亨得利
HENGDELI

Hengdeli Holdings Limited
亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3389

ANNUAL REPORT 2011

Aim High –
Unleash the Potential

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CORPORATE PROFILE

Corporate Profile

Hengdeli Holdings Limited (the "Company" or "Hengdeli" and its subsidiaries, collectively as the "Group") are the world's largest retailer of internationally renowned watch brands. Its shareholders include the Zhang family, The Swatch Group Limited, the world's largest watch manufacturer and distributor, and the LVMH Group, the world's largest luxury goods conglomerate.

With internationally renowned watches serving as a core focus, the retail of a portfolio comprising middle-to-high-end products, such as jewellery, leather goods and writing instruments, remains the strategic direction of the Group.

The Group owns an extensive retail network which comprises: Elegant (the top-tier internationally renowned watch brands), Prime Time/Hengdeli (middle-to-high-end internationally renowned watch brands) and With Time (middle-to-high-end fashionable watch brands) and single-brand boutiques. As at 31 December 2011, the Group had 405 retail outlets, selling watches from more than 50 internationally renowned brands as well as middle-to-high-end jewellery and accessories in Mainland China, Hong Kong and Taiwan.

The Group provides the most excellent integrated customer service and after-sales warranty maintenance for internationally renowned brand watches within the Greater China region and has successfully developed the business of provision of the related products within the industry.

The Group has maintained sound business relationships with the suppliers of the world's truly premier brands such as the Swatch Group, the LVMH Group, the Richemont Group and the Rolex Group. The Group is engaged in the distribution of numerous internationally acclaimed watch brands on both exclusive and non-exclusive basis. The Group has about 400 wholesale customers in approximately hundred major cities.

The Group owns OMAS, an international luxury brand, and famous Swiss watch brands such as NIVADA.

The Company has been listed on the Main Board of the Hong Kong Stock Exchange since 2005 with the stock code 3389. The stock name abbreviation is Hengdeli.

Highlights of Brands *sold at Hengdeli Group*

HAMILTON
CALVIN KLEIN
CERTINA

OMEGA
TISSOT
BLANCPAIN

LONGINES
GLASHUTTE
JAQUET DROZ

RADO
MIDO

BREGUET

Swatch Group

ROLEX
TUDOR

Rolex Group

TAG HEUER
CHRISTIAN DIOR

ZENITH
FENDI

BULGARI

LVMH Group

GUCCI
CYMA
ULYSSE

BALL
ORIS
TITONI

FRANCK MULLER
BEDAT & CO.
BREITLING

HERMES
GIRARD PERREGAUX
PARMIGIANI

MAURICE LACROIX
JEANRICHARD
RAYMOND WEIL

Independent Brands

JAEGER-LECOULTRE
PANERAI
BAUME & MERCIER

ALFRED DUNHILL
CARTIER
IWC

VACHERON CONSTANTIN
MONTBLANC

Richemont Group

CHAIRMAN'S STATEMENT

Zhang Yuping
Chairman

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Hengdeli Holdings Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2011 (the "Year" or the "Year under review") for your review.

2011 has been a year full of challenges. With the impact of the European debt crisis and the slowdown in the US economy, the external environment has been volatile and uncertain. However, with China's overall economy being basically stable, the Group sought to expand within this steady environment. While ensuring a sound financial position, the Group adopted a cautious but progressive approach to develop retail as its principal business, supplemented by other businesses such as customer service, packaging and display business and brand distribution business, which highlighted our competitive edges and achieved satisfying results.

As at 31 December 2011, the Group recorded sales of RMB11,375,280,000, representing a growth of 38.5% over the corresponding period last year. Retail sales amounted to RMB8,589,323,000, representing an increase of 34.7% over the corresponding period last year and accounted for 75.5% of the total sales, which was in line with the Group's strategic direction. The Group recorded net profit for the year of RMB918,276,000, representing a substantial increase of 48.7% over the corresponding period last year, achieving brilliant results and generating visible returns for the shareholders.

During the Year under review, we continued our strategies to maintain a core business in Mainland China while striving in other places in the Greater China regions such as Hong Kong to expand our retail network. With these principles, the Group devoted efforts to expand a complementary retail network within the Greater China region including Mainland China, Hong Kong and Taiwan and visible results were achieved. In Mainland China and Taiwan, the middle-to-high-end "Prime Time" and fashionable "With Time" remained the core brands. The Group further developed its businesses in the second and third tier cities and even the fourth tier cities, and carried out mergers and acquisitions as well as establishing its own retail outlets. In Hong Kong, the Group mainly adopted a high-end strategy that strengthened its retail network in flourishing areas such as Central and Causeway Bay, so as to consolidate and enlarge its market share. After effective expansion, adjustment and optimization, as at 31 December 2011, the number of our retail outlets increased from 350 in the corresponding period last year to 405.

Chairman's Statement

Adhering to the principle of "Growing from a strong platform to achieve steady progress", during the Year under review, the Group expanded its retail network in line with the market and particularly focused on strengthening the management of current retail outlets, enhancing the high quality of retail outlets as well as opening boutiques. The results were remarkable. During the Year, the number of high quality outlets has increased. Notwithstanding a host of unfavourable factors in the market, the Group recorded increases in both overall sales and gross profit margins together with better control over costs, the profit for the year once again increased substantially. Meanwhile, the average same store sales were also very satisfying, with an increase of 28.4% over the corresponding period last year.

Along with the sound development of the retail business, the brand effect of the Group's customer service in the Greater China region began to emerge. The integrated customer service and warranty of "Online warranty, advanced technology, efficient management and considerate services" in the Greater China region became strong momentum driving the development of the retail business, and was highlight of the Group's core competitive edges. At the same time, the manufacturing of packaging and display products, which are closely related to watches, was also under vertical development. As for the partnerships with brands, apart from the core product types such as standard packaging and display windows, the Group also diversified its display products and brand sales products.

Over the years, the Group has maintained good partnerships with brand suppliers. During the Year, such partnerships became more in-depth. In addition to the regular brand distribution and brand boutiques, the Group and the brand suppliers are also discussing the cooperation projects in more extensive areas, as well as introducing and adjusting the international brands which better meet the market needs. In terms of customer services, the Group and the brand suppliers together provide a safe, fast and sensitive "Green Channel" for maintenance for the consumers.

During the Year, the Group entered into a strategic cooperation agreement with SAP and engaged IBM as an execution party. SAP and IBM will provide assistance for the Group to comprehensively upgrade and optimise its existing supply chain, business, financial as well as daily information management system. We believe that the effective implementation of these projects will help the Group continuously enhance the professional management and the management standard of integrated operation, so as to achieve robust development in the business scale and management competence of the Group. Meanwhile, these management projects will also be the driver of the long-term, stable, healthy and rapid development of the Group, and will thus be one of the core competitive edges of the Group.

While proactively expanding the business, the Group has always been maintaining a high standard of corporate governance and

Chairman's Statement

has formulated a standardized governance system for finance, audit and human resources, with an aim to ensure that the decisions made by the Company are in the interest of the shareholders, society and staff as a whole.

Although the global economic conditions will remain challenging in 2012, the Group has confidence in the Chinese economy. The changes in the economic growth model implemented by the Chinese government, the acceleration in urbanization, and the proactive financial policy and prudent monetary policy being continuously implemented will continue to be the drivers of the Chinese economy, and will make China one of the most promising markets around the globe. Accordingly, the Group will adhere to the business development strategy for maintaining a foothold in Mainland China while striving in other places in the Greater China regions such as Hong Kong. With the presence of both challenges and opportunities, the Group will operate in line with market changes to expand its businesses in a prudent yet proactive manner so as to maintain and uplift its leading position in the internationally renowned brand watches retail business, and to coordinate the development of the retail business of other middle-to-high-end consumer goods such as jewellery, so as to generate the best returns for the shareholders, society and staff.

On behalf of the Group, I would like to express our sincere gratitude to our shareholders, suppliers, customers and other business partners for their ongoing trust and support, as well as to all our staff for their dedicated endeavours and contributions during the past year.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 20 March 2012

MANAGEMENT DISCUSSION & ANALYSIS

Management Discussion and Analysis

2011 has been a year full of challenges. The global financial market was volatile. Under the impact of the European debt crisis and the slow of the US economy, the external environment has been volatile and uncertain with an apparent increase in various types of risk. However, the Chinese economic conditions remained positive in general. The strategic policies of expanding domestic consumption enabled the Chinese market to develop steadily. Aligning itself with the pace of the Chinese economic market, the Group developed steadily. While ensuring a sound financial position, the Group adopted a cautious but progressive approach to develop retail as its core business, supplemented by other businesses such as customer service, packaging and display business and brand distribution business, which highlighted our competitive edges and achieved satisfying results.

I. Financial Review

Sales

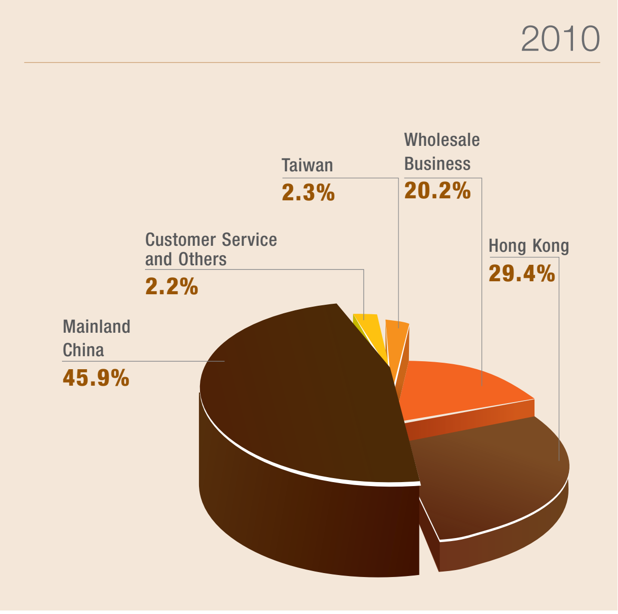
As at 31 December 2011, the Group recorded sales of RMB11,375,280,000, representing an increase of 38.5% over the corresponding period last year. Total retail sales achieved a strong growth, amounting to RMB8,589,323,000, representing an increase of 34.7% over the corresponding period last year, of which sales for the retail business in Mainland China and Hong Kong amounted to RMB5,209,797,000 and RMB3,157,265,000, representing a year-on-year growth of 38.2% and 30.9% respectively. The retail sales accounted for 75.5% of the total sales, which was completely in line with the direction of the Group's strategic development of retail as the core business.

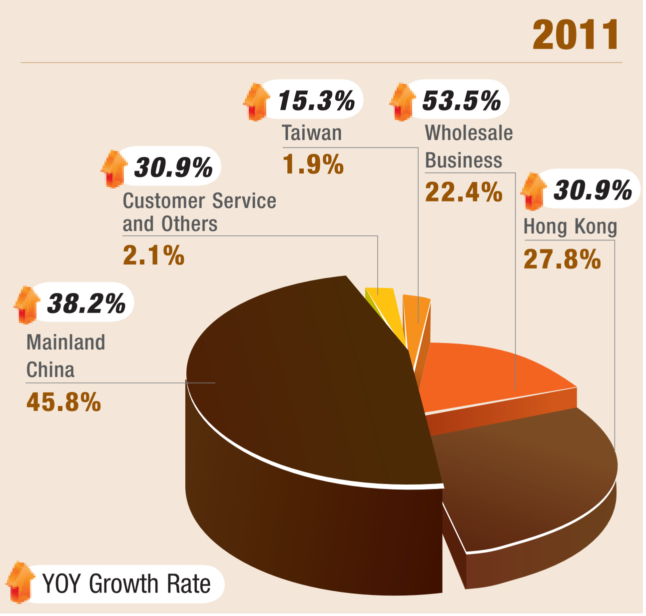
The Group's performance has been very strong. Apart from the stable Chinese economy, this performance is mainly attributable to the highly integrated and complementary nature of the Group's retail networks in Mainland China, Taiwan, Hong Kong and Macau, in which Mainland China and Taiwan focused on middle-to-high-end brands while Hong Kong and Macau focused on high-end brands. Our retail outlets achieved steady growth in the first tier cities in Mainland China, while those in the second, third and fourth tier cities grew rapidly. Retail outlets in Hong Kong quickly gained market share in prosperous areas, with steady growth in sales. In particular, thanks to the rapid growth of the economy and the middle class, the second, third and forth tier cities in Mainland China brought about a rapid growth of the middle-to-high-end brands. Moreover, with the principle of "Growing from a strong platform to achieve steady progress", during the Year, the Group adopted various measures to enhance its operational management and open boutiques. It also strived to reduce average expenses. The number of quality shops continued to increase and same store sales recorded steady growth.

Management Discussion and Analysis

Sales breakdown: (for the year ended 31 December 2011)

	2011 RMB'000	2011 %	2010 RMB'000	2010 %
Retail Business				
Mainland China	5,209,797	45.8	3,769,908	45.9
Hong Kong	3,157,265	27.8	2,412,052	29.4
Taiwan	222,261	1.9	192,698	2.3
Wholesale Business	2,550,534	22.4	1,661,119	20.2
Customer Service and Others	235,423	2.1	179,866	2.2
Total	11,375,280	100	8,215,643	100





Gross profit and gross profit margin

As at 31 December 2011, the Group's gross profit increased by 39.4% as compared to the same period last year to approximately RMB2,857,068,000. Gross profit margin was approximately 25.1%, representing an increase of 0.8% as compared with the corresponding period last year. The increase in gross profit margin was mainly attributable to the greater share occupied by the retail business with higher gross profit margin in sales, better understanding on marketing and sales as well as the ongoing improvement of the retail management.

Profit for the year and profit margin

During the Year under review, the Group recorded a substantial growth in net profit of approximately RMB918,276,000, representing an increase of 48.7% over the corresponding period last year. The corresponding net profit margin was approximately 8.1%. The increase was mainly attributable to the steady increase in the Group's sales, improvement of operational management efficiency as well as reasonable and effective control and reduction of expenses.

Management Discussion and Analysis

Financial position and net debt to equity ratio

The Group continued to maintain a sound and stable financial position.

As at 31 December 2011, the Group's total equity interests were RMB4,890,826,000 and current net asset value was RMB5,718,271,000, of which bank deposits amounted to RMB3,967,727,000. Bank loans totalled RMB2,262,103,000.

On 31 December 2011, the remaining net bonds of the USD settled zero coupon convertible bonds due in 2012 issued by the Company in August 2007 amounted to RMB44,000,000. The aggregate principal amount of the HKD settled convertible bonds due in 2015 issued by the Company on 20 October 2010 ("Convertible bonds" or "Bonds") amounted to HKD2,500,000,000. Taking into account of such convertible bonds, together with bank loans, the Group's total debt amounted to RMB4,292,694,000. As at 31 December 2011, the net debt to equity ratio of the Group, of which net debt equalled to total debt minus cash and cash equivalents, was approximately 6.6%. 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 potential business expansion.

Foreign exchange risk

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

The Group has been actively monitoring its foreign exchange risk, and adopts prudent measures at the appropriate times.

Operating cash flow

During the Year 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 achieved higher surplus, laying a sound foundation for the Company's further business development.

Pledge of assets

As at 31 December 2011, the Group had bank deposits of RMB25,899,000 pledged as security for guarantees as well as land and buildings of RMB253,148,000 pledged as security for mortgage.

Contingent liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

Current assets

During the Year under review, the current assets of the Group amounted to approximately RMB9,740,058,000, comprising inventories of approximately RMB4,521,297,000, trade and other receivables of approximately RMB1,114,801,000 and cash and cash equivalents of approximately RMB3,941,828,000.

Current liabilities

During the Year under review, the current liabilities of the Group amounted to approximately RMB4,021,787,000, comprising bank loans of approximately RMB2,041,923,000, trade and other payables of approximately RMB1,758,869,000, and current tax payable of approximately RMB144,207,000.

Capital structure

The Company's capital structure is composed of issued share capital, convertible bonds, reserves and accumulated profits. As at 31 December 2011, the issued share capital of the Company was 4,398,239,054 shares and the principal amount of the issued non interest-bearing convertible bonds due in 2012 was RMB44,000,000. The principal amount of the convertible bonds due in 2015 was HK$2.5 billion with 2.5% annual interest rate.

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 Year under review.

Final dividend

The Company recommends the payment of a final dividend of RMB0.064 per share for the financial year ended 31 December 2011 in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on 8 May 2012. The proposed cash dividend will be paid on or before 22 May 2012 to shareholders whose names appear on the register of members of the Company on 16 May 2012.

II. Business Review

During the Year under review, the Group's business primarily focused on developing the retail business for internationally renowned watch brands in the Greater China region with a core presence in Mainland China. This was supplemented with the provision of comprehensive and related customer service, manufacturing of packaging and display products, brand distribution and jewellery business. The sales income surpassed RMB10 billion for the first time during the Year, with an increase of 48.7% in net profit as compared with the corresponding period last year. These results were remarkable.

Retail network

Adhering to the principle of "Growing from a strong platform to achieve steady progress", during the Year under review, the Group expanded its retail network in line with the market while focusing particularly on strengthening the management of existing retail outlets. By enhancing the quality of retail outlets, adjusting its brand portfolio, optimizing its inventory composition and effectively controlling the costs, the Group achieved a steady growth in results. During the Year, retail sales of the Group amounted to RMB8,589,323,000, representing an increase of 34.7% over the corresponding period last year. Retail sales accounted for 75.5% of the Group's total sales. Retail sales in Mainland China and Hong Kong amounted to RMB5,209,797,000 and RMB3,157,265,000, representing a growth of 38.2% and 30.9% respectively over the corresponding period last year. The growth in retail sales was attributable to the increase in the number of retail

Management Discussion and Analysis

outlets, and more importantly the satisfactory increase in same store retail sales. Despite volatile market conditions and the high base effect, the growth rate of same store retail sales reached 28.4% on average. This highlights the continuous improvement of the Group's management capability.

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 grade internationally renowned watch brands; "Prime Time"/"Hengdeli" mainly sells middle-to-high-end internationally renowned watch brands, while "With Time" mainly sells internationally fashionable watches. Due to effective expansion and adjustment and integration, as at 31 December 2011, the Group operated a total of 405 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, an increase of 55 outlets over the corresponding period last year. Of these stores, 21 were "Elegant" shops (6 in Hong Kong, 14 in Mainland China and 1 in Taiwan), 245 were "Prime Time" and "Hengdeli" shops (207 in Mainland China and 38 in Taiwan), 65 were "With Time" shops (63 in Mainland China and 2 in Taiwan) and 74 were brand boutiques (48 in Mainland China, 12 in Hong Kong, 1 in Macau and 13 in Taiwan).

The Group has maintained good partnerships with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and DKSH Group. As at 31 December 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 the enhance sales portfolio of the brands, which should be favourable to the long-term business development and ongoing enhancement of overall sales performance. During the Year, the Group introduced brands including DeWitt, Ernst Benz and Romain Jerome.

Mainland China

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

As at 31 December 2011, the Group operated a total of 332 retail outlets in Mainland China. During the Year under review, the Group made tremendous effort in improving the re-positioning and sales of middle-to-high-end brands and consolidating and expanding 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 Year 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 Nanchang,

Management Discussion and Analysis

Jiangxi 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.

Based on the actual demand for watches in Mainland China and, in order to complement the Group's high-end watch retail business in Hong Kong, most 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. We believe that they will remain the Group's leading retail brands in Mainland China in the foreseeable future.

Engaged in the sales of high-end watches by the Group, Elegant shop has a relatively small coverage in Mainland China. As at 31 December 2011, there were 14 Elegant shops in Mainland China which were mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang. In recent years, the Group has gradually expanded its network in the developing second tier cities. During the Year under review, the Group opened new comprehensive Elegant shops in Taiyuan, Shanxi and Wuhan, Hubei respectively.

The Wuhan Elegant shop is the only boutique selling high-end imported watches in Wuhan and its surrounding areas. The shop is located adjacent to Jinrong Street (金融街) of Wuhan city and has an area of more than 14,000 square feet. The two-storey shop mainly sells top brands such as Rolex, Omega, Cartier, Jaeger-LeCoultre, IWC, Zenith, Panerai and Bulgari. As a change from the traditional sales model, the shop focuses on guided sales. The one-on-one service by professional sales guides gives a more prestigious shopping experience to customers. In addition to the creation of a pleasant shopping environment for customers, the shop also set up a professional customer service center where skillful and professional repair technicians provide customers with swift after-sales and value-added service.

The Taiyuan Elegant shop is located in the new business district in Taiyuan with a good location and comprehensive 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 Year under review, there was a prominent growth in same store retail sales in Mainland China, with an increase of 30.1% 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 consumer market as a result of the robust Chinese economy where the middle class and the upper class expanded rapidly. On the other hand, the growth resulted directly from the Group's efforts in management. The Group's timely adjustments of its brand portfolio, optimisation of its inventory structure and effective control of costs, resulted in the continuously increasing of the number of quality shops.

Hong Kong and Macau

Due to the growing Chinese economy, continued inflow of customers from Mainland China, the relatively developed market, the Group's broad, solid and loyal client base in Hong Kong as well as the interaction between retail outlets in Mainland China and Hong Kong and the comprehensive after-sales service network across the Greater China ensuring after-sale guarantees for Chinese tourists shopping in Hong Kong, the Group achieved robust growth in its retail business in Hong Kong during the Year under review. As at 31 December 2011, the sales and gross

Management Discussion and Analysis

profit margin in Hong Kong both achieved a substantial growth, up to 30.9% and 15.1% respectively as compared with the corresponding period last year. Same store sales continued to perform well, with an increment of 25.7% over the corresponding period last year.

During the Year under review, the Group opened two new Elegant comprehensive shops in Hong Kong. The Elegant shop located on the first floor of International Finance Center in Central has an area of 4,419 square feet. Designed by a famous French designer, the shop integrated cosiness, leisure and luxury. It sells more than 25 top brands such as Lange, Chopard, Franck Muller, IWC, Jaeger-LeCoultre, Piaget, Glashutte, and also the delicate watches of independent watchmakers Reuge and Urwerk, which could well be appreciated as a superb portfolio of brands.

The Elegant shop phase 1 located on the eighth floor of Times Square in Causeway Bay. With an area of 3,138 square feet, the shop sells various styles of watches from a range of prestigious brands, such as Breguet, Blancpain and Glashutte. The elegant and stylish shop serves as another hotspot for watch lovers to choose their favorite items.

While expanding comprehensive shops, Elegant (Hong Kong) also actively co-operated with brands to open new shops. During the Year, the Cartier image boutique located in the International Finance Center in Central commenced operation. The opening of the boutique not only satisfies the huge demand for high-end watches, but also keeps improving the relationships with brand suppliers and creates economies of scale with the Elegant comprehensive shops in the International Finance Center, to effectively boost sales.

As at 31 December 2011, the Group operated a total of 18 retail outlets in Hong Kong, of which 6 were Elegant shops that sell various brands and 12 were 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 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 Year, the Group newly introduced brands like Piaget, Blancpain, DeWitt, Ernst Benz and Romain Jerome. Such high-end brands fully complemented our middle-to-high-end 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 this year. This will greatly strengthen the connection between Elegant and Mainland customers, and provide an exceptionally positive impact on Elegant's sales to Mainland customers.

The Omega boutique in Macau achieved particularly remarkable sales performance during the Year under review. Following the changing economic condition, improved economic status of Macau and the increasing number of individual visitors, the Group's businesses in Hong Kong and Macau will definitely complement well with each other, which will further consolidate the Group's leading position in the Greater China region.

Management Discussion and Analysis

In addition, phase 2 of the Elegant shop located in Times Square in Causeway Bay and the Vacheron Constantin boutique in the International Finance Center in Central are in the design stage.

Taiwan

The retail business of the Group in Taiwan is currently building up its network. The Group adopted the same sales strategy as that in Mainland China, which focused on middle-to-high-end watches. As at 31 December 2011, the Group operated a total of 54 retail outlets in Taiwan. These were mainly located in major areas including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one Elegant shop which sells top-class watches and some of the boutiques, other retail shops are Hengdeli comprehensive shops which mainly sell middle-to-high-end brands like Rado, TAG Heuer, Carl F. Bucherer, Longines and Tissot.

During the Year under review, retail business in Taiwan grew steadily. Currently, the target consumers in Taiwan are still mainly local customers. Following the signing of The Economic Cooperation Framework Agreement (the "ECFA"), the deepened cross-strait business relations and the closer economic connection between Mainland China, Taiwan and Hong Kong, it is believed that more tourists in Mainland China will travel to Taiwan, creating new opportunities for Taiwan's retail industry.

Customer Service and Maintenance

Through the integrated customer service and extensive warranty service in the Greater China region including Mainland China, Hong Kong and Taiwan, the Group provides the most convenient and tailored service to customers. This is one of the Group's most highlighted competitive edges.

"Online warranty, advanced technology, efficient management and considerate service" provides assurance to our customers and brand suppliers. The Group delivers all-round service to customers through an interactive customer service network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points" and provides the most convenient and tailored service 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 channel for the general public, offering customers timely advice and providing assurance and confidence.

During the Year under review, the cooperation between the Group's customer service and maintenance and brand suppliers further developed. With efforts 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 most comprehensive assistance. There are more and more brand suppliers who appreciate the high standard of the Group's maintenance support. During the Year 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 foundation of the Group's customer service. During the Year under review, senior maintenance technicians from different countries and regions like Japan and Taiwan joined the Group, making our maintenance management staff more international. In addition, a number of our maintenance technicians were appointed as examiners of the Occupational Skill Testing Authority of Beijing in China.

Management Discussion and Analysis

The customer service department of the Group also maintained good partnerships with watch maintenance schools in countries like Sweden and Japan, in order to continuously provide highly competitive support capability for the Group.

Packaging and display products

In spite of the impact brought by various unfavorable factors like appreciation of Renminbi, rise in labour cost and increase in purchase prices, the packaging and display segment of our watch retail business continued to grow. This included partnerships with brands and expansion of business models. 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 products. This firmly supports the fast development of the Group's principal businesses including the retail business.

Brand distribution

The Group has about 400 wholesale customers in approximately hundred cities in Mainland China. The Group distributes and exclusively distributes the world-known watch brands including TAG Heuer, Zenith, Bulgari, Hamilton, Certina, Balmain, Tissot, Mido, Ck, Maurice Lacroix and Frederique Constant.

The Group has maintained good partnerships with brand suppliers and numerous retailers. From this extensive and strong support, the Group achieved a harmonious and mutually beneficial relationship.

Jewellery business

During the Year under review, the jewellery business developed steadily, complementing the watch retail business. The wealthy population in Mainland China is continuing to emerge, but the market for jewellery remains in its infancy. Jewellery is expected to become more popular for citizens in Mainland China. Relevant figures showed that the category of jewellery continued last year's increasing trend in the Year and achieved the highest growth among all consumption categories. We believe that the development of the jewellery business will be a profit growth driver to generate greater returns for the shareholders in future.

III.Overall Upgrade of Information System

During the Year under review, the Group entered into a strategic partnership agreement with SAP and engaged IBM as an execution party. Under the assistance of SAP and IBM, the Group will improve its existing supply chain, financial, operating and daily management information systems, as well as upgrading the existing ERP. The Group believes that the effective operation of these projects will facilitate the Group's advancement in its management standard in respect of "professional management" and "integrated operation", realizing the cross development between economies of scale and management capability. Meanwhile, as a management project, these projects will be an internal contributor to the long-term, stable, healthy and rapid development of the Group in the future, and thus be one of the core competitive edges of the Group.

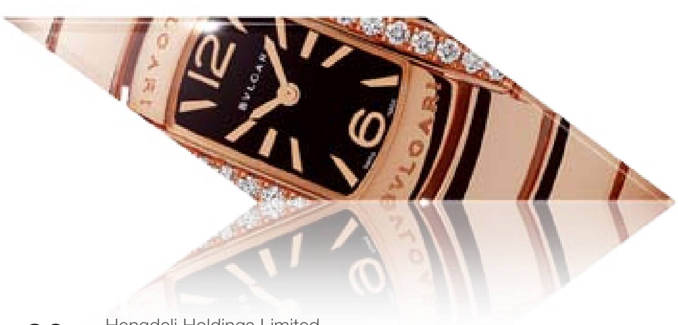
Management Discussion and Analysis

IV. Human Resources and Training

As at 31 December 2011, the Group employed a total of 7,015 employees in Mainland China, Hong Kong and Taiwan. Staff costs of the Group for the year of 2011 amounted to approximately RMB603,056,000 (2010: RMB416,143,000). The costs included basic salaries and benefits as well as staff benefits. 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 knowledge, 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 corporate development needs. 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 plans, MPF plans, insurance schemes, housing and meal allowances, etc. Details of the remuneration package and other benefits are set out in the financial statements.

Because of its solid human resources reward system, the Group can retain its senior salespersons and senior repair technicians. A number of staff members have received the "Capital Labour Medal" and the "May 1st Labour Medal".



V. Outlook

The Chinese economy remained positive despite the complex and volatile global economic conditions. The Group maintains that the Chinese government will be developing the economic growth, by accelerating urbanization and maintaining aggressive fiscal policies and prudent monetary policies in 2012, which together will provide momentum to the Chinese economy. The basic State policies of promoting consumption growth, putting effort in the expansion of domestic demand, preserving a harmonious and stable society 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 continue to adhere to the business development principle of maintaining its base in Mainland China while expanding in the Greater China region.

Our core development strategies remain to cautiously but progressively develop internationally renowned watch brands in line with market demand, and keep improving the management quality to safeguard the growth of our primary businesses. In the year ahead, the Group will keep on adopting the principles of opening new outlets and strengthening the management of current outlets to cautious raise the quality of the retail outlets. As our retail network grows, the Group will also continuous optimize the structure of our three retail network systems, namely "Elegant", "Prime Time"/"Hengdeli" and "With Time", so as to better align the configuration of our network with the market demand. The Group will also continue to strengthen its customer service system in the Greater China region and the packaging and display business, and establish closer partnerships with brand suppliers, so as to match with our rapid business development. For the jewellery market, the Group will follow the market trend closely and put resources with cautious but progressive principles to expand our retail network. The Group will fully capitalize on business opportunities to achieve steady and sustainable profit growth to generate more satisfying returns for our shareholders, investors and the society.

Report of the Directors

The Directors of the Company have pleasure in presenting this annual report together with the audited accounts of the Company for the year ended 31 December 2011.

The Company

The Group is engaged in the retail and distribution of middle-to-high-end consumer goods including internationally renowned watch brands, the related after-sale service and manufacturing of packaging and display products.

The principal activities of the subsidiaries of the Company which materially affected the results, assets and liabilities of the Group are set out in Note 15 to the financial statements.

Distributable Reserve

As at 31 December 2011, the aggregate amount of distributable reserves of the Company was RMB2,396,673,000, which is set out in Note 30 to the financial statements.

Dividend

The Group recommends the payment of a final dividend of RMB0.064 per share for the financial year ended 31 December 2011 in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on 8 May 2012. The proposed cash dividend will be paid on or before 22 May 2012 to shareholders whose names appear on the register of members of the Company on 16 May 2012.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Financial Summary

The summary of the Group's results and balance in the last five financial years (for the year ended 31 December) are set out in page 37 of this annual report.

Purchase, Sale or Repurchase of Securities

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

As at 31 December 2011, the issued share capital of the Company was 4,398,239,054 shares. The Company had RMB44,000,000 bonds outstanding, which were listed on Singapore Exchange Securities Trading Limited on 24 August 2007, and HKD2.5 billion bonds outstanding, which were listed on Singapore Exchange Securities Trading Limited on 22 October 2010.

Report of the Directors

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 related parties including 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 were 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. On 1 January 2011, the total number of shares that might be subscribed for was 36,559,000 shares. During the Year under review, 1,755,000 share options were exercised and no share option lapsed.

Pursuant to the share option scheme, the Company granted 4,150,000 share options on 30 September 2011 to certain senior employees of the Group to subscribe for 4,150,000 ordinary shares at an exercise price of HKD2.93 per share at any time from 30 September 2014 to 29 September 2016 if certain performance targets are achieved during the period from 30 September 2011 to 29 September 2014.

As of 31 December 2011, the total number of shares in issue was 4,398,239,054 shares and the total number of outstanding share options was 38,954,000 shares.

Directors

The names of directors during the year 2011 are as follows:

Zhang Yuping	
Song Jianwen	
Huang Yonghua	
Cai Jianmin	
Wong Kam Fai, William	
Liu Xueling	
Chen Sheng	
Shi Zhongyang	
Zheng Yu	(Appointment approved at the general meeting in May 2011)
Shen Zhiyuan	(Resignation approved at the general meeting in May 2011)

Directors' Service Contracts

The Company has entered into service contracts with each of the executive Directors, non-executive Directors and independent non-executive Directors for a term of three years. The Company did not enter into service contracts that cannot be terminated without payment of compensation (other than statutory compensation) within one year.

Save as disclosed in this annual report, no Director has entered into any service agreement with any member of the Group.

Directors' Material Interests in Contracts

Save as described in this annual report, no contracts of significance in relation to the Group's business in which the Company or its subsidiaries, its controlling shareholder or any of its subsidiaries and any of its Directors had a material interest, whether directly or indirectly, subsisting during the Year under review.

Remuneration of the Directors and the Five Highest Paid Directors/Employees

Details of remuneration of the Directors made in accordance with specific basis during the Year under review are set out in Note 7 to the financial statements. Details of remuneration of the five highest paid individuals during the Year under review are set out in Note 8 to the financial statements. Details of remuneration of the senior management during the Year under review are set out in Note 33 to the financial statements.

The remuneration policies of the Group are as follows:

– The amount of remuneration for the Directors or the employees is determined according to their relevant experience, responsibilities, workload and years of service in the Group;

– The non-monetary benefits are determined by the Board and are provided in the remuneration package of the Directors or the employees;

– The Directors and the eligible employees shall be granted with options of the Company as determined by the Board to be part of their remuneration package.

Employee Retirement Benefit Scheme

Details of the Group's employee retirement benefit scheme are set out in Note 27 to the financial statements.

Directors and Senior Management's Biographies

A summary of the Directors and senior management's biographies is set out on pages 29 to 31 of this annual report.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

As at 31 December 2011, the interests or short positions of each of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Nature of Interest	Number of shares	Approximate Percentage
Mr. Zhang Yuping ("Mr. Zhang")	Controlled Corporation and Personal *(Note 1)*	1,565,040,000 (L)	35.58%
Mr. Song Jianwen	Controlled Corporation *(Note 2)*	17,532,000 (L)	0.40%
Mr. Huang Yonghua	Personal	2,400,000 (L)	0.05%
Mr. Chen Sheng	Personal	8,000,000 (L)	0.18%

The letter "L" denotes the person's long positions in the Shares.

Note 1: Mr. Zhang Yuping owned 82.90% of the issued share capital of Best Growth International Limited ("Best Growth"), which in turn held 1,522,524,000 shares of the Company as at 31 December 2011. During the Year under review, Mr. Zhang Yuping held 42,516,000 shares of the Company under his name. Accordingly, Mr. Zhang Yuping holds 1,565,040,000 shares of the Company in aggregate, representing 35.58% of the issued share capital.

Note 2: Mr. Song Jianwen owned the entire share capital of Artnew Developments Limited, which in turn owned 0.40% of the issued share capital of the Company.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As far as the Directors are aware, as at 31 December 2011, the interests or short positions of the persons, other than Directors of the Company, in the shares, underlying shares and debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Number of shares	Approximate Percentage
Best Growth *(Note 1)*	1,522,524,000(L)	34.62%
Mr. Zhang Yuping *(Note 1)*	1,565,040,000(L)	35.58%
The Swatch Group Hong Kong Limited *(Note 2)*	898,000,000(L)	20.42%
The Swatch Group Limited *(Note 2)*	898,000,000(L)	20.42%
LVMH Watches & Jewelry Hong Kong Limited *(Note 3)*	18,504,000(L)	0.42%
TAG Heuer SA *(Note 3)*	18,504,000(L)	0.42%
TAG Heuer International SA *(Note 3)*	18,504,000(L)	0.42%
LVMH Asia Pacific Limited *(Note 3)*	259,620,000(L)	5.90%
Sofidiv SAS *(Note 3)*	278,124,000(L)	6.32%
LVMH SA *(Note 3)*	278,124,000(L)	6.32%
JP Morgan Chase & Co. *(Note 4)*	221,752,149(L)	5.04%
	14,628,834(S)	0.33%
	95,228,638(P)	2.17%

The letter "L" denotes the person's long positions in the Shares.
The letter "S" denotes the person's short positions in the Shares.
The letter "P" denotes lending pool in the Shares.

Note 1: Best Growth is owned by the Zhang family in the following manner:

Mr. Zhang Yuping	82.9%
Ms. Zhang Yuhong, younger sister of Mr. Zhang	14.7%
Mr. Zhang Yuwen, younger brother of Mr. Zhang	2.4%

During the Year under review, Mr. Zhang Yuping held 42,516,000 shares of the Company under his name. Accordingly, Mr. Zhang Yuping holds 1,565,040,000 shares of the Company in aggregate, representing 35.58% of the issued share capital.

Note 2: Among these 898,000,000 shares, 500,000,000 shares are held under the capacity of security interest owner instead of effective interest owner. These 898,000,000 shares are held in the name of and registered in the capacity of The Swatch Group Hong Kong Limited as a beneficial owner. The entire issued share capital of The Swatch Group Hong Kong Limited is beneficially owned by The Swatch Group Limited. According to the SFO, the Swatch Group Limited is deemed to have interest in all the shares held by The Swatch Group Hong Kong Limited.

Note 3: Among these 278,124,000 shares, 18,504,000 shares are held in the name of and registered in the capacity of LVMH Watches & Jewelry Hong Kong Limited and 259,620,000 shares are held in the name of and registered in the capacity of LVMH Asia Pacific Limited. LVMH Watches & Jewelry Hong Kong Limited's entire interest is owned by TAG Heuer SA, and TAG Heuer International SA beneficially owns 100% interest in TAG Heuer SA. Sofidiv SAS beneficially owns 100% interest in each of TAG Heuer International SA and LVMH Asia Pacific Limited. LVMH SA owns 100% interest in Sofidiv SAS.

Note 4: JP Morgan Chase & Co. held long positions in 23,810,970 shares of the Company as beneficial owner, short positions in 14,628,834 shares of the Company as beneficial owner, long positions in 102,712,541 shares of the Company as investment manager, and long positions in 95,228,638 shares of the Company as trustee.

Arrangement to Purchase Shares or Debentures

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the 12 months ended 31 December 2011 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their respective spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisting during the Year under review.

Major Customers and Suppliers

The percentages of purchases and sales for the Year under review attributable to the Group's major suppliers and customers are as follows:

Purchase	
– the largest supplier	62%
– five largest suppliers combined	87%
Sales	
– the largest customer	3%
– five largest customers combined	8%

The Swatch Group Limited and LVMH Group, through their respective subsidiaries, constituted two of the five largest suppliers. Save as disclosed above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Connected Transactions

During the Year under review, the Company had no transactions which need to be disclosed as connected transactions in accordance with the Listing Rules.

Public Float

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

Auditors

The financial statements of the Company for the Year under review have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Since 9 July 2004, being the date of incorporation of the Company, there have been no changes in our auditors.

Report of the Directors

Closure of Register of Members

The Register of Members will be closed from Thursday, 3 May 2012 to Tuesday, 8 May 2012 (both days inclusive) to confirm the Register of Members who are eligible to attend and vote at the general meeting. In order to establish entitlements to attending and voting at the general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 2 May 2012.

The Register of Members will be closed from Monday, 14 May 2012 to Wednesday, 16 May 2012 (both days inclusive) to confirm the Register of Members who are entitled to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 11 May 2012.

Disclosure of Information on the Websites of the Company and the Stock Exchange

An annual report for the year ended 31 December 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 Company and the website of the Stock Exchange in due course.

Acknowledgement

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders for their continuing support and to all our staff for their dedication and contribution to the Group during the Year under review.

General Information

As at the date of this report, 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, 20 March 2012

Directors' and Senior Management Biographies

Executive Directors

Mr. Zhang Yuping (alia, Cheung Yu Ping) (張瑜平), aged 51, is the chairman and executive Director of the Company. He founded the Group in 1999. He is in charge of the Group's overall management and strategic development. He has more than 20 years of experience in the mid-to high-end consumables distribution industry for the PRC market.

Mr. Song Jianwen (宋建文), aged 59, is an executive Director. He joined the Group in 2001 and is in charge of finance and internal audit and control of the Group. Mr. Song graduated from Zhongnan University of Economics and Law (中南財經政法大學) with a master's degree in economics. Mr. Song has about 20 years of experience in finance and accounting.

Mr. Huang Yonghua (黃永華), aged 41, is an executive Director. He joined the Group in 2001 and is in charge of the Group's business co-ordination and operational supervision. Mr. Huang has more than 10 years of experience in the watch distribution industry in the PRC and in management.

Non-executive Directors

Mr. Chen Sheng (陳聖), aged 47, is a non-executive Director. He graduated from Fudan University in Shanghai with a master's degree in business administration. Mr. Chen joined the Group in 2007 and is responsible for investment of the Group.

Mr. Shi Zhongyang (史仲陽), aged 37, is a non-executive Director. Mr. Shi graduated from Nanjing University in the PRC and University of Goetting in Germany with a master's degree in law. Mr. Shi joined The Swatch Group Limited in 2000 and joined the Group in 2006. He is currently a legal counsel of the legal department of The Swatch Group Limited.

Ms. Zheng Yu (鄭豫), aged 44, is a non-executive Director. She graduated from Beijing Normal University and the University of Texas at Austin with a master's degree in business administration. She joined the Group in 2011. Prior to joining the Group, she worked at Roland Berger Strategy Consultants (RBSC) as a global senior partner. She joined Pinebridge Investments in 2008 and was responsible for direct investment activities in the PRC.

Independent Non-executive Directors

Mr. Cai Jianmin (蔡建民), aged 68, is an independent non-executive Director. He graduated from the industrial accounting faculty (工業會計系) of Shanghai College of Finance and Economics (上海財經學院). Mr. Cai holds a certificate for professional accountants (會計從業資格證書) in the PRC. He had held senior financial management positions for various companies including Shanghai Hualian (Group) (上海華聯(集團)). Mr. Cai joined the Group in 2005.

Mr. Wong Kam Fai, William (黃錦輝), aged 52, is an independent non-executive Director. He graduated from University of Edinburgh, Scotland with a bachelor's degree and a doctorate degree in electrical engineering. Mr. Wong is currently a professor in the Department of Systems Engineering and Engineering Management in the Chinese University of Hong Kong. He obtained the qualification as a Chartered Engineer (CEng) since 1991, and is now a member of the Institute of Electrical Engineers and a professional member of the Association of Computing Machinery. Mr. Wong joined the Group in 2005.

Directors' and Senior Management Biographies

Mr. Liu Xueling (劉學靈), aged 54, is an independent non-executive Director. He graduated from East China University of Political Science and Law in Shanghai with a doctorate degree in history. At present, he is a senior lawyer in Shanghai Zhongxin Law Firm (上海市中新律師事務所). He joined the Group in 2007.

Senior Management

(Hengdeli Group and Shanghai Xinyu as mentioned below represent our major holding subsidiaries – Hengdeli Group Limited and Shanghai Xinyu Watch & Clock Group, Ltd. respectively)

Mr. Zhuang Liming (莊立明), aged 58, is the vice chairman of Shanghai Xinyu. Mr. Zhuang graduated from Beijing Institute of Foreign Trade (北京外貿學院). Before joining the Group in 2000, Mr. Zhuang had worked for PRC Light Industry Commodities Import and Export Company (中國輕工業品進出口總公司).

Ms. Wang Lingfei (王玲飛), aged 62, is the deputy president of Hengdeli Group. She joined the Group in 2005 and is responsible for branding. Before joining the Group, Ms. Wang was the deputy general manager of Beijing Yishang Group (北京一商集團).

Mr. Lee Wing On, Samuel (李永安), aged 47, is the deputy president of Hengdeli Group. He joined the Group in 2006 and is responsible for retail business in Hong Kong. Mr. Lee has over 20 years of experience in the watch retail industry and management in Hong Kong.

Mr. Stan Lee (李樹忠), aged 52, is the deputy president of Hengdeli Group. He joined the Group in 2007 and is responsible for retail business in Mainland China and Taiwan. He obtained a bachelor's degree in Arts from a university, and has pursued further studies in respect of Business Administration. He has over 20 years of experience in watch manufacturing and distribution.

Mr. Zhang Xingen (張新根), aged 67, is the deputy president of Shanghai Xinyu. He joined the Group in 1999 and is responsible for customer services activities. Before joining the Group, Mr. Zhang was a director of Shanghai Yimin Commercial Company Limited (上海益民商業公司).

Mr. Werner Schuppisser, aged 49, is the deputy president of Hengdeli Group. He joined the Group in 2009 and is responsible for brand wholesale business. Mr. Werner Schuppisser graduated from School of Economics and Business Administration (蘇黎世經濟商業管理學院) in Zurich, Switzerland. Before joining the Group, he worked in the regional company of ASC Fine Wines (聖皮爾高級紅酒) in China and was a general manager for marketing and sales of Nestle Company in China.

Ms. Tan Li (談麗), aged 47, is the deputy president of Hengdeli Group and secretary to the Board. Ms. Tan graduated from Nanjing Normal University (南京師範大學) with a master's degree in Arts. She joined the Group in 2001. Before joining the Group, Ms. Tan taught at the branch colleges of Perking University in China. Since Ms. Tan joined the Group, she has been engaging in work related to the secretary to the Board of the Group.

Mr. James Cheng (鄭世爵), aged 47, is the deputy president of Hengdeli Group. He joined the Group in 2010 and is responsible for high-end customer services work. Mr. Cheng obtained a bachelor's degree in Sciences from a university. Before joining the Group, he was the deputy president of Rado watches of The Swatch Group in China, the general manager for watches and jewellery of LVMH Group in China, and the chief executive of Fendi watches in Asia Pacific.

Directors' and Senior Management Biographies

Ms. Li Xiangrong, Cathy (李向榮), aged 39, is the chief financial officer of Hengdeli Group. She joined the Group in 2010. Ms. Li graduated from Shanghai University of Finance and Economics (上海財經大學) and profession of international accountancy in Shanghai International Studies University (上海外語學院). She obtained a bachelor's degree in Economics and a master's degree in Executive Management Business Administration (高層管理人員工商管理碩士) from China Europe International Business School (中歐國際商學院). Ms. Li is a member of Association of Chartered Certified Accountants (ACCA) and The Chinese Institute of Certified Public Accountants. Before joining the Group, she was the financial controller of Unilever China.

Mr. Xu Xiongjie, Patrick (徐雄傑), aged 42, is the vice president of Hengdeli Group. He joined the Group in 2011 and is responsible for operations, which include supply chain management, IT and administration. Mr. Xu graduated from Shanghai Jiao Tong University (上海交通大學). He obtained a bachelor's degree in Industry Management and a master's degree in Business Administration. Before joining the Group, Mr. Xu was the senior director of supply chain management and services for Bestbuy China (百思買中國).

Mr. Ng Man Wai, Peter (吳文偉), aged 41, is the company secretary and financial controller of the Company. Mr. Ng graduated from the University of Toronto with a bachelor's degree in commerce. He joined the Group in 2004. Mr. Ng is a member of the Association of Chartered Certified Accountants (ACCA) and a certified public accountant of the Hong Kong Institute of Certified Public Accountants (HKICPA).

Corporate Governance Report

Since its establishment, the Company has been committed to maintain a high standard of corporate governance to ensure transparency, such that the interests of our shareholders, customers, employees as well as the long term development of the Group can be safeguarded. The Group has established the Board, an audit committee, a remuneration committee and a nomination committee that meet the requirements to be diligent, accountable and professional. KPMG has been appointed as the Group's external auditors.

The Company has adopted the Code on Corporate Governance Practices (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Board is of the opinion that the Company has complied with the Code on Corporate Governance as set out in Appendix 14 to the Listing Rules (the "Listing Rules") of the Stock Exchange throughout the year ended 31 December 2011 except for a deviation from the Code provision A2.1. Given the Group's existing corporate structure, the roles of the chairman and chief executive officer have not been separated, and both are performed by Mr. Zhang Yuping. Although the roles 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 and (where applicable) the committees of the Board. There are three independent non-executive Directors in the Board, therefore the Board considers the Company has achieved balance of power and provided sufficient assurance for its sound operation.

To maintain a high level of independence and objectivity in decision making, and to exercise its power of supervising the management of the Group in a comprehensive and equitable manner, the Board comprises three executive Directors (Messrs. Zhang Yuping, Song Jianwen and Huang Yonghua), three non-executive Directors (Messrs. Chen Sheng, Shi Zhongyang, and Ms. Zheng Yu) and three independent non-executive Directors (Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling).

To ensure the Board operates in an independent and accountable manner, the three executive Directors have been assigned with different responsibilities within our operation. Mr. Zhang Yuping, the Chairman, is in charge of the Group's overall management and strategic development, while Mr. Song Jianwen is in charge of finance and internal audit and control of the Group, and Mr. Huang Yonghua is in charge of the Group's business coordination and business supervision.

Each of the three non-executive Directors has professional expertise and extensive experience in the areas of law and business administration respectively; they can offer supervision to the daily operation, and provide corresponding opinions and recommendations in a timely manner. We believe the non-executive Directors are beneficial to the standardised operation of the Company and the safeguard of the interests of our shareholders. Their respective terms of office are: Chen Sheng: 26/9/2011-25/9/2014; Shi Zhongyang: 15/2/2012-14/2/2015; Zheng Yu 12/5/2011-11/5/2014.

Each of the three independent non-executive Directors has professional expertise and extensive experience in the areas of accounting, economics, law, computing control and management, and business administration respectively. We believe the independent non-executive Directors can adequately act for the benefits of our shareholders. Their respective terms of office are: Cai Jianmin: 25/9/2011-24/9/2014; Wong Kam Fai, William: 26/9/2011-25/9/2014; Liu Xueling: 1/6/2010-31/5/2013.

The Board of the Company is responsible to the shareholders and performs the following major duties: report duties to the shareholders; execute the resolutions of the shareholders; draft investment solutions and profit distribution solutions of the Company; formulate solutions as to increase or decrease the registered capital of the Company.

The Management of the Company is responsible to the Board of Directors and performs the following major duties: report duties to the Board; execute the resolutions of the Board; complete all the tasks assigned by the Board.

In order to ensure the interests of our shareholders, apart from the engagement of KPMG as the external auditor of the Group, the Group also established departments dedicated to the supervision of finance and business operation. Such departments conduct audits and examination of all aspects and at all departments on a regular and on an ad hoc basis, so as to enhance internal control and ensure the sound development of the enterprise. The Board has reviewed the effectiveness of our internal control system and completed its annual review on this system. Further to reviews made by independent review organisations of the internal control system of the Group, the Group will continue to improve its internal administration and control systems.

In 2011, a total of seven meetings were held by the Board, among which, four were regular meetings. The rate of attendance of the Directors at the Board meetings was 100%, the details of which are as follows:

Name	Frequency	Rate of Attendance	Remarks
Zhang Yuping	7	100%	
Song Jianwen	7	100%	
Huang Yonghua	7	100%	
Cai Jianmin	7	100%	
Wong Kam Fai, William	7	100%	
Liu Xueling	7	100%	
Chen Sheng	7	100%	
Shi Zhongyang	7	100%	
Zheng Yu	5	100%	Appointment approved at the general meeting in May 2011
Shen Zhiyuan	2	100%	Resignation approved at the general meeting in May 2011

Members of the Board are provided with appropriate and sufficient information in a timely manner for their understanding of the latest developments of the Group, which in turn supports the discharge of their duties.

The Board has received confirmation from all independent Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules. The Board considers that all current independent Directors have met the requirements of the guidelines set out in Rule 3.13 of the Listing Rules and remain independent.

In line with the new requirements regarding the corporate governance of listed companies by the Stock Exchange, the Board of the Company has approved the adoption and implementation since 1 April 2012 of the Code as set out in Appendix 14 to the Listing Rules which will become effective on 1 April 2012.

Securities Transactions by Directors

The Board of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made by the Company with all Directors, the Company has confirmed that during the Year under review, all Directors had complied with the standard as required by the Code mentioned above.

Corporate Governance Report

Accountability and Audit

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out on page 38 of the annual report.

Auditors' Remuneration

The audit fee to be received by the auditors of the Company for the year ended 31 December 2011 will be approximately RMB3,930,000.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin (Chairman), Wong Kam Fai, William and Liu Xueling, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material extraordinary items, internal controls and financial reporting matters, which included a review on the audited annual results for the year ended 31 December 2010 and 2011 interim report.

During the Year, two meetings were held on 22 March 2011 and 23 August 2011 to review the full year and half year financial reports of the Group respectively. All members of the committee attended the meetings.

In line with the new requirements regarding the corporate governance of listed companies by the Stock Exchange, the Board of the Company has approved the adoption and implementation of the new terms of reference for the audit committee since 1 April 2012.

During the Year, the general content of the opinion formed by the audit committee in respect of the financial reports of the Group is as follows:

The financial report of the Company for 2011 has, in all material respects, accurately, objectively and fairly reflected the financial condition of the Company for the year ended 31 December 2011, the operation results and cash flow condition in the year 2011.

In 2011, the Company recorded a growth of more than 30% in turnover, operation profit and profit of the year. Trade receivables and inventories were under effective control. The turnover period was within target range and the management standard has been improving. The acquisition projects of the Company in recent years have brought good returns and made contributions in strengthening the core competitiveness in obtaining higher market share.

It is recommended that the management should pursue better use of funds.

Remuneration Committee

The Company has established a remuneration committee in compliance with the Listing Rules. During the Year, the remuneration committee comprises three Directors including Messrs. Zhang Yuping (Chairman), Cai Jianmin and Liu Xueling. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management.

One meeting had been held during the Year to review matters related to the remuneration structure of the Directors and senior management of the Company. All members of the committee attended the meeting.

The Board wishes to announce that in order to comply with the forthcoming amendments to the Listing Rules which will become effective on 1 April 2012, Mr. Liu Xueling, an independent non-executive Director of the Company, has been appointed as the chairman of the remuneration committee of the Company in place of Mr. Zhang Yuping, the chairman and an executive Director of the Company, with effect from 20 March 2012. Mr. Zhang Yuping remains a member of the remuneration committee.

Further, the Board has approved the adoption and implementation of the new terms of reference for the remuneration committee since 1 April 2012. According to the new terms of reference for the remuneration committee, the remuneration committee acts as a consultant regarding the remuneration matters of the Directors and senior management of the Company, while the Directors retain the ultimate power to approve the remuneration of the Directors and senior management.

Nomination Committee

The Company has established a nomination committee in compliance with the Listing Rules. During the Year, the nomination committee comprises three Directors including Messrs. Song Jianwen (Chairman), Cai Jianmin and Liu Xueling. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and management of Board succession.

One meeting had been held during the Year to review matters related to the Board structure, size and composition of the Company, retirement of Directors of the Company by rotation and re-election. All members of the committee attended the meeting.

The Board wishes to announce that in order to comply with the forthcoming amendments to the Listing Rules which will become effective on 1 April 2012, Mr. Zhang Yuping, the chairman and an executive Director of the Company, has been appointed as the chairman of the nomination committee of the Company in place of Mr. Song Jianwen, an executive Director of the Company, with effect from 20 March 2012. Mr. Song Jianwen resigned and ceased to be a member of the nomination committee with effect from 20 March 2012.

Further, the Board has approved the adoption and implementation of the new terms of reference for the nomination committee since 1 April 2012.

How the Shareholders convene Extraordinary General Meeting

According to the articles of association of the Company, any shareholder or shareholders holding not less than one-tenth of the paid-in capital of the Company on the day on which an Extraordinary General Meeting is demanded, and entitled to vote at the general meeting of the Company shall be entitled to send a letter to the Board or the Company Secretary and demand an Extraordinary General Meeting to be convened by the Board and held within two months upon the receipt of the letter by the Company to discuss the matters set out in his/their letter. In the event that procedures are not taken to convene the Extraordinary General Meeting within 21 days of such deposit to the Board, the requesting party may convene the meeting in the same manner. The Company shall pay any reasonable expenses incurred therefor.

The letter of demanding an Extraordinary General Meeting mentioned above shall be sent to the principal office of the Company stating the Board of the Company or the Company Secretary as the addressee.

How to make enquiry to the Board

Shareholders may send letters to the principal office of the Company for any enquires stating the Board of the Company or the Company Secretary as the addressee.

Procedures of making recommendations at general meetings

Any shareholder who wishes to make recommendations at the general meeting may send a letter setting out the matters recommended to the Board or the Company Secretary no later than 10 days before the general meeting is convened according to the articles of association of the Company. The letter shall be sent to the principal office of the Company stating the Board of the Company or the Company Secretary as the addressee.

Investor Relations

The Company firmly believes the importance of effective communication with the investment community and the shareholders in attaining a high level of transparency in the Group. Since its listing, the Group has maintained various communication channels with the shareholders, mass media, analysts and fund managers such as one-on-one meetings, roadshows, seminars, press conferences, press releases, telephone communications and emails. The Company endeavours to provide accurate and timely information to the investors, so as to enhance the understanding of our investors about the status of the luxury watch industry in Greater China Region, as well as the business development strategy and direction of the Group.

During the Year under review, the Group's management held regular and ad hoc meetings with different analysts and investors, including the marketing campaigns on investor relations in major investing centers such as Hong Kong, Beijing, Shanghai, Singapore, the USA, Britain and Switzerland. Besides, the Group also held roadshows in various countries including the USA, Britain, Switzerland, Singapore, Japan, Germany, France and Canada, so as to facilitate the investors from different countries to acquire a timely, deep understanding of the Group.

In the future, the Group will continue to maintain a close relationship with investors and boost understanding of international investors of the Group so as to enhance investors' confidence in the Group.

Financial Summary

RESULTS	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
	Year ended 31 December				
Sales	**11,375,280**	8,215,643	5,899,422	5,516,496	4,578,741
Profit before taxation	**1,198,139**	815,663	513,755	618,984	551,688
Income tax	**(279,863)**	(198,285)	(127,662)	(130,819)	(109,535)
Profit for the year	**918,276**	617,378	386,093	488,165	442,153
Attributable to:					
Equity shareholders of the Company	**814,919**	553,989	364,809	460,087	417,523
Non-controlling interests	**103,357**	63,389	21,284	28,078	24,630
Profit for the year	**918,276**	617,378	386,093	488,165	442,153

ASSETS AND LIABILITIES	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
	At 31 December				
Total assets	**11,589,464**	9,059,406	5,174,169	4,480,775	3,925,591
Total liabilities	**6,258,797**	4,413,725	2,050,092	2,148,755	1,943,220
Net assets	**5,330,667**	4,645,681	3,124,077	2,332,020	1,982,371
Total equity attributable to equity shareholders of the Company	**4,890,826**	4,316,415	2,866,645	2,095,798	1,785,498
Non-controlling interests	**439,841**	329,266	257,432	236,222	196,873
Total equity	**5,330,667**	4,645,681	3,124,077	2,332,020	1,982,371

Auditor's Report

KPMG

Independent auditor's report to the shareholders of
Hengdeli Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hengdeli Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 39 to 121, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
20 March 2012

Consolidated Income Statement

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Turnover	3	**11,375,280**	8,215,643
Cost of sales		**(8,518,212)**	(6,166,693)
Gross profit		**2,857,068**	2,048,950
Other revenue	4	**141,486**	54,690
Other net income	4	**76,382**	11,973
Distribution costs		**(1,325,024)**	(947,526)
Administrative expenses		**(368,978)**	(281,086)
Other operating expenses		**(3,436)**	(1,519)
Profit from operations		**1,377,498**	885,482
Finance costs	5(a)	**(178,240)**	(83,013)
Share of (losses)/profits of jointly controlled entities	16	**(1,119)**	13,194
Profit before taxation	5	**1,198,139**	815,663
Income tax	6(a)	**(279,863)**	(198,285)
Profit for the year		**918,276**	617,378
Attributable to:			
Equity shareholders of the Company	9	**814,919**	553,989
Non-controlling interests		**103,357**	63,389
Profit for the year		**918,276**	617,378
Earnings per share	11		
Basic		**RMB0.185**	RMB0.133
Diluted		**RMB0.184**	RMB0.133

The notes on pages 48 to 121 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(b).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Profit for the year		**918,276**	617,378
Other comprehensive income for the year	*10*		
Exchange differences on translation of financial statements		**(57,424)**	(40,832)
Total comprehensive income for the year		**860,852**	576,546
Attributable to:			
Equity shareholders of the Company		**757,495**	513,157
Non-controlling interests		**103,357**	63,389
Total comprehensive income for the year		**860,852**	576,546

The notes on pages 48 to 121 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2011 RMB'000	2010 RMB'000	2010 RMB'000
Non-current assets					
Fixed assets	*12*				
– Investment property			255,601		240,467
– Other property, plant and equipment			665,551		664,476
			921,152		904,943
Intangible assets	*13*		23,325		25,721
Goodwill	*14*		296,921		277,921
Interest in an associate			85		1,850
Interest in jointly controlled entities	*16*		56,161		52,930
Other investments	*17*		39,711		797
Deferred tax assets	*29(b)(i)*		78,051		51,628
Other financial assets	*18*		434,000		121,050
			1,849,406		1,436,840
Current assets					
Inventories	*19*	4,521,297		3,197,859	
Trade and other receivables	*20*	1,114,801		1,004,900	
Pledged bank deposits	*21*	25,899		10,000	
Cash and cash equivalents	*22*	3,941,828		3,409,807	
		9,603,825		7,622,566	
Assets classified as held for sale	*23*	136,233		–	
		9,740,058		7,622,566	
Current liabilities					
Trade and other payables	*24*	1,758,869		881,026	
Bank loans	*25*	2,041,923		1,076,649	
Current taxation	*29(a)*	144,207		97,485	
Convertible bonds	*26*	47,208		–	
Embedded financial derivatives	*26*	1,222		–	
		3,993,429		2,055,160	
Liabilities directly associated with assets classified as held for sale	*23*	28,358		–	
		4,021,787		2,055,160	
Net current assets			5,718,271		5,567,406
Total assets less current liabilities			7,567,677		7,004,246

The notes on pages 48 to 121 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

at 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2011 RMB'000	2010 RMB'000	2010 RMB'000
Non-current liabilities					
Bank loans	*25*	**220,180**		232,446	
Convertible bonds	*26*	**1,982,161**		2,084,677	
Embedded financial derivatives	*26*	**–**		9,062	
Deferred tax liabilities	*29(b)(ii)*	**34,669**		32,380	
			2,237,010		2,358,565
NET ASSETS			**5,330,667**		4,645,681
CAPITAL AND RESERVES					
Share capital	*30(c)*		**21,309**		21,302
Reserves			**4,869,517**		4,295,113
Total equity attributable to equity shareholders of the Company			**4,890,826**		4,316,415
Non-controlling interests			**439,841**		329,266
TOTAL EQUITY			**5,330,667**		4,645,681

Approved and authorised for issue by the board of directors on 20 March 2012.

Zhang Yuping
Executive Director

Song Jianwen
Executive Director

The notes on pages 48 to 121 form part of these financial statements.

Statement of Financial Position

at 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2011 RMB'000	2010 RMB'000	2010 RMB'000
Non-current assets					
Investments in subsidiaries	*15*		**498,708**		523,144
Current assets					
Trade and other receivables	*20*	**3,741,670**		2,687,559	
Cash and cash equivalents	*22*	**154,278**		1,440,913	
		3,895,948		4,128,472	
Current liabilities					
Trade and other payables	*24*	**17,705**		17,955	
Bank loans	*25*	**115,768**		17,018	
Convertible bonds	*26*	**47,208**		–	
Embedded financial derivatives	*26*	**1,222**		–	
		181,903		34,973	
Net current assets			**3,714,045**		4,093,499
Total assets less current liabilities			**4,212,753**		4,616,643
Non-current liabilities					
Bank loans	*25*	**74,098**		68,072	
Convertible bonds	*26*	**1,982,161**		2,084,677	
Embedded financial derivatives	*26*	**–**		9,062	
			2,056,259		2,161,811
NET ASSETS			**2,156,494**		2,454,832
CAPITAL AND RESERVES	*30(a)*				
Share capital			**21,309**		21,302
Reserves			**2,135,185**		2,433,530
TOTAL EQUITY			**2,156,494**		2,454,832

Approved and authorised for issue by the board of directors on 20 March 2012.

Zhang Yuping
Executive Director

Song Jianwen
Executive Director

The notes on pages 48 to 121 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non–controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010		19,909	1,711,813	34	22,457	(70,282)	171,196	1,011,518	2,866,645	257,432	3,124,077
Changes in equity for 2010:											
Profit for the year		–	–	–	–	–	–	553,989	553,989	63,389	617,378
Other comprehensive income		–	–	–	–	(40,832)	–	–	(40,832)	–	(40,832)
Total comprehensive income		–	–	–	–	(40,832)	–	553,989	513,157	63,389	576,546
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	–	(109,864)	(109,864)	–	(109,864)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	–	(13,049)	(13,049)
Transfer between reserves		–	–	–	–	–	47,345	(47,345)	–	–	–
Share placement		1,276	902,492	–	–	–	–	–	903,768	–	903,768
Transaction cost attributable to share placement		–	(26,186)	–	–	–	–	–	(26,186)	–	(26,186)
Shares issued under share option scheme	*28*	70	63,208	–	(17,369)	–	–	–	45,909	–	45,909
Equity settled share-based transactions	*28*	–	–	–	10,695	–	–	–	10,695	–	10,695
Conversion of convertible bonds		47	51,832	–	–	–	–	–	51,879	–	51,879
Equity component of convertible bonds		–	–	–	60,412	–	–	–	60,412	–	60,412
Capital contributions from non-controlling interests holders		–	–	–	–	–	–	–	–	12,946	12,946
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	8,548	8,548
Balance at 31 December 2010 and 1 January 2011		21,302	2,703,159	34	76,195	(111,114)	218,541	1,408,298	4,316,415	329,266	4,645,681
Changes in equity for 2011:											
Profit for the year		–	–	–	–	–	–	814,919	814,919	103,357	918,276
Other comprehensive income		–	–	–	–	(57,424)	–	–	(57,424)	–	(57,424)
Total comprehensive income		–	–	–	–	(57,424)	–	814,919	757,495	103,357	860,852

The notes on pages 48 to 121 form part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

for the year ended 31 December 2011

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	–	(184,665)	(184,665)	–	(184,665)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	–	(45,011)	(45,011)
Transfer between reserves		–	–	–	–	–	68,027	(68,027)	–	–	–
Shares issued under share option scheme	*28*	7	6,349	–	(1,775)	–	–	–	4,581	–	4,581
Equity settled share-based transactions	*28*	–	–	–	280	–	–	–	280	–	280
Capital contributions from non-controlling interests holders		–	–	–	–	–	–	–	–	54,100	54,100
Acquisition of additional equity interest in subsidiaries		–	–	–	(3,280)	–	–	–	(3,280)	(1,871)	(5,151)
Balance at 31 December 2011		21,309	2,709,508	34	71,420	(168,538)	286,568	1,970,525	4,890,826	439,841	5,330,667

The notes on pages 48 to 121 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2011 RMB'000	2010 RMB'000	2010 RMB'000
Operating activities					
Cash generated from/ (used in) operations	*22(b)*	**443,735**		(51,164)	
Income tax paid		**(246,785)**		(164,663)	
Net cash generated from/ (used in) operating activities			**196,950**		(215,827)
Investing activities					
Payment for the purchase of fixed assets		**(207,583)**		(393,272)	
Proceeds from sale of fixed assets		**203**		43,328	
Payment for the purchase of intangible assets		**(1,910)**		(1,531)	
Proceeds from sale of intangible assets		**–**		26,720	
Proceeds from sale of subsidiaries	*23*	**50,370**		28,375	
Proceeds from sale of a jointly controlled entity		**–**		4,900	
Proceeds from sale of an associate		**5,888**		–	
Payment for the acquisition of non-controlling interests		**(5,151)**		–	
Payment for the purchase of unlisted investment		**(38,914)**		–	
Decrease in pledged bank deposits		**10,000**		40,000	
Increase in pledged bank deposits		**(25,899)**		(10,000)	
New loans to third parties		**(981,168)**		–	
Loans repaid by third parties		**981,168**		–	
Interest received		**89,911**		18,615	
Payment for acquisitions of subsidiaries, net of cash acquired	*18&32*	**(172,503)**		(360,248)	
Dividend received from unlisted investments		**27,754**		19,252	
Net cash used in investing activities			**(267,834)**		(583,861)

The notes on pages 48 to 121 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2011 RMB'000	2010 RMB'000	2010 RMB'000
Financing activities					
Capital contributions from non-controlling interests holders		54,100		12,946	
Proceeds from new bank loans		2,245,436		1,397,845	
Repayment of bank loans		(1,292,428)		(1,062,442)	
Proceeds from the issue of new shares		–		903,768	
Payment of transaction costs on issue of new shares		–		(26,186)	
Proceeds from shares issued under share option scheme	*30*	4,581		45,909	
Payment for redemption and purchases of convertible bonds		–		(109,885)	
Proceeds from the issue of convertible bonds, net of transaction costs		–		2,104,069	
Payment for interests of convertible bonds		(51,926)		–	
Borrowing costs paid		(75,104)		(49,491)	
Dividend paid to equity shareholders of the Company	*30*	(184,665)		(109,864)	
Dividend paid to non-controlling holders of interests		(19,733)		(13,049)	
Net cash generated from financing activities			680,261		3,093,620
Net increase in cash and cash equivalents			609,377		2,293,932
Cash and cash equivalents at 1 January	*22(a)*		3,409,807		1,150,951
Effect of foreign exchange rate changes			(75,374)		(35,076)
Cash and cash equivalents at 31 December	*22(a)*		3,943,810		3,409,807

The notes on pages 48 to 121 form part of these financial statements.

1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by Hengdeli Holdings Limited ("the Company") and its subsidiaries (together "the Group") is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Group and the Group's interest in an associate and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at fair value as explained in the accounting policies (see note 1(o)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(y)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1. Significant accounting policies *(Continued)*

(c) 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 HKAS 32, Financial instruments: Presentation-Classification of rights issued
- HK(IFRIC) 19, Extinguishing financial liabilities with equity instruments

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

The amendments to HKAS 32 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in note 34 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

1. Significant accounting policies *(Continued)*

(d) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in accordance with notes 1(o), (p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(y)).

(e) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(y)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

1. Significant accounting policies *(Continued)*

(e) Associates and jointly controlled entities *(Continued)*

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note (1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

In the Company's statement of financial position, investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale (see note 1(y)).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1. Significant accounting policies *(Continued)*

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(v)(iii) and (iv).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(l)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(v)(iii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(v)(iv). When these investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(l)). Depreciation is calculated to write off the cost of investment property less its estimated residual value using the straight line method over its estimated useful life of 20 years. Rental income from investment properties is accounted for as described in note 1(v)(ii).

1. Significant accounting policies *(Continued)*

(i) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.
- Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.
- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

– Leasehold improvements	1-5 years
– Motor vehicles	5-10 years
– Office equipment and other fixed assets	3-5 years

No depreciation is provided for construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment and other fixed assets is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

1. Significant accounting policies *(Continued)*

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(x)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Agency rights and patents	5-10 years
Trademarks with finite useful life	5-10 years
Software licences	5-10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

1. Significant accounting policies *(Continued)*

(k) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1. Significant accounting policies *(Continued)*

(l) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (see note 1(e))), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if a subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

1. Significant accounting policies *(Continued)*

(l) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investment property;

– other property, plant and equipment;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1. Significant accounting policies *(Continued)*

(l) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and 1(l)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The fair value of inventories acquired in a business combination is determined based on their estimated selling price in the ordinary course of business less the estimated costs of sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

1. Significant accounting policies *(Continued)*

(o) Convertible bonds and derivative financial instruments

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative components of the convertible bonds are measured at fair value and presented as part of derivative financial instruments (see (iii) below). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 1(o)(iii). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(iii) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1. Significant accounting policies *(Continued)*

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(s) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiary in the Company's statement of financial position which is eliminated on consolidation.

1. Significant accounting policies *(Continued)*

(s) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1. Significant accounting policies *(Continued)*

(t) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(u)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(u)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. Significant accounting policies *(Continued)*

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are handed over to individual customers at retail outlets or delivered at the wholesale or corporate customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of those entities within the Group which have a functional currency other than Renminbi ("RMB") are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

1. Significant accounting policies *(Continued)*

(w) Translation of foreign currencies *(Continued)*

On disposal of any of such entities, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Assets classified as held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

1. Significant accounting policies *(Continued)*

(z) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. Accounting judgement and estimates

Notes 13, 14, 20, 26, 28 and 34 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, trade and other receivables impairment, fair value of the embedded financial derivatives, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation

Property, plant and equipment and investment property are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and the residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

2. Accounting judgement and estimates *(Continued)*

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution costs. These estimates are based on the current market conditions and the historical experience of distributing and selling products of a similar nature. Management reassesses the estimations at the end of each reporting period.

(c) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislation. Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3. Turnover and segment reporting

(a) Turnover

The principal activities of the Group are retail and wholesale of watches and jewellery.

Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales discounts and returns.

The Group's customer base is diversified and includes no customer with whom transactions have exceeded 10% of the Group's revenues.

Further details regarding the Group's principal activities are disclosed below:

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in Mainland China). 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 (includes three segments in Mainland China, Taiwan and Hong Kong): 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 Mainland China and Hong Kong.

3. Turnover and segment reporting *(Continued)*

(b) Segment reporting *(Continued)*

(i) 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 bases:

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 years ended 31 December 2011 and 2010 is set out below.

	Retail											
	Mainland China		Hong Kong		Taiwan		Wholesale		All others#		Total	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Revenue from external customers	5,209,797	3,769,908	3,157,265	2,412,052	222,261	192,698	2,550,534	1,661,119	235,423	179,866	11,375,280	8,215,643
Inter-segment revenue	–	–	–	–	–	–	3,753,735	2,764,134	1,437	1,562	3,755,172	2,765,696
Reportable segment revenue	5,209,797	3,769,908	3,157,265	2,412,052	222,261	192,698	6,304,269	4,425,253	236,860	181,428	15,130,452	10,981,339
Reportable segment profit	1,651,719	1,220,177	747,439	496,616	74,709	66,214	300,056	210,525	83,145	55,418	2,857,068	2,048,950
Reportable segment assets	2,553,961	1,825,530	1,054,451	780,659	272,514	180,067	796,874	493,091	48,236	67,393	4,726,036	3,346,740

\# 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, and a packaging and decoration business. None of those segments met any of the quantitative thresholds for determining reportable segments.

3. Turnover and segment reporting *(Continued)*

(b) Segment reporting *(Continued)*

(ii) Reconciliations of reportable segment revenues, profit or loss and assets

Revenue	2011 RMB'000	2010 RMB'000
Total revenues for reportable segments	**14,893,592**	10,799,911
Other revenue	**236,860**	181,428
Elimination of inter-segment revenue	**(3,755,172)**	(2,765,696)
Consolidated turnover	**11,375,280**	8,215,643

Profit	2011 RMB'000	2010 RMB'000
Total profit for reportable segments	**2,773,923**	1,993,532
Other profit	**83,145**	55,418
	2,857,068	2,048,950
Other revenue	**141,486**	54,690
Other net income	**76,382**	11,973
Distribution costs	**(1,325,024)**	(947,526)
Administrative expenses	**(368,978)**	(281,086)
Other operating expenses	**(3,436)**	(1,519)
Finance costs	**(178,240)**	(83,013)
Share of (losses)/profits of jointly controlled entities	**(1,119)**	13,194
Consolidated profit before taxation	**1,198,139**	815,663

Assets	2011 RMB'000	2010 RMB'000
Total assets for reportable segments (inventories)	**4,677,800**	3,279,347
Other assets	**48,236**	67,393
Elimination of unrealised inter-segment profit	**(204,739)**	(148,881)
	4,521,297	3,197,859
Trade and other receivables	**1,114,801**	1,004,900
Pledged bank deposits	**25,899**	10,000
Cash and cash equivalents	**3,941,828**	3,409,807
Assets classified as held for sale	**136,233**	–
Non-current assets	**1,849,406**	1,436,840
Consolidated total assets	**11,589,464**	9,059,406

3. Turnover and segment reporting *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, intangible assets, goodwill, interest in an associate, interests in jointly controlled entities and other investments ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interest in an associate, interests in jointly controlled entities and other investments.

The Group's business is mainly managed in three principal economic environments, Mainland China, Hong Kong and Taiwan.

	2011 RMB'000	2010 RMB'000
Revenue from external customers		
Mainland China	**7,943,600**	5,576,586
Hong Kong	**3,157,265**	2,416,843
Taiwan	**222,261**	192,698
Others	**52,154**	29,516
Total	**11,375,280**	8,215,643

	2011 RMB'000	2010 RMB'000
Specified non-current assets		
Mainland China	**780,785**	740,845
Hong Kong	**309,190**	246,873
Taiwan	**246,998**	249,063
Others	**382**	27,381
Total	**1,337,355**	1,264,162

4. Other revenue and net income

	2011 RMB'000	2010 RMB'000
Other revenue		
Interest income	**89,911**	18,615
Government grants	**10,055**	8,800
Dividend income from unlisted investments *(note 17)*	**27,754**	19,252
Rental income	**4,681**	4,363
Others	**9,085**	3,660
	141,486	54,690

In April 2011, the Group purchased a bond equivalent to RMB258,864,000 with an annualised interest rate of 13% issued by a third party. In addition, the Group granted three short term loans equivalent to RMB722,304,000 with annualised interest rates ranged from 11% to 18% to certain third parties during the second half of 2011. These transactions have contributed a total interest income of RMB63,640,000 in 2011. Both the principals and interests income derived from the above transactions have been collected by the Group in 2011.

Two of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group., Ltd. ("Shanghai Xinyu") and Shenzhen Hengdeli Watch & Clock Co., Ltd. ("Shenzhen Hengdeli"), received unconditional grants totaling RMB9,700,000 (2010: RMB8,800,000) and RMB355,000 (2010: nil), respectively, from the municipal government of Shanghai and Shenzhen, in support of their development.

	2011 RMB'000	2010 RMB'000
Other net income		
Compensation from termination of a property purchase contract	**18,123**	–
Changes in fair value of embedded financial derivatives *(note 26)*	**7,840**	(21,519)
Gain on redemption and purchases of convertible bonds	**–**	7,723
Gain on disposal of a subsidiary and a jointly controlled entity	**–**	6,471
Gain on disposal of an associate	**4,123**	–
Net gain on sale of trademarks	**–**	12,270
Net (loss)/gain on sale of property, plant and equipment	**(457)**	6,973
Net foreign exchange gain	**46,753**	55
	76,382	11,973

In 2011, the Group entered into an agreement with a third party to acquire a property in Mainland China and made an initial payment of RMB300,000,000 accordingly. Subsequently, the counterparty terminated the property purchase agreement and returned the advance payment of RMB300,000,000 to the Group. In accordance with the agreement, the Group received a compensation of RMB18,123,000 from the counterparty.

5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2011 **RMB'000**	2010 RMB'000
Interest on bank loans wholly repayable within five years	**74,077**	48,402
Interest on other loans	**2,867**	475
Interest on convertible bonds *(note 26)*	**93,950**	26,355
Bank charges	**7,346**	7,781
Finance costs	**178,240**	83,013

(b) Staff costs

	2011 **RMB'000**	2010 RMB'000
Contributions to defined contribution retirement plans	**65,293**	46,037
Equity-settled share-based payment expenses *(note 28)*	**280**	10,695
Salaries, wages and other benefits	**537,483**	359,411
	603,056	416,143

5. Profit before taxation *(Continued)*

(c) Other items

	2011 RMB'000	2010 RMB'000
Amortisation of intangible assets	**2,786**	2,380
Depreciation of fixed assets	**72,208**	51,088
Impairment losses for trade and other receivables	**3,169**	1,519
Operating lease charges in respect of properties		
– minimum lease payments	**196,627**	125,172
– contingent rents	**427,973**	339,068
	624,600	464,240
Auditors' remuneration	**3,930**	3,620
Rental income from investment property	**6,701**	2,755
Cost of inventories	**8,518,212**	6,166,693

6. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2011 RMB'000	2010 RMB'000
Current tax		
Provision for Hong Kong profits tax for the year	**71,910**	49,328
Provision for Mainland China income tax for the year	**218,097**	147,717
Provision for Taiwan and Macau income tax for the year	**5,519**	2,340
Under-provision in respect of prior years	**2,315**	950
Sub-total	**297,841**	200,335
Deferred tax		
Origination and reversal of temporary differences *(note 29)*	**(17,978)**	(2,050)
Sub-total	**(17,978)**	(2,050)
Total	**279,863**	198,285

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, Mainland China, Taiwan, Macau and Italy, are not subject to any income tax in these jurisdictions.

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

The provision for Mainland China income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in Mainland China 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 Mainland China. 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.

6. Income tax in the consolidated income statement *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

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%.

In May 2010, the Taiwan Government announced a decrease in the statutory income tax rate from 25% to 17% from the year ended 31 December 2010 and thereafter. Accordingly the provision for Taiwan income tax for 2011 is calculated at 17% (2010: 17%) of the estimated assessable profits for the year end.

Income tax is calculated at 12% of any assessable profit in Macau. No income tax is provided for the operation in Italy as it has accumulated tax losses at the end of the reporting period.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2011 **RMB'000**	2010 RMB'000
Profit before taxation	**1,198,139**	815,663
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**259,786**	181,263
Tax effect of non-taxable income	**(10,541)**	(7,025)
Tax effect of non-deductible expenses	**7,878**	5,806
Under-provision in prior years	**2,315**	950
Tax effect of tax losses not recognised	**7,520**	8,378
Withholding taxes on profits distributions of the Group's subsidiaries	**12,905**	8,913
Actual tax expense	**279,863**	198,285

7. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 27)*	Total RMB'000
Year ended 31 December 2011				
Executive Directors				
Mr. Zhang Yuping	–	4,049	10	4,059
Mr. Song Jianwen	–	1,217	64	1,281
Mr. Huang Yonghua	–	1,815	–	1,815
Non-executive Directors				
Mr. Chen Sheng	1,097	–	10	1,107
Mr. Shen Zhiyuan (resigned on 12 May 2011)	–	–	–	–
Ms. Zheng Yu (appointed on 12 May 2011)	53	–	–	53
Mr. Shi Zhongyang	83	–	–	83
Independent Non-executive Directors				
Mr. Cai Jianmin	42	–	–	42
Mr. Wong Kam Fai, William	83	–	–	83
Mr. Liu Xueling	42	–	–	42
Total	1,400	7,081	84	8,565

7. Directors' remuneration *(Continued)*

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 27)*	Total RMB'000
Year ended 31 December 2010				
Executive Directors				
Mr. Zhang Yuping	–	3,525	11	3,536
Mr. Song Jianwen	–	1,243	55	1,298
Mr. Huang Yonghua	–	1,682	–	1,682
Non-executive Directors				
Mr. Chen Sheng	604	–	–	604
Mr. Shen Zhiyuan	42	–	–	42
Mr. Shi Zhongyang	85	–	–	85
Independent Non-executive Directors				
Mr. Cai Jianmin	43	–	–	43
Mr. Wong Kam Fai, William	85	–	–	85
Mr. Liu Xueling	43	–	–	43
Total	902	6,450	66	7,418

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group during the two years ended 31 December 2011 and 2010. There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 December 2011 and 2010.

During the years ended 31 December 2011 and 2010, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2010: one) is director whose emolument is disclosed in note 7. The aggregate of the emoluments in respect of the other four (2010: four) individuals are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	10,347	10,829
Contributions to retirement benefit plans	46	69
Bonuses	75,824	28,668
Share-based payments	67	210
	86,284	39,776

The emoluments of the four (2010: four) individuals, other than directors, with the highest emoluments are within the following bands:

HKD	2011 Number of individuals	2010 Number of individuals
Nil – 1,000,000	–	–
2,500,001 – 3,000,000	–	1
3,000,001 – 3,500,000	2	–
4,000,001 – 4,500,000	1	–
4,500,001 – 5,000,000	–	2
30,500,001 – 31,000,000	–	1
89,000,001 – 89,500,000	1	–

9. Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB88,054,000 (2010: loss RMB57,684,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2011 RMB'000	2010 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(88,054)	(57,684)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	77,264	125,006
Company's (loss)/profit for the year *(note 30(a))*	(10,790)	67,322

Details of dividends paid and payable to equity shareholders of the Company are set out in note 30(b).

10. Other comprehensive income

Tax effect relating to other comprehensive income:

	2011			2010		
	Before-tax RMB'000	Tax RMB'000	Net-of-tax RMB'000	Before-tax RMB'000	Tax RMB'000	Net-of-tax RMB'000
Exchange differences on translation of financial statements	(57,424)	–	(57,424)	(40,832)	–	(40,832)

11. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB814,919,000 (2010: RMB553,989,000) and the weighted average of 4,397,715,322 ordinary shares (2010: 4,172,241,793 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2011	2010
Issued ordinary shares at 1 January	**4,396,484,054**	4,069,026,000
Effect of conversion of convertible bonds	**–**	738,790
Effect of share options exercised	**1,231,268**	3,846,866
Effect of share placements	**–**	98,630,137
Weighted average number of ordinary shares at 31 December	**4,397,715,322**	4,172,241,793

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company (diluted) of RMB903,503,000 (2010: RMB553,989,000) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 4,922,685,187 shares (2010: 4,177,925,374 shares), calculated as follows:

(i) Profit attributable to equity shareholders of the Company (diluted)

	2011 RMB'000	2010 RMB'000
Profit attributable to equity shareholders (basic)	**814,919**	553,989
Effect of effective interest on the liability component of convertible bonds	**93,950**	–
Effect of gains recognised on the derivative component of convertible bonds	**(7,840)**	–
Effect of exchange loss recognised on the liability component of convertible bonds	**2,474**	–
Profit attributable to equity shareholders (diluted)	**903,503**	553,989

The calculation of diluted earnings per share amount for the year ended 31 December 2010 has not included the potential effect of the deemed conversion of the convertible bonds into ordinary shares during the year as it has an anti-dilutive effect on the basic earnings per share amount for that year.

11. Earnings per share *(Continued)*

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

(ii) Weighted average number of ordinary shares (diluted)

	2011	2010
Weighted average number of ordinary shares	**4,397,715,322**	4,172,241,793
Effect of conversion of convertible bonds	**519,356,444**	–
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**5,613,421**	5,683,581
Weighted average number of ordinary shares (diluted) at 31 December	**4,922,685,187**	4,177,925,374

12. Fixed assets

The Group

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment and other fixed assets RMB'000	Construction in progress RMB'000	Sub-Total RMB'000	Investment property RMB'000	Total fixed assets RMB'000
Cost:								
At 1 January 2010	346,067	132,007	15,751	49,932	203,164	746,921	31,032	777,953
Additions	–	63,461	6,691	15,494	130,695	216,341	194,850	411,191
Additions through acquisition of subsidiaries	–	–	–	1,558	–	1,558	–	1,558
Transfer from construction in progress	128,160	17,667	–	–	(167,984)	(22,157)	22,157	–
Disposals	(34,243)	(5,802)	(2,807)	(2,165)	–	(45,017)	–	(45,017)
Disposals of subsidiaries	(58,874)	–	–	–	–	(58,874)	–	(58,874)
At 31 December 2010 and 1 January 2011	381,110	207,333	19,635	64,819	165,875	838,772	248,039	1,086,811
Exchange adjustments	(8,054)	(693)	(1,087)	(3,951)	–	(13,785)	(7,600)	(21,385)
Additions	63,350	77,474	6,377	34,131	20,782	202,114	–	202,114
Additions through acquisition of subsidiaries	–	524	–	–	–	524	–	524
Transfer from construction in progress	73,088	7,662	–	10,479	(91,229)	–	–	–
Transfer to investment property	(27,745)	–	–	–	–	(27,745)	27,745	–
Classified as held for sale	(25,127)	–	–	(1,677)	(73,796)	(100,600)	–	(100,600)
Disposals	–	(8,780)	(1,919)	(16,088)	–	(26,787)	–	(26,787)
At 31 December 2011	456,622	283,520	23,006	87,713	21,632	872,493	268,184	1,140,677

12. Fixed assets *(Continued)*

The Group *(Continued)*

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment and other fixed assets RMB'000	Construction in progress RMB'000	Sub-Total RMB'000	Investment property RMB'000	Total fixed assets RMB'000
Accumulated depreciation:								
Balance at 1 January 2010	(58,734)	(54,692)	(7,052)	(26,084)	–	(146,562)	(5,025)	(151,587)
Charge for the year	(10,130)	(27,254)	(2,444)	(8,713)	–	(48,541)	(2,547)	(51,088)
Written back on disposals	112	5,802	1,989	759	–	8,662	–	8,662
Written back on disposals of subsidiaries	12,145	–	–	–	–	12,145	–	12,145
At 31 December 2010 and 1 January 2011	(56,607)	(76,144)	(7,507)	(34,038)	–	(174,296)	(7,572)	(181,868)
Exchange adjustments	1,039	1,116	103	3,626	–	5,884	–	5,884
Charge for the year	(10,187)	(42,097)	(3,041)	(11,872)	–	(67,197)	(5,011)	(72,208)
Classified as held for sale	1,850	–	–	690	–	2,540	–	2,540
Written back on disposals	–	8,630	1,774	15,723	–	26,127	–	26,127
At 31 December 2011	(63,905)	(108,495)	(8,671)	(25,871)	–	(206,942)	(12,583)	(219,525)
Net book value:								
At 31 December 2011	392,717	175,025	14,335	61,842	21,632	665,551	255,601	921,152
At 31 December 2010	324,503	131,189	12,128	30,781	165,875	664,476	240,467	904,943

(i) Land owned by the Group is located in Italy and Taiwan, which has an unlimited useful life and therefore is not depreciated. The carrying amount of the land located in Italy as at 31 December 2011 is RMB7,779,000 (2010: RMB7,779,000), which has been classified as held for sale as at 31 December 2011 (see note 23). The carrying amount of the land located in Taiwan as at 31 December 2011 is RMB7,544,000 (2010: RMB7,544,000).

(ii) The buildings owned by the Group are located in Mainland China, Italy, Hong Kong and Taiwan.

(iii) As at 31 December 2011, land and buildings in Mainland China, Taiwan and Hong Kong with carrying amounts of RMB16,830,000, RMB11,137,000 and RMB39,454,000, respectively (2010: nil in Mainland China, RMB13,423,000 in Taiwan and RMB42,561,000 in Hong Kong) were pledged to banks as security for certain loans (see note 25).

(iv) As at 31 December 2011, the Group was in the process of obtaining property ownership certificates for two of its buildings in Guangzhou and Taiyuan with carrying amounts of approximately RMB29,839,000 (2010: RMB30,685,000).

(v) The investment properties are located in Shenzhen, Wuhan and Urumqi in Mainland China and Taipei in Taiwan (2010: in Shenzhen, Wuhan and Taipei), and are rented out under the terms of operating leases. The fair value of the investment property as at 31 December 2011, as determined by reference to recent market transactions of comparable properties, amounted to RMB350,000,000 (2010: RMB277,076,000). The fair value of the investment properties has not been evaluated by an independent external valuer.

As at 31 December 2011, investment property in Taiwan with a carrying amount of RMB185,727,000 (2010: RMB194,694,000) was pledged to bank as security for certain loans (see note 25).

13. Intangible assets

The Group

	Trademarks with indefinite useful lives RMB'000	Trademarks with finite useful lives RMB'000	Agency rights and patents RMB'000	Software licence RMB'000	Total RMB'000
Cost:					
At 1 January 2010	32,149	8,744	4,193	1,989	47,075
Additions during the year	–	–	67	1,464	1,531
Disposals during the year	(16,229)	–	–	–	(16,229)
At 1 January 2011	15,920	8,744	4,260	3,453	32,377
Additions during the year	–	–	272	1,638	1,910
Classified as held for sale	–	–	(3,333)	(1,076)	(4,409)
At 31 December 2011	15,920	8,744	1,199	4,015	29,878
Accumulated amortisation:					
At 1 January 2010	–	(2,225)	(1,844)	(207)	(4,276)
Charge for the year	–	(1,145)	(831)	(404)	(2,380)
At 1 January 2011	–	(3,370)	(2,675)	(611)	(6,656)
Charge for the year	–	(1,184)	(772)	(830)	(2,786)
Classified as held for sale	–	–	2,487	402	2,889
At 31 December 2011	–	(4,554)	(960)	(1,039)	(6,553)
Net book value:					
At 31 December 2011	15,920	4,190	239	2,976	23,325
At 31 December 2010	15,920	5,374	1,585	2,842	25,721

13. Intangible assets *(Continued)*

The amortisation charges for trademarks with finite useful lives, Edox agency rights and patents and software licence are included in "Administrative expenses" in the consolidated income statement.

The basis of impairment tests for cash-generating units containing trademarks with indefinite useful lives is as follows:

The recoverable amount of the cash-generating unit is determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on estimated annual growth rates in sales of 15% (2010: 3% to 15%), a growth rate in gross profit ratio of 0% (2010: 1% to 4%), and a discount rate of 10% (2010: 8% to 10%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

14. Goodwill

The Group

	RMB'000
Cost:	
At 1 January 2010	242,767
Additions	35,154
At 31 December 2010 and 1 January 2011	277,921
Additions *(note 32)*	19,000
At 31 December 2011	296,921
Accumulated impairment losses:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	–
Carrying amount:	
At 31 December 2011	296,921
At 31 December 2010	277,921

14. Goodwill *(Continued)*

Goodwill is allocated to the Group's cash-generating units identified according to the reportable segments as follows:

	2011 RMB'000	2010 RMB'000
Retail – Hong Kong		
Elegant Jewellery Holding Limited ("Elegant")	**171,163**	171,163
Retail – Taiwan		
台灣精光堂時計有限公司 ("Timepiece")	**22,654**	22,654
Retail – Mainland China		
蘇州工業園區新宇世家鐘錶有限公司 ("Suzhou Xinyu")	**16,845**	16,845
北京世紀英迪商貿有限責任公司 ("Beijing Yingdi")	**15,275**	15,275
武漢新宇老亨達利有限公司 ("Wuhan Xinyu")	**14,400**	14,400
河南富豪錶行有限公司 ("Henan Fuhao")	**8,197**	8,197
無錫新宇鐘錶有限公司 ("Wuxi Xinyu")	**8,000**	8,000
新疆世紀百達投資有限公司 ("Xinjiang Century Baida")	**4,246**	4,246
深圳市瑞時達貿易有限公司 ("Shenzhen Ruishida")	**2,956**	2,956
青島亨得利有限公司 ("Qingdao Hengdeli")	**8,000**	8,000
廣州瑞越鐘錶貿易有限公司 ("Guangzhou Ruiyue")	**4,500**	4,500
江西省新宇華瑞鐘錶有限公司 ("Jiangxi Xinyu")	**19,000**	–
All others		
廣州市雅迪裝飾包裝有限公司 ("Guangzhou Yadi")	**1,685**	1,685
	296,921	277,921

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following five years based on estimated annual growth rates in sales ranging from 1% to 15% (2010: 1% to 15%), a growth rate in gross profit ratio ranging from -1% to 10% (2010: -1% to 10%), and a discount rate of 15% (2010: 15%). The growth rate does not exceed the long-term average growth rate for the relevant markets.

15. Investments in subsidiaries

The Company

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**498,708**	523,144

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activity
Shanghai Xinyu	the PRC	95%	RMB1,000,000,000/ RMB1,000,000,000	Retail and wholesale of watches
北京市亨得利瑞士鐘錶有限責任公司 ("Beijing Hengdeli")	the PRC	55%	RMB156,800,000/ RMB156,800,000	Retail and wholesale of watches
哈爾濱盛時鐘錶有限公司 ("Harbin Shengshi")	the PRC	100%	RMB50,000,000/ RMB50,000,000	Retail of watches
遼寧新宇三寶鐘錶有限公司 ("Liaoning Xinyu Sanbao")	the PRC	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
深圳市亨得利陽光鐘錶有限責任公司 ("Shenzhen Yangguang")	the PRC	100%	RMB15,000,000/ RMB15,000,000	Retail of watches
Henan Fuhao	the PRC	70%	RMB30,000,000/ RMB30,000,000	Retail of watches
安徽三新鐘錶有限公司 ("Anhui Sanxin")	the PRC	70%	RMB20,000,000/ RMB20,000,000	Retail of watches
Guangzhou Yadi	the PRC	100%	HKD131,000,000/ HKD131,000,000	Decoration and packaging
Shenzhen Hengdeli	the PRC	100%	HKD500,000,000/ HKD500,000,000	Retail and wholesale of watches

(Expressed in Renminbi unless otherwise indicated)

15. Investments in subsidiaries *(Continued)*

Name of company	Place of incorporation and operation	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activity
Elegant	Hong Kong	100%	HKD5,000,000/ HKD5,000,000	Retail of watches and jewellery
Suzhou Xinyu	the PRC	60%	RMB50,000,000/ RMB50,000,000	Retail of watches
Beijing Yingdi	the PRC	100%	RMB500,000/ RMB500,000	Retail of watches
Wuxi Xinyu	the PRC	80%	RMB36,000,000/ RMB36,000,000	Retail of watches
Shenzhen Ruishida	the PRC	100%	RMB10,000,000/ RMB10,000,000	Retail of watches
Xinjiang Century Baida	the PRC	100%	RMB7,000,000/ RMB7,000,000	Retail of watches
杭州新宇鐘錶有限公司 (“Hangzhou Xinyu”)	the PRC	60%	RMB10,000,000/ RMB10,000,000	Retail of watches
Wuhan Xinyu	the PRC	60%	RMB50,000,000/ RMB50,000,000	Retail of watches
Timepiece	Taiwan	80%	NTD155,820,000/ NTD155,820,000	Retail of watches
Guangzhou Ruiyue	the PRC	75%	RMB10,000,000/ RMB10,000,000	Retail of watches
新宇亨得利投資(深圳)有限公司 (“Xinyu Hengdeli investment (Shenzhen)”)	the PRC	100%	HKD350,000,000/ HKD350,000,000	Investment holding

Note: All the subsidiaries incorporated in Mainland China are domestic enterprises, except for Shanghai Xinyu, Guangzhou Yadi, Shenzhen Hengdeli and Xinyu Hengdeli investment (Shenzhen), which are foreign invested enterprises.

16. Interest in jointly controlled entities

The Group

	2011 RMB'000	2010 RMB'000
Share of net assets	**56,161**	52,930

Details of the Group's interest in the jointly controlled entities are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity held by subsidiaries	Principal activity
上海瑞亨琪鐘錶商業有限公司 ("Shanghai Ruihengqi")	Incorporated	the PRC	RMB 30,000,000	50%	Retail of watches
北京新宇亨瑞鐘錶有限責任公司 ("Beijing Hengrui")	Incorporated	the PRC	RMB 40,000,000	50%	Property management and leasing

Summary financial information on jointly controlled entities – the Group's effective interest:

	2011 RMB'000	2010 RMB'000
Non-current assets	**41,896**	39,240
Current assets	**33,023**	26,673
Non-current liabilities	**(124)**	–
Current liabilities	**(18,634)**	(12,983)
Net assets	**56,161**	52,930
Income	**11,593**	24,994
Expenses	**(12,712)**	(11,800)
(Losses)/profits for the year	**(1,119)**	13,194

17. Other investments

The Group

	2011 RMB'000	2010 RMB'000
Unlisted investments	**39,711**	797

In 2011, one of the Group's wholly owned subsidiaries purchased 10% of the issued share capital in Harvest Max Holdings Limited, which, together with its subsidiaries in Hong Kong, are primarily engaged in sales of jewellery and timepieces in Hong Kong and operation of retail shops in Hong Kong.

The Group received dividends totaling RMB27,754,000 and RMB19,252,000 for the years ended 31 December 2011 and 2010, respectively, from its unlisted investments.

18. Other financial assets

The Group

	2011 RMB'000	2010 RMB'000
Prepayment for business acquisition	**434,000**	121,050

Other financial assets as at 31 December 2011 and 31 December 2010 represents prepayments in respect of the acquisitions of certain watch retail businesses in Mainland China which are due to be completed in 2012.

19. Inventories

(a) Inventories in the consolidated statement of financial position comprise:

The Group

	2011 RMB'000	2010 RMB'000
Raw materials	**25,490**	33,056
Work in progress	**38,937**	21,158
Finished goods	**4,456,870**	3,143,645
	4,521,297	3,197,859

19. Inventories *(Continued)*

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

The Group

	2011 **RMB'000**	2010 RMB'000
Carrying amount of inventories sold	**8,463,474**	6,157,134
Increase of inventory provision	**54,738**	9,559
	8,518,212	6,166,693

20. Trade and other receivables

The Group

	2011 **RMB'000**	2010 RMB'000
Trade receivables	**794,877**	518,745
Less: allowance for doubtful debts *(note 20(b))*	**(5,628)**	(5,961)
	789,249	512,784
Prepayments and deposits	**137,283**	342,161
Other receivables	**188,269**	149,955
	1,114,801	1,004,900

The Company

	2011 **RMB'000**	2010 RMB'000
Other receivables	**426**	99
Receivables due from subsidiaries *(note 33(c))*	**3,741,244**	2,687,460
	3,741,670	2,687,559

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

20. Trade and other receivables *(Continued)*

(a) Ageing analysis

An ageing analysis of trade receivables (net of allowance for doubtful debts) is as follows:

The Group

	2011 RMB'000	2010 RMB'000
Current	**684,850**	440,198
Less than 1 month past due	**63,384**	51,027
1 to 3 months past due	**11,186**	9,005
More than 3 months but less than 12 months past due	**25,996**	7,743
More than 12 months past due	**3,833**	4,811
Amounts past due	**104,399**	72,586
	789,249	512,784

Trade receivables are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy are set out in note 34(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(l)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

The Group

	2011 RMB'000	2010 RMB'000
At 1 January	**5,961**	6,836
Impairment loss recognised	**963**	1,723
Uncollectible amounts written off	**(1,296)**	(1,924)
Reversal of impairment loss upon receipts	**–**	(674)
At 31 December	**5,628**	5,961

20. Trade and other receivables *(Continued)*

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

The Group

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**684,850**	440,198
Less than 1 month past due	**63,384**	51,027
1 to 3 months past due	**11,186**	9,005
More than 3 months but less than 12 months past due	**25,507**	7,672
	100,077	67,704
	784,927	507,902

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. Pledged bank deposits

Pledged bank deposits of the Group mainly represent deposits pledged at banks to secure letters of guarantee granted to the Group. The pledged bank deposits will be released upon the termination of the related instruments.

22. Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents in the statement of financial position	**3,941,828**	3,409,807	**154,278**	1,440,913
Cash and cash equivalents classified as held for sale *(note 23)*	**1,982**	–	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**3,943,810**	3,409,807	**154,278**	1,440,913

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2011** **RMB'000**	2010 RMB'000
Profit before taxation		**1,198,139**	815,663
Adjustments for:			
Depreciation	*5(c)*	**72,208**	51,088
Amortisation of intangible assets	*5(c)*	**2,786**	2,380
Finance costs	*5(a)*	**170,894**	83,013
Dividend income from unlisted investments	*4*	**(27,754)**	(19,252)
Interest income	*4*	**(89,911)**	(18,615)
Changes in fair value of embedded financial derivatives	*4*	**(7,840)**	21,519
Share of losses/(gain) of jointly controlled entities	*16*	**1,119**	(13,194)
Loss/(gain) on sale of property, plant and equipment	*4*	**457**	(6,973)
Gain on redemption and purchases of convertible bonds	*4*	**–**	(7,723)
Equity-settled share-based payment expenses	*5(b)*	**280**	10,695
Gain on sale of a subsidiary and a jointly controlled entity	*4*	**–**	(6,471)
Gain on sale of trademarks	*4*	**–**	(12,270)
Gain on sale of an associate	*4*	**(4,123)**	–
Operating profit before changes in working capital		**1,316,255**	899,860
Increase in inventories		**(1,281,055)**	(738,672)
Increase in trade and other receivables		**(255,884)**	(226,706)
Increase in trade and other payables		**664,419**	14,354
Cash generated from/(used in) operating activities		**443,735**	(51,164)

23. Assets classified as held for sale and liabilities associated with assets classified as held for sale

In September and October 2011, the Group has entered into two contractual agreements, pursuant to which, the Group agreed to sell its equity interests in certain subsidiaries.

At 31 December 2011, the Group has reclassified the following assets and liabilities as held for sale:

	Note	RMB'000
Assets:		
Cash and cash equivalents	*22(a)*	1,982
Trade and other receivables		5,675
Inventories		28,996
Fixed assets	*12*	98,060
Intangible assets	*13*	1,520
		136,233
Liabilities:		
Trade and other payables		(17,868)
Current taxation		(4,334)
Deferred tax liabilities	*29(b)*	(6,156)
		(28,358)

As at the reporting day, the first payment of RMB50,370,000 has been received by the Group in respect of one agreement, which has been executed and completed in January 2012. Management expect that the other sale will be completed within one year from the date of reclassification.

24. Trade and other payables

The Group

	2011 RMB'000	2010 RMB'000
Trade payables	**1,377,071**	537,121
Other payables and accrued expenses	**349,463**	206,153
Advance receipts from customers	**32,335**	117,046
Amounts due to related parties *(note 33(d))*	**–**	20,706
	1,758,869	881,026

24. Trade and other payables *(Continued)*

The Company

	2011 RMB'000	2010 RMB'000
Other payables and accrued expenses	**359**	260
Amounts due to subsidiaries *(note 33(d))*	**17,346**	17,695
	17,705	17,955

An ageing analysis of trade payables is as follows:

The Group

	2011 RMB'000	2010 RMB'000
Within 1 month	**1,145,643**	438,287
Over 1 month but less than 3 months	**183,391**	55,058
Over 3 months but less than 12 months	**16,066**	25,875
Over 1 year	**31,971**	17,901
	1,377,071	537,121

25. Bank loans

At 31 December 2011, the bank loans were repayable as follows:

The Group

	2011 RMB'000	2010 RMB'000
Within 1 year or on demand	**2,041,923**	1,076,649
After 1 year but within 2 years	**86,593**	48,250
After 2 years but within 5 years	**33,324**	173,067
After 5 years	**100,263**	11,129
	220,180	232,446
	2,262,103	1,309,095

25. Bank loans *(Continued)*

Certain of the Group's banking facilities are subject to the fulfillment of a covenant imposing certain specific performance requirements on the Group and a minimum shareholding requirement on the Group's major shareholder. If the Group were to breach the covenant, the drawn down facility amounting to RMB402,866,000 would become payable on demand. The Group regularly monitors its compliance with the covenant. As at 31 December 2011, the Group had complied with the covenant.

The Company

	2011 RMB'000	2010 RMB'000
Within 1 year or on demand	115,768	17,018
After 1 year but within 2 years	74,098	34,036
After 2 years but within 5 years	–	34,036
	74,098	68,072
	189,866	85,090

At 31 December 2011, the bank loans were secured as follows:

The Group

	2011 RMB'000	2010 RMB'000
Bank loans within one year or on demand		
– Secured	13,000	5,765
– Unsecured	2,028,923	1,070,884
	2,041,923	1,076,649
Bank loans after one year		
– Secured	157,149	163,011
– Unsecured	63,031	69,435
	220,180	232,446
	2,262,103	1,309,095

25. Bank loans *(Continued)*

The Company

	2011 **RMB'000**	2010 RMB'000
Bank loans within one year or on demand		
– Unsecured	**115,768**	17,018
	115,768	17,018
Bank loans after one year		
– Unsecured	**74,098**	68,072
	74,098	68,072
	189,866	85,090

At 31 December 2011, the banking facilities of certain subsidiaries were secured by mortgages over certain land and buildings with an aggregate carrying value of RMB253,148,000 (2010: RMB250,678,000).

26. Convertible bonds

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (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 principal terms of the 2012 Convertible Bonds are as follows:

(a) Optional conversion

Each bond will, at the option of the holder ("Bondholders"), be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 21 February 2008 up to and including 17 August 2012 into fully paid ordinary shares of the Company with a par value of HKD0.005 each at an initial conversion price (the "Conversion Price") of HKD7.06 per share and a fixed exchange rate of HKD1.00 to RMB0.96637. Pursuant to the Company's announcement dated 11 September 2009, 26 August 2010 and 2 September 2010, the conversion price of the 2012 Convertible Bonds has been adjusted from HKD7.06 per share to HKD3.73 per share in accordance with the terms and conditions of the 2012 Convertible Bonds as a result of bonus issue, reset of conversion price and share placement.

26. Convertible bonds *(Continued)*

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") *(Continued)*

(b) Redemption

– Redemption at maturity

Unless previously redeemed, converted, or purchased and cancelled, the bonds will be redeemed on 24 August 2012 at an amount equal to the USD equivalent of their RMB principal amount, translated at the exchange rates quoted by the People's Bank of China (the "PBOC rate") ruling two business days prior to 24 August 2012, multiplied by 111.0103%.

– Redemption at the option of the Company

On or at any time after 24 August 2010 and prior to 24 August 2012, the Company may redeem all of the Convertible Bonds at a redemption price equal to the Early Redemption Amount (an amount representing a gross yield of 2.1% per annum for the Bondholders, calculated on a semi-annual basis up to the relevant redemption date) on the redemption date if the volume weighted average price of the Company's shares for any 20 trading days out of the 30 consecutive trading days ending within five trading days immediately prior to the date upon which notice of redemption is given, is at least 120% of the conversion price then in effect.

The Early Redemption Amount, for each RMB1,000,000 principal amount of the Bonds is set out in the table below, assuming that the date fixed for redemption is the semi-annual date:

Semi-annual Date	**Early Redemption Amount (RMB)**
24 August 2010	1,064,677.09
24 February 2011	1,075,856.19
24 August 2011	1,087,152.69
24 February 2012	1,098,567.79

If at any time at least 90% of the aggregate principal amount of the Bonds has already been converted, redeemed or purchased and cancelled, then the Company shall have the option to redeem all but not only some of the outstanding Convertible Bonds at a price equal to the USD equivalent of their Early Redemption Amount translated at the PBOC rates ruling two business days prior to the redemption.

– Redemption at the option of the Bondholders

The Company could have, at the option of any of the Bondholders, redeemed all or some of the Bondholders' Bonds on 24 August 2010 at a price equal to 106.4677% of the USD equivalent of the then principal amount of such Convertible Bonds, translated at the PBOC rate ruling two business days prior to 24 August 2010.

As the functional currency of the Company is the Hong Kong Dollar ("HKD") and the Conversion Price is subject to adjustments, the conversion of the Convertible Bonds denominated in RMB will not be settled by exchange of a fixed amount of cash in HKD or a fixed number of the Company's equity instruments, in accordance with the requirements of HKAS 39, *Financial Instruments – Recognition and Measurement*, the 2012 Convertible Bonds contract must be separated into a liability component consisting of the straight debt element of the bonds and a number of embedded financial derivatives consisting of redemption options and the option of the Bondholders to convert the bonds into equity. The proceeds received from the issue of the Convertible Bonds have been split as follows:

(Expressed in Renminbi unless otherwise indicated)

26. Convertible bonds *(Continued)*

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") *(Continued)*

(i) Liability components were initially measured by deducting the fair value of the embedded financial derivatives from the proceeds of issue of the Convertible Bonds as a whole.

The interest charged for the period is calculated by applying an effective interest rate of 5.46% to the liability component since the 2012 Convertible Bonds were issued.

(ii) Embedded derivatives comprise:

- The fair value of the call option of the Company to redeem the Convertible Bonds; and
- The fair value of the conversion option of the Bondholders to convert the Convertible Bonds into the Company's shares.

The fair value of the embedded financial derivatives was calculated using the Barrier Option Valuation model. The major inputs used in the models as at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011	31 December 2010
Share price	**HKD2.54**	HKD4.62
Exercise price	**HKD3.73**	HKD3.73
Risk-free rate	**0.229%**	0.586%
Expected life	**237 days**	602 days
Volatility	**58.22%**	51.07%

The risk-free rates were determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected lives were estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatilities of the Company's share price under the same periods as the expected lives.

Any changes in the major inputs into the model will result in changes in the fair value of the embedded financial derivatives. The variables and assumptions used in calculating the fair value of the embedded financial derivatives are based on the directors' best estimates.

26. Convertible bonds *(Continued)*

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") *(Continued)*

The movement of the liability component and embedded financial derivatives of the 2012 Convertible Bonds for the year is set out below:

	Liability component RMB'000	**Embedded financial derivatives** RMB'000	**Total** RMB'000
As at 31 December 2009 and 1 January 2010	180,152	13,749	193,901
Interest charged during the year	7,865	–	7,865
Redeemed and purchased by the Company during the year	(102,771)	(14,837)	(117,608)
Converted into shares	(40,510)	(11,369)	(51,879)
Changes in fair value during the year	–	21,519	21,519
As at 31 December 2010 and 1 January 2011	44,736	9,062	53,798
Interest charged during the year	2,472	–	2,472
Changes in fair value during the year	–	(7,840)	(7,840)
As at 31 December 2011	47,208	1,222	48,430

No conversion, redemption or purchase and cancellation of the 2012 Convertible Bonds has occurred during the year ended 31 December 2011.

The changes in the fair value of the embedded financial derivatives for the year ended 31 December 2011 resulted in a fair value gain of RMB7,840,000 (2010: loss RMB21,519,000), which has been recorded in other net income in the income statement.

(ii) HKD Settled 2.5% Convertible Bonds due 2015 (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 principal terms of the 2015 Convertible Bonds are as follows:

(a) Optional conversion

Each bond could have, at the option of the Bondholders, been convertible (unless previously redeemed, converted or purchased and cancelled) on or after 30 November 2010 up to the close of business on the day falling ten days prior to 20 October 2015 into fully paid ordinary shares of the Company with a par value of HKD0.005 each at an initial conversion price of HKD4.9524 per share. The Conversion Price is subject to adjustments in the manner set out in the 2015 Convertible Bonds agreement as a result of dilutive events.

(Expressed in Renminbi unless otherwise indicated)

26. Convertible bonds *(Continued)*

(ii) HKD Settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds") *(Continued)*

(b) Mandatory conversion

At any time after 20 October 2013, the Company may at its sole discretion, elect to convert the bonds in whole but not in part into fully paid ordinary shares of the Company provided that the closing prices of the Company's shares for 30 consecutive trading days immediately prior to the date upon which such mandatory conversion notice is given was at least 130% of the early redemption amount (an amount representing the principal amount of the 2015 Convertible Bonds plus a gross yield of 3.5% per annum for the Bondholders, calculated on a semi-annual basis up to the relevant redemption date) of a bond divided by the conversion ratio.

(c) Redemption

– Redemption at maturity

Unless previously redeemed, converted, or purchased and cancelled, the bonds will be redeemed on 20 October 2015 at 105.413% of their principal amount together with accrued and unpaid interest thereon.

– Redemption at the option of the Company

If at any time at least 90% of the aggregate principal amount of the bonds has already been converted, redeemed or purchased and cancelled, then the Company shall have the option to redeem all but not some only of the outstanding 2015 Convertible Bonds at their early redemption amount as at such date together with interest accrued to such date.

The Early Redemption Amount, for each HKD1,000,000 principal amount of the bonds is set out in the table below, assuming that the date fixed for redemption is the semi-annual date:

Semi-annual Date	Early Redemption Amount (HKD)
20 April 2011	1,005,000.00
20 October 2011	1,010,087.50
20 April 2012	1,015,264.03
20 October 2012	1,020,531.15
20 April 2013	1,025,890.45
20 October 2013	1,031,343.53
20 April 2014	1,036,892.04
20 October 2014	1,042,537.65
20 April 2015	1,048,282.06

– Redemption at option of the Bondholders

The Company will, at the option of any of the Bondholders, redeem all or some of the Bondholders' bonds on 20 October 2013 at its early redemption amount as at such date together with interest accrued to such date.

The Company will also, at the option of any of the Bondholders, redeem all or some of the bonds at its early redemption amount as at such date together with interest accrued to such date when there is a change of control of the Company, or when the Shares cease to be listed or admitted to trading on the Stock Exchange.

26. Convertible bonds *(Continued)*

(ii) HKD Settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds") *(Continued)*

(c) Redemption (Continued)

As the functional currency of the Company is the HKD, the conversion of the 2015 Convertible Bonds will be settled by exchange of a fixed amount of cash in HKD with a fixed number of the Company's equity instruments. In accordance with the requirements of HKAS 39, Financial Instruments – Recognition and Measurement, the 2015 Convertible Bonds contract needs to be separated into a liability component consisting of the straight debt element and redemption elements of the bonds, and an equity component representing the options of the Bondholders to convert the bonds into equity. The proceeds received from the issue of the Convertible Bonds have been split as follows:

(i) Liability component was initially measured at the fair value of the contractually determined stream of cash flows discounted at the prevailing market interest rate applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion features.

The liability component was subsequently measured at amortised cost using an effective interest rate of 4.6%.

(ii) Equity component represents the conversion options, which is determined by deducting the fair value of the liability component from the proceeds of issue of the 2015 Convertible Bonds as a whole.

The movement of the liability component and the equity component of the 2015 Convertible Bonds for the year is set out below:

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
As at 20 October 2010	2,088,754	61,746	2,150,500
Transaction costs on issue of the 2015 Convertible Bonds	(45,097)	(1,334)	(46,431)
Interest charged during the period from 20 October 2010 to 31 December 2010	18,490	–	18,490
Foreign currency translation difference	(22,206)	–	(22,206)
As at 31 December 2010 and 1 January 2011	2,039,941	60,412	2,100,353
Interest charged during the year	91,478	–	91,478
Interest paid during the year	(51,926)	–	(51,926)
Foreign currency translation difference	(97,332)	–	(97,332)
As at 31 December 2011	1,982,161	60,412	2,042,573

No conversion, redemption or purchase and cancellation of the 2015 Convertible Bonds has occurred up to 31 December 2011.

(Expressed in Renminbi unless otherwise indicated)

27. Employee retirement benefits

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 10% to 22% of the eligible employees' salaries for the year ended 31 December 2011 (2010: from 9% to 25%).

Pursuant to the labour regulations of Taiwan, Italy and Macau, the Group joined defined contribution retirement plans for its employees. The Group is required to make contributions to the retirement plans at the applicable rates ranged from 1% to 6% based on the eligible employees' salaries (2010: from 1% to 6%).

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD20,000. Contributions to the scheme vest immediately.

The Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than the contributions described above.

28. Equity settled share-based transactions

The Company has a share option scheme which was adopted on 27 August 2005 pursuant to the shareholders of the Company to grant share options to certain senior employees of the Group to subscribe for shares of the Company at certain exercise prices. The options vest if certain performance targets are achieved during certain periods.

(a) The terms and conditions of the grants are as follows:

Options granted to employees:	Number of instruments	Vesting conditions	Contractual life of options
– on 28 August 2007	39,380,000	The purchase rights may be executed from 1 August 2010 if certain performance targets were achieved by then	5 years
– on 30 September 2011	4,150,000	The purchase rights may be executed from 30 September 2014 if certain performance targets were achieved by then	5 years
Total share options granted	43,530,000		

28. Equity settled share-based transactions *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted average exercise price HKD	Number of options '000	Weighted average exercise price HKD	Number of options '000
Outstanding at 1 January	3.22	36,559	3.22	53,670
Exercised during the year	3.22	(1,755)	3.22	(16,361)
Forfeited during the year	–	–	3.22	(750)
Granted during the year	2.93	4,150	–	–
Outstanding at 31 December	3.19	38,954	3.22	36,559
Exercisable at 31 December	3.22	34,804	3.22	36,559

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2011 was HKD3.22 (2010: HKD3.22).

The options outstanding at 31 December 2011 had an exercise price of HKD3.22 or HKD2.93 (2010: HKD3.22) and a weighted average remaining contractual life of 1.0 years (2010: 1.6 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binomial model as required by HKFRS 2. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the model.

	Granted at 30 September 2011	Granted at 28 August 2007
Fair value at grant date	HKD4,096,973	HKD73,699,474
Share price	HKD2.71	HKD4.83
Exercise price	HKD2.93	HKD4.83
Expected volatility	54.35%	48.3%
Expected dividend yield	1.50%	1.75%
Option life	5 years	5 years
Risk-free interest rate (based on Hong Kong Exchange Fund Notes Rate)	0.757%	4.369%

The expected volatility is based on the historical volatility of the Company's share price, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on management estimation. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted with service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

29. Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

The Group

	2011 RMB'000	2010 RMB'000
Provision for income tax for the year	**295,526**	199,385
Income tax paid	**(151,319)**	(101,900)
	144,207	97,485

Balances of profits tax provision relating to prior years are both nil at 31 December 2011 and 2010.

(b) Deferred tax assets and liabilities recognised

(i) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the two years ended 31 December 2011 and 2010 are as follows:

The Group

	Impairment of trade receivables RMB'000	Inventory provision RMB'000	Tax losses not utilised RMB'000	Unrealised profit RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2010	1,037	2,864	1,442	31,562	2,500	39,405
Credited to profit or loss	739	3,074	2,752	5,658	–	12,223
At 31 December 2010 and 1 January 2011	1,776	5,938	4,194	37,220	2,500	51,628
Credited/(charged) to profit or loss	293	10,069	(504)	13,965	2,600	26,423
At 31 December 2011	2,069	16,007	3,690	51,185	5,100	78,051

29. Income tax in the consolidated statement of financial position *(Continued)*

(b) Deferred tax assets and liabilities recognised *(Continued)*

(ii) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the two years ended 31 December 2011 and 2010 are as follows:

The Group

	Expected profit distribution by the Group's PRC subsidiaries RMB'000	Fair value adjustments in relation to business combinations RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010	14,167	7,972	68	22,207
Charged/(credited) to profit or loss	6,496	(321)	3,998	10,173
At 31 December 2010 and 1 January 2011	20,663	7,651	4,066	32,380
Transfer to liabilities associated with assets classified as held for sale	–	(6,156)	–	(6,156)
Charged/(credited) to profit or loss	9,139	(515)	(179)	8,445
At 31 December 2011	29,802	980	3,887	34,669

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB185,594,000 (2010: RMB151,290,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. These tax losses will expire during the period from 2011 to 2015.

(d) Deferred tax liabilities not recognised

Pursuant to the Tax Law of the PRC, 10% withholding tax is levied on foreign investors (5% for foreign investors who are registered in Hong Kong provided they meet certain criteria) in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As at 31 December 2011, deferred tax liabilities of RMB29,802,000 (31 December 2010: RMB20,663,000) have been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. Deferred tax liabilities of RMB45,508,000 have not been recognised, as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that certain of the profits earned by the Group's PRC subsidiaries for the year from 1 January 2008 to 31 December 2011 will not be distributed in the foreseeable future.

30. Capital, reserves and dividends

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained losses RMB'000	Total RMB'000
Balance at 1 January 2010		19,909	1,711,813	34	48,531	(190,204)	(74,838)	1,515,245
Changes in equity for 2010:								
Total comprehensive income for the year		–	–	–	–	(64,348)	67,322	2,974
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	(109,864)	(109,864)
Share placement		1,276	902,492	–	–	–	–	903,768
Transaction cost attributable to share placement		–	(26,186)	–	–	–	–	(26,186)
Shares issued under share option scheme	*28*	70	63,208	–	(17,369)	–	–	45,909
Equity settled share-based transactions	*28*	–	–	–	10,695	–	–	10,695
Conversion of convertible bonds		47	51,832	–	–	–	–	51,879
Equity component of convertible bonds		–	–	–	60,412	–	–	60,412
Balance at 31 December 2010 and 1 January 2011		21,302	2,703,159	34	102,269	(254,552)	(117,380)	2,454,832
Changes in equity for 2011:								
Total comprehensive income for the year		–	–	–	–	(107,744)	(10,790)	(118,534)
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	(184,665)	(184,665)
Shares issued under share option scheme	*28*	7	6,349	–	(1,775)	–	–	4,581
Equity settled share–based transactions	*28*	–	–	–	280	–	–	280
Balance at 31 December 2011		21,309	2,709,508	34	100,774	(362,296)	(312,835)	2,156,494

30. Capital, reserves and dividends *(Continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2011 RMB'000	2010 RMB'000
Final dividend proposed after the end of the reporting date of RMB0.064 per ordinary share (2010: RMB0.042 per ordinary share)	**281,487**	184,665

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.042 per share (2009: RMB0.027 per share)	**184,665**	109,864

30. Capital, reserves and dividends *(Continued)*

(c) Share capital

(i) Authorised and issued share capital

	2011 Number of shares	2011 Amount HKD	2010 Number of shares	2010 Amount HKD
Authorised:				
Ordinary shares of HKD0.005 each	**10,000,000,000**	**50,000,000**	10,000,000,000	50,000,000

	2011 Number of shares	2011 Amount HKD	2010 Number of shares	2010 Amount HKD
Issued and fully paid:				
At 1 January	**4,396,484,054**	**21,982,420**	4,069,026,000	20,345,130
Share placement	**–**	**–**	300,000,000	1,500,000
Shares issued under share option scheme	**1,755,000**	**8,775**	16,361,000	81,805
Conversion of convertible bonds	**–**	**–**	11,097,054	55,485
At 31 December	**4,398,239,054**	**21,991,195**	4,396,484,054	21,982,420

		2011 equivalent RMB'000		2010 equivalent RMB'000
		21,309		21,302

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

During the year ended 31 December 2011, options were exercised to subscribe for 1,755,000 ordinary shares in the Company at a consideration of RMB4,581,000 of which RMB7,000 was credited to share capital and the balance of RMB4,574,000 was credited to the share premium account. RMB1,775,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(s)(ii).

(Expressed in Renminbi unless otherwise indicated)

30. Capital, reserves and dividends *(Continued)*

(c) Share capital *(Continued)*

(iii) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2011 Number	2010 Number
1 August 2010 to 31 July 2012	HKD3.22	**34,804,000**	36,559,000
30 September 2014 to 29 September 2016	HKD2.93	**4,150,000**	–
		38,954,000	36,559,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by the Companies Law of the Cayman Islands.

(ii) Capital reserve

The capital reserve comprises the following:

- The excess of the consideration paid by the Company over the aggregate of the nominal value of the share capital of the subsidiaries acquired under the Group's reorganisation in 2005.
- The portion of the grant date fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 1(s)(ii).
- The amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 1(o).
- The difference between the consideration paid by the Group to non-controlling interest holders and the carrying amount of the respective non-controlling interests.

30. Capital, reserves and dividends *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iii) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of the entities within the Group whose functional currency is other than Renminbi. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

(iv) PRC statutory reserve

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

PRC statutory reserves include general reserve, enterprise expansion fund, and statutory surplus reserve.

According to the relevant PRC laws and regulations, the PRC subsidiaries of the Group, which are wholly foreign owned enterprises in the PRC, are required to transfer 10% of their profit after taxation, as determined under PRC Accounting Regulations, to the general reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund.

The general reserve fund can only be used to make good previous years' losses upon approval by the relevant authority. The enterprise expansion fund can only be used to increase the entity's capital or to expand its production operations upon approval by the relevant authority.

Statutory surplus reserve can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the balance of the reserve after such conversion is not less than 25% of the registered capital of the subsidiaries.

(v) Distributability of reserves

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The aggregate amount of distributable reserves of the Company as at 31 December 2011 was RMB2,396,673,000 (2010: RMB2,585,779,000).

30. Capital, reserves and dividends *(Continued)*

(e) Capital management

The Group's policy is to maintain investor, creditor and market confidence and to sustain future development of business.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The net gearing ratio as at 31 December 2011 is 7% (2010: 0%). The net gearing ratio is calculated by dividing net debts with total equity, of which net debts equal to total interest-bearing borrowings and convertible bonds minus cash and cash equivalents.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's financial ratios relating to capital requirements and interest coverage. The Group complied with the imposed loan covenants for the year ended 31 December 2011. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31. Commitments

(a) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011 **RMB'000**	2010 RMB'000
Within 1 year	**141,583**	124,448
After 1 year but within 5 years	**165,468**	189,206
After 5 years	**1,031**	41,845
	308,082	355,499

The Group is the lessee in respect of a number of properties and the leases typically run for an initial period of 1 to 10 years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum rental payments disclosed above, the Group has a commitment to pay rent based on 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.

32. Acquisition of subsidiaries

On 1 June 2011, the Group acquired the retail business of a local third party, which is principally engaged in retail of watches ("Acquisition 1"), for a cash consideration of RMB19,000,000. During the year ended 31 December 2011, this business acquired contributed a profit of RMB550,000 to the Group.

On 12 August 2011, the Group acquired the retail business of a local third party, which is principally engaged in retail of watches ("Acquisition 2"). During the year ended 31 December 2011, the business acquired contributed a loss of RMB48,000 to the Group.

On 27 June 2011, the Group acquired the retail business of a local third party, which is principally engaged in retail of watches ("Acquisition 3"). During the year ended 31 December 2011, the business acquired contributed a loss of RMB346,000 to the Group.

Effect of acquisition:

	Pre-acquisition carrying amounts					
	Acquisition 1 in 2011 RMB'000	Acquisition 2 in 2011 RMB'000	Acquisition 3 in 2011 RMB'000	Subtotal RMB'000	Fair value adjustment RMB'000	Recognised values on acquisition RMB'000
Inventories	41,335	7,874	3,270	52,479	–	52,479
Leasehold improvements	–	–	524	524	–	524
Trade and other payables	(41,335)	(7,874)	(3,794)	(53,003)	–	(53,003)
Net identifiable assets and liabilities	–	–	–	–	–	–
Non–controlling interests	–	–	–	–	–	–
Goodwill – Acquisition 1						19,000
Cash consideration						19,000
Cash acquired						–
Net cash outflow						19,000

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their fair values (see notes 1(i), (j) and (m) for methods used in determining fair values), which approximate to their pre-acquisition carrying amounts, according to valuation reports issued by Jones Lang LaSalle Sallmanns, an independent valuer.

33. Material related party transactions

(a) Key management personnel compensation and post-employment benefit plans

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	23,654	25,854
Post-employment benefits	264	325
	23,918	26,179

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Recurring transactions

The Group

	2011 RMB'000	2010 RMB'000
Lease expenses to Jointly controlled entity	10,072	6,763

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

(c) Trade and other receivables due from:

The Company

	2011 RMB'000	2010 RMB'000
Subsidiaries	3,741,244	2,687,460

33. Material related party transactions *(Continued)*

(d) Trade and other payables due to:

The Group

	2011 RMB'000	2010 RMB'000
Holders of non-controlling interests	–	20,706

The Company

	2011 RMB'000	2010 RMB'000
Subsidiaries	17,346	17,695

34. Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 60 days from the date of billing. Debtors with balances that are more than 1 month past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the end of the reporting periods, the Group had no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

34. Financial risk management and fair values *(Continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

31 December 2011	**Within 1 year or on demand RMB'000**	**Within 2 years but over 1 year RMB'000**	**Within 5 years but over 2 years RMB'000**	**Over 5 years RMB'000**	**Undiscounted contractual cash flow RMB'000**	**Carrying amount RMB'000**
Trade and other payables excluding advance receipts from customers	**1,726,534**	**–**	**–**	**–**	**1,726,534**	**1,726,534**
Secured interest-bearing loans	**25,421**	**11,636**	**32,601**	**118,030**	**187,688**	**170,149**
Unsecured interest-bearing loans	**2,100,951**	**62,719**	**–**	**–**	**2,163,670**	**2,091,954**
Convertible bonds	**99,513**	**50,669**	**2,237,795**	**–**	**2,387,977**	**2,029,369**
	3,952,419	**125,024**	**2,270,396**	**118,030**	**6,465,869**	**6,018,006**

31 December 2010	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000	Over 5 years RMB'000	Undiscounted contractual cash flow RMB'000	Carrying amount RMB'000
Trade and other payables excluding advance receipts from customers	763,980	–	–	–	763,980	763,980
Secured interest-bearing loans	6,242	13,762	145,705	12,573	178,282	168,776
Unsecured interest-bearing loans	1,089,396	35,748	35,379	–	1,160,523	1,140,319
Convertible bonds	53,181	102,026	2,401,942	–	2,557,149	2,084,677
	1,912,799	151,536	2,583,026	12,573	4,659,934	4,157,752

34. Financial risk management and fair values *(Continued)*

(b) Liquidity risk *(Continued)*

The Company

31 December 2011	**Within 1 year or on demand RMB'000**	**Within 2 years but over 1 year RMB'000**	**Within 5 years but over 2 years RMB'000**	**Over 5 years RMB'000**	**Undiscounted contractual cash flow RMB'000**	**Carrying amount RMB'000**
Trade and other payables excluding advance receipts from customers	**17,705**	**–**	**–**	**–**	**17,705**	**17,705**
Unsecured interest-bearing loans	**137,365**	**62,719**	**–**	**–**	**200,084**	**189,866**
Convertible bonds	**99,513**	**50,669**	**2,237,795**	**–**	**2,387,977**	**2,029,369**
	254,583	**113,388**	**2,237,795**	**–**	**2,605,766**	**2,236,940**

31 December 2010	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000	Over 5 years RMB'000	Undiscounted contractual cash flow RMB'000	Carrying amount RMB'000
Trade and other payables excluding advance receipts from customers	17,955	–	–	–	17,955	17,955
Unsecured interest-bearing loans	18,982	35,277	34,450	–	88,709	85,090
Convertible bonds	53,181	102,026	2,401,942	–	2,557,149	2,084,677
	90,118	137,303	2,436,392	–	2,663,813	2,187,722

34. Financial risk management and fair values *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing loans and convertible bonds.

Borrowings issued at variable rates, and borrowings and convertible bonds issued at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and maturity information of the interest-bearing bank loans and convertible bonds are disclosed in note 25 and 26 respectively.

The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements and rates are relatively fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2011		2010	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Unsecured interest-bearing loans	**1.17%-6.89%**	**516,944**	0.25%-5.81%	309,453
Convertible bonds	**4.6%-5.46%**	**2,029,369**	4.6%-5.46%	2,084,677
		2,546,313		2,394,130
Variable rate instruments				
Secured interest-bearing loans	**1.75%-9.18%**	**170,149**	1.75%-2.2%	168,776
Unsecured interest-bearing loans	**4.80%-7.32%**	**1,575,010**	0.9%-5.81%	830,866
		1,745,159		999,642

34. Financial risk management and fair values *(Continued)*

(d) Currency risk

The Group is exposed to currency risks primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily RMB and HKD.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the PBOC rates.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December 2011 (expressed in RMB)	
	RMB ’000	**HKD ’000**
Cash and cash equivalents	**85**	**442,057**
Trade and other payables	**(261)**	**(1,603,100)**
Convertible bonds	**(47,208)**	**–**
Overall net exposure	**(47,384)**	**(1,161,043)**

	As at 31 December 2010 (expressed in RMB)	
	RMB ’000	HKD ’000
Cash and cash equivalents	819	861,589
Trade and other payables	–	(1,336,565)
Convertible bonds	(44,736)	–
Overall net exposure	(43,917)	(474,976)

34. Financial risk management and fair values *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's net profit for the year that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. The sensitivity analysis includes balances between group companies where the balances are denominated in a currency other than the functional currencies of the lender or the borrower.

	2011	2010
	RMB'000	RMB'000
HKD		
– 5% strengthening of RMB	**42,140**	16,559
– 5% weakening of RMB	**(42,140)**	(16,559)

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the end of next annual reporting period. The analysis is performed on the same basis for 2010.

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial derivatives of the Group. As at the end of the reporting period the Group is exposed to this risk through the redemption rights attached to the convertible bonds issued by the Company as disclosed in note 26(i)(b).

(f) Fair value

(i) Financial instruments carried at fair value

The Group's financial instruments which are measured at fair value at the end of the reporting period include the embedded financial derivatives. The lowest level of input that is significant to the fair value of the embedded financial derivatives was level 3 of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, which is defined as follows.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

The movement of the embedded financial derivatives is detailed in note 26.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011 and 2010.

34. Financial risk management and fair values *(Continued)*

(g) Estimation of fair values

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Cash and cash equivalents, pledged bank deposits, trade and other receivables, and trade and other payables

The carrying values approximate fair value because of the short maturities of these instruments.

(ii) Interest-bearing bank loans

The carrying amounts of bank loans approximate their fair value based on the borrowing rate currently available for bank loans with similar terms and maturity.

(iii) Convertible bonds

The Group selects appropriate valuation methods and makes assumptions with reference to market conditions existing at the end of each reporting period, to determine the fair value of the embedded financial derivatives of the convertible bonds that are separated from the host debt contract. The basis for determining the fair value is disclosed in note 26.

35. Non-adjusting events after the reporting period

After the end of the reporting period the directors proposed a final dividend on 20 March 2012. Further details are disclosed in note 30(b).

36. Immediate and ultimate controlling party

At 31 December 2011, the directors consider the immediate parent and ultimate controlling party of the Group to be Best Growth International Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

(Expressed in Renminbi unless otherwise indicated)

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Revised HKAS 19, *Employee benefits*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures* (2011)	1 January 2013
HKFRS 9, *Financial Instruments* (2009)	1 January 2015
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
Amendments to HKAS 12, *Income taxes - Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 32, *Financial instruments – Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKFRS 9, *Financial instruments* and HKFRS 7, *Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

Corporate Information

Stock Information

Place of Listing: Main Board of the Stock Exchange of Hong Kong Limited
Stock Short Name: Hengdeli
Stock Code: 3389
Company Website: www.hengdeligroup.com

Board of Directors

Executive Directors

Mr. Zhang Yuping *(the Group's Chairman)*
Mr. Song Jianwen
Mr. Huang Yonghua

Non-executive Directors

Mr. Chen Sheng
Mr. Shi Zhongyang
Ms. Zheng Yu

Independent Non-executive Directors

Mr. Cai Jianmin
Mr. Wong Kam Fai, William
Mr. Liu Xueling

Audit Committee

Mr. Cai Jianmin *(Committee Chairman)*
Mr. Wong Kam Fai, William
Mr. Liu Xueling

Remuneration Committee

Mr. Liu Xueling *(Committee Chairman)*
Mr. Cai Jianmin
Mr. Zhang Yuping

Nomination Committee

Mr. Zhang Yuping *(Committee Chairman)*
Mr. Cai Jianmin
Mr. Liu Xueling

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Company's Legal Adviser

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Cayman Island Principal Share Registrar and Transfer Office

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Company Secretary

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