |
|--|---------------------------------------|---------------------------------------|-------------------|
|  | 2011<br><i>RMB'000</i><br>(Unaudited) | 2010<br><i>RMB'000</i><br>(Unaudited) | YoY change<br>(%) |
| Sales                                      | <b>5,407,147</b>                      | 3,714,767                             | +45.6             |
| Profit for the period                      | <b>500,157</b>                        | 330,956                               | +51.1             |
| Profit attributable to equity shareholders | <b>447,944</b>                        | 306,411                               | +46.2             |
| Basic earnings per share                   | <b>RMB0.102</b>                       | RMB0.075                              | +36.0             |

## INTERIM RESULTS

The board of directors (the “Directors”) of Hengdeli Holdings Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

### CONSOLIDATED INCOME STATEMENT

*for the six months ended 30 June 2011 – unaudited*

|   |             | <b>For the six months<br/>ended 30 June</b> |                         |
|---|-------------|---|-------------------------|
|   | <i>Note</i> | <b>2011<br/>RMB'000</b>                     | <b>2010<br/>RMB'000</b> |
| <b>Turnover</b>                                     | 3           | <b>5,407,147</b>                            | 3,714,767               |
| Cost of sales                                       |             | <u>(4,014,872)</u>                          | <u>(2,800,207)</u>      |
| <b>Gross profit</b>                                 | 3           | <b>1,392,275</b>                            | 914,560                 |
| Other revenue                                       | 4           | <b>73,989</b>                               | 40,316                  |
| Other net income                                    | 4           | <b>3,015</b>                                | 25,642                  |
| Distribution costs                                  |             | <b>(599,839)</b>                            | (395,572)               |
| Administrative expenses                             |             | <b>(149,252)</b>                            | (132,161)               |
| Other operating expenses                            |             | <u>–</u>                                    | <u>(20)</u>             |
| <b>Profit from operations</b>                       |             | <b>720,188</b>                              | 452,765                 |
| Finance costs                                       | 5(a)        | <b>(71,068)</b>                             | (27,555)                |
| Share of (loss)/gain of jointly controlled entities |             | <u>(2,245)</u>                              | <u>643</u>              |
| <b>Profit before taxation</b>                       | 5           | <b>646,875</b>                              | 425,853                 |
| Income tax  | 6           | <u>(146,718)</u>                            | <u>(94,897)</u>         |
| <b>Profit for the period</b>                        |             | <b><u>500,157</u></b>                       | <b><u>330,956</u></b>   |
| Attributable to:                                    |             |   |                         |
| Equity shareholders of the Company                  | 、           | <b>447,944</b>                              | 306,411                 |
| Non-controlling interests                           |             | <u><b>52,213</b></u>                        | <u>24,545</u>           |
| <b>Profit for the period</b>                        |             | <b><u>500,157</u></b>                       | <b><u>330,956</u></b>   |
| <b>Earnings per share – RMB</b>                     | 7           |   |                         |
| Basic   |             | <b><u>RMB0.102</u></b>                      | <b><u>RMB0.075</u></b>  |
| Diluted   |             | <b><u>RMB0.101</u></b>                      | <b><u>RMB0.075</u></b>  |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the six months ended 30 June 2011 – unaudited*

|  | <b>For the six months<br/>ended 30 June</b> |                       |
|--|---|-----------------------|
|  | <b>2011</b>                                 | <b>2010</b>           |
|  | <b>RMB'000</b>                              | <b>RMB'000</b>        |
| <b>Profit for the period</b>   | <b>500,157</b>                              | <b>330,956</b>        |
| <b>Other comprehensive income for the period:</b>  |   |                       |
| Exchange differences on translation of financial<br>statements of entities outside the PRC | <u>(38,743)</u>                             | <u>(13,795)</u>       |
| <b>Total comprehensive income for the period</b>   | <b><u>461,414</u></b>                       | <b><u>317,161</u></b> |
| Attributable to:   |   |                       |
| Equity shareholders of the Company   | <b>409,201</b>                              | <b>292,616</b>        |
| Non-controlling interests  | <u><b>52,213</b></u>                        | <u><b>24,545</b></u>  |
| <b>Total comprehensive income for the period</b>   | <b><u>461,414</u></b>                       | <b><u>317,161</u></b> |

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*at 30 June 2011 – unaudited*

|   |             | <b>At 30 June<br/>2011</b> | <b>At 31 December<br/>2010</b> |
|---|-------------|----------------------------|--------------------------------|
|   | <i>Note</i> | <i>RMB'000</i>             | <i>RMB'000</i>                 |
| <b>Non-current assets</b>               |             |                            |                                |
| Fixed assets                            | 9           |                            |                                |
| – Investment property                   |             | 238,089                    | 240,467                        |
| – Other property, plant and equipment   |             | <u>721,237</u>             | <u>664,476</u>                 |
|   |             | <b>959,326</b>             | <b>904,943</b>                 |
| Intangible assets                       |             | 24,531                     | 25,721                         |
| Goodwill                                |             | 277,921                    | 277,921                        |
| Interest in an associate                |             | 1,850                      | 1,850                          |
| Interest in jointly controlled entities |             | 55,118                     | 52,930                         |
| Other investments                       |             | 797                        | 797                            |
| Other financial assets                  | 10          | 384,996                    | 121,050                        |
| Deferred tax assets                     |             | <u>62,149</u>              | <u>51,628</u>                  |
|   |             | <b>1,766,688</b>           | <b>1,436,840</b>               |
| <b>Current assets</b>                   |             |                            |                                |
| Inventories                             | 11          | 3,934,107                  | 3,197,859                      |
| Trade and other receivables             | 12          | 1,353,182                  | 1,004,900                      |
| Pledged bank deposits                   |             | –                          | 10,000                         |
| Cash and cash equivalents               | 13          | <u>2,558,762</u>           | <u>3,409,807</u>               |
|   |             | <b>7,846,051</b>           | <b>7,622,566</b>               |
| <b>Current liabilities</b>              |             |                            |                                |
| Bank loans                              | 14          | 833,242                    | 1,076,649                      |
| Trade and other payables                | 15          | 1,416,857                  | 881,026                        |
| Current taxation                        |             | <u>112,266</u>             | <u>97,485</u>                  |
|   |             | <b>2,362,365</b>           | <b>2,055,160</b>               |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)***at 30 June 2011 – unaudited*

|  |             | <b>At 30 June<br/>2011</b> | <b>At 31 December<br/>2010</b> |
|--|-------------|----------------------------|--------------------------------|
|  | <i>Note</i> | <i>RMB'000</i>             | <i>RMB'000</i>                 |
| <b>Net current assets</b>  |             | <b><u>5,483,686</u></b>    | <b><u>5,567,406</u></b>        |
| <b>Total assets less current liabilities</b>                               |             | <b><u>7,250,374</u></b>    | <b><u>7,004,246</u></b>        |
| <b>Non-current liabilities</b>   |             |                            |                                |
| Bank loans   | 14          | 221,182                    | 232,446                        |
| Convertible bonds  | 16          | 2,059,064                  | 2,084,677                      |
| Embedded financial derivatives   | 16          | 6,047                      | 9,062                          |
| Deferred tax liabilities   |             | <u>41,217</u>              | <u>32,380</u>                  |
|  |             | <b><u>2,327,510</u></b>    | <b><u>2,358,565</u></b>        |
| <b>NET ASSETS</b>  |             | <b><u>4,922,864</u></b>    | <b><u>4,645,681</u></b>        |
| <b>CAPITAL AND RESERVES</b>  |             |                            |                                |
| Share capital  |             | 21,309                     | 21,302                         |
| Reserves   |             | <u>4,524,276</u>           | <u>4,295,113</u>               |
| <b>Total equity attributable to equity<br/>shareholders of the Company</b> |             | <b>4,545,585</b>           | <b>4,316,415</b>               |
| Non-controlling interests  |             | <u>377,279</u>             | <u>329,266</u>                 |
| <b>TOTAL EQUITY</b>  |             | <b><u>4,922,864</u></b>    | <b><u>4,645,681</u></b>        |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***for the six months ended 30 June 2011 – unaudited*

|  |             | <b>For the six months<br/>ended 30 June</b> |                       |
|--|-------------|---|-----------------------|
|  |             | <b>2011</b>                                 | <b>2010</b>           |
|  | <i>Note</i> | <b><i>RMB'000</i></b>                       | <b><i>RMB'000</i></b> |
| Cash generated from operations                         |             | <b>255,704</b>                              | 61,639                |
| Income tax paid  |             | <b>(133,621)</b>                            | (98,819)              |
| Net cash generated from/(used in) operating activities |             | <b>122,083</b>                              | (37,180)              |
| Net cash (used in)/generated from investing activities |             | <b>(460,839)</b>                            | 61,405                |
| Net cash used in financing activities                  |             | <b>(478,555)</b>                            | (188,413)             |
| Net decrease in cash and cash equivalents              |             | <b>(817,311)</b>                            | (164,188)             |
| Cash and cash equivalents at 1 January                 | <i>13</i>   | <b>3,409,807</b>                            | 1,150,951             |
| Effect of foreign exchange rate changes                |             | <b>(33,734)</b>                             | (130)                 |
| Cash and cash equivalents at 30 June                   | <i>13</i>   | <b><u>2,558,762</u></b>                     | <b><u>986,633</u></b> |

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 23 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from the 2010 annual financial statements. The 2010 annual financial statements are available from the Company’s registered office. The auditors have expressed an unqualified opinion on the 2010 annual financial statements in their report dated 22 March 2011.

### 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- Amendment to HKAS32, *Financial instruments: Presentation – Classification of rights issues*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The above developments related primarily to clarification of certain disclosure requirements applicable to the Group’s financial statements. These developments have had no material impact on the contents of this interim financial report.

### 3 SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in the PRC). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Retail (include three reportable segments in Mainland China, Taiwan and Hong Kong, respectively): given the importance of the retail division to the Group, the Group's retail business is segregated further into three reportable segments on a geographical basis, as the divisional managers for each of these regions report directly to the senior executive team. All segments primarily derive their revenue from the retail of watches through their own retail network.
- Wholesale: this segment distributes numerous world renowned brand watches in the PRC.

#### (a) Segment results and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following basis:

Segment assets represent inventories only.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.



|                                  | Retail         |           |           |           |         |         |           |           |                         |         |           |           |
|----------------------------------|----------------|-----------|-----------|-----------|---------|---------|-----------|-----------|-------------------------|---------|-----------|-----------|
|                                  | Mainland China |           | Hong Kong |           | Taiwan  |         | Wholesale |           | All others <sup>#</sup> |         | Total     |           |
| For the six months ended 30 June | 2011           | 2010      | 2011      | 2010      | 2011    | 2010    | 2011      | 2010      | 2011                    | 2010    | 2011      | 2010      |
|                                  | RMB'000        | RMB'000   | RMB'000   | RMB'000   | RMB'000 | RMB'000 | RMB'000   | RMB'000   | RMB'000                 | RMB'000 | RMB'000   | RMB'000   |
| Revenue from external customers  | 2,596,200      | 1,774,053 | 1,448,813 | 1,045,915 | 102,628 | 67,851  | 1,155,848 | 751,329   | 103,658                 | 75,619  | 5,407,147 | 3,714,767 |
| Inter-segment revenue            | -              | -         | -         | -         | -       | -       | 1,735,758 | 1,296,781 | 6,115                   | 803     | 1,741,873 | 1,297,584 |
| Reportable segment revenue       | 2,596,200      | 1,774,053 | 1,448,813 | 1,045,915 | 102,628 | 67,851  | 2,891,606 | 2,048,110 | 109,773                 | 76,422  | 7,149,020 | 5,012,351 |
| Reportable segment profit        | 841,784        | 562,929   | 344,613   | 207,717   | 30,405  | 21,034  | 145,461   | 101,114   | 30,012                  | 21,766  | 1,392,275 | 914,560   |

| Reportable segment<br>assets | Retail         |           |           |          |         |          |           |          |                         |          |           |           |
|------------------------------|----------------|-----------|-----------|----------|---------|----------|-----------|----------|-------------------------|----------|-----------|-----------|
|                              | Mainland China |           | Hong Kong |          | Taiwan  |          | Wholesale |          | All others <sup>#</sup> |          | Total     |           |
|                              | 31             |           | 31        |          | 31      |          | 31        |          | 31                      |          | 31        |           |
|                              | 30 June        | December  | 30 June   | December | 30 June | December | 30 June   | December | 30 June                 | December | 30 June   | December  |
|                              | 2011           | 2010      | 2011      | 2010     | 2011    | 2010     | 2011      | 2010     | 2011                    | 2010     | 2011      | 2010      |
|                              | RMB'000        | RMB'000   | RMB'000   | RMB'000  | RMB'000 | RMB'000  | RMB'000   | RMB'000  | RMB'000                 | RMB'000  | RMB'000   | RMB'000   |
|                              | 2,133,887      | 1,825,530 | 864,936   | 780,659  | 234,852 | 180,067  | 782,283   | 493,091  | 90,602                  | 67,393   | 4,106,560 | 3,346,740 |

<sup>#</sup> Revenues from segments below the quantitative thresholds are mainly attributable to a watch repairing and maintenance business, manufacture and distribution business of writing instruments branded OMAS, a packaging and decoration business. None of those segments met any of the quantitative thresholds for determining reportable segments.

**(b) Reconciliations of reportable segment revenues, profit and assets**

|  | <b>For the six months<br/>ended 30 June</b> |                  |
|--|---|------------------|
|  | <b>2011</b>                                 | <b>2010</b>      |
| <b>Revenue</b>                         | <b>RMB'000</b>                              | <b>RMB'000</b>   |
| Total revenues for reportable segments | 7,039,247                                   | 4,935,929        |
| Other revenue                          | 109,773                                     | 76,422           |
| Elimination of inter-segment revenue   | (1,741,873)                                 | (1,297,584)      |
| Consolidated turnover                  | <u>5,407,147</u>                            | <u>3,714,767</u> |

|   | <b>For the six months<br/>ended 30 June</b> |                |
|---|---|----------------|
|   | <b>2011</b>                                 | <b>2010</b>    |
| <b>Profit</b>                                       | <b>RMB'000</b>                              | <b>RMB'000</b> |
| Total profit for reportable segments                | 1,362,263                                   | 892,794        |
| Other profit  | 30,012                                      | 21,766         |
|   | <u>1,392,275</u>                            | <u>914,560</u> |
| Other revenue                                       | 73,989                                      | 40,316         |
| Other net income                                    | 3,015                                       | 25,642         |
| Distribution costs                                  | (599,839)                                   | (395,572)      |
| Administrative expenses                             | (149,252)                                   | (132,161)      |
| Other operating expenses                            | –   | (20)           |
| Finance costs                                       | (71,068)                                    | (27,555)       |
| Share of (loss)/gain of jointly controlled entities | (2,245)                                     | 643            |
| Consolidated profit before taxation                 | <u>646,875</u>                              | <u>425,853</u> |

|  | <b>At 30 June<br/>2011</b> | <b>At 31 December<br/>2010</b> |
|--|----------------------------|--------------------------------|
| <b>Assets</b>                          | <b>RMB'000</b>             | <b>RMB'000</b>                 |
| Total assets for reportable segments   | 4,015,958                  | 3,279,347                      |
| Other assets                           | 90,602                     | 67,393                         |
| Elimination of inter-segment purchases | (172,453)                  | (148,881)                      |
|  | <u>3,934,107</u>           | <u>3,197,859</u>               |
| Trade and other receivables            | 1,353,182                  | 1,004,900                      |
| Pledged bank deposits                  | –                          | 10,000                         |
| Cash and cash equivalents              | 2,558,762                  | 3,409,807                      |
| Non-current assets                     | 1,766,688                  | 1,436,840                      |
| Consolidated total assets              | <u>9,612,739</u>           | <u>9,059,406</u>               |

#### 4 OTHER REVENUE AND NET INCOME

|   | For the six months<br>ended 30 June |               |
|---|-------------------------------------|---------------|
|   | 2011                                | 2010          |
|   | RMB'000                             | RMB'000       |
| <b>Other revenue</b>                      |                                     |               |
| Interest income                           | 29,345                              | 6,650         |
| Government grants                         | 7,825                               | 8,500         |
| Dividend income from unlisted investments | 29,527                              | 19,252        |
| Rental income                             | 2,350                               | 1,696         |
| Others                                    | 4,942                               | 4,218         |
|   | <u>73,989</u>                       | <u>40,316</u> |

|  | For the six months<br>ended 30 June |               |
|--|-------------------------------------|---------------|
|  | 2011                                | 2010          |
|  | RMB'000                             | RMB'000       |
| <b>Other net income</b>  |                                     |               |
| Changes in fair value of embedded financial derivatives ( <i>note 16</i> ) | 3,015                               | (1,047)       |
| Net gain on disposal of a subsidiary                                       | –                                   | 7,650         |
| Net gain on disposal of property, plant and equipment ( <i>note 9</i> )    | –                                   | 6,769         |
| Net gain on disposal of intangible asset                                   | –                                   | 12,270        |
|  | <u>3,015</u>                        | <u>25,642</u> |

#### 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

|  | For the six months<br>ended 30 June |               |
|--|-------------------------------------|---------------|
|  | 2011                                | 2010          |
|  | RMB'000                             | RMB'000       |
| <b>(a) Finance costs</b>                         |                                     |               |
| Interest expense on bank loans                   | 25,749                              | 19,820        |
| Interest on convertible bonds ( <i>note 16</i> ) | 46,861                              | 5,000         |
| Bank charges                                     | 1,913                               | 2,238         |
| Net foreign exchange (gain)/loss                 | (3,455)                             | 497           |
|  | <u>71,068</u>                       | <u>27,555</u> |

|  | For the six months<br>ended 30 June |                  |
|--|-------------------------------------|------------------|
|  | 2011                                | 2010             |
|  | RMB'000                             | RMB'000          |
| <b>(b) Other items</b>   |                                     |                  |
| Amortisation of intangible assets  | <u>1,361</u>                        | <u>1,130</u>     |
| Depreciation – property, plant and equipment,<br>and investment property | <u>36,833</u>                       | <u>22,013</u>    |
| Operating leases charges in respect of properties                        |                                     |                  |
| — minimum lease payments   | 85,948                              | 61,118           |
| — contingent rents   | <u>213,326</u>                      | <u>141,887</u>   |
|  | <u>299,274</u>                      | <u>203,005</u>   |
| Cost of inventories  | <u>4,014,872</u>                    | <u>2,800,207</u> |

## 6 INCOME TAX

|   | For the six months<br>ended 30 June |               |
|---|-------------------------------------|---------------|
|   | 2011                                | 2010          |
|   | RMB'000                             | RMB'000       |
| <b>Current tax</b>  |                                     |               |
| Provision for Hong Kong profits tax for the period            | 41,622                              | 22,614        |
| Provision for PRC income tax for the period                   | 105,668                             | 66,212        |
| Provision for Taiwan and Macau income taxes<br>for the period | 1,112                               | 2,346         |
| <b>Deferred tax</b>   |                                     |               |
| Origination and reversal of temporary difference              | <u>(1,684)</u>                      | <u>3,725</u>  |
|   | <u>146,718</u>                      | <u>94,897</u> |

- (a) Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than Hong Kong, the PRC, Taiwan, Macau and Italy, are not subject to any income tax in these jurisdictions.
- (b) The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the period.

- (c) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

On 16 March 2007, the PRC government enacted the new Enterprise Income Tax law ("new EIT law"), which unified the income tax rate to 25% for all companies incorporated in the PRC. The new EIT law was effective as of 1 January 2008. The new EIT law and its relevant regulations provide a 5-year transition period from its effective date for those companies which were established before 16 March 2007 and which were entitled to a preferential lower tax rate under the then effective tax laws and regulations, as well as grandfathering certain tax holidays granted under the previous tax law. In accordance with the transitional provisions, one of the Group's subsidiaries located in the Shenzhen Economic Zone is subject to income tax rates of 18%, 20%, 22%, and 24% for 2008, 2009, 2010 and 2011 respectively, and 25% thereafter.

Pursuant to the new EIT law and its relevant regulations, another subsidiary of the Group located in Guangzhou is subject to income tax at 12.5% according to the policy of "two years exemption and three years half rate reduction" for the 3 years from 2009 to 2011 and 25% thereafter.

Both of the above PRC subsidiaries will be subject to the unified tax rate of 25% from 2012.

The applicable income tax rate of the Group's other PRC subsidiaries is 25%.

- (d) The provisions for Taiwan and Macau income taxes for 2011 are calculated at 17% and 12% (2010: 17% and 12%, respectively) of the estimated assessable profits for the interim period respectively.
- (e) Income tax is calculated at 31.4% (2010: 31.4%) of any assessable profit in Italy. No such assessable profit was generated during the interim period.

## **7 EARNINGS PER SHARE**

### **(a) Basic earnings per share**

The calculation of basic earnings per share of the six months ended 30 June 2011 is based on the profit attributable to equity shareholders of the Company of RMB447,944,000 (six months ended 30 June 2010: RMB306,411,000) and the weighted average of 4,397,210,098 ordinary shares (six months ended 30 June 2010: 4,069,026,000 ordinary shares) in issue during the interim period.

### **(b) Diluted earnings per share**

The calculation of diluted earnings per share for the six months ended 30 June 2011 is based on the profit attributable to equity shareholders of the Company of RMB447,341,000 (six months ended 30 June 2010: RMB306,411,000) and the weighted average of 4,419,074,295 ordinary shares (six months ended 30 June 2010: 4,069,026,000 ordinary shares) adjusting for the effect of conversion of United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") and the effect of deemed issue of shares under the Company's share option scheme for nil consideration.

The calculation of diluted earnings per share amount for the six months ended 30 June 2011 has not included the potential effects of the deemed conversion of HKD Settled 2.5% Convertible Bonds due 2015 (the “2015 Convertible Bonds”) into ordinary shares as it has anti-dilutive effects on the basic earnings per share amount for the period.

The calculation of diluted earnings per share amount for the six months ended 30 June 2010 has not included the potential effects of both the deemed conversion of the convertible bonds into ordinary shares and the deemed exercise of share options as both of them have anti-dilutive effects on the basic earnings per share amount for the period.

## 8 DIVIDENDS

- (a) No interim dividend was declared after the interim period.
- (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period, are as follows:

|   | <b>For the six months<br/>ended 30 June</b> |                |
|---|---|----------------|
|   | <b>2011</b>                                 | <b>2010</b>    |
|   | <b>RMB'000</b>                              | <b>RMB'000</b> |
| Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.042 per share (six months ended 30 June 2010: RMB0.027 per share) | <b>184,665</b>                              | <b>109,864</b> |

## 9 FIXED ASSETS

### (a) Additions and disposals

During the six months ended 30 June 2011, the Group incurred decoration and construction costs with the total amount of RMB69,811,000 and purchased two apartments in Beijing and Hong Kong totalling RMB17,300,000 for administrative purpose.

There are no significant acquisitions/disposals during the period from 1 January 2011 to 30 June 2011.

### (b) Valuation

The investment properties are located in Shenzhen and Wuhan in Mainland China and Taipei in Taiwan, and are rented out under the terms of operating leases. The fair value of the investment property as at 30 June 2011, as determined by reference to recent market transactions of comparable properties, amounted to RMB310,719,000 (31 December 2010: RMB277,076,000). The fair value of the investment properties has not been evaluated by an independent external valuer. Rental income of RMB2,350,000 was received from leasing the investment properties during the six months ended 30 June 2011 (six months ended 30 June 2010: RMB1,493,000).

## 10 OTHER FINANCIAL ASSETS

|  |      | At 30 June<br>2011<br>RMB'000 | At 31 December<br>2010<br>RMB'000 |
|--|------|-------------------------------|-----------------------------------|
|  | Note |                               |                                   |
| Debt security at amortised cost                          | (i)  | 263,946                       | —                                 |
| Prepayment in respect of the acquisition of a subsidiary |      | 121,050                       | 121,050                           |
|  |      | <u>384,996</u>                | <u>121,050</u>                    |

- (i) On 21 April 2011, one of the Group's subsidiaries, Xinyu Hengdeli Investments Limited ("Hengdeli Investments") purchased a bond issued by a third party. The principal of debt security was USD40,000,000 (RMB258,864,000) at an annual interest rate of 13%, payable in USD every 12 months starting from the purchase date. Every six months after the issue date, the issuer may elect to redeem all or part of this bond at principal amount plus any accrued and unpaid interest. At any time on or after one year from issue date, Hengdeli Investments may require the issuer to redeem all or part of the debt security.

## 11 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

|                  | At 30 June<br>2011<br>RMB'000 | At 31 December<br>2010<br>RMB'000 |
|------------------|-------------------------------|-----------------------------------|
| Raw materials    | 24,419                        | 33,056                            |
| Work in progress | 43,166                        | 21,158                            |
| Finished goods   | 3,866,522                     | 3,143,645                         |
|                  | <u>3,934,107</u>              | <u>3,197,859</u>                  |

## 12 TRADE AND OTHER RECEIVABLES

|   | At 30 June<br>2011<br>RMB'000 | At 31 December<br>2010<br>RMB'000 |
|---|-------------------------------|-----------------------------------|
| Current   | 503,683                       | 440,198                           |
| Less than 1 month past due                          | 99,715                        | 51,027                            |
| 1 to 3 months past due                              | 17,597                        | 9,005                             |
| More than 3 months but less than 12 months past due | 17,749                        | 7,743                             |
| More than 12 months past due                        | 1,971                         | 4,811                             |
|   | <u>640,715</u>                | <u>512,784</u>                    |
| Trade debtors, net of allowance for doubtful debts  | 640,715                       | 512,784                           |
| Prepayments and other receivables                   | 712,467                       | 492,116                           |
|   | <u>1,353,182</u>              | <u>1,004,900</u>                  |

All of the trade and other receivables are expected to be recovered within one year.

Customers are normally granted credit terms of not more than 70 days depending on the credit worthiness of individual customers.

### 13 CASH AND CASH EQUIVALENTS

As at 31 December 2010 and 30 June 2011, all the Group's cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated cash flow statement represents cash at bank and cash in hand.

### 14 BANK LOANS

|                        | At 30 June<br>2011<br><i>RMB'000</i> | At 31 December<br>2010<br><i>RMB'000</i> |
|------------------------|--------------------------------------|--|
| Current                |                                      |  |
| – secured bank loans   | 2,107                                | 5,765                                    |
| – unsecured bank loans | 831,135                              | 1,070,884                                |
|                        | <u>833,242</u>                       | <u>1,076,649</u>                         |
| Non-current            |                                      |  |
| – secured bank loans   | 171,282                              | 163,011                                  |
| – unsecured bank loans | 49,900                               | 69,435                                   |
|                        | <u>221,182</u>                       | <u>232,446</u>                           |

At 30 June 2011, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB256,878,000 (31 December 2010: RMB250,678,000).

### 15 TRADE AND OTHER PAYABLES

|                                       | At 30 June<br>2011<br><i>RMB'000</i> | At 31 December<br>2010<br><i>RMB'000</i> |
|---------------------------------------|--------------------------------------|--|
| Within 1 month                        | 903,216                              | 438,287                                  |
| Over 1 month but less than 3 months   | 131,499                              | 55,058                                   |
| Over 3 months but less than 12 months | 77,243                               | 25,875                                   |
| Over 1 year                           | 23,299                               | 17,901                                   |
| Total creditors and bills payables    | 1,135,257                            | 537,121                                  |
| Other payables and accrued expenses   | 281,600                              | 323,199                                  |
| Payables due to related parties       | –                                    | 20,706                                   |
|                                       | <u>1,416,857</u>                     | <u>881,026</u>                           |



## 16 CONVERTIBLE BONDS

### (i) The 2012 Convertible Bonds

On 24 August 2007, the Company issued the 2012 Convertible Bonds with an aggregate principal amount of RMB1,150,000,000. The subscription amount payable in respect of each RMB1,000,000 principal amount of the Bonds is approximately USD132,282. The 2012 Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The movement of the liability component and embedded financial derivatives of the 2012 Convertible Bonds for the six months ended 30 June 2011 is set out below:

|  | <b>Liability<br/>component</b><br><i>RMB'000</i> | <b>Embedded<br/>financial<br/>derivatives</b><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i> |
|--|--|---|--------------------------------|
| As at 31 December 2010                                       | 44,736   | 9,062   | 53,798                         |
| Interest charged during the period ( <i>note 5(a)</i> )      | 1,203  | –   | 1,203                          |
| Changes in fair value<br>during the period ( <i>note 4</i> ) | –  | (3,015)   | (3,015)                        |
| As at 30 June 2011   | <u>45,939</u>                                    | <u>6,047</u>  | <u>51,986</u>                  |

No conversion, redemption or purchase and cancellation of the 2012 Convertible Bonds has occurred during the six months ended 30 June 2011.

### (ii) The 2015 Convertible Bonds

On 20 October 2010, the Company issued the 2015 Convertible Bonds in the aggregate principal amount of HKD2,500,000,000. The 2015 Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The movement of the liability component and the equity component of the 2015 Convertible Bonds for the six months ended 30 June 2011 is set out below:

|   | <b>Liability<br/>component</b><br><i>RMB'000</i> | <b>Equity<br/>component</b><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i> |
|---|--|---|--------------------------------|
| As at 31 December 2010                                  | 2,039,941  | 60,412  | 2,100,353                      |
| Interest charged during the period ( <i>note 5(a)</i> ) | 45,658   | –   | 45,658                         |
| Interest paid during the period                         | (26,289)   | –   | (26,289)                       |
| Foreign currency translation difference                 | (46,185)   | –   | (46,185)                       |
| As at 30 June 2011                                      | <u>2,013,125</u>                                 | <u>60,412</u>                                 | <u>2,073,537</u>               |

No conversion, redemption or purchase and cancellation of the 2015 Convertible Bonds has occurred during the six months ended 30 June 2011.

## 17 SHARE-BASED PAYMENTS

1,685,000 share options were excised during the six months ended 30 June 2011 (31 December 2010: 16,361,000 share options).

## 18 COMMITMENTS

### (a) Operating lease commitments

|  | <b>At 30 June<br/>2011<br/>RMB'000</b> | <b>At 31 December<br/>2010<br/>RMB'000</b> |
|--|--|--|
| Non-cancellable operating lease rentals<br>are payable as follows: |  |  |
| Less than one year   | <b>118,417</b>                         | 124,448                                    |
| Between one and five years   | <b>163,865</b>                         | 189,206                                    |
| More than five years   | <b>37,086</b>                          | 41,845                                     |
|  | <b>319,368</b>                         | 355,499                                    |

The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum lease payments disclosed above, the Group has a commitment to pay rent of a proportion of turnover for certain leased properties. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

## 19 RELATED PARTY TRANSACTIONS

The Group has transactions with the companies controlled by the ultimate shareholders ("Ultimate shareholders' companies"), non-controlling shareholders of subsidiaries ("Non-controlling shareholders") and jointly controlled entities. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

### (a) Recurring

|                              | <b>For the six months<br/>ended 30 June<br/>2011<br/>RMB'000</b> | <b>2010<br/>RMB'000</b> |
|------------------------------|--|-------------------------|
| <b>Lease expense to:</b>     |  |                         |
| A jointly controlled entity  | <b>4,433</b>   | 1,080                   |
| <b>Guaranteed profit to:</b> |  |                         |
| Non-controlling shareholders | —  | 1,647                   |
| <b>Sales of goods to:</b>    |  |                         |
| A jointly controlled entity  | —  | 12,488                  |

(b) Amounts due to

|                               | At 30 June<br>2011<br>RMB'000 | At 31 December<br>2010<br>RMB'000 |
|-------------------------------|-------------------------------|-----------------------------------|
| <b>Other payables due to:</b> |                               |                                   |
| Non-controlling shareholders  | –                             | 20,706                            |

## MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2011, the international economic situation was fluctuating while the Chinese economy was basically under stable development. The Group fully captured opportunities. Being proactive and with great efforts, the Group insisted to be market-oriented and developed its businesses in a proactive and progressive manner with satisfactory results. The sales income for the half-year period surpassed RMB5 billion for the first time, generating satisfactory returns for our shareholders and society.

### I. Financial Review

#### *Sales*

As at 30 June 2011, the Group recorded sales of RMB5,407,147,000, representing an increase of 45.6% over the corresponding period last year. Retail sales amounted to RMB4,147,641,000, representing an increase of 43.6% over the corresponding period last year, of which retail sales in Mainland China, Hong Kong and Taiwan amounted to RMB2,596,200,000, RMB1,448,813,000 and RMB102,628,000, representing a growth of 46.3%, 38.5% and 51.3% over the corresponding period last year respectively. The overall retail sales accounted for 76.7% of the total sales, which was in line with the direction of the Group's strategic development.

During the period under review, the retail business of the Group maintained a steady and fast growth. Apart from the relatively stable Chinese economy, it is mainly attributable to the continuous fast pace of growth in our retail outlets in second and third tier cities, the steady growth maintained by the coastal first tier developed cities in Mainland China, and the rapid growth in Hong Kong. In particular, thanks to the rapid growth of the middle class, the second and third tier cities in Mainland China brought about a rapid growth of the middle-to-high-end brands. Meanwhile, the Group continuously enhanced its operation management, strived to increase the gross profit margin of the retail business, as well as adjusted its brand portfolio, optimised its inventory structure and improved its service quality promptly and reasonably in line with the actual market conditions so as to ensure steady business development.

Sales breakdown: (for the six months ended 30 June)

|                              | 2011                    |                   | 2010                    |                   |
|------------------------------|-------------------------|-------------------|-------------------------|-------------------|
|                              | <i>RMB('000)</i>        | <i>%</i>          | <i>RMB('000)</i>        | <i>%</i>          |
| Retail Business              |                         |                   |                         |                   |
| Mainland China               | <b>2,596,200</b>        | <b>48.0</b>       | 1,774,053               | 47.8              |
| Hong Kong                    | <b>1,448,813</b>        | <b>26.8</b>       | 1,045,915               | 28.2              |
| Taiwan                       | <b>102,628</b>          | <b>1.9</b>        | 67,851                  | 1.8               |
| Wholesale Business           | <b>1,155,848</b>        | <b>21.4</b>       | 751,329                 | 20.2              |
| Customer Services and Others | <b>103,658</b>          | <b>1.9</b>        | 75,619                  | 2.0               |
| Total                        | <b><u>5,407,147</u></b> | <b><u>100</u></b> | <b><u>3,714,767</u></b> | <b><u>100</u></b> |

### ***Gross profit and gross profit margin***

As at 30 June 2011, the Group's gross profit increased by 52.2% as compared to the same period last year to approximately RMB1,392,275,000. Gross profit margin was approximately 25.7%, showing a relatively substantial increase as compared with the corresponding period last year. The increase in gross profit margin was mainly attributable to the Group's ongoing proactive efforts in expanding retail business, which has a higher gross profit margin, its active steps in lowering the sales ratio of some clients with lower gross profit margin in the wholesale business, better understanding on the marketing and sales as well as the ongoing improvement of the retail management.

### ***Profit for the period and profit margin***

During the period under review, the Group recorded a substantial growth in net profit of approximately RMB500,157,000, representing an increase of 51.1% over the corresponding period last year. The corresponding net sales margin was approximately 9.2%. The increase was mainly attributable to the rapid increase of the Group's sales, steady improvement of operational management efficiency as well as rational and effective control and reduction of expense ratio.

### ***Financial status and net debt to equity ratio***

The Group maintained a sound and stable financial position.

As at 30 June 2011, the Group's total equity interests were RMB4,922,864,000 and current net asset value was RMB5,483,686,000, of which bank deposits amounted to RMB2,558,762,000. In addition, the bank loans totalled RMB1,054,424,000.

On 30 June 2011, the remaining principal of the USD settled zero coupon convertible bonds due 2012 issued by the Company in August 2007 amounted to RMB44,000,000. The aggregate principal amount of the HKD settled convertible bonds due 2015 issued by the Company on 20 October 2010 (“Convertible bonds” or “Bonds”) amounted to HKD2,500,000,000. Taking into account of such net convertible bonds, together with bank loans, the Group’s total debt amounted to RMB3,119,535,000. As at 30 June 2011, the net debt to equity ratio of the Group, including convertible bonds, was approximately 11.4%. The directors of the Company believe that such net debt to equity ratio is within a reasonable range and allows the Group to have sufficient funds, laying down a solid foundation for the potential business expansion.

### ***Foreign exchange risk***

The Group’s transactions are mainly denominated in RMB and HKD. During the period under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to any significant risks associated with foreign exchange fluctuations.

The Group has been monitoring its foreign exchange risk with great attention.

### ***Operating cash flow***

During the period under review, based on its prudent and proactive business objective and a market-oriented approach, the Group continuously improved the composition and turnover of inventory while putting great efforts in developing its businesses. Therefore, comparing with the corresponding period last year, the operating cash flow was greatly improved, laying a sound foundation for the Company’s potential business development.

### ***Pledge of assets***

As at 30 June 2011, the Group had land and buildings of RMB256,878,000 pledged as security for mortgage.

### ***Contingent liabilities***

As at 30 June 2011, the Group did not have any material contingent liabilities.

### ***Current assets***

During the period under review, the current assets of the Group amounted to approximately RMB7,846,051,000, comprising inventories of approximately RMB3,934,107,000, trade and other receivables of approximately RMB1,353,182,000 and cash and cash equivalents of approximately RMB2,558,762,000.

### ***Current liabilities***

During the period under review, the current liabilities of the Group amounted to approximately RMB2,362,365,000, comprising bank loans of approximately RMB833,242,000, trade and other payables of approximately RMB1,416,857,000, and current tax payable of approximately RMB112,266,000.

### ***Material investment, acquisition and disposal***

Save as disclosed in notes to the financial statements, there was no material acquisition or disposal of subsidiaries and associated companies nor was there any significant investment held by the Company during the period under review.

### ***Capital structure***

The Company's capital structure is composed of issued share capital, convertible bonds, reserve and accumulated profits. As at 30 June 2011, the issued share capital of the Company was 4,398,169,054 shares and the principal amount of the convertible bonds due 2012 was RMB44,000,000 and the principal amount of the convertible bonds due 2015 was HKD2,500,000,000.

## **II. Business Review**

During the period under review, the Group's business continued to focus on the build-up of the retail network in the Greater China region with a core presence in Mainland China. It was supplemented with the provision of comprehensive customer services, manufacture of extension products, brand distribution and jewellery business, etc. The sales income surpassed RMB5 billion for the first time during the period. The results were remarkable.

### ***Retail network***

The build-up of the retail network is the strategic focus of the Group's development. During the period under review, the Group expanded its retail network in line with the market while focusing on strengthening the management of current retail outlets. By enhancing the quality of retail outlets, effectively controlling the costs, adjusting its brand portfolio and optimizing its inventory composition, the Group achieved a steady growth in business. Retail sales of the Group amounted to RMB4,147,641,000, representing an increase of 43.6% over the corresponding period last year. Retail sales accounted for 76.7% of the total sales; of which retail sales in Mainland China and Hong Kong amounted to RMB2,596,200,000 and RMB1,448,813,000, representing a growth of 46.3% and 38.5% respectively over the corresponding period last year. The gross profit of the retail business reached RMB1,216,802,000, representing a growth of 53.7% as compared with the corresponding period last year. The growth in retail sales was attributable to the increase in the number of retail outlets, and more importantly the strong increase in same store retail sales. Despite the relatively large base factor, compared with the corresponding period last year, the growth rate of same store sale still reached 36.9% on average.

Our retail network spans across the Greater China region where retail stores are mainly “Elegant”, “Prime Time”/“Hengdeli”, “With Time” and single-brand boutiques. “Elegant” mainly sells top internationally renowned brand watches; “Prime Time”/“Hengdeli” mainly sells middle-to-high-end internationally renowned brand watches, while “With Time” mainly sells internationally fashionable watches. Due to effective expansion and after adjustment and integration, as at 30 June 2011, the Group operated a total of 378 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, an increase of 76 outlets over the corresponding period last year. Of these stores, 19 were “Elegant” shops (5 in Hong Kong, 13 in Mainland China and 1 in Taiwan), 242 were “Prime Time” and “Hengdeli” shops (205 in Mainland China and 37 in Taiwan), 46 were “With Time” shops (all are located in Mainland China) and 71 were brand boutiques (47 in Mainland China, 11 in Hong Kong, 1 in Macau and 12 in Taiwan).

The Group has maintained good partnerships with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHMONT Group, ROLEX Group and DKSH Group. As at 30 June 2011, the Group distributed over 50 internationally renowned brands from the above five major brand suppliers and other independent watchmakers, including Cartier, Vacheron Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Van Cleef & Arpels, Scatola del Tempo, Vincent Berard, Maurice Lacroix, Tissot, Frederique Constant and Mido. The Group continued to step up efforts in bringing in and adjusting middle-to-high-end brands to enhance sales portfolio of the brands, which would be favourable to the long-term business development and ongoing enhancement of overall results.

#### *Mainland China*

The Group had a comprehensive distribution network of watch retail outlets covering most of the provinces and cities in Mainland China, with presence in major areas including Shanghai, Beijing, Northeast, Zhejiang, Jiangsu, Henan and Shanxi, thus consolidating its market share. Meanwhile, the retail outlets in regions like Southwest and Northwest were also developing and kept strengthening.

As at 30 June 2011, the Group operated a total of 311 retail outlets in Mainland China. During the period under review, the Group committed tremendous efforts to improve the re-positioning and sales of middle-to-high-end brands and consolidate and expand the retail network of “Prime Time” and “With Time” through a number of approaches, the sales of which were positive in the second, third and fourth tier cities. During the period under review, the Group acquired a number of retail outlets of 南昌華瑞鐘錶有限公司. Such outlets were mainly located in regions including Jiangxi Nanchang and the surrounding areas, selling watch brands including Hamilton, Longines, Rado, Tissot and Tudor. Such acquisitions expanded and strengthened the Group’s retail network in Central and Southern China, thus increasing its market share in such second and third tier cities.



In order to complement the Group's high-end watch retail business in Hong Kong, and consider the actual demand for watches in Mainland China, more than 75% of the Group's retail outlets in Mainland China are "Prime Time" shops which are positioned to sell middle-to-high-end watches, and "With Time" shops which sell fashionable watches. They will remain the Group's leading retail brands in Mainland China in the foreseeable future.

Engaging in the sales of high-end watches by the Group, "Elegant" shop has a relatively small coverage in Mainland China. As at 30 June 2011, there were 13 "Elegant" shops in Mainland China which were mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang. During the period under review, the Group opened a new "Elegant" shop in Shanxi Taiyuan. The shop is located in the new business district in Taiyuan with great geographical location and complete facilities. The shop has an area of more than 7,000 square feet and mainly sells top international brands such as Rolex, Piaget, IWC, Panerai, Jaeger-LeCoultre, Glashutte, TAG Heuer, Breguet, Blancpain and Omega. It also provides consumers with a platform for exchanging ideas and appreciating watches.

During the period under review, there was a strong growth in same store retail sales in Mainland China, with an increase of 38.4% over the corresponding period last year. On one hand, the growth was attributable to the rapid growth in consumption in the middle-to-high-end consumables market as a result of the positive situation of Chinese economy where the middle class and the affluent class expanded rapidly. On the other hand, the growth benefited directly from the Group's effort in management. The Group timely adjusted its brand portfolio, optimised its inventory structure and effectively controlled the costs, resulting in a desirable growth in both sales and gross profit margin.

#### *Hong Kong and Macau*

Thanks to the factors such as continuous inflow of customers from Mainland China, appreciation in RMB and the relatively mature market, together with the Group's broad, profound and loyal clientele in Hong Kong as well as the interactivity between retail outlets in Mainland China and Hong Kong, the after-sales service network across the Greater China ensures after-sale guarantee for Chinese tourists shopping in Hong Kong, the Group achieved robust growth in its retail business in Hong Kong during the period under review. As at 30 June 2011, the same store sales and gross profit margin both achieved a relatively substantial growth, up 34.4% and 3.9% respectively as compared with the corresponding period last year, which showed great potential growth.

During the period under review, the Group opened a new "Elegant" comprehensive shop in Hong Kong. The shop is located on the first floor of International Finance Center in Central and has an area of 4,419 square feet, integrating cosiness, leisure and luxury. The shop sells more than 15 top brands such as Lange, Chopard, Franck Muller, IWC, Jaeger-LeCoultre, Piaget, Glashutte, etc. and also the delicate watches of independent watchmakers Reuge and Urwerk, which could well be praised as a superb brand portfolio. With the professional guidance and enthusiastic services of the salespersons, it is believed that the shop will bring desirable growth in profit for Elegant (Hong Kong).



As at 30 June 2011, the Group operated a total of 16 retail outlets in Hong Kong, of which 5 are “Elegant” shops that sell various brands and 11 are single-brand boutiques or image shops. These stores are mainly located in first tier business districts in Tsim Sha Tsui, Central and Causeway Bay. The “Elegant” flagship shop at Ocean Terminal in Tsim Sha Tsui opened in 1970, with an area of approximately 1,700 square feet and it has maintained the highest sales record as a single shop.

The Group’s retail business in Hong Kong mainly focuses on high-end brands, including Vacheron-Constantin, Breguet, Cartier, Jaeger-LeCoultre, Omega, Chopard, Panerai, Zenith, IWC, Franck Muller and independent watchmakers’ Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge. During the first half of the year, the Group introduced brands like Piaget, Blancpain and Dewitt. Such high-end brands fully complemented our retail business in Mainland China and Taiwan, creating tremendous synergy.

As the proportion of Mainland China customers is increasing, Elegant (Hong Kong) set up a free enquiry hotline 4001-200-622 for Mainland China in March this year. This will greatly strengthen the connection between Elegant and Mainland customers, and pose an exceptionally positive impact on Elegant’s sales to Mainland customers.

The Omega boutique opened in Macau at the end of last year achieved remarkable sales performance during the period under review. Following the changing economic situation and improved economic status of Macau, the Group’s businesses in Hong Kong and Macau will definitely supplement well with each other, further consolidating the Group’s leading position in Greater China region.

#### *Taiwan*

As at 30 June 2011, the Group operated a total of 50 retail outlets in Taiwan. They are mainly located in major areas like Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except the “Elegant” shops which sell first-class watches and some of the boutiques, all of the Group’s retail shops mainly sell brands like Rado, TAG Heuer, Carl F. Bucherer, Longines and Tissot.

During the period under review, the retail business in Taiwan was successfully expanded. The “Elegant” flagship shop in Taipei opened last year generated positive sales with significant increase in sales as compared with the corresponding period last year. Currently, the target consumers in Taiwan are still mainly local customers. Followed by the signing of The Economic Cooperation Framework Agreement (the “ECFA”), the deepened cross-strait business relation and the gradual expansion of barrier-free travel between Mainland China and Taiwan, it is believed that more tourists in Mainland China will travel to Taiwan, creating new opportunities for Taiwan’s retail industry.

### ***Customer services and maintenance***

“Advanced technology, online warranty, efficient management and considerate services” provides assurance to our customers and brand suppliers. The Group delivers all-round services to customers through an interactive customer services network consisting of “repair and maintenance service centers”, “repair service stations” and “repair service points” and provides the most convenient and tailored services to customers by way of warranty in the Greater China region including Mainland China, Hong Kong and Taiwan. The service hotline 4008 acts as the Group’s centralised service window for the general public, offering customers timely and fast advice and the best assurance.

During the period under review, the cooperation between the Group’s customer services and maintenance and brand suppliers further developed. With effort from both parties. The Group set up a “green channel” for brands from the Swatch Group such as Tissot and Hamilton, providing the customers with the most convenient, fastest and comprehensive assistance. There are more and more brand suppliers who appreciate the high standard of the Group’s maintenance support. During the period under review, the Group entered into service dealership agreements with several brands including brands from Swiss Fortune Concept and Deluxe.

Senior maintenance technicians are the fundamentals of the Group’s customer services. During the period under review, senior maintenance technicians from different countries and regions like Japan and Taiwan joined the Group, making our maintenance management staff more internationalized. In addition, a number of our maintenance technicians were appointed as examiners of the Occupational Skill Testing Authority of Beijing in China.

### ***Ancillary extension products***

During the period under review, the business of our ancillary segment of the watch retail business was expanded, which included partnerships with brands and expansion of business varieties. In addition to existing business with brands such as Omega, Rolex, Tudor, Rado, Longines and Tissot, the Group further partnered with brands including Hamilton. Apart from the core product types such as standard packaging and display windows, the Group also diversified its display products and brand sales ancillary products. This firmly supports the fast development of the Group’s principal businesses including retail business.

### ***Brand distribution***

The Group has more than 300 wholesale customers in over 40 cities in Mainland China. The Group distributes and exclusively distributes world’s renowned brand watches mainly including TAG Heuer, Zenith, Bulgari, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant, Mido, Ck, Hamilton, Certina and Balmain.

The Group has maintained good partnerships with brand suppliers and numerous retailers. The extensive and tremendous support from them created a harmonious win-win situation.

## ***Jewellery business***

During the period under review, the jewellery business was successfully expanded. The affluent group in Mainland China is emerging continuously, but the consumption of jewellery still remains low. Jewellery will become popular for citizens in Mainland China. Relevant figures showed that the category of jewellery continued last year's increasing trend in the first half of 2011 and achieved the highest growth among all consumption categories and showed tremendous growth potential. We believe that the opening up of jewellery business will bring to the Group a new point of profit growth, and generate more satisfactory returns for the shareholders.

### **III. Human Resources and Training**

As at 30 June 2011, the Group employed a total of 6,195 employees in Mainland China, Hong Kong and Taiwan. The Group is always committed to developing and building up human resources. We implement a systematic recruitment policy and allocate resources to various training programs for the managerial staff, front-line service staff and maintenance technicians. These training programs cover, among others, the art of management, sales skills, brand knowledge and service awareness, so as to enhance staff's knowhow, marketing skills and service capability. The Group also works with its brand suppliers on the provision of regular training to front-line service staff and maintenance technicians in brand knowledge and maintenance expertise.

The Group offers a competitive remuneration package and various incentives, and regularly reviews the structure of relevant mechanisms to cope with the needs for corporate development. The Group granted options to the general management staff and associates of the Company in recognition of their contributions to the Group and as an incentive for their greater future commitment. The Group also offers various benefits to the employees, including pension contribution plan, MPF plan, insurance scheme, housing and meal allowances, etc. Details of the remuneration package and other benefits are set out in the financial statements.

Under a sound human resources protection system, the Group has a number of senior salespersons and senior repair technicians. A number of staff members have received the "Capital Labour Medal" and the "May 1st Labour Medal".

### **IV. Outlook**

The sound and prudent monetary policy of the Chinese government and its aggressive and flexible fiscal policy together provide the Chinese economy with healthy development incentive. Promoting consumption growth comprehensively and maintaining a rapid yet balanced development of the Chinese economy will make China one of the markets with the greatest growth potential. Therefore, the Group will remain in China for business development.

To aggressively yet prudently expand retail business in the Greater China region in line with market demand remains to be our core development strategy. In the second half of the year, the Group will adopt the principle of opening new outlets while strengthening the management of

current outlets to continuously raise the quality of the retail outlets. As our retail network grows, the Group will also optimize the structure of our three retail network systems constantly, namely Elegant, Prime Time/Hengdeli and With Time, so as to better align the configuration of network system with market needs. The Group will also continue to strengthen its customer service system in Greater China and the ancillary business, and establish closer partnerships with brand suppliers, so as to match with our rapid business development. For the jewellery market, the Group will stay closely with the market trend and put resources with sound and aggressive principles to expand our retail network. The Group will fully capitalize on business opportunities to achieve steady and sustainable profit growth to generate more satisfactory returns for our shareholders, investors and the society.

## **DIVIDEND DISTRIBUTION**

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2011.

## **SHARE OPTION SCHEME**

A share option scheme was adopted by the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.

Pursuant to the share option scheme, the Company granted 39,380,000 share options on 28 August 2007 to certain senior employees of the Group to subscribe for 39,380,000 ordinary shares at an exercise price of HKD4.83 per share at any time from 1 August 2010 to 31 July 2012 if certain performance targets are achieved during the period from 28 August 2007 to 31 July 2010. As the Company issued bonus shares to the qualifying shareholders on the basis of five bonus shares for every ten existing issued bonus shares in 2009, the exercise price was changed to HKD3.22 per share accordingly. On 1 January 2011, the total number of shares that might be subscribed for was 36,559,000 shares. During the period under review, 1,685,000 share options were exercised and no share option was lapsed.

During the period under review, no share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

As of 30 June 2011, the total number of shares in issue was 4,398,169,054 shares and the total number of outstanding share options was 34,874,000 shares.

## **PURCHASE, SALE OR REPURCHASE OF SECURITIES**

During the period under review, neither the Company nor its subsidiaries purchased, sold or repurchased any of the Company's listed securities.

As at 30 June 2011, the issued share capital of the Company was 4,398,169,054 shares. The Company had RMB44,000,000 bonds, which were listed on Singapore Exchange Securities Trading Limited on 24 August 2007, and HKD2.5 billion bonds, which were listed on Singapore Exchange Securities Trading Limited on 22 October 2010, outstanding.

## **CORPORATE GOVERNANCE**

### **Compliance with the Code on Corporate Governance Practices**

The Company has always been committed maintaining a high standard of corporate governance practices to ensure transparency so that the interests of our shareholders and the cooperative development among customers, employees and the Group can be safeguarded.

The Company has adopted the Code on Corporate Governance Practices of the Stock Exchange of Hong Kong Limited (“Stock Exchange”).

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) during the period under review, except for a deviation from the provision A2.1 of the Code. Given the existing corporate structure, the roles of the chairman and chief executive officer have not been separated. Although the functions and duties of the chairman and chief executive officer have been performed by the same individual, all major decisions would only be made after consultation with the Board of Directors and (where applicable) made by the Board of Directors. There are three independent non-executive directors in the Board of Directors, all of them possess adequate independence. Therefore, the Board of Directors considers the Company has achieved balance of power and sufficient protection for its interest by justifiable decisions.

### **Audit Committee**

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material exceptional items, internal controls and financial reporting matters, including a review on the interim report for the six months ended 30 June 2011.

### **Compliance with Code of Best Practice**

The Directors of the Company are not aware of any information which can reasonably show that the Company did not comply with the Code of Best Practice set out in Appendix 14 to the Listing Rules of the Stock Exchange at any time during the reporting period.

### **Compliance with the Model Code for Securities Transactions by Directors**

For the six months ended 30 June 2011, the Company had adopted a code of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions by its Directors. Following specific enquiry made with all Directors, the Directors had complied with the code for securities transactions relating to directors as required by the code mentioned above.

## **DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE**

An interim report for the six months ended 30 June 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Stock Exchange and the website of the Company in due course.

## **ACKNOWLEDGEMENT**

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

## **GENERAL INFORMATION**

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Song Jianwen and Mr. Huang Yonghua, the non-executive Directors are Mr. Chen Sheng, Mr. Shi Zhongyang and Ms. Zheng Yu and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xueling.

By Order of the Board

**Zhang Yuping**

*Chairman*

Hong Kong, 23 August 2011