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## HENGDELI HOLDINGS LIMITED

### 亨得利控股有限公司

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 3389)

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

### Financial Highlights

	For the year ended 31 December		
	2010	2009	Change
	RMB'000	RMB'000	(%)
Sales	<b>8,215,643</b>	5,899,422	+39.3
Gross profit	<b>2,048,950</b>	1,409,125	+45.4
Profit for the year	<b>617,378</b>	386,093	+59.9
Profit attributable to equity shareholders	<b>553,989</b>	364,809	+51.9
Basic earnings per share	<b>0.133</b>	0.094	+41.5

Proposed final dividend of RMB184,664,930, representing 33.3% distribution from the profit attributable to equity shareholders of the Company for the financial year 2010.

The Board of Directors (the “Board”) of Hengdeli Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the “Group”) for the year ended 31 December 2010 (hereinafter refer to as the “Year or Year under review”), which have been reviewed by the audit committee of the Company.

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

		2010	2009
	Note	RMB'000	RMB'000
<b>Turnover</b>	3 & 9	<b>8,215,643</b>	5,899,422
Cost of sales		<u>(6,166,693)</u>	<u>(4,490,297)</u>
<b>Gross profit</b>		<b>2,048,950</b>	1,409,125
Other revenue	4	<b>54,690</b>	50,571
Other net income/(losses)	4	<b>11,918</b>	(38,506)
Distribution costs		<b>(947,526)</b>	(590,112)
Administrative expenses		<b>(281,086)</b>	(239,425)
Other operating expenses		<u>(1,519)</u>	<u>(1,028)</u>
<b>Profit from operations</b>		<b>885,427</b>	590,625
Finance costs	5(a)	<b>(82,958)</b>	(75,694)
Share of profits/(losses) of jointly controlled entities		<u>13,194</u>	<u>(1,176)</u>
<b>Profit before taxation</b>	5	<b>815,663</b>	513,755
Income tax	6(a)	<u>(198,285)</u>	<u>(127,662)</u>
<b>Profit for the year</b>		<b><u>617,378</u></b>	<b><u>386,093</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>553,989</b>	364,809
Non-controlling interests		<u>63,389</u>	<u>21,284</u>
<b>Profit for the year</b>		<b><u>617,378</u></b>	<b><u>386,093</u></b>
<b>Earnings per share</b>			
Basic	8(a)	<b><u>RMB0.133</u></b>	<b><u>RMB0.094</u></b>
Diluted	8(b)	<b><u>RMB0.133</u></b>	<b><u>RMB0.094</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Profit for the year</b>	<b>617,378</b>	386,093
<b>Other comprehensive income for the year</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(40,832)</u>	<u>(1,060)</u>
<b>Total comprehensive income for the year</b>	<b><u>576,546</u></b>	<b><u>385,033</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>513,157</b>	363,749
Non-controlling interests	<b><u>63,389</u></b>	<u>21,284</u>
<b>Total comprehensive income for the year</b>	<b><u>576,546</u></b>	<b><u>385,033</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

		2010		2009	
	Note	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Fixed assets					
– Investment property			240,467		26,007
– Other property, plant and equipment			664,476		600,359
			<b>904,943</b>		626,366
Intangible assets			25,721		42,799
Goodwill			277,921		242,767
Interest in an associate			1,850		–
Interest in jointly controlled entities			52,930		35,784
Other investments			797		797
Deferred tax assets			51,628		39,405
Other financial asset	10		121,050		–
			<b>1,436,840</b>		987,918
<b>Current assets</b>					
Inventories		3,197,859		2,404,237	
Trade and other receivables	11	1,004,900		591,063	
Pledged bank deposits		10,000		40,000	
Cash and cash equivalents		3,409,807		1,150,951	
			<b>7,622,566</b>		4,186,251
<b>Current liabilities</b>					
Trade and other payables	12	881,026		806,599	
Bank loans		1,076,649		823,878	
Current taxation		97,485		61,813	
			<b>2,055,160</b>		1,692,290
<b>Net current assets</b>			<b>5,567,406</b>		2,493,961

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)***At 31 December 2010*

		2010		2009	
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Total assets less current liabilities</b>			<b>7,004,246</b>		<b>3,481,879</b>
<b>Non-current liabilities</b>					
Bank loans		<b>232,446</b>		141,694	
Convertible bonds		<b>2,084,677</b>		180,152	
Embedded financial derivatives		<b>9,062</b>		13,749	
Deferred tax liabilities		<b>32,380</b>		22,207	
			<b><u>2,358,565</u></b>		<b><u>357,802</u></b>
<b>NET ASSETS</b>			<b><u>4,645,681</u></b>		<b><u>3,124,077</u></b>
<b>CAPITAL AND RESERVES</b>					
Share capital	7(b)		<b>21,302</b>		19,909
Reserves			<b><u>4,295,113</u></b>		<b><u>2,846,736</u></b>
<b>Total equity attributable to equity shareholders of the Company</b>			<b>4,316,415</b>		<b>2,866,645</b>
<b>Non-controlling interests</b>			<b><u>329,266</u></b>		<b><u>257,432</u></b>
<b>TOTAL EQUITY</b>			<b><u>4,645,681</u></b>		<b><u>3,124,077</u></b>

*Notes:*

## **1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The consolidated financial statements for the year ended 31 December 2010 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.

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.

## **2. CHANGES IN ACCOUNTING POLICIES**

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations 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:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Improvements to HKFRSs (2009)
- HK(Int) 5, Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause

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

The issuance of HK(Int) 5 has had no material impact on the Group's financial statements as the Interpretation's conclusion was consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of some of the revisions to HKFRS 3, HKAS 27 and HKFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment introduced by the *Improvements to IFRSs (2009)* omnibus standard in respect of IAS 17, *Leases*, has had no material impact on the Group's financial statements as the classification of the Group's interests in leasehold land as operating leases continues to be appropriate.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
  - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
  - In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
  - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:
  - If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

### 3. 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.

### 4. OTHER REVENUE AND NET INCOME/(LOSSES)

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Other revenue</b>		
Interest income	18,615	5,435
Government grants	8,800	16,350
Dividend income from unlisted investments	19,252	16,434
Rental income	4,363	4,360
Others	3,660	7,992
	<u>54,690</u>	<u>50,571</u>
	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Other net income/(losses)</b>		
Changes in fair value of embedded financial derivatives	(21,519)	(38,024)
Gain/(loss) on redemption and purchases of convertible bonds	7,723	(5,205)
Net realised gain on trading securities	–	5,040
Gain on sale of a subsidiary and on interest in a jointly controlled entity	6,471	–
Net gain on sale of trademarks	12,270	–
Gain/(loss) on sale of property, plant and equipment	6,973	(317)
	<u>11,918</u>	<u>(38,506)</u>

## 5. PROFIT BEFORE TAXATION

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

### (a) Finance costs

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	48,402	40,839
Interest on other loans	475	440
Interest on convertible bonds	26,355	29,867
Bank charges	7,781	5,526
Net foreign exchange gain	(55)	(978)
	<u>82,958</u>	<u>75,694</u>

### (b) Staff costs

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Wages, salaries and other benefits	359,411	238,376
Contributions to defined contribution retirement plans	46,037	34,793
Equity-settled share-based payment expenses	10,695	19,296
	<u>416,143</u>	<u>292,465</u>

### (c) Other items

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Amortisation of intangible assets	<u>2,380</u>	<u>2,109</u>
Depreciation of fixed assets	<u>51,088</u>	<u>41,741</u>
Operating lease charges in respect of properties		
– minimum lease payments	125,172	89,101
– contingent rents	339,068	197,613
	<u>464,240</u>	<u>286,714</u>
Auditors' remuneration – audit services	<u>3,620</u>	<u>3,603</u>
Rentals receivable from investment property	2,755	2,087
Cost of inventories	6,166,693	4,490,297

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Current tax</b>		
Provision for Hong Kong profits tax for the year	49,328	35,672
Provision for PRC income tax for the year	147,717	83,455
Provision for Taiwan income tax for the year	2,340	–
Under-provision in respect of prior years	950	815
	<u>200,335</u>	<u>119,942</u>
<b>Sub-total</b>		
	<u>200,335</u>	<u>119,942</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(2,050)	7,720
	<u>(2,050)</u>	<u>7,720</u>
<b>Sub-total</b>		
	<u>(2,050)</u>	<u>7,720</u>
<b>Total</b>	<u>198,285</u>	<u>127,662</u>

Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than Hong Kong, the PRC, Taiwan and Italy, are not subject to any income tax in these jurisdictions.

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

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

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

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

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

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

In May 2009, the Taiwan Government announced a decrease in the statutory income tax rate from 25% to 17% for the year ended 31 December 2010. Accordingly the provision for Taiwan income tax for 2010 is calculated at 17% (2009: 25%) of the estimated assessable profits for the year end.

Income tax is calculated at 31.4% and 12% of any assessable profits in Italy and Macau respectively. No such assessable profits were generated in these jurisdictions during 2010.

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Profit before taxation	<u>815,663</u>	<u>513,755</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	181,263	120,080
Tax effect of non-taxable income	(7,025)	(11,340)
Tax effect of non-deductible expenses	5,806	1,133
Under-provision in prior years	950	815
Tax effect of unused tax losses not recognized	8,378	10,488
Withholding taxes on profits distributions of the Group's subsidiaries	<u>8,913</u>	<u>6,486</u>
Actual tax expense	<u>198,285</u>	<u>127,662</u>

**7. CAPITAL, RESERVES AND DIVIDENDS**

**(a) Dividends**

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB0.042 per ordinary share (2009: RMB0.027 per ordinary share)	<u>184,665</u>	<u>109,864</u>

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*

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.027 per share (2009: RMB0.056 per share)	<u>109,864</u>	<u>138,694</u>

(b) **Share capital**

(i) *Authorised and issued share capital*

	2010		2009	
	<i>Number of shares</i>	<i>Amount HKD</i>	<i>Number of shares</i>	<i>Amount HKD</i>
<b>Authorised:</b>				
Ordinary shares of HKD0.005 each	<u>10,000,000,000</u>	<u>50,000,000</u>	<u>10,000,000,000</u>	<u>50,000,000</u>

**Issued and fully paid:**

	2010		2009	
	<i>Number of shares</i>	<i>Amount HKD</i>	<i>Number of shares</i>	<i>Amount HKD</i>
At 1 January	4,069,026,000	20,345,130	2,479,000,000	12,395,000
Repurchase of shares	–	–	(2,316,000)	(11,580)
Share placement ( <i>note 7(b)(ii)</i> )	300,000,000	1,500,000	236,000,000	1,180,000
Issuance of bonus share	–	–	1,356,342,000	6,781,710
Exercise of share option	16,361,000	81,805	–	–
Conversion of convertible bonds	<u>11,097,054</u>	<u>55,485</u>	–	–
At 31 December	<u>4,396,484,054</u>	<u>21,982,420</u>	<u>4,069,026,000</u>	<u>20,345,130</u>
		<i>equivalent RMB'000</i>		<i>equivalent RMB'000</i>
		<u>21,302</u>		<u>19,909</u>

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) Share placement**

A placement of 300,000,000 shares of the Company at a price of HKD3.48 per share was made with independent investors on 24 August 2010 and completed in September 2010. The placing price represents (i) a discount of approximately 10.08% to the closing price of HKD3.87 per share as quoted on the Stock Exchange on 24 August 2010, being the date of the Placing and Subscription Agreement; and (ii) a discount of approximately 7.62% to the average closing price of HKD3.77 per share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 24 August 2010. Arrangement fees of RMB26,186,000 were set-off against share premium.

Upon the completion of the placement, 300,000,000 new shares of the Company were issued at the same price per share. These shares rank pari passu with the existing ordinary shares of the Company in all respects.

**8. 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 RMB553,989,000 (2009: RMB364,809,000) and the weighted average of 4,172,241,793 ordinary shares (2009: 3,891,655,282 ordinary shares) in issue during the year.

*Weighted average number of ordinary shares*

	<b>2010</b>	2009
Issued ordinary shares at 1 January	<b>4,069,026,000</b>	2,479,000,000
Effect of conversion of convertible bonds	<b>738,790</b>	–
Effect of share options exercised	<b>3,846,866</b>	–
Effect of shares repurchased	–	(3,359,786)
Effect of bonus issue	–	1,239,500,000
Effect of share placements ( <i>note 7(b)(ii)</i> )	<b>98,630,137</b>	<u>176,515,068</u>
Weighted average number of ordinary shares at 31 December	<b><u>4,172,241,793</u></b>	<u>3,891,655,282</u>

**(b) Diluted earnings per share**

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity shareholders of the Company (diluted) of RMB553,989,000 (2009: RMB364,809,000) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 4,177,925,374 (2009: 3,891,655,282).

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 the year.

*Weighted average number of ordinary shares (diluted)*

	2010	2009
Weighted average number of ordinary shares	4,172,241,793	3,891,655,282
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>5,683,581</u>	<u>—</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>4,177,925,374</u></u>	<u><u>3,891,655,282</u></u>

**9. 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 the PRC). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

**(a) Segment results and assets**

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

Segment assets represent inventories only.

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

The measure used for reporting segment profit is “gross profit”.

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

	Retail											
	Mainland China		Hong Kong		Taiwan		Wholesale		All others #		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	3,769,908	2,722,275	2,412,052	1,705,476	192,698	7,912	1,661,119	1,329,967	179,866	133,792	8,215,643	5,899,422
Inter-segment revenue	-	-	-	-	-	-	2,764,134	2,081,781	1,562	3,395	2,765,696	2,085,176
Reportable segment revenue	<u>3,769,908</u>	<u>2,722,275</u>	<u>2,412,052</u>	<u>1,705,476</u>	<u>192,698</u>	<u>7,912</u>	<u>4,425,253</u>	<u>3,411,748</u>	<u>181,428</u>	<u>137,187</u>	<u>10,981,339</u>	<u>7,984,598</u>
Reportable segment profit	<u>1,220,177</u>	<u>875,113</u>	<u>496,616</u>	<u>322,122</u>	<u>66,214</u>	<u>2,462</u>	<u>210,525</u>	<u>164,173</u>	<u>55,418</u>	<u>45,255</u>	<u>2,048,950</u>	<u>1,409,125</u>
Reportable segment assets	<u>1,825,530</u>	<u>1,413,872</u>	<u>780,659</u>	<u>617,453</u>	<u>180,067</u>	<u>11,929</u>	<u>493,091</u>	<u>429,936</u>	<u>67,393</u>	<u>57,298</u>	<u>3,346,740</u>	<u>2,530,488</u>

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

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

	2010	2009
	RMB'000	RMB'000
<b>Revenue</b>		
Total revenues for reportable segments	10,799,911	7,847,411
Other revenue	181,428	137,187
Elimination of inter-segment revenue	<u>(2,765,696)</u>	<u>(2,085,176)</u>
Consolidated turnover	<u>8,215,643</u>	<u>5,899,422</u>

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Profit</b>		
Total profit for reportable segments	1,993,532	1,363,870
Other profit	<u>55,418</u>	<u>45,255</u>
	<b>2,048,950</b>	1,409,125
Other revenue	54,690	50,571
Other net income/(losses)	11,918	(38,506)
Distribution costs	(947,526)	(590,112)
Administrative expenses	(281,086)	(239,425)
Other operating expenses	(1,519)	(1,028)
Finance costs	(82,958)	(75,694)
Share of profits/(losses) of jointly controlled entities	<u>13,194</u>	<u>(1,176)</u>
Consolidated profit before taxation	<u><b>815,663</b></u>	<u><b>513,755</b></u>
	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Assets</b>		
Total assets for reportable segments (inventories)	3,279,347	2,473,190
Other assets	67,393	57,298
Elimination of unrealised inter-segment profit	<u>(148,881)</u>	<u>(126,251)</u>
	<b>3,197,859</b>	2,404,237
Trade and other receivables	1,004,900	591,063
Pledged bank deposits	10,000	40,000
Cash and cash equivalents	3,409,807	1,150,951
Non-current assets	<u>1,436,840</u>	<u>987,918</u>
Consolidated total assets	<u><b>9,059,406</b></u>	<u><b>5,174,169</b></u>

**(c) 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, the Mainland China, Hong Kong and Taiwan.

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Revenue from external customers		
Mainland China	<b>5,576,586</b>	4,102,031
Hong Kong	<b>2,416,843</b>	1,761,191
Taiwan	<b>192,698</b>	7,912
Others	<b>29,516</b>	28,288
	<u><b>8,215,643</b></u>	<u>5,899,422</u>
Specified non-current assets		
Mainland China	<b>740,845</b>	617,029
Hong Kong	<b>246,873</b>	256,716
Taiwan	<b>249,063</b>	46,017
Others	<b>27,381</b>	28,751
	<u><b>1,264,162</b></u>	<u>948,513</u>

#### 10. OTHER FINANCIAL ASSET

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Other financial asset	<b>121,050</b>	–

Other financial asset as at 31 December 2010 represents a prepayment in respect of the acquisition of a subsidiary which is due to be completed in 2011.

#### 11. TRADE AND OTHER RECEIVABLES

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade receivables	<b>512,784</b>	382,637
Prepayments and deposits <sup>#</sup>	<b>492,116</b>	208,426
	<u><b>1,004,900</b></u>	<u>591,063</u>

<sup>#</sup> *Prepayments and deposits as at 31 December 2010 include a prepayment totalling RMB216,950,000 for the acquisition of a subsidiary. As at the date of approval of these financial statements, the likelihood and date of completion of this acquisition is uncertain.*

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

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

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) is as follows:

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Current	<u>440,198</u>	<u>325,074</u>
Less than 1 month past due	<b>51,027</b>	41,271
1 to 3 months past due	<b>9,005</b>	9,397
More than 3 months but less than 12 months past due	<b>7,743</b>	4,991
More than 12 months past due	<u>4,811</u>	<u>1,904</u>
Amounts past due	<u>72,586</u>	<u>57,563</u>
	<b><u>512,784</u></b>	<b><u>382,637</u></b>

## 12. TRADE AND OTHER PAYABLES

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade payables	<b>537,121</b>	639,966
Other payables and accrued expenses	<b>206,153</b>	110,278
Advance receipts from customers	<b>117,046</b>	35,505
Amounts due to related parties	<u>20,706</u>	<u>20,850</u>
	<b><u>881,026</u></b>	<b><u>806,599</u></b>

An ageing analysis of trade payables is as follows:

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 1 month	<b>438,287</b>	468,903
Over 1 month but less than 3 months	<b>55,058</b>	148,579
Over 3 months but less than 12 months	<b>25,875</b>	4,978
Over 1 year	<u>17,901</u>	<u>17,506</u>
	<b><u>537,121</u></b>	<b><u>639,966</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

2010 had been a year full of challenges and opportunities. Although the global economic situation was volatile, the Chinese policies of stabilizing and expanding domestic demand achieved satisfactory results and the economy was under stable development. Operating in line with the market, the Group focuses on the development of watch retail business in the Greater China region such as Mainland China, Hong Kong and Taiwan in a proactive and prudent manner. All businesses achieved fast growth and satisfactory results. For the year ended 31 December 2010, the Group's sales recorded a year-on-year increase of 39.3%, of which retail sales posted a growth of 43.7% over the corresponding period last year. Of the retail sales, sales in Mainland China and Hong Kong grew by 38.5% and 41.4% respectively over the corresponding period last year. The net profit after tax amounted to RMB617,378,000, representing a year-on-year increase of 59.9%, generating substantial returns for shareholders.

### I. FINANCIAL REVIEW

#### Sales

For the year ended 31 December 2010, the Group recorded sales of RMB8,215,643,000, representing an increase of 39.3% over the corresponding period last year. The Group's total retail sales achieved a desirable growth, increased by 43.7% year-on-year to RMB6,374,658,000, of which retail sales in Mainland China and Hong Kong amounted to RMB3,769,908,000 and RMB2,412,052,000, representing a growth of 38.5% and 41.4% over the corresponding period last year respectively. The overall retail sales accounted for 77.6% of the total sales, which was completely in line with the direction of the Group's strategic development with retail as the core business.

During the Year, the Group maintained overall positive results. Apart from the relatively stable Chinese economy, it was mainly attributed to the high synergistic and complementary nature of the Group's integrated retail network in Mainland China, Hong Kong and Taiwan as well as the fast pace of development maintained by retail outlets in the second and third tier cities and the steady growth of the coastal first tier developed cities in Mainland China. Thanks to the rapid growth of the middle class, the second and third tier cities brought about a rapid increase of the middle-to-high-end brands. The growth rate of their same store sales was generally higher than the Group's average level. Meanwhile, the Group adjusted its brand portfolio, optimized its inventory structure, enhanced its operational management and improved its service quality promptly and reasonably in a consistent manner in line with the actual market conditions so as to ensure steady business growth.

Sales breakdown: (for the year ended 31 December 2010)

	2010		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Retail Business				
Mainland China	<b>3,769,908</b>	<b>45.9</b>	2,722,275	46.2
Hong Kong	<b>2,412,052</b>	<b>29.4</b>	1,705,476	28.9
Taiwan	<b>192,698</b>	<b>2.3</b>	7,912	0.1
Wholesale Business	<b>1,661,119</b>	<b>20.2</b>	1,329,967	22.5
Customer Service and Others	<b>179,866</b>	<b>2.2</b>	133,792	2.3
Total	<b><u>8,215,643</u></b>	<b><u>100</u></b>	<b><u>5,899,422</u></b>	<b><u>100</u></b>

### Gross profit and gross profit margin

For the year ended 31 December 2010, the Group's gross profit increased by 45.4% year-on-year to approximately RMB2,048,950,000. Gross profit margin was approximately 24.9%, showing an increase of 4.2% as compared to the corresponding period last year. The increase in gross profit margin was mainly attributable to the Group's ongoing proactive efforts in expanding retail business, which has a higher gross profit margin, its active steps in lowering the sales ratio of some clients with lower profit in the wholesale business, better understanding on the 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 RMB617,378,000, representing an increase of 59.9% over the corresponding period last year. The profit margin was approximately 7.5% accordingly. The increase was mainly attributable to the steady increase of the Group's sales, effective and steady improvement of operational management efficiency as well as rational control and reduction of expense ratio. Excluding the effect of convertible bonds and the profit/loss from currency exchange, the Group recorded actual net profit for the Year of approximately RMB657,474,000, representing an increase of 43.5% from the corresponding period last year, the profit margin was approximately 8% accordingly.

### Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position

As at 31 December 2010, the Group's total equity interests were RMB4,316,415,000 and current net asset value was RMB5,567,406,000, of which bank deposits amounted to RMB3,419,807,000. In addition, the bank loans totalled RMB1,309,095,000.

On 21 October 2010, the Company has issued the HKD settled unsecured 2.5% coupon rate convertible bonds due 2015 of an aggregate principal amount of HKD2,500,000,000. On 31 December 2010, the remaining net bonds of the USD settled zero coupon convertible bonds due 2012 issued by the Company in August 2007 amounted to RMB44,000,000. Taking into account of such net convertible bonds, together with bank loans, the Group's total debt amounted to RMB3,402,834,000. As at 31 December 2010, the net debt to equity ratio of the Group, including convertible bonds, was zero, laying down a solid foundation for the potential business expansion.

### **Foreign exchange risk**

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

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

### **Pledge of assets**

As at 31 December 2010, the Group had bank deposits of RMB10,000,000 pledged as security for guarantees as well as land and buildings of RMB250,678,000 pledged as security for mortgage.

### **Contingent liabilities**

As at 31 December 2010, the Group did not have any material contingent liabilities.

### **Current assets**

During the Year under review, the current assets of the Group amounted to approximately RMB7,622,566,000, comprising inventories of approximately RMB3,197,859,000, trade and other receivables of approximately RMB1,004,900,000 and cash and cash equivalents of approximately RMB3,409,807,000.

### **Current liabilities**

During the Year under review, the current liabilities of the Group amounted to approximately RMB2,055,160,000, comprising bank loans of approximately RMB1,076,649,000, trade and other payables of approximately RMB881,026,000, and current tax payable of approximately RMB97,485,000.

### **Capital Structure**

The Company's capital structure is composed of issued share capital, convertible bonds, reserve and accumulated profits. On 2 September 2010, the Company has placed 300,000,000 ordinary shares to the market. On the date of completion, the number of shares in issue of the Company was

changed to 4,374,389,000 shares. Please refer to Note 7(b) to the financial statements for relevant details. As at 31 December 2010, the issued share capital of the Company was 4,396,484,054 shares and the principal amount of the convertible bonds due 2012 was RMB44,000,000 and the principal amount of the convertible bonds due 2015 was HKD2.5 billion.

### **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 RMB0.042 per share for the financial year ended 31 December 2010 in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on 12 May 2011. The proposed cash dividend will be paid on or before 26 May 2011 to shareholders whose names appear on the register of members of the Company on 6 May 2011.

## **II. BUSINESS REVIEW**

During the Year under review, the Group's business remained focusing on the build-up of the retail network in the Greater China region with a core presence in Mainland China. It is also supplemented with the provision of comprehensive customer services, manufacture of extension products related to watches, research and development of its own brands, brand distribution and jewellery business, etc.

### **Retail Network**

Adhering to its business development strategy, the Group devotes efforts to maintaining and developing its leading position as the world's largest watch retail group of international renowned brands.

During the Year, the Group expanded its retail network by simultaneously carrying out mergers and acquisitions and developing its own retail outlets in line with the market in a proactive and progressive manner. By adjusting its brand portfolio, optimizing its inventory composition, strengthening management and enhancing the quality of retail outlets, a significant growth in business results was achieved. The retail sales of the Group amounted to RMB6,374,658,000, representing an increase of 43.7% over the corresponding period last year, the overall retail sales accounted for 77.6% of the total sales; of which retail sales in Mainland China and Hong Kong amounted to RMB3,769,908,000 and RMB2,412,052,000, representing a growth of 38.5% and 41.4% respectively. The gross profit of the retail business reached approximately RMB1,783,007,000, representing a year-on-year growth of 48.6% and accounting for 87% of the Group's total gross profit. The significant growth of retail results was not only attributable to the success of business expansion and continuous growth of business scale, but more importantly the strong increase in same store retail sales. As compared to the corresponding period last year, the growth rate of same store sale was 35% in average.

Our retail network spans across the Greater China region where retail stores are mainly Elegant, Hengdeli/Prime Time, With Time (formerly known as TEMPTATION) and single-brand boutiques. “Elegant” mainly sells top grade internationally renowned brand watches; “Hengdeli”/“Prime Time” mainly sells middle-to-high-end internationally renowned brand watches, while “With Time” mainly sells middle-to-high-end internationally fashionable watches. As at 31 December 2010, the Group operated a total of 350 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, an increase of 80 outlets over the corresponding period last year. Of these stores, 17 were Elegant shops (4 in Hong Kong, 12 in Mainland China and 1 in Taiwan), 232 were Prime Time and Hengdeli shops (of which, 197 in Mainland China and 35 in Taiwan), 30 were With Time shops (all located in Mainland China) and 71 were brand image retail outlets (47 in Mainland China, 11 in Hong Kong, 1 in Macau and 12 in Taiwan).

The Group has been maintaining a sound partnership with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT, ROLEX Group and DKSH Group. As at 31 December 2010, the Group distributed approximately 50 internationally renowned brands from the five major brand suppliers, including Breguet, TAG Heuer, Zenith, Cartier, Vacheron Constantin, Jaeger-LeCoultre, IWC, Chopard, Frank Muller, Glashutte, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant and Mido. In addition, efforts were stepped up to bring in and expand middle-to-high-end brands including Bulgari, Gucci and Balmain, as well as Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge from independent watchmakers. Sales of brands were adjusted in line with the market changes. This helped diversify and improve the sales portfolio of the Group’s brands, which would be favorable to the long-term business development and ongoing enhancement of overall results.

## *Mainland China*

### *Positioning of retail outlets*

As the consumption level for high-end watches remains low and average in Mainland China, and in order to complement the Group’s high-end watch retail business in Hong Kong, the Group’s retail outlets in Mainland China are Prime Time and Hengdeli shops, which are positioned to sell middle-to-high-end watches. Prime Time and Hengdeli shops contributed more than two-thirds of the Group’s total retail sales in Mainland China during the Year under review. Prime Time and Hengdeli shops will remain the Group’s major retail brands in Mainland China in the second five-year normalization following the listing of the Group.

Engaging in the sale of high-end watches by the Group, Elegant shop has a relatively small coverage in Mainland China. As at 31 December 2010, there were 12 Elegant shops mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang. These shops implement a standardized management with the Elegant shops in Hong Kong and Taiwan region, providing them with steady development.

### **Footprint of retail network**

As at 31 December, 2010, the Group operates a total of 286 retail outlets in Mainland China. The Group had a comprehensive distribution network of watch retail outlets covering most of the provinces and cities in Mainland China, with a multiple-point footprint in major first and second tier areas such as Shanghai, Beijing, Northeast, Zhejiang, Jiangsu, Henan and Shanxi, thus consolidating its market share. The distribution network in third and fourth tier cities is becoming more complete.

The Group committed tremendous efforts to improving the re-positioning of middle-to-high-end brands. We continued to strengthen and expand the retail network in second, third and fourth tier cities by various ways. During the Year, the Group acquired Guangzhou Longyue Watch Company Ltd (廣州隆越鐘錶有限公司), etc. These companies have retail outlets mainly in Hubei and Hunan etc, selling middle-to-high-end brand watches like Jaeger-LeCoultre, Rolex, Omega, Blancpain, IWC, Piaget, Rado, Longines, Tudor, TAG Heuer, Hamilton and Tissot etc.

During the Year, the Group tremendously expanded the retail network points in Yunnan, Guizhou, Sichuan and Guangxi which proactively and aggressively strengthened the multiple-point distribution and control in second and third tier cities in Yangtze River Delta region with Nanjing and Suzhou as centers.

These acquisitions and tremendous expansion greatly expanded and strengthened the retail network in South China and southwest regions of Mainland China, and improved the Group's market share in those regions, as well as further consolidated and improved the Group's central control of market share in East China regions.

### **Retail Sales**

During the Year, retail sales in Mainland China recorded a growth of approximately 38.5% over the corresponding period last year. The strong growth was attributable to the continuous improvements in the macro markets on one side. As China's economy is improving steadily and the Government is expanding the domestic demand, the group of the middle class and the affluent class is becoming big, which reinforces their consumption confidence. The market in Mainland China is still developing promptly. Relevant reports show that in 2010 the consumption of luxury goods in China has reached US\$6.5 billion, which was the world's highest growth rate in the consecutive 3 years. Another reason for the Group's strong sales growth was the direct benefit from the Group's rational and forward-looking outlet positioning. The retail of middle-to-high-end consumables in first tier cities in Mainland China has been mature, while many high-end consumables markets in second and third tier cities are becoming more mature, in addition to the expansion of the affluent group in second and third tier cities brought by economic growth. Accordingly, the Group focus on middle-to-high-end brands in the Mainland China, and the active distribution strategies in second, third and even fourth tier cities have made a great success.

## *Hong Kong and Macau*

As at 31 December 2010, the Group operated a total of 15 retail outlets in Hong Kong, of which 4 are Elegant shops that sell multiple brands and 11 are single-brand boutiques or image shops. These stores are mainly located in first tier business districts in Tsim Sha Tsui, Central and Causeway Bay.

Elegant under the Group has a long history in Hong Kong's watch retail industry. The Elegant flagship shop at Ocean Terminal in Tsim Sha Tsui opened in 1970, with an area of approximately 1,700 square feet and has maintained the highest sales record as a single shop. During the Year, the Group renovated and coordinated the shop with a brand new outlook to bring customers with a more comfortable and free shopping experience.

During the Year, the Group opened a new Elegant multi-brands shop. The shop located in the superb business district in Central, with neighbours of international well-known brands. The unique decoration in the shop reveals a stylish design, and the VIP area provides extremely professional, thoughtful and considerate services. The Elegant shop in Central has an area of 3,313 square feet and gathers up top international brands like Breguet, Chopard, Girard-Perregaux, Panerai, Van Cleef & Arpels and Zenith etc. Furthermore, during the Year, the Group opened a Panerai boutique in Times Square in Causeway Bay to strengthen the distribution of brand boutiques in Hong Kong. The Group also expanded the Vacheron Constantin boutique at Ocean Terminal in Tsim Sha Tsui, making the brand image more prominent and the environment more superb.

The Group's retail business in Hong Kong is principally positioned at high-end brands, including Vacheron Constantin, Breguet, Cartier, Jaeger-LeCoultre, Omega, Chopard, Panerai, Zenith, IWC, Frank Muller and independent watchmakers' Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge. These brands fully complemented our retail business in Mainland China and Taiwan, creating tremendous synergy.

Given the mature business districts and highly centralized wealth in Hong Kong, in addition to the benefits from Mainland's economic development, reinforced consumption confidence and the thriving tourism industry, its high-end watch consumption shows great performance. Meanwhile, thanks to the Group's broad, profound and loyal clientele as well as the interactivity between outlets in Mainland China and Hong Kong, the service network across Greater China ensures after-sale guarantee for Chinese tourists shopping in Hong Kong. For the year ended 31 December 2010, the Group's retail sales in Hong Kong recorded a growth of 41.4%, which showed great potential growth.

At the end of the Year, the Group successfully entered Macau and opened the first shop – Omega boutique. The shop is located at the supreme area of Macau, and the sales performance is obvious since its opening. Following the changing economic situation and improved economic status of Macau, the Group's businesses in Hong Kong and Macau will definitely supplemented well with each other, further consolidating the Group's leading role in Greater China region.

## *Taiwan*

To put its strategy of consolidating its leadership in Greater China region into practice, developing the retail network in Taiwan with a stable pace is the Group's fixed task. Followed by the acquisition of Timepiece (台灣精光堂時計有限公司) last year to establish a development platform for Taiwan business, the Group opened the first Taiwan "Elegant" flagship shop in Taipei this year. The shop is located at Chung Hsiao East Road in Taipei's supreme business district. The shop is a two-storey building with a total area of 1,230 square meter, having top ten first-class boutique watches brands including Blancpain, Breguet, Cartier, Girard-Perregaux, Glashuette Original, Jaeger-LeCoultre, Jaquet Droz, Omega, Tiffany and Zenith, which opened up a new form and situation of high-end watches retail in Taiwan.

As at 31 December 2010, the Group operated a total of 48 retail outlets in Taiwan. They are mainly distributed in major areas like Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except one Elegant shop which sells first-class watches, other retail shops mainly sell middle-to-high-end brands like Rado, TAG Heuer, Carl F. Bucherer and Longines, and use "Hengdeli" as the shop name.

During the Year, the Group's sales in Taiwan greatly increased compared to the corresponding period last year, with a high growth rate of 2,335.5%. Followed by the signing of The Economic Cooperation Framework Agreement (the "ECFA"), the deepened cross-strait business relation and the further integration of the economies of Mainland China, Taiwan and Hong Kong, there will be more tourists in Mainland China travelling to Taiwan, creating more opportunities for Taiwan's retail industry.

### **Customer Services and Maintenance**

The Group is always dedicated to the provision of premium customer services, holding the belief that satisfying consumers' demand is our pursuit.

Through years of efforts, the Group has built up a mature customer services network. Apart from timely maintenance services in each retail outlet, the Group established three major service centers in Beijing and Shanghai, delivering all-round services to customers through an interactive customer services network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points". Following the deep expansion of Taiwan retail business, the Group's customer services network system in Greater China has been further strengthened, and the relationship with customers is becoming closer.

The cooperation between the Group and brand suppliers is developing constantly in a deeper and wider manner. According to the new features of customers' needs, we keep on developing and consolidating new modes of customer service. The multidimensional and all-round support and add-value services are provided to customers. During the Year under review, the Group obtained maintenance service dealership from a number of well-known international brands such as Gucci, Chaumet, which is a famous brand of LVMH Group, as well as an Italian jewellery and watch brand, DAMIANI.

With a number of certified senior maintenance technicians and intensive training to the Group by brand suppliers, our customer services have been widely recognized and tremendously supported by brand suppliers.

The advanced service philosophy, strong service network in Greater China, efficient channel management, strict quality control and proven technical support all contribute to the Group's admirable service image.

### **Brand distribution**

The Group has more than 300 wholesale customers in over 50 cities throughout Mainland China, which distribute and exclusively distribute world's renowned brand watches including Jaeger-LeCoultre, TAG Heuer, Zenith, Carl F. Bucherer, Maurice Lacroix, Tissot, Mido, Calvin Klein and Frederique Constant.

The Group has always been maintaining a good partnership with brand suppliers and numerous retailers, with whose extensive and tremendous support which created a harmonious win-win situation. Meanwhile, the Group constantly adjusts its brand distribution business according to market's needs to ensure the interest of the shareholders.

During the Year under review, the Group had entered into a cooperation agreement with world-renowned brand Bulgari watches, to become an exclusive distributor of Bulgari in Mainland China.

### **Ancillary extension products**

During the Year, the Group continued to strengthen the internal management of Guangzhou Artdeco, an ancillary production company of the Group, added advanced machinery and equipment, optimized labour combinations, reduced various unreasonable fees and expenses, and improved its product research and development capabilities constantly. Accordingly, although costs of labour and raw materials increased unceasingly, sales revenue of Guangzhou Artdeco still showed a great boost. It achieved a breakthrough leap to provide a good foundation for next active and steady development of the Company.

During the Year, Guangzhou Artdeco has successfully established ISO9001 and 6S management system and has also gained certification from worldwide professional evaluation organization. This acted an important function on the assurance of product quality, comprehensive upgrade of management level, and better trust from brands and customers. It also provided tremendous support for the constant and healthy growth of the Company as well as enhanced its competitiveness in the market.

## **Jewellery market expansion**

For the expansion of jewellery business, the Group achieved a breakthrough progress. During the Year, the Group entered into a legal-binding cooperation agreement with a famous jeweller Ming Fung Jewellery Group Limited, to jointly develop the middle-to-high-end jewellery retail business in Greater China. Currently, relevant business has entered substantive development stage.

The affluent group in Mainland China is emerging continuously, but the consumption of jewellery still remains low. Jewellery will become another consumption hotspot for citizens in Mainland China. According to the report of National Bureau of Statistics of China, the total annual retail of social consumables in Mainland China in 2010 increased 18.4% compared to the previous year. Amongst others, the category of jewellery increased 46.0%, which is the highest growth among all consumption categories. We believe that the opening up of jewellery business will bring to the Group a new point of profit growth, and generate more satisfactory returns for the shareholders.

### **III. STRATEGIC COOPERATION BETWEEN BANKS AND ENTERPRISES**

During the Year under review, the Group entered into a strategic cooperation agreement with China Construction Bank Corporation Shenzhen Branch (“Shenzhen CCB”) to further strengthen the close partnership between the two and to ensure a healthy development of our business. In the future, China Construction Bank will value the Group as one of their principle customers, and the Shenzhen CCB will provide comprehensive financial services and support to the Group. This tremendously guaranteed the Group a constant growth and sustainable development. The bank and enterprise join together to make a great success.

### **IV. HUMAN RESOURCES AND TRAINING**

As at 31 December 2010, the Group employed a total of 5,530 employees in Mainland China, Hong Kong, Macau and Taiwan etc. Staff costs excluding directors’ emoluments of the Group for the year of 2010 amounted to RMB408,725,000 (2009: RMB285,593,000). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, etc.

The Group is always committed to developing and building up human resources. We employ a systematic recruitment policy and commit resources to various training programs for the managerial staff, front-line service staff and maintenance technicians. These training programs cover, among others, the art of management, sales skills, brand knowledge and service awareness, so as to enhance staff’s knowhow, marketing skills and service capability. The Group also works with the brand suppliers on the provision of regular training to front-line service staff and maintenance technicians in brand knowledge and maintenance expertise.

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

Under a sound human resources reserve policy, the Group has a number of senior salespersons and senior repair technicians. Staff members have received the “Capital Labour Medal” and the “May 1st Labour Medal”.

## **V. FUTURE DEVELOPMENT**

In 2011, the world’s economic situation still has relatively large uncertainties. However, the sound and prudent currency policy of the Chinese government and its aggressive and flexible financial policy together inject the Chinese economy with healthy development incentive. Therefore, we are greatly confident in the Chinese economy. At the beginning year of the “twelfth five-year plan”, promoting consumption growth comprehensively and maintaining a rapid yet balance development of the Chinese economy will surely bring us with new opportunities. China will remain to be one of the markets with the greatest growth potential, and is also the base of the Group’s business. Under the good macro background, we have great confidence in the Group’s development.

With international renowned watches as core focus, the distribution of a portfolio comprising middle-to-high-end consumables, such as watches, jewels, leather goods and writing instruments, remains to be our future development direction.

To aggressively yet prudently expand retail business in line with market demand remains to be our core development strategy. Having consolidated market share in first tier cities in the Mainland, we will step up accelerating the market expansion in the second, third and even fourth tier cities by the way of acquisition and merging, as well as opening outlets on our own. We will also further expand the retail network in the Greater China region by launching new stores in Hong Kong, Macau and Taiwan.

As our retail network grows, the Group will also improve the structure of our three retail network systems constantly, namely Elegant, Prime Time and With Time (formerly known as TEMPTATION), so as to better align the configuration of network system with market needs. The Group will also continue to optimize the positions of retail outlet and the setup of single-brand boutiques, in order to improve retail management.

On the other hand, the Group will optimize our brand portfolio with regard to the market’s demand. More world-renowned and quality brand watches with diversified positioning will be introduced so as to fulfill different styles of our customers. Meanwhile, we strive to build a closer partnership with brand suppliers.

The Group will also continue to strengthen our customer service system in Greater China and proactively develop the watch-related ancillary business, so as to match with our strong business development.

For the jewellery market, the Group will stay closely with the market trend and put resources with sound and aggressive principles to expand our retail network.

Looking into the future, under a sound financial policy, we will develop the watch retail business in a proactive and aggressive approach, supplement with other business segments such as customer services and brand distribution, increase our market share, strengthen and consolidate our leading position in global middle-to-high-end watch retail sector. Furthermore, we will take initiatives to embark on the business of other middle-to-high-end consumables including jewels. The Group will fully capitalize on business opportunities to achieve steady and sustainable profit growth to generate more satisfactory returns for our shareholders and investors.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Friday, 6 May 2011 to Wednesday, 11 May 2011 (both days inclusive). 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 Thursday, 5 May 2011.

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

During the Year under review, the Company repurchased certain bonds on Singapore Exchange Securities Trading Limited by way of acquisition from the market. Such bonds were listed on Singapore Exchange Securities Trading Limited on 24 August 2007. The principal amount of the bonds repurchased was RMB103,000,000 and the aggregate price for the repurchase is RMB109,885,000. The bonds repurchased were cancelled according to the terms of the same.

During the Year under review, upon the request of investors, the convertible bonds mentioned above at a carrying amount of RMB40,000,000 were converted into 11,097,054 ordinary shares of the Company.

As of 31 December 2010, the Company still had such bonds outstanding at a carrying amount of RMB44,000,000.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or repurchased any of the Company's listed securities or convertible bonds.

## **PLACING AND ISSUE OF CONVERTIBLE BONDS**

During the Year under review, the Company has completed a top-up placing of 300,000,000 ordinary shares of HKD0.005 each to not fewer than six places comprising institutional investors at a placing price of HKD3.48 per share. The closing price of the shares as quoted on The Stock Exchange of Hong Kong Limited on the date of the relevant agreement was HKD3.87 and the net proceed raised per share placed was approximately HKD3.38 per share. The reason for the placing is to better equip the Company for future business development and opportunities and the funds raised has been used as general working capital of the Company. Upon completion of the top-up placing, being 2 September 2010, the number of shares in issue of the Company was changed to 4,374,389,000 shares. Please refer to Note 7(b) to the financial statements for relevant details.

As at 21 October 2010, the Company has issued the HKD settled unsecured 2.5% coupon rate convertible bonds (the “Convertible Bonds” or the “Bonds”) due 2015 of an aggregate principal amount of HKD2,500,000,000. Such bonds were listed on Singapore Exchange Securities Trading Limited.

## **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 2010 interim report.

During the Year, two meetings had been held on 30 March 2010 and 10 August 2010 to review the full year and half year reports of the Group respectively. All members of the committee attended the meetings.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

Since its establishment, the Company has been committed to maintain a high standard of corporate governance practice 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 are up to the requirements as being 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 had 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 2010 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. 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 Shen Zhiyuan) 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.

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.

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 audit and examination from 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 the same. Pursuant to the review made by independent review institutes to the internal control system of the Group, the Group will further improve its internal administration and control system.

In 2010, a total of seven meetings were held by the Board. Among which, four were regular meetings. All members of the Board attended all regular meetings and the rate of attendance was 100%.

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

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

By order of the Board

**Zhang Yuping**

*Chairman*

Hong Kong 22 March 2011

*As at the date hereof, the Executive Director and Chairman of the Company is Mr. Zhang Yuping, the Executive Directors are Mr. Song Jianwen and Mr. Huang Yonghua, the Non-executive Directors are Mr. Chen Sheng, Mr. Shen Zhiyuan and Mr. Shi Zhongyang, the Independent Non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xueling.*