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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 2009**

#### **Financial Highlights**

| Results  | For the year ended 31 December |                 |               |
|--|--------------------------------|-----------------|---------------|
|  | 2009<br>RMB'000                | 2008<br>RMB'000 | Change<br>(%) |
| Sales  | <b>5,899,422</b>               | 5,516,496       | +6.9          |
| Gross profit   | <b>1,409,125</b>               | 1,319,100       | +6.8          |
| Profit for the year  | <b>386,093</b>                 | 488,165         | -20.9         |
| Profit attributable to equity shareholders   | <b>364,809</b>                 | 460,087         | -20.7         |
| Basic earnings per share   | <b>0.094</b>                   | 0.123           | -23.6         |
| Profit for the year (excluding the effect of convertible bonds and profit/loss from currency exchange) | <b>458,211</b>                 | 430,393         | +6.5          |

Proposed final dividend of RMB109,864,000, representing 30.1% distribution from the profit attributable to equity shareholders of the Company for the financial year 2009.

With effect from 11 September 2009, the name of the Company has been changed from “Xinyu Hengdeli Holdings Limited 新宇亨得利控股有限公司” to “Hengdeli Holdings Limited 亨得利控股有限公司”.

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 2009 (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 2009

|  |      | 2009                   | 2008                  |
|--|------|------------------------|-----------------------|
|  | Note | RMB'000                | RMB'000               |
| <b>Turnover</b>                                |      | <b>5,899,422</b>       | 5,516,496             |
| Cost of sales                                  |      | <u>(4,490,297)</u>     | <u>(4,197,396)</u>    |
| <b>Gross profit</b>                            |      | <b>1,409,125</b>       | 1,319,100             |
| Other revenue                                  | 4    | 50,571                 | 49,872                |
| Other net (losses)/income                      | 4    | (38,189)               | 140,859               |
| Distribution costs                             |      | (590,112)              | (522,180)             |
| Administrative expenses                        |      | (239,425)              | (253,182)             |
| Other operating expenses                       |      | <u>(1,345)</u>         | <u>938</u>            |
| <b>Profit from operations</b>                  |      | <b>590,625</b>         | 735,407               |
| Finance costs                                  | 5(a) | (75,694)               | (114,105)             |
| Share of losses of jointly controlled entities |      | <u>(1,176)</u>         | <u>(2,318)</u>        |
| <b>Profit before taxation</b>                  | 5    | <b>513,755</b>         | 618,984               |
| Income tax                                     | 6(a) | <u>(127,662)</u>       | <u>(130,819)</u>      |
| <b>Profit for the year</b>                     |      | <b><u>386,093</u></b>  | <b><u>488,165</u></b> |
| <b>Attributable to:</b>                        |      |                        |                       |
| Equity shareholders of the Company             |      | 364,809                | 460,087               |
| Minority interests                             |      | <u>21,284</u>          | <u>28,078</u>         |
| <b>Profit for the year</b>                     |      | <b><u>386,093</u></b>  | <b><u>488,165</u></b> |
| Earnings per share                             |      |                        |                       |
| Basic  | 8(a) | <u><b>RMB0.094</b></u> | <u>RMB0.123</u>       |
| Diluted  | 8(b) | <u><b>RMB0.094</b></u> | <u>RMB0.110</u>       |

|   | <i>Note</i> | <b>2009</b><br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|---|-------------|-------------------------------|------------------------|
| <b>Profit for the year</b>  |             | <b>386,093</b>                | 488,165                |
| <b>Other comprehensive income for the year</b>  |             |                               |                        |
| Exchange differences on translation of<br>financial statements of overseas subsidiaries |             | <u>(1,060)</u>                | <u>(16,052)</u>        |
| <b>Total comprehensive income for the year</b>  |             | <b><u>385,033</u></b>         | <b><u>472,113</u></b>  |
| <b>Attributable to:</b>   |             |                               |                        |
| Equity shareholders of the Company  |             | <b>363,749</b>                | 444,035                |
| Minority interests  |             | <u>21,284</u>                 | <u>28,078</u>          |
| <b>Total comprehensive income for the year</b>  |             | <b><u>385,033</u></b>         | <b><u>472,113</u></b>  |

# CONSOLIDATED BALANCE SHEET

At 31 December 2009

|  | <i>Note</i> | <b>2009</b><br><b>RMB'000</b> | <b>2008</b><br><b>RMB'000</b> |
|--|-------------|-------------------------------|-------------------------------|
| <b>Non-current assets</b>  |             |                               |                               |
| Fixed assets   |             |                               |                               |
| – Investment property  |             | 26,007                        | 27,771                        |
| – Other property, plant and equipment                                  |             | 600,359                       | 529,183                       |
| Intangible assets  |             | 42,799                        | 42,974                        |
| Goodwill   |             | 242,767                       | 228,367                       |
| Interest in jointly controlled entities                                |             | 35,784                        | 30,524                        |
| Other investments  |             | 797                           | 797                           |
| Deferred tax assets  |             | 39,405                        | 39,956                        |
|  |             | <u>987,918</u>                | <u>899,572</u>                |
| <b>Current assets</b>  |             |                               |                               |
| Inventories  |             | 2,404,237                     | 2,446,734                     |
| Trade and other receivables  | 10          | 591,063                       | 449,962                       |
| Pledged bank deposits  |             | 40,000                        | 96,497                        |
| Cash and cash equivalents  |             | 1,150,951                     | 588,010                       |
|  |             | <u>4,186,251</u>              | <u>3,581,203</u>              |
| <b>Current liabilities</b>   |             |                               |                               |
| Bank loans   |             | 823,878                       | 760,122                       |
| Trade and other payables   | 11          | 806,599                       | 584,464                       |
| Current taxation   |             | 61,813                        | 70,340                        |
|  |             | <u>1,692,290</u>              | <u>1,414,926</u>              |
| <b>Net current assets</b>  |             | <u>2,493,961</u>              | <u>2,166,277</u>              |
| <b>Total assets less current liabilities</b>                           |             | <u>3,481,879</u>              | <u>3,065,849</u>              |
| <b>Non-current liabilities</b>   |             |                               |                               |
| Bank loans   |             | 141,694                       | 35,685                        |
| Convertible bonds  |             | 180,152                       | 680,146                       |
| Embedded financial derivatives   |             | 13,749                        | 2,960                         |
| Deferred tax liabilities   |             | 22,207                        | 15,038                        |
|  |             | <u>357,802</u>                | <u>733,829</u>                |
| <b>NET ASSETS</b>  |             | <u>3,124,077</u>              | <u>2,332,020</u>              |
| <b>CAPITAL AND RESERVES</b>  |             |                               |                               |
| Share capital  | 7(b)        | 19,909                        | 12,903                        |
| Reserves   |             | 2,846,736                     | 2,082,895                     |
| <b>Total equity attributable to equity shareholders of the Company</b> |             | 2,866,645                     | 2,095,798                     |
| <b>Minority interests</b>  |             | 257,432                       | 236,222                       |
| <b>TOTAL EQUITY</b>  |             | <u>3,124,077</u>              | <u>2,332,020</u>              |

*Notes:*

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

The consolidated financial statements for the year ended 31 December 2009 comprise the Group and the Group's interest in 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 one new HKFRS, a number of amendments to HKFRSs and 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 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- HKAS 23 (revised 2007), *Borrowing costs*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 9). Corresponding amounts have been provided on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- The "Improvements to HKFRSs (2008)" comprise a number of minor and Non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:
  - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of Pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and 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 (LOSSES)/INCOME

|  | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| <b>Other revenue</b>                                       |                        |                        |
| Interest income  | 5,435                  | 9,998                  |
| Government grants  | 16,350                 | 14,880                 |
| Dividend income from unlisted investments                  | 16,434                 | 16,124                 |
| Rental income  | 4,360                  | 2,560                  |
| Others   | 7,992                  | 6,310                  |
|  | <u>50,571</u>          | <u>49,872</u>          |
|  | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
| <b>Other net (losses)/income</b>                           |                        |                        |
| Changes in fair value of<br>embedded financial derivatives | (38,024)               | 121,416                |
| (Loss)/Gain on purchases of convertible bonds              | (5,205)                | 19,443                 |
| Net realised gain on trading securities                    | <u>5,040</u>           | <u>—</u>               |
|  | <u>(38,189)</u>        | <u>140,859</u>         |

## 5. PROFIT BEFORE TAXATION

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

|                                  | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|----------------------------------|------------------------|------------------------|
| <b>(a) Finance costs</b>         |                        |                        |
| Interest expense on bank loans   | 41,279                 | 28,965                 |
| Interest on convertible bonds    | 29,867                 | 51,042                 |
| Bank charges <sup>#</sup>        | 5,526                  | 2,053                  |
| Net foreign exchange (gain)/loss | <u>(978)</u>           | <u>32,045</u>          |
| Finance expenses                 | <u><u>75,694</u></u>   | <u><u>114,105</u></u>  |

<sup>#</sup> *The comparative figure for commission charges on credit card sales in the amount of RMB21,802,000 has been reclassified to distribution costs to more appropriately the substance of the expenses and conform with the current year's presentation.*

|  | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| <b>(b) Staff costs</b>                                 |                        |                        |
| Wages, salaries and other benefits                     | 238,376                | 250,394                |
| Contributions to defined contribution retirement plans | 34,793                 | 17,471                 |
| Equity-settled share-based payment transactions        | <u>19,296</u>          | <u>21,571</u>          |
|  | <u><u>292,465</u></u>  | <u><u>289,436</u></u>  |



|   | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| <b>(c) Other items</b>                            |                        |                        |
| Amortisation of intangible assets                 | <u>2,109</u>           | <u>1,234</u>           |
| Depreciation of fixed assets                      | <u>41,741</u>          | <u>35,474</u>          |
| Operating leases charges in respect of properties |                        |                        |
| – minimum lease payments                          | 89,101                 | 78,690                 |
| – contingent rents                                | <u>197,613</u>         | <u>157,744</u>         |
|   | <u>286,714</u>         | <u>236,434</u>         |
| Auditors' remuneration – audit services           | <u>3,603</u>           | <u>3,860</u>           |
| Rentals receivable from investment property       | 2,087                  | 1,920                  |
| Cost of inventories                               | 4,490,297              | 4,197,396              |

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

|   | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| <b>Current tax</b>  |                        |                        |
| Provision for Hong Kong profits tax for the year                                    | 35,672                 | 28,648                 |
| Provision for PRC income tax for the year   | 83,455                 | 112,519                |
| Under/(over) provision in respect of prior years                                    | <u>815</u>             | <u>(1,908)</u>         |
| <b>Sub-total</b>  | <u>119,942</u>         | <u>139,259</u>         |
| <b>Deferred tax</b>   |                        |                        |
| Origination and reversal of temporary differences                                   | 7,720                  | (8,431)                |
| Effect on deferred tax balances at 1 January<br>resulting from a change in tax rate | <u>–</u>               | <u>(9)</u>             |
| <b>Sub-total</b>  | <u>7,720</u>           | <u>(8,440)</u>         |
| <b>Total</b>  | <u>127,662</u>         | <u>130,819</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 2009 is calculated at 16.5% (2008: 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.

Pursuant to the transitional arrangements under the Corporate Income Tax Law of the People's Republic of China (the "New Tax Law"), one of the Group's PRC subsidiaries is entitled to a 50% reduction in the applicable income tax rate of 25% until the expiry of such tax holiday previously granted under the income tax rules and regulations of the PRC applicable for foreign investment enterprises (the "FEIT Law").

Pursuant to the transitional arrangements under the New Tax Law, one of the Group's subsidiaries located in Shenzhen Economic Zone is entitled to a 20% preferential tax rate in 2009 and will be subject to the transitional income tax rate of 22% and 24% in 2010 and 2011, respectively. 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%.

The provisions for Taiwan and Italy income tax are calculated at the income tax rates of 25% and 31.4% of the estimated assessable profits. There were no such assessable profits generated during the year.

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

|  | <b>2009</b><br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Profit before taxation   | <b><u>513,755</u></b>         | <u>618,984</u>         |
| Notional tax on profit before taxation,<br>calculated at the rates applicable to profits<br>in the jurisdictions concerned | <b>120,080</b>                | 120,711                |
| Non-taxable income   | <b>(11,340)</b>               | (7,751)                |
| Non-deductible expenses  | <b>1,133</b>                  | 3,566                  |
| Under/(over) provision in prior years  | <b>815</b>                    | (1,908)                |
| Tax effect of unused tax losses not recognised   | <b>10,488</b>                 | 8,529                  |
| Effect on deferred balances at 1 January resulting<br>from a change in tax rate  | –                             | (9)                    |
| Deferred tax liabilities on the expected profits distribution<br>by the Group's PRC subsidiaries                           | <b><u>6,486</u></b>           | <u>7,681</u>           |
| Actual tax expense   | <b><u>127,662</u></b>         | <u>130,819</u>         |

## 7. CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

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

|   | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| Final dividend proposed after the balance sheet date<br>of RMB0.027 per ordinary share<br>(2008: RMB0.056 per ordinary share) | <u><u>109,864</u></u>  | <u><u>138,694</u></u>  |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

|  | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| Final dividend in respect of the previous financial year,<br>approved and paid during the year of<br>RMB0.056 per share (2008: RMB0.060 per share) | <u><u>138,694</u></u>  | <u><u>149,070</u></u>  |

### (b) Share capital

#### (i) Authorised and issued share capital

|                                     | 2009                         |                          | 2008                        |                          |
|-------------------------------------|------------------------------|--------------------------|-----------------------------|--------------------------|
|                                     | <i>Number of<br/>shares</i>  | <i>Amount<br/>HKD</i>    | <i>Number of<br/>shares</i> | <i>Amount<br/>HKD</i>    |
| <b>Authorised:</b>                  |                              |                          |                             |                          |
| Ordinary shares of<br>HKD0.005 each | <u><u>10,000,000,000</u></u> | <u><u>50,000,000</u></u> | <u><u>4,000,000,000</u></u> | <u><u>20,000,000</u></u> |

## Issued and fully paid:

|                                | 2009                        |                               | 2008                        |                               |
|--------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
|                                | <i>Number of<br/>shares</i> | <i>Amount<br/>HKD</i>         | <i>Number of<br/>shares</i> | <i>Amount<br/>HKD</i>         |
| At 1 January                   | 2,479,000,000               | 12,395,000                    | 2,484,500,000               | 12,422,500                    |
| Repurchase of shares (note ii) | (2,316,000)                 | (11,580)                      | (5,500,000)                 | (27,500)                      |
| Share placement (note iii)     | 236,000,000                 | 1,180,000                     | –                           | –                             |
| Issuance of bonus share        | 1,356,342,000               | 6,781,710                     | –                           | –                             |
| At 31 December                 | <u>4,069,026,000</u>        | <u>20,345,130</u>             | <u>2,479,000,000</u>        | <u>12,395,000</u>             |
|                                |                             | <i>equivalent<br/>RMB'000</i> |                             | <i>equivalent<br/>RMB'000</i> |
|                                |                             | <u>19,909</u>                 |                             | <u>12,903</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) Repurchase of own shares

During the year ended 31 December 2009, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Month/year   | Number of<br>Shares<br>repurchased | Highest<br>price paid<br>per share<br>HKD | Lowest<br>price paid<br>per share<br>HKD | Aggregate<br>price paid<br>HKD'000 | Equivalent<br>RMB'000 |
|--------------|------------------------------------|---|--|------------------------------------|-----------------------|
| January 2009 | 2,316,000                          | 1.25                                      | 1.21                                     | 2,880                              | 2,549                 |

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the nominal value of these shares of RMB10,000 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB2,539,000 was charged to retained profits.

### (iii) Share placement

A placement of 236,000,000 shares of the Company at a price of HKD2.62 per share was made with independent investors on 24 June 2009 and completed in July 2009. The placing price represents (i) a discount of approximately 10.27% to the closing price of HKD2.92 per share as quoted on the Stock Exchange on 24 June 2009, being the date of the Placing and Subscription Agreement; (ii) a discount of approximately 8.07% to the average closing price of HKD2.85 per share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 24 June 2009; (iii) a discount of approximately 7.09% to the average

closing price of HKD2.82 per share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 24 June 2009; and (iv) a discount of approximately 3.32% to the average closing price of HKD2.71 per share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including 24 June 2009.

Upon the completion of the placement, 236,000,000 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.

*(iv) Issuance of bonus share*

In September 2009, the extraordinary general meeting of all the shareholders of the Company approved issuance of bonus shares, on the basis of five bonus shares, credited as fully paid, for every ten existing issued ordinary shares. On 11 September 2009, 1,356,342,000 shares were issued pursuant to the bonus issue.

## **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 RMB364,809,000 (2008: RMB460,087,000) and the weighted average of 3,891,655,282 ordinary shares (2008: 3,725,612,877 ordinary shares) in issue during the year. The weighted average numbers of ordinary shares in issue for year 2008 and 2009 have been retrospectively adjusted for the effect of the bonus issue in September 2009.

**(b) Diluted earnings per share**

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity shareholders of the Company (diluted) of RMB364,809,000 (2008: RMB436,356,000) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 3,891,655,282 (2008: 3,958,927,845). The weighted average numbers of ordinary shares in issue for 2008 and 2009 have been retrospectively adjusted for the effect of the bonus issue in September 2009.

The calculation of diluted earnings per share amount for the year ended 31 December 2009 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.

The performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. As no shares would be issuable if 31 December 2009 were the end of the contingent period, no effect of share options is included in the calculation of diluted earnings per share.

(i) *Weighted average number of ordinary shares (diluted)*

|  | 2009                 | 2008                 |
|--|----------------------|----------------------|
| Weighted average number of ordinary shares                             | 3,891,655,282        | 3,725,612,877        |
| Effect of conversion of convertible bonds                              | —                    | 233,314,968          |
| Weighted average number of<br>ordinary shares (diluted) at 31 December | <u>3,891,655,282</u> | <u>3,958,927,845</u> |

(ii) *Profit attributable to equity shareholders of the Company (diluted)*

|   | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|-----------------|-----------------|
| Profit attributable to equity shareholders (basic)                                    | 364,809         | 460,087         |
| Effect of effective interest on the liability<br>component of convertible bonds       | —               | 51,042          |
| Effect of gain recognised on the<br>derivative component of convertible bonds         | —               | (121,416)       |
| Effect of exchange loss recognised<br>on the liability component of convertible bonds | —               | 66,086          |
| Effect of gain on purchase of convertible bonds                                       | —               | (19,443)        |
| Profit attributable to equity shareholders (diluted)<br>at 31 December                | <u>364,809</u>  | <u>436,356</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 People's Republic of China (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 three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Retail (include segments in PRC (Other than Hong Kong) and Hong Kong, respectively): given the importance of the retail division to the Group, the Group's retail business is segregated further into two 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                 |                  |                  |                  |                  |                  |                |                |                  |                  |
|---------------------------------|------------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|------------------|------------------|
|                                 | PRC                    |                  |                  |                  | Wholesale        |                  | All others#    |                | Total            |                  |
|                                 | (Other than Hong Kong) |                  | Hong Kong        |                  |                  |                  |                |                |                  |                  |
|                                 | 2009                   | 2008             | 2009             | 2008             | 2009             | 2008             | 2009           | 2008           | 2009             | 2008             |
|                                 | RMB'000                | RMB'000          | RMB'000          | RMB'000          | RMB'000          | RMB'000          | RMB'000        | RMB'000        | RMB'000          | RMB'000          |
| Revenue from external customers | 2,730,187              | 2,324,172        | 1,705,476        | 1,418,195        | 1,329,967        | 1,631,916        | 133,792        | 142,213        | 5,899,422        | 5,516,496        |
| Inter-segment revenue           | -                      | -                | -                | -                | 2,081,781        | 2,363,733        | 3,395          | 4,206          | 2,085,176        | 2,367,939        |
| Reportable segment revenue      | <u>2,730,187</u>       | <u>2,324,172</u> | <u>1,705,476</u> | <u>1,418,195</u> | <u>3,411,748</u> | <u>3,995,649</u> | <u>137,187</u> | <u>146,419</u> | <u>7,984,598</u> | <u>7,884,435</u> |
| Reportable segment profit       | <u>877,575</u>         | <u>761,368</u>   | <u>322,122</u>   | <u>302,148</u>   | <u>164,173</u>   | <u>209,537</u>   | <u>45,255</u>  | <u>46,047</u>  | <u>1,409,125</u> | <u>1,319,100</u> |
| Reportable segment assets       | <u>1,425,801</u>       | <u>1,426,300</u> | <u>617,453</u>   | <u>554,964</u>   | <u>429,936</u>   | <u>539,119</u>   | <u>57,298</u>  | <u>69,636</u>  | <u>2,530,488</u> | <u>2,590,019</u> |

# Revenues from segments below the quantitative thresholds are mainly attributable to three operating segments of the Group. Those segments include 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.

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

|  | <b>2009</b><br><i>RMB'000</i> | 2008<br><i>RMB'000</i>  |
|--|-------------------------------|-------------------------|
| <b>Revenue</b>                                 |                               |                         |
| Total revenues for reportable segments         | <b>7,847,411</b>              | 7,738,016               |
| Other revenue                                  | <b>137,187</b>                | 146,419                 |
| Elimination of inter-segment revenue           | <b>(2,085,176)</b>            | (2,367,939)             |
| Consolidated turnover                          | <b><u>5,899,422</u></b>       | <b><u>5,516,496</u></b> |
|  | <b>2009</b><br><i>RMB'000</i> | 2008<br><i>RMB'000</i>  |
| <b>Profit</b>                                  |                               |                         |
| Total profit for reportable segments           | <b>1,363,870</b>              | 1,273,053               |
| Other profit                                   | <b>45,255</b>                 | 46,047                  |
|  | <b>1,409,125</b>              | 1,319,100               |
| Other revenue                                  | <b>50,571</b>                 | 49,872                  |
| Other net (losses)/income                      | <b>(38,189)</b>               | 140,859                 |
| Distribution costs                             | <b>(590,112)</b>              | (522,180)               |
| Administrative expenses                        | <b>(239,425)</b>              | (253,182)               |
| Other operating expenses                       | <b>(1,345)</b>                | 938                     |
| Finance costs                                  | <b>(75,694)</b>               | (114,105)               |
| Share of losses of jointly controlled entities | <b>(1,176)</b>                | (2,318)                 |
| Consolidated profit before taxation            | <b><u>513,755</u></b>         | <b><u>618,984</u></b>   |



|  | 2009<br><i>RMB'000</i>  | 2008<br><i>RMB'000</i>  |
|--|-------------------------|-------------------------|
| <b>Assets</b>                                  |                         |                         |
| Total asset for reportable segments            | 2,473,190               | 2,520,383               |
| Other assets                                   | 57,298                  | 69,636                  |
| Elimination of unrealised inter-segment profit | <u>(126,251)</u>        | <u>(143,285)</u>        |
|  | 2,404,237               | 2,446,734               |
| Trade and other receivables                    | 591,063                 | 449,962                 |
| Pledged bank deposits                          | 40,000                  | 96,497                  |
| Cash and cash equivalents                      | 1,150,951               | 588,010                 |
| Non-current assets                             | <u>987,918</u>          | <u>899,572</u>          |
| Consolidated total assets                      | <u><u>5,174,169</u></u> | <u><u>4,480,775</u></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, 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 interests in jointly controlled entities and other investments.

The Group's business is mainly managed in two principal economic environments, the PRC (other than Hong Kong) and Hong Kong.

|                                 | 2009<br><i>RMB'000</i>  | 2008<br><i>RMB'000</i>  |
|---------------------------------|-------------------------|-------------------------|
| Revenue from external customers |                         |                         |
| The PRC (other than Hong Kong)  | 4,109,943               | 3,982,193               |
| Hong Kong                       | 1,761,191               | 1,502,510               |
| Others                          | <u>28,288</u>           | <u>31,793</u>           |
| Total                           | <u><u>5,899,422</u></u> | <u><u>5,516,496</u></u> |
| Specified non-current assets    |                         |                         |
| The PRC (other than Hong Kong)  | 617,029                 | 537,163                 |
| Hong Kong                       | 256,716                 | 257,415                 |
| Others                          | <u>74,768</u>           | <u>65,038</u>           |
| Total                           | <u><u>948,513</u></u>   | <u><u>859,616</u></u>   |

## 10. TRADE AND OTHER RECEIVABLES

|                          | <b>2009</b><br><b><i>RMB'000</i></b> | 2008<br><i>RMB'000</i> |
|--------------------------|--------------------------------------|------------------------|
| Trade receivables        | <b>382,637</b>                       | 272,093                |
| Prepayments and deposits | <b>208,426</b>                       | 177,869                |
|                          | <b><u>591,063</u></b>                | <b><u>449,962</u></b>  |

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>2009</b><br><b><i>RMB'000</i></b> | 2008<br><i>RMB'000</i> |
|---|--------------------------------------|------------------------|
| Current   | <b>325,074</b>                       | 231,262                |
| Less than 1 month past due                          | <b>41,271</b>                        | 30,662                 |
| 1 to 3 months past due                              | <b>9,397</b>                         | 5,312                  |
| More than 3 months but less than 12 months past due | <b>4,991</b>                         | 1,840                  |
| More than 12 months past due                        | <b>1,904</b>                         | 3,017                  |
|   | <b><u>382,637</u></b>                | <b><u>272,093</u></b>  |

## 11. TRADE AND OTHER PAYABLES

### The Group

|                                     | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|-------------------------------------|------------------------|------------------------|
| Trade payables                      | <b>639,966</b>         | 429,198                |
| Other payables and accrued expenses | <b>110,278</b>         | 108,821                |
| Advance receipts from customers     | <b>35,505</b>          | 25,835                 |
| Amounts due to related parties      | <b>20,850</b>          | 20,610                 |
|                                     | <hr/>                  | <hr/>                  |
|                                     | <b>806,599</b>         | 584,464                |
|                                     | <hr/> <hr/>            | <hr/> <hr/>            |

An ageing analysis of trade payables is as follows:

|                                       | 2009<br><i>RMB'000</i> | 2008<br><i>RMB'000</i> |
|---------------------------------------|------------------------|------------------------|
| Within 1 month                        | <b>468,903</b>         | 357,613                |
| Over 1 month but less than 3 months   | <b>148,579</b>         | 52,181                 |
| Over 3 months but less than 12 months | <b>4,978</b>           | 16,265                 |
| Over 1 year                           | <b>17,506</b>          | 3,139                  |
|                                       | <hr/>                  | <hr/>                  |
|                                       | <b>639,966</b>         | 429,198                |
|                                       | <hr/> <hr/>            | <hr/> <hr/>            |

## MANAGEMENT DISCUSSION AND ANALYSIS

2009 had been a year full of challenges and opportunities. Global high-end consumables retail sector suffered a relatively severe blow against the backdrop of the global financial crisis and weakening macro economy in the first half of 2009. In the second half of the year, with the recovery of the global macroeconomy, China economy was picking up its momentum as fuelled by the government stimulus packages. According to the relevant data from the Federation of the Swiss Watch Industry, the export sales of Swiss watches from January to October 2009 fell by 23.2% over the corresponding period last year. Despite the uncertain ties of the business environment, the Group took a series of proactive strategic adjustment and consolidation initiatives to prudently focus on watch retail in the Greater China region including Mainland China and Hong Kong and achieved faster growth in each business segment. For the year ended 31 December 2009, the Group's sales recorded a year-on-year increase of 6.9%, of which retail sales posted a growth of 18.5% over last year. Of the retail sales, retail sales in Mainland China and Hong Kong grew by 17.5% and 20.3% respectively. Excluding the effect of the fair value valuation on convertible bonds and the profit/loss from currency exchange, the profit for the year rose by 6.5%, generating substantial returns for shareholders. In addition, the Group has been maintaining healthy operating cash flows through sound cash flow management, laying down a solid foundation for its next expansion.

### I. FINANCIAL REVIEW

#### Sales

For the year ended 31 December 2009, the Group recorded sales of RMB5,899,422,000, representing an increase of 6.9% over the corresponding period last year. The Group's total retail sales achieved a desirable growth, increased by 18.5% year-on-year to RMB4,435,663,000, of which retail sales in Mainland China and Hong Kong amounted to RMB2,730,187,000 and RMB1,705,476,000, representing a growth of 17.5% and 20.3% over the corresponding period last year respectively. The overall retail sales accounted for 75.2% of the total sales, which was in line with the direction of the Group's strategic development.

The Group maintained overall positive results against the backdrop of unprecedented global financial tsunami. Apart from the relatively stable Chinese economy, it is mainly attributed to the highly defensive nature of the Group's integrated retail network in the Mainland China and Hong Kong as well as the rational allocation of retail outlets in second- and third-tier cities and coastal first-tier developed cities in Mainland China, which has substantially mitigated the impact of the global financial crisis on the sales. In addition, through proactive negotiations and communications with upstream brand suppliers and in line with the actual market conditions, the Group has adjusted its brand portfolio, optimized its inventory structure, proactively enhanced its operation management and improved its service quality promptly and reasonably so as to ensure steady business growth.

Sales breakdown (for the year ended 31 December)

|                              | 2009                    |                   | 2008                    |                   |
|------------------------------|-------------------------|-------------------|-------------------------|-------------------|
|                              | <i>RMB'000</i>          | <i>%</i>          | <i>RMB'000</i>          | <i>%</i>          |
| Retail Business              |                         |                   |                         |                   |
| (Mainland China)             | <b>2,730,187</b>        | <b>46.3</b>       | 2,324,172               | 42.1              |
| (Hong Kong)                  | <b>1,705,476</b>        | <b>28.9</b>       | 1,418,195               | 25.7              |
| Wholesale Business           | <b>1,329,967</b>        | <b>22.5</b>       | 1,631,916               | 29.6              |
| Customer Services and Others | <b>133,792</b>          | <b>2.3</b>        | 142,213                 | 2.6               |
| Total                        | <b><u>5,899,422</u></b> | <b><u>100</u></b> | <b><u>5,516,496</u></b> | <b><u>100</u></b> |

**Gross profit and gross profit margin**

For the year ended 31 December 2009, the Group gross profit increased by 6.8% to approximately RMB1,409,125,000. Consolidated gross profit margin remained at the same level at 23.9% as compared with the corresponding period last year. The increase in gross profit was mainly attributable to strong growth in the Group's sales. To cope with the global financial crisis, during the year, the Group underwent proactive adjustment and optimization to the inventory mix, replaced certain inventories at cost through effective negotiation with brand suppliers, and enhanced sales management to secure higher sales while maintaining the gross profit at the level achieved in the corresponding period last year.

**Profit for the Year and profit margin**

During the Year under review, excluding the effect of fair value valuation on convertible bonds and the profit/loss from currency exchange, the Group recorded the profit for the year of approximately RMB458,211,000, representing an increase of 6.5% from the corresponding period last year. The return on sales was approximately 7.8% and remained at the same level against the corresponding period last year. The increase was mainly attributable to the Group's effective and steady improvement of operational management efficiency as well as reasonable control and reduction of expense ratio. The Group's net profit for the year amounted to RMB386,093,000, representing a decrease of 20.9% from the corresponding period last year, which was mainly attributable to the effect of fair value valuation on convertible bonds and the profit/loss from currency exchange.

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

The Group maintained a sound and stable financial position.

As at 31 December 2009, the Group's total equity interests were RMB3,124,077,000 and current net asset value was RMB2,493,961,000, of which bank deposits amounted to RMB1,190,951,000. In addition, the bank loans totalled RMB965,572,000. During the Year under review, the Company redeemed principal of RMB558 million USD Settled Zero Coupon Convertible Bonds due 2012 issued in August 2007, and the remaining net bonds amounted to approximately RMB187 million. Taking into account such net convertible bonds, together with bank loans, the Group's total bank loans and convertible bonds amounted to RMB1,159,473,000, representing a decrease of 21.6% from the corresponding period last year.

As at 31 December 2009, the Group's net debt to equity ratio is zero, laying down a solid foundation for the potential business expansion.

The Group's operating net cash inflow was RMB695,779,000 for the Year, which was mainly derived from the Group's desirable business results and sound cash flow management.

## **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 staying alert to and closely monitoring its foreign exchange risk.

## **Contingent liabilities**

As at 31 December 2009, 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 RMB4,186,251,000, comprising inventories of approximately RMB2,404,237,000, trade and other receivables of approximately RMB591,063,000 and bank deposits of approximately RMB1,190,951,000.

## **Current liabilities**

During the Year under review, the current liabilities of the Group amounted to approximately RMB1,692,290,000, comprising bank loans of approximately RMB823,878,000, trade and other payables of approximately RMB806,599,000, and current tax payable of approximately RMB61,813,000.

## **Operating cash flow**

During the Year under review, based on its prudent and proactive business objective and a market-oriented approach and having assessed the situation, the Group focused on improving composition and turnover of inventory in expanding retail network, thus substantially reducing the demand for working capital. Then moving on from the significant improvement in operating cash flow since the second half of 2008, the Group recorded a considerable surplus in operating cash flow which mitigated its reliance upon external financing and improved the capability to generate its own cash, therefore laying a solid foundation for the Company's next expansion plan.

## **Capital structure**

The Company's capital structure is composed of issued share capital, convertible bonds, reserve and accumulated profits. As at 31 December 2009, the issued share capital of the Company was 4,069,026,000 shares and the principal amount of the issued convertible bonds was RMB187,000,000. These convertible bonds are due in 2012 and are non-interest bearing.

To supplement the Group's funding for its future development, the Company entered into a placing and subscription agreement on 24 June 2009. Pursuant to the agreement, Best Growth International Limited ("Best Growth"), a company then owned as to 77.7% by Mr. Zhang Yuping, the Chairman of the Group, placed 236,000,000 Shares to the market at HK\$2.62 per Share. Upon completion of the Placing, the Company issued 236,000,000 new ordinary shares of an aggregate nominal value of HK\$1,180,000 to Best Growth, at a subscription price of HK\$2.62 per Share under the placing and subscription agreement during the Year, with net proceeds of HK\$602 million which supplemented its share capital. The closing price of the shares quoted on the Stock Exchange was HK\$2.87 on 23 June 2009.

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

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 RMB0.027 per share for the financial year ended 31 December 2009 in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on 11 May 2010. The proposed cash dividend will be paid on or before 26 May 2010 to shareholders whose names appear on the register of members of the Company on 6 May 2010.

## **II. BUSINESS REVIEW**

During the Year under review, the Group's business remained focused 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, research and development of its own brands and brand distribution, etc.

### **(1) Retail Network**

Adhering to its business development strategy, the Group continuously strengthens the build-up of its retail network with an aim to maintain and uplift its global leading position. During the Year under review, the Group adopted different development strategies in each half of the Year in line with market changes to expand retail network in a steady yet proactive approach. Also the inventories were adjusted with marketable products under the prevailing conditions, leading to the significantly optimized inventory structure and a steady growth in business results. Accounting for 75.2% of the Group's total sales, the retail sales amounted to RMB4,435,663,000, representing an increase of 18.5% over the corresponding period last year, of which retail sales in Mainland China and Hong Kong amounted to RMB2,730,187,000 and RMB1,705,476,000, representing a growth of 17.5% and 20.3% over the corresponding period last year respectively.

Our retail network spans across the Greater China region where retail stores are mainly Elegant, Hengdeli/Prime Time, 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 TEMPTATION mainly sells middle-to high-end internationally fashionable watches. As at 31 December 2009, the Group operated a total of 270 retail outlets in Mainland China, Hong Kong and Taiwan, an increase of 60 outlets over the corresponding period last year. Of these stores, 13 were Elegant shops (3 in Hong Kong and 10 in Mainland China), 186 were Prime Time and Hengdeli shops (155 in Mainland China and 31 in Taiwan), 19 were TEMPTATION shops (all located in Mainland China) and 52 were brand image retail outlets (40 in Mainland China, 10 in Hong Kong and 2 in Taiwan).

The Group has been maintaining a sound partnership with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHMONT, ROLEX Group and DKNY Group. As at 31 December 2009, the Group distributed approximately 50 internationally renowned brands from the five major brand suppliers, including Breguet, Jaeger-LeCoultre, TAG Heuer, Zenith, Cartier, Vacheron-Constantin, IWC, Chopard, Frank Muller, Glashutte, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix and Tissot. In addition, efforts were stepped up to bring in and expand middle-to high-end brands including Balmain, Frederique Constant, Mido and Olma, 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*

### Footprint of retail network

The Group operates a total of 224 retail outlets in Mainland China. During the Year under review, the Group committed tremendous efforts to improving the re-positioning and sale of middle-to high-end brands, with new outlets opened in Urumqi, Kunming, Xiamen, Henan, Wenzhou and Hefei. Meanwhile, the Group continued to consolidate and expand its retail network in the second and third-tier cities, aiming to extend the coverage of middle-to high-end products. 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 areas such as Shanghai, Beijing, Northeast, Zhejiang, Jiangsu, Henan and Shanxi, thus consolidating its control of market share.

### Positioning of retail outlets

As the consumption demand for high-end watches remains low in Mainland China, and in order to complement the Group's high-end watch retail business in Hong Kong, more than 75% of 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, and will remain the Group's leading retail brands in Mainland China in the foreseeable future.

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 2009, there were 10 Elegant shops mainly located in developed first-tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang.

### Sale of retail outlets

Same store retail sales in Mainland China recorded a growth of approximately 11% over the corresponding period last year. The growth is mainly attributable to the outburst of consumption desire and confidence of middle class and the affluent class which were long depressed by the financial crisis, as triggered by the strong recovery of China economy amid the improvement of the macromarkets. China posted a 16.9% growth in total retail sales of consumer goods in 2009, in which consumption in middle-to high-end market increased by 11.6% over 2008, and was the fastest-growing country in the world. Secondly, it benefited directly from the Group's rational and forward-looking outlet positioning. As the retail business of middle-to high-end watches is affected, to a great extent, by the flow of people in the business districts where retail outlets are located, as well as by the period of establishment and local consumption level, these outlets need more time to foster as compared with other retail outlets that sell general consumables. A watch retail outlet

usually takes more than three years to reach maturity. For the year ended 31 December 2009, 70% of the Group's sales were contributed by well-established stores (usually the sales per square meter of a mature outlet is two to three times higher than that of a young store with the same area), which have been opened for more than three years and account for 30% of the total number of retail outlets. The remaining young outlets with an average age of one to two years account for more than 70% of the entire portfolio, and therefore the age of outlet portfolio of the Group in Mainland China is in a fledgling period. As the retail outlets further develop, larger potential for organic growth will come out.

### *Hong Kong*

As at 31 December 2009, the Group operated a total of 13 retail outlets in Hong Kong, of which 3 are Elegant shops that sell multiple brands and 10 are single-brand boutiques or image shops. These stores are mainly located in premier business districts in Tsimshatsui and Causeway Bay, new outlets are planned to launch in other major business districts. Elegant under the Group has a long history in Hong Kong's watch retail industry. Elegant at Ocean Terminal, a flagship shop opened in 1970, has an area of approximately 170 square meters and has held the highest sales record up to the present as a single shop.

The Group's retail business in Hong Kong is principally positioned at high-end brands, including Vacheron-Constantin, Cartier, Jaeger-LeCoultre, Omega, Breguet, Chopard, Panerai, Zenith, IWC and Frank Muller. During the Year, Elegant (Hong Kong) teamed up with independent watchmakers to introduce renowned brands including 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, its high-end watch consumption market is closely linked to economic cycles. The pick-up of consumer confidence and recovery of tourism industry after the finance turmoil soon led to a strong rebound in consumption of high-end watch. Moreover, thanks to the Group's broad, profound and loyal clientele as well as the mutual supplement between outlets in Mainland China and Hong Kong, the service network across Mainland China provides a assuring after-sale guarantee for domestic tourists shopping in Hong Kong. For the year ended 31 December 2009, the Group's same store retail sales in Hong Kong recorded a growth exceeding 20% over the corresponding last year.

### *Taiwan*

To put its strategy of consolidating its leadership in Greater China region into practice, the Group opened two Omega brand boutiques in Taiwan during the Year under review, and acquired Jing Guang Tang Watches Co Ltd (精光堂時計股份有限公司), a renowned watch retailer in Taiwan, which increased the number of the Group's outlets in Taiwan to 33. Jing Guang Tang Watches Co Ltd owns a total of 31 retail outlets in Taipei, Taichung,

Kaohsiung, Hsinchu and Chiayi in Taiwan, specializing in distributing internationally renowned watch brands including Omega, Rado, TAG Heuer and Carl F. Bucherer. As a result of the acquisition of Jing Guang Tang Watches Co Ltd, the Group has established distribution network in major cities of Taiwan with a leading market share, laying a sound foundation for long-term development of the Group's overseas business.

## **(2) Customer Services and Maintenance**

The Group is always dedicated to the provision of premium customer services, holding the belief that satisfying consumer 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”. The greatest advantage of the Group's customer services comes from its well-established system integrating retail and after-sale repair and maintenance and the overall customer services framework, which demonstrates the service philosophy of “Guaranteed shopping at Hengdeli”.

In addition, a service hotline 4008 has been set up for customers as the Group's centralized service window for the general public, offering customers timely and fast advice and the best assurance.

During the Year under review, a CSMS management system for customer services was introduced to the Group in addition to the existing state-of-the-art information system. The system is able to track watch repair cycles promptly, provide timely financial information on the use of finished parts, generate a complete set of data on repairs within the entire network and effectively replace the conventional manual handling of repair records, thus facilitating brand suppliers to timely track the quality of watches so that improvement can be made.

During the Year under review, the Group additionally acquired the exclusive watch maintenance rights in Mainland China from two world's renowned brands namely Charriol and Breitling. With a number of senior maintenance technicians certified by brand suppliers to provide strong technical guarantee, our customer services have been widely recognised and tremendously supported by brand suppliers.

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

### **(3) Self-own brands and brand distribution**

To persistently strengthen the build-up of its own brands is the Group's ongoing strategy.

#### *OMAS*

Having significantly restructured and re-positioned its own brand OMAS in terms of its brand features and marketing strategies, the Group accelerated the expansion pace of its retail network in China during the Year under review, and further carried out systematic planning for new shop distribution in line with its business features. As at 31 December 2009, OMAS had 23 shops in Mainland China, namely in Beijing, Nanjing, Wuxi, Zhengzhou, Hangzhou and Suzhou. Sales of these shops are growing gradually.

The Group also owns renowned Swiss watch brands including NIVADA, OLMA and NUMA JEANNIN. Product research and development and layout of network under new development strategies are stepped up based on the brand features of OLMA and NIVADA.

The Group is committed to fostering its own brands. The Group believes the build-up of its own brands can establish a sound foundation for its sustainable development.

#### *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 and Frederique Constant. During the Year under review, the Group once again worked together with SWATCH Group to become the exclusive distributor of Mido in Mainland China, a brand owned by SWATCH Group.

The Group has always been maintaining a good partnership with brand suppliers and numerous retailers and, with their extensive and tremendous support, achieved a harmonious win-win situation.

### **(4) Ancillary extension products**

During the Year under review, Guangzhou Artdeco, an ancillary production company of the Group, faced with severe challenges as a result of the adverse impact of the global financial crisis on the economy. However, the Group continued to strengthen its internal management, exercised stringent control over production costs and improved its product research and development capabilities constantly while maintaining the quality of products, so as to enhance its competitiveness in the market. Sales revenue remained at the same level as compared with the corresponding period last year.

Guangzhou Artdeco has established a long-term partnership with many internationally renowned brand suppliers. In addition to existing business with brands such as Omega, Rolex, Tudor, Rado, Longines, Tissot and Ernest Borel, it once again partnered with Mido, Certina and Fendi and Frederique Constant during the Year under review. Its high quality products and good services were widely acclaimed by customers, which firmly support the fast development of the Group's principal businesses including retail business.

### **III. HUMAN RESOURCES AND TRAINING**

As at 31 December 2009, the Group employed a total of 4,358 employees in Mainland China, Hong Kong and Taiwan 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 know-how, 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" (首都勞動獎章) and the "May 1st Labour Medal" (全國五一勞動獎章).

### **IV. FUTURE DEVELOPMENT**

To maintain a steady and fast economic development is the top priority in China's economic program in 2010. Ongoing enhancement of consumption demand to achieve more sustainable economic growth remains to be one of the Chinese government's development strategies to boost economy. As the global economy, especially the Chinese economic situation, further improves, we believe that China will remain to be one of the markets with the greatest growth potential. We remain optimistic for the middle-to high-end consumables market in China. We have full 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. The consumption market condition is anticipated to be improving in 2010. Having consolidated market share in first-tier cities, we will continue accelerating the market expansion in the second-third– and even fourth-tier cities that cover medium-sized and small– to medium-sized major cities in the eastern region as well as provincial capitals in the central, southern and western regions. We will continue to regard Mainland China as our base, and further expand the retail network in the Greater China region by launching new stores in Hong Kong and Taiwan.

As our retail network grows, we will also adjust our three retail network systems timely, namely Elegant, Prime Time/Hengdeli and TEMPTATION. The majority of the Group's watch shops in Mainland China will be incorporated into Prime Time, and middle-to high-end retail network beyond Mainland China will be operated under the name of Hengdeli. The Group will continue to optimize the positions of retail outlet and the setup of single-brand boutiques, so as to improve retail management and better align the configuration of network system with market needs.

Meanwhile, more quality brand watches will be introduced to optimize our brand portfolio, and we aim to build a closer partnership with brand suppliers. We will also continue to improve and strengthen our customer services system and proactively develop the watch-related ancillary business.

Looking into the future, under a sound financial policy, we will develop the retail business in a proactive and aggressive approach, supplemented by other business segments such as customer services and brand distribution, aiming to increase our market share and 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. We will fully capitalize on business opportunities and aim to achieve steady and sustainable profit growth so as to generate more satisfactory returns for our shareholders and investors.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Thursday, 6 May 2010 to Monday, 10 May 2010 (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 Wednesday, 5 May 2010.



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

During the period under review, the authorized share capital of the Company increased from HK\$20,000,000, comprising 4 billion shares of HK\$0.005 each to HK\$50,000,000, comprising 10 billion shares of HK\$0.005 each upon approval by the shareholders in the general meeting held on 11 September 2009.

During the Year under review, the Company repurchased 2,316,000 shares listed on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) at an aggregate price of HK\$2,880,000 by way of acquisition from the market. Following the completion of the settlement on the repurchase of shares, the Company cancelled all the shares repurchased. After the cancellation was completed, the number of total issued shares of the Company changed from 2,479,000,000 shares to 2,476,684,000 shares (immediately after the repurchase of shares).

During the Year under review, the Company issued 236,000,000 ordinary shares to the market under a placing and subscription agreement with net proceeds of HK\$602 million and the number of total issued shares of the Company therefore changed to 2,712,684,000 shares (immediately after the completion of subscription). During the Year under review, the Company issued bonus shares to the qualifying shareholders on the basis of five bonus shares for every ten existing issued shares by capitalising HK\$6,781,710 standing to the credit of the Company’s share premium account. As of 31 December 2009, the issued share capital of the Company was changed to 4,069,026,000 shares.

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 RMB558,000,000 and the aggregate price for the repurchase is RMB562,301,000. The bonds repurchased were cancelled according to the terms of the same. As of 31 December 2009, the Company still had such bonds outstanding at a carrying amount of RMB187,000,000.

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

## **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 2009 and 2009 interim report.

During the Year, one meeting had been held on 25 March 2009 and 12 August 2009 to review the half year and full 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 2009 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 2009, a total of seven meetings were held by the Board. Among which, four were regular meetings; all members of the Board attended three regular meetings and the rate of attendance was 100%; all members of the Board attended the remaining meeting except Mr. Shen Zhiyuan, a non-executive Director, who was absent due to sickness and authorized other Director to attend on his behalf.

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 30 March 2010

*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.*