



Hengdeli Holdings Limited

亨得利控股有限公司

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

Stock Code : 3389



Interim Report 2010



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## FINANCIAL HIGHLIGHTS

### Six months ended 30 June

	<b>2010</b>	2009	YoY change
	<b>RMB'000</b>	RMB'000	
	<b>(Unaudited)</b>	(Unaudited)	(%)
Sales	<b>3,714,767</b>	2,694,978	+37.8
Profit for the period	<b>330,956</b>	225,555	+46.7
Profit attributable to equity shareholders	<b>306,411</b>	212,198	+44.4
Basic earnings per share	<b>0.075</b>	0.057	+31.6
Profit for the period (excluding the effect of convertible bonds and profit/loss from currency exchange)	<b>337,500</b>	247,033	+36.6

## CHAIRMAN'S STATEMENT

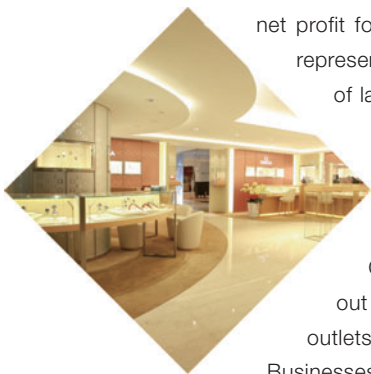
Dear Shareholders,

During the first half of 2010, despite unstable economic conditions globally, China's economic situation is moving in a positive direction. The Chinese government's policies on maintaining a steady and fast development of the economy have been fully implemented. With its own strengths and having fully captured the opportunities in the growing market, Hengdeli Holdings Limited (the



“Company”) and its subsidiaries (collectively known as the “Group”) expanded its businesses in a proactive and progressive manner. While ensuring a sound financial status, the retail network was expanded across the Greater China Region and the establishment of auxiliary businesses was launched effectively, which generated satisfactory results.

For the six months ended 30 June 2010, the Group recorded sales of RMB3,714,767,000, representing an increase of 37.8% over the corresponding period last year. Of these sales, retail sales amounted to RMB2,819,968,000, representing an increase of 44.4% over the corresponding period last year. A break down of retail revenues reveals that Mainland China and Hong Kong markets contributed for RMB1,774,053,000 and RMB1,045,915,000 respectively, representing an increase of 39.7% and 53.4% respectively over the corresponding period last year. The Group realised a net profit of RMB330,956,000, representing an increase of 46.7% over the corresponding period of last year. Excluding the effect of the fair value valuation on convertible bonds and the profit/loss from currency exchange, the actual net profit for the period under review amounted to RMB337,500,000, representing an increase of 36.6% over the corresponding period of last year.



Developing a diversified, high-grade distribution platform for our internationally renowned watch brands has long been our striving direction. During the period under review, the Group expanded its retail network by simultaneously carrying out mergers and acquisitions and establishing its own retail outlets in line with the market in a proactive and securely manner. Businesses in the first tier cities were strengthened and consolidated

and efforts were devoted to exploring the second and third tier cities with a focus on sales of middle-to-high-end brands. Meanwhile, the inventory composition was further optimised and the quality of retail outlets was continuously enhanced so that the targets for the first half of the year set out at the beginning of the year were accomplished remarkably. As at 30 June 2010, the number of our retail outlets had increased from 216 in the corresponding period last year to 302. The average same store sales were also very satisfactory, with an increase of 37.6% over the corresponding period last year.

Steady development was made in customer services and maintenance, an ancillary segment of our retail business. On one hand, our quality of services and technology was persistently enhanced and our strategies on the mutual supplement among retail, after-sales services and the interactive after-sales services in the Greater China region were strengthened. On the other hand, active efforts were made in collaborating with brand suppliers including SWATCH Group, to provide better support to businesses in the retail sector by extending customer services for new specifications and requests with brand suppliers so as to offer protection and value-added services to customers in a multi-dimensional and all-round manner, which won praise from both brand suppliers and consumers.

The production operations ancillary to the Group's main business were further enhanced. During the period under review, production services branches continued to strengthen establishment of research and development centres, enhance technological know how, awareness on quality and internal management so that the aims to work with more brands and to expand the scope of business were achieved, which provided assurance and support to the development of the Group's principal business.

The Group has been dedicated to maintaining a close working relationship with brand suppliers and numerous retailers and seeking more in-depth and extensive cooperation. Such cooperation was not limited to the ongoing maintenance and development of retail, brand and production business. During the period under review, it was extended to customer services and maintenance with a view to provide more supportive backup to retail and other businesses.

To ensure healthy business development, during the period under review, the Group and China Construction Bank Corporation Shenzhen Branch ("Shenzhen CCB") entered into a strategic cooperation agreement, which further strengthened the close partnership between both parties. In the future, the Group will be considered one of the most notable clients by the China Construction Bank, while Shenzhen branch will provide all rounded financial services and support to the Group. This will help guarantee the Company's continued growth and sustainable development over the long run.

Stabilising policies, maintaining a steady and fast economic development and ensuring complete accomplishment of the economic and social development targets for 2010 are missions in the economic program of the Chinese government for the second half of the year. The Chinese government's policies on ongoing enhancement of consumption demand to achieve more sustainable economic growth will continue to provide a promising market environment to the businesses of the Group in the second half of the year. Therefore, the Group has a positive outlook for the Chinese middle-to-high-end consumables market in the second half of the year. Under such situation, the Group will expand its businesses in a positive and proactive manner while ensuring a sound financial status and continue to persistently strengthen and consolidate its leading position in terms of the sales of middle-to-high-end internationally renowned brands in the Greater China region, with a core focus in Mainland China. We will also attempt to penetrate into other middle-to-high-end consumables areas including jewels so as to generate more satisfactory returns for our shareholders and the society.

By order of the Board

**Zhang Yuping**

*Chairman*

10 August 2010, Hong Kong





## MANAGEMENT DISCUSSION AND ANALYSIS

### MANAGEMENT DISCUSSION AND ANALYSIS

With the gradually picking up economy in 2009, despite the unstable global economic conditions, the Chinese economic situation is moving in a positive trend. The Chinese government's policies on maintaining a steady and fast development in the economy have been fully implemented. With its own strengths and having fully captured the opportunities in the growing market, the Group expanded its businesses in a proactive and progressive manner. While ensuring a sound financial status, the retail network in the Greater China region and its auxiliary businesses were expanded effectively that have generated satisfactory results.

#### I. Financial Review

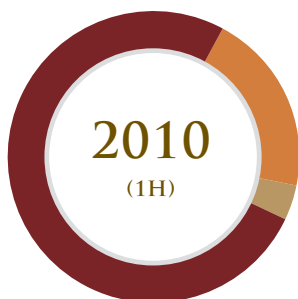
##### *Sales*




For the six months ended 30 June 2010, the Group recorded sales of RMB3,714,767,000, representing an increase of 37.8% over the corresponding period last year. Retail sales amounted to RMB2,819,968,000, representing an increase of 44.4% over the corresponding period last year, of which retail sales in Mainland China and Hong Kong amounted to RMB1,774,053,000 and RMB1,045,915,000, representing a growth of 39.7% and 53.4% over the corresponding period last year respectively. The overall retail sales accounted for 75.9% of the total sales, which was in line with the direction of the Group's strategic development.

In the past six months, the watch retail business of the Group was able to maintain a steady and fast growth. Apart from the relatively stable Chinese economy, it is mainly attributed to the highly defensive nature of the Group's integrated retail network in Mainland China and Hong Kong, the fast pace of development maintained by retail outlets in second and third tier cities as well as the steady growth in the coastal first tier developed cities in Mainland China. Thanks to the rapid growth of the middle class, 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, with the percentage of sales contribution increased to 79% of the first half of 2010 from 74% of the 2008. Meanwhile, the Group adjusted its brand portfolio, optimised its inventory structure, enhanced its operation 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 six months ended 30 June)

	2010		2009	
	RMB('000)	%	RMB('000)	%
Retail business				
(Mainland China)	<b>1,774,053</b>	<b>47.8</b>	1,270,355	47.1
(Hong Kong)	<b>1,045,915</b>	<b>28.2</b>	681,940	25.3
Wholesale Business	<b>751,329</b>	<b>20.2</b>	680,687	25.3
Customer Services and Others	<b>143,470</b>	<b>3.8</b>	61,996	2.3
Total	<b>3,714,767</b>	<b>100</b>	2,694,978	100



	76%	Retail Business
	20.2%	Wholesale Business
	3.8%	Customer Service and Others



### *Gross profit and gross profit margin*

For the six months ended 30 June 2010, the Group's gross profit increased by 37.8% year-on-year to approximately RMB914,560,000. Gross profit margin remained at the same level at 24.6% compared with the corresponding period last year. These are mainly attributable to the Group's ongoing proactive efforts in expanding retail business, which has a higher gross margin, its active steps in lowering the sales ratio of some low-profit clients in the wholesale business, better understanding on the marketing and sales as well as the ongoing improvement of the retail management. Also, the regulated management on the newly acquired retail outlets has not produced complete effect yet.

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

During the period under review, the Group recorded a substantial growth in net profit of approximately RMB330,956,000, representing an increase of 46.7% over the corresponding period last year. The profit margin was approximately 8.9% accordingly. The increase was mainly attributable to the Group's effective and steady improvement of operational management efficiency as well as rational control and reduction of expense ratio. Excluding the effect of the fair value valuation on convertible bonds and the profit/loss from currency exchange, the actual net profit for the period under review amounted to RMB337,500,000, representing an increase of 36.6% over the corresponding period of last year.

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

The Group maintained a sound and stable financial position.

As at 30 June 2010, the Group's total equity interests were RMB3,080,893,000 and current net asset value was RMB2,666,272,000, of which bank deposits amounted to RMB994,928,000. In addition, the bank loans totalled RMB911,849,000.

The remaining principal of the USD Settled Zero Coupon Convertible Bonds due 2012 issued by the Company in August 2007 amounted to RMB187 million. Taking into account of such net convertible bonds, together with bank loans, the Group's total liabilities amounted to RMB1,111,797,000. As at 30 June 2010, the net debt to equity ratio of the Group, including convertible bonds, was approximately 3.8%, down 91.4% from the corresponding period last year. The directors of the Company believe that such net debt to equity ratio is within a reasonable range.

### *Foreign exchange risk*

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

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

### *Pledge of assets*

As at 30 June 2010, the Group had bank deposits of RMB8,295,000 pledged as security for guarantees as well as land and buildings of RMB55,598,000 pledged as security for mortgage.

### *Contingent liabilities*

As at 30 June 2010, the Group did not have any material contingent liabilities.

### *Current assets*

During the period under review, the current assets of the Group amounted to approximately RMB4,535,911,000, comprising inventories of approximately RMB2,884,340,000, trade and other receivables of approximately RMB656,643,000 and cash and cash equivalent of approximately RMB986,633,000.

### *Current liabilities*

During the period under review, the current liabilities of the Group amounted to approximately RMB1,869,639,000, comprising bank loans of approximately RMB845,002,000, trade and other payables of approximately RMB970,471,000, and current tax payable of approximately RMB54,166,000.

### *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 period under review.



### *Capital structure*

The Company's capital structure is composed of issued share capital, convertible bonds, reserve and accumulated profits. As at 30 June 2010, 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.

## II. Business Review

During the period under review, the Group's business mainly focused on the build-up of the retail network in the Greater China region with a core focus in Mainland China. It is also supplemented with the provision of comprehensive customer services, manufacture of extension products and brand distribution, etc.

### *Retail network*

Adhering to its business development strategy, the Group devotes efforts in maintaining and developing its leading position as the world's largest retail group. During the period under review, 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, optimising its inventory composition and enhancing the quality of retail outlets, a steady growth in business results was achieved. Accounting for 75.9% of the Group's total sales, the retail sales amounted to RMB2,819,968,000, representing an increase of 44.4% over the corresponding period last year, of which retail sales in Mainland China and Hong Kong amounted to RMB1,774,053,000 and RMB1,045,915,000 respectively, representing a growth of 39.7% and 53.4% respectively over the corresponding period last year. Gross profit of retail business was RMB770,646,000, an increase of 37.2% over the corresponding period last year, accounting for 84.3% of the Group's total gross profit. The substantial growth in the results of retail business was mainly attributable to the robust growth in same store sales. The average growth rate of same store sales was 37.6% as compared to the corresponding period, of which the growth rate of same store sales in Mainland China and Hong Kong were 34.1% and 44.8% respectively.



Our retail network spans across the Greater China region where retail stores are mainly Elegant, Prime Time/Hengdeli, TEMPTATION and single-brand boutiques. Elegant mainly sells top grade internationally renowned brand watches; Prime Time/Hengdeli mainly sells middle-to-high-end internationally renowned brand watches, while TEMPTATION mainly sells middle-to-high-end internationally fashionable watches. During the period under review, 32 new retail outlets were opened. After adjustment and integration, as at 30 June 2010, the Group operated a total of 302 retail outlets in Mainland China, Hong Kong and Taiwan, representing an increase of 86 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), 201 were Prime Time and Hengdeli shops (174 in Mainland China and 27 in Taiwan), 26 were TEMPTATION shops (all in Mainland China) and 58 were brand boutiques (40 in Mainland China, 11 in Hong Kong and 7 in Taiwan).

The Group has been maintaining a sound partnership with many world renowned watch suppliers, including SWATCH Group, LVMH Group, RICHMONT Group, ROLEX Group and DKSH Group. For the six months ended 30 June 2010, the Group had distributed approximately 50 internationally renowned brands from the five major brand suppliers, including Cartier, Vacheron-Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant and Mido. The Group persistently stepped up efforts in bringing in and adjusting middle-to-high-end brands to enhance sales portfolio of the brands, which would be favourable to the long-term business development and ongoing enhancement of overall results.

## **Mainland China**

### Footprint of retail network

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 market share.

As at 30 June 2010, the Group operated a total of 252 retail outlets in Mainland China. During the period under review, the Group committed tremendous efforts to improve the re-positioning and sales of middle-to-high-end brands and continued to consolidate and expand its retail network in the second, third and fourth tier cities

through a number of approaches. During the period under review, the Group acquired a number of retail outlets from retailers including Guangzhou Longyue Watch Company Limited. Such outlets were mainly located across regions including Hubei, Hunan, Tianjin and Shenyang, selling middle-to-high-end watch brands including Tudor, TAG Heuer, Hamilton, Longines, Rado and Tissot. Such acquisitions substantially expanded and strengthened the Group's retail network in Central and Northern China, thus increasing our market share in such regions.

#### Positioning of retail outlets

As the consumption demand for high-end watches remains early stage 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 shops, which are positioned to sell middle-to-high-end watches. During the period under review, Prime Time contributed nearly 80% of the Group's total retail sales in Mainland China. It will remain the Group's leading retail brand 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 30 June 2010, there were 12 Elegant shops mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang.

#### Sales and age of retail outlets

During the period under review, same store retail sales in Mainland China recorded a strong growth, with an increase of 34.1% over the corresponding period last year. On one hand, it was attributable to the rapid growth in consumption in the middle-to-high-end consumables market as a result of the continuously picking up macromarket where the percentages of the middle class and the affluent class expanded rapidly. On the other hand, it benefitted 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. 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 be realised.



### **Hong Kong**

As at 30 June 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 currently mainly located in first-tier business districts including Tsimshatsui, Central and Causeway Bay, and will progressively extend to other major business districts. Elegant under the Group has a long history in Hong Kong's watch retail industry. Opened in 1970, the Ocean Terminal Elegant Flagship Shop located in Tsimshatsui has an area of approximately 1,700 square feet and has held the highest sales record up to the present as a single shop in the Group.

During the period under review, the Group launched an Elegant shop. Located in the premium business district in Central, the shop is adjacent to internationally renowned brands. With unique decoration in style, it also has a dedicated VIP area which offers highly professional and tailored services. The Central Elegant shop, with an area of 3,313 square feet, features an array of top-grade internationally renowned brands including Breguet, Chopard, Girard-Perregaux, Panerai, Van Cleef & Arpels and Zenith. In addition, the Group has also opened a Panerai brand boutique in Times Square, Causeway Bay, during the period under review, which strengthened the positioning of brand boutiques in Hong Kong.

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 and Frank Muller as well as Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge from independent watchmakers. These brands fully complemented our retail business in Mainland China and Taiwan, creating tremendous synergy.

Given the mature business districts and highly centralised wealth in Hong Kong and along with the upturn of consumer confidence and the robust tourism industry as a result of the picking up economy, consumption of high-end watches was strong. Moreover, the Group's broad, profound and loyal clientele as well as the synergy between outlets in Mainland China and Hong Kong, the all-round services offered by the Group in the Greater China region, have provided after-sale guarantee for domestic tourists shopping in Hong Kong. For the six months ended 30 June 2010, the Group's same store retail sales in Hong Kong recorded a growth exceeding 44.8% over the corresponding last year, which represented tremendous growth potential.

### **Taiwan**

To put its strategy of consolidating its leadership in the Greater China region into practice, it is the Group's set target to build up a retail network in Taiwan steadily. During the period under review, the Group opened the first Taiwan Elegant Flagship Shop in Taipei. Such shop is located on Zhongxiao E. Road in the supreme business district in Taipei, with two storeys and an area of 1,230 square metres, selling the top 10 first-class fine watch brands including Blancpain, Breguet, Cartier, Girard-Perregaux, Glashuette Original, Jaeger-LeCoultre, Jaquet Droz, Omega, Tiffany and Zenith. This initiated a new mode and landscape in the retail of high-end watches in Taiwan.

As at 30 June 2010, the Group operated a total of 35 retail outlets in major areas in Taiwan, including mainly Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Apart from selling top-grade watches through Elegant, other retail outlets mainly sell middle-to-high-end brands including Rado, TAG Heuer, Carl F. Bucherer and Longines, and are operated under the name of Hengdeli.

During the period under review, the Group's retail sales in Taiwan recorded a substantial year-on-year increase. Following the signing of the Economic Cooperation Framework Agreement (ECFA), the strengthened economic and trade relationship between Mainland China and Taiwan as well as the further integration of the economies of Mainland China, Taiwan and Hong Kong, the number of domestic tourists to Taiwan will be driven up, bringing opportunities to the retail industry in Taiwan.

### *Customer Services and Maintenance*

The premium customer services and maintenance the Group offers provide assurance to our customers and brand suppliers. The Group established three major service centres in Beijing and Shanghai, with timely maintenance services offered in each retail outlet, delivering all-round services to customers through an interactive customer services network consisting of “repair and maintenance service centres”, “repair service stations” and “repair service points”, and providing the most convenient and tailored services to customers by way of warranty in the Greater China region including Mainland China, Hong Kong and Taiwan. In addition, a service hotline 4008 has been set up as the Group’s centralised service window for the general public, offering customers timely and fast advice and the best assurance.

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. During the period under review, the Group additionally acquired the exclusive watch maintenance rights of Chaumet from the LVMH Group.

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.

### *Ancillary extension products*

The production operations of the Group’s ancillary business were further enhanced. During the period under review, the Group continued to strengthen establishment of research and development centres, enhance technological know how, and strengthen internal management, with an aim of serving more brands and to expand the scope of business. In addition to existing business with brands such as Omega, Rolex, Tudor, Rado, Longines, Tissot, Ernest Borel, Mido, Certina and Fendi, it further partnered with brands including Sarcar and ILIONNO during the period under review. Its high quality products and stringent delivery time were widely acclaimed by customers, which firmly support the fast development of the Group’s principal businesses including retail business.







### *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, Frederique Constant, Mido and Calvin Klein.

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

### III. Strategic Cooperation of Bank & Enterprise

To ensure healthy business development, during the period under review, the Group and China Construction Bank Corporation, Shenzhen Branch ("Shenzhen CCB") entered into a strategic cooperation agreement, which further strengthened the close partnership between both parties. In the future, the Group will be considered one of their most important clients by the China Construction Bank, whose Shenzhen branch will provide all rounded financial services and support to the Group, which will offer strong assurance to the Group's continuous expansion and sustainable development.

### IV. Human Resources and Training

As at 30 June 2010, the Group employed a total of 4,580 employees in Mainland China, Hong Kong and Taiwan.

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).

## V. Future Development

Stabilising policies and ensuring complete accomplishment of the economic and social development targets for 2010 are missions in the economic program of the Chinese government for the second half of the year. The Chinese government’s policies on ongoing enhancement of consumption demand to achieve more sustainable economic growth as well as the special nature of Chinese economic development and consumption concept of the Chinese population will continue to provide a promising market environment to the businesses of the Group in the second half of the year. The Group has a positive outlook for the Chinese middle-to-high-end consumables market in the second half of the year.

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 instrument, remains to be our future development direction.

The Group anticipated that the consumption market condition will continue to improve in the second half of the year. Having consolidated market share in first tier cities, we will carry on with the strategies of the first half of the year in accelerating the market expansion in the second, third and even fourth tier cities that cover medium-sized 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 core focus, and further establish and enhance the retail network in the Greater China region with Hong Kong and Taiwan as side support.

As our retail network grows, we will also fine-tune our three retail network systems, namely Elegant, Prime Time/Hengdeli and TEMPTATION, in a timely manner to a more scientific structure. The positions of retail outlet and the setup of single-brand boutiques will continue to be optimised so as to improve retail management and better align the configuration of network system with market needs. The quality of retail outlets will also be persistently enhanced. The Group will also further perfect and improve the retail network image system so as to match the strong business growth of the Group.

Meanwhile, more quality brand watches will be introduced to optimise our brand portfolio according to market needs, 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, the Group will expand its businesses in a positive and proactive manner while ensuring a sound financial status, and will continue to persistently strengthen and consolidate its leading position in terms of the sales of middle-to-high-end internationally renowned brands in the Greater China region, with a core focus in Mainland China by ways of acquisitions and mergers, establishing its own retail outlets and cooperating with brand suppliers. We will also attempt to penetrate into other middle-to-high-end consumables areas including jewels. While fully capitalising on business opportunities and proactively strengthening cooperation with banks, we will aim to achieve steady and sustainable profit growth so as to generate more satisfactory returns for our shareholders and investors.

## REPORT OF THE DIRECTORS

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

As at 30 June 2010, the interests or short positions of each of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

<b>Name of Directors</b>	<b>Nature of Interest</b>	<b>Number of shares</b>	<b>Approximate Percentage</b>
Mr. Zhang Yuping ("Mr. Zhang")	Controlled Corporation and Personal ( <i>note 1</i> )	1,848,340,000 (L)	45.42%
Mr. Chen Sheng	Personal	26,700,000 (L)	0.66%
Mr. Song Jianwen	Controlled Corporation ( <i>Note 2</i> )	20,032,000 (L)	0.49%
Mr. Huang Yonghua	Personal	2,400,000 (L)	0.06%

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

*Note 1:* Mr. Zhang Yuping owned 82.90% of the issued share capital of Best Growth International Limited ("Best Growth"), which in turn held 1,820,824,000 shares of the Company as at 30 June 2010, representing approximately 44.75% of the issued share capital of the Company. During the period under review, Mr. Zhang Yuping held 27,516,000 shares of the Company under his name, representing approximately 0.67% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 45.42% of the issued share capital of the Company in aggregate.

*Note 2:* Mr. Song Jianwen owned the entire issued share capital of Artnew Developments Limited, which in turn owned 0.49% of the issued share capital of the Company.

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

As the Directors were aware, as at 30 June 2010, the interests or short positions of the persons, other than Directors and a chief executive of the Company, in the shares, underlying shares and debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Number of shares	Approximate Percentage
Best Growth <i>(Note 1)</i>	1,820,824,000 (L)	44.75%
Mr. Zhang Yuping <i>(Note 1)</i>	1,848,340,000 (L)	45.42%
The Swatch Group Hong Kong Limited <i>(Note 2)</i>	363,000,000 (L)	8.92%
The Swatch Group Limited <i>(Note 2)</i>	363,000,000 (L)	8.92%
Hayek Nicolas Georges <i>(Note 2)</i>	363,000,000 (L)	8.92%
FMR LLC <i>(Note 3)</i>	327,108,000 (L)	8.04%
LVMH Watches & Jewelry Hong Kong Limited <i>(Note 4)</i>	18,504,000 (L)	0.46%
TAG Heuer SA <i>(Note 4)</i>	18,504,000 (L)	0.46%
TAG Heuer International SA <i>(Note 4)</i>	18,504,000 (L)	0.46%
LVMH Asia Pacific Limited <i>(Note 4)</i>	259,620,000 (L)	6.38%
Sofidiv SAS <i>(Note 4)</i>	278,124,000 (L)	6.84%
LVMH SA <i>(Note 4)</i>	278,124,000 (L)	6.84%

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

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

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

During the Year under review, Mr. Zhang Yuping held 27,516,000 shares of the Company under his name, representing approximately 0.67% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 45.42% of the issued share capital of the Company in aggregate.

*Note 2:* These 363,000,000 Shares are held in the name of and registered in the capacity of The Swatch Group (Hong Kong) Limited as a beneficial owner. The entire issued share capital of The Swatch Group (Hong Kong) Limited is beneficially owned by The Swatch Group Limited, a 40.70% interest of which is in turn beneficially owned by Mr. Hayek Nicolas Georges. According to the SFO, the Swatch Group Limited and Mr. Hayek Nicolas Georges are deemed to have interest in all the Shares held by The Swatch Group Hong Kong Limited.

*Note 3:* FMR LLC held 327,108,000 shares of the Company in the capacity of investment manager.

*Note 4:* Among these 278,124,000 Shares, 18,504,000 Shares are held in the name of and registered in the capacity of LVMH Watches & Jewelry Hong Kong Limited and 259,620,000 shares are held in the name of and registered in the capacity of LVMH Asia Pacific Limited. LVMH Watches & Jewelry Hong Kong Limited's entire interest is owned by TAG Heuer SA, and TAG Heuer International SA beneficially owns 100% interest in TAG Heuer SA. Sofidiv SAS beneficially owns 100% interest in each of TAG Heuer International SA and LVMH Asia Pacific Limited. LVMH SA owns 100% interest in Sofidiv SAS.

## Dividend Distribution

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2010.

## Share Option Scheme

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

Pursuant to the share option scheme, the Company granted 39,380,000 share options on 28 August 2007 to certain senior employees of the Group to subscribe for 39,380,000 ordinary shares at an exercise price of HKD4.83 per share at any time from 1 August 2010 to 31 July 2012 if certain performance targets are achieved during the period from 28 August 2007 to 31 July 2010. As the Company issued bonus shares to the qualifying shareholders on the basis of five bonus shares for every ten existing issued shares during 2009, the exercise price was changed to HKD3.22 per share accordingly. On 1 January 2010, the total number of shares that might be subscribed for was 53,670,000 shares. Due to the retirement of certain employees, 750,000 share options lapsed during the period under review. As of 30 June 2010, the total number of outstanding share options of the Company was changed to 52,920,000 shares.

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

## Purchase, Sale or Repurchase of Securities

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

As at 30 June 2010, the issued share capital of the Company was 4,069,026,000 shares. The Company had RMB187,000,000 bonds outstanding. Such bonds were listed on Singapore Exchange Securities Trading Limited on 24 August 2007.

## Disclosure of Information on the Website of the Stock Exchange

An interim report for the six months ended 30 June 2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Stock Exchange and the website of the Company in due course.

## Acknowledgement

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

## General Information

As at the date of this report, the Chairman and executive Director 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 and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xueling.

By order of the board

**Zhang Yuping**

*Chairman*

Hong Kong, 10 August 2010



## CORPORATE GOVERNANCE

### Compliance with the Code on Corporate Governance Practices

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

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

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

### Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material exceptional items, internal controls and financial reporting matters, including a review on the interim report for the six months ended 30 June 2010.

### Compliance with Code of Best Practice

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

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

For the six months ended 30 June 2010, the Company had adopted a code of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions by its Directors. Following specific enquiry made with all Directors, the Directors had complied with the code for securities transactions relating to directors as required by the code mentioned above.

## INTERIM RESULTS

The board of directors (the “Directors”) of Hengdeli Holdings Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

## CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2010 – unaudited

		For the six months ended 30 June	
	Note	2010 RMB'000	2009 RMB'000
<b>Turnover</b>	3	<b>3,714,767</b>	2,694,978
Cost of sales		<b>(2,800,207)</b>	(2,031,268)
<b>Gross profit</b>	3	<b>914,560</b>	663,710
Other revenue	4	<b>40,316</b>	41,364
Other net income/(losses)	4	<b>25,642</b>	(6,820)
Distribution costs		<b>(395,572)</b>	(257,669)
Administrative expenses		<b>(132,161)</b>	(113,240)
Other operating expenses		<b>(20)</b>	(1,967)
<b>Profit from operations</b>		<b>452,765</b>	325,378
Finance costs	5(a)	<b>(27,555)</b>	(39,810)
Share of gain/(losses) of jointly controlled entities		<b>643</b>	(1,008)

		<b>For the six months ended 30 June</b>	
	<i>Note</i>	<b>2010</b>	2009
		<b>RMB'000</b>	RMB'000
<b>Profit before taxation</b>	5	<b>425,853</b>	284,560
Income tax	6	<b>(94,897)</b>	(59,005)
<b>Profit for the period</b>		<b>330,956</b>	225,555
Attributable to:			
Equity shareholders of the Company		<b>306,411</b>	212,198
Non-controlling interests		<b>24,545</b>	13,357
<b>Profit for the period</b>		<b>330,956</b>	225,555
<b>Earnings per share</b>	7		
Basic		<b>RMB0.075</b>	RMB0.057
Diluted		<b>RMB0.075</b>	RMB0.057

The notes on pages 33 to 55 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 8.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the six months ended 30 June 2010 – unaudited*

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>RMB'000</b>	RMB'000
<b>Profit after taxation</b>	<b>330,956</b>	225,555
<b>Other comprehensive income for the period:</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	<b>(13,795)</b>	(4,325)
<b>Total comprehensive income for the period</b>	<b>317,161</b>	221,230
Attributable to:		
Equity shareholders of the Company	<b>292,616</b>	207,873
Non-controlling interests	<b>24,545</b>	13,357
<b>Total comprehensive income for the period</b>	<b>317,161</b>	221,230

The notes on pages 33 to 55 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2010 – unaudited

	<i>Note</i>	<b>At 30 June 2010 RMB'000</b>	At 31 December 2009 RMB'000
<b>Non-current assets</b>			
Fixed assets	9		
– Investment property		25,125	26,007
– Other property, plant and equipment		561,156	600,359
		<b>586,281</b>	626,366
Intangible assets	10	26,182	42,799
Goodwill	11	264,709	242,767
Interest in jointly controlled entities	12	56,591	35,784
Interest in associate		1,860	–
Other investments		797	797
Deferred tax assets		40,478	39,405
		<b>976,898</b>	987,918
<b>Current assets</b>			
Inventories	13	2,884,340	2,404,237
Trade and other receivables	14	656,643	591,063
Pledged bank deposits	15	8,295	40,000
Cash and cash equivalents	16	986,633	1,150,951
		<b>4,535,911</b>	4,186,251
<b>Current liabilities</b>			
Bank loans	17	845,002	823,878
Trade and other payables	18	970,471	806,599
Current taxation		54,166	61,813
		<b>1,869,639</b>	1,692,290

	<i>Note</i>	<b>At 30 June 2010 RMB'000</b>	At 31 December 2009 RMB'000
<b>Net current assets</b>		<b>2,666,272</b>	2,493,961
<hr/>			
<b>Total assets less current liabilities</b>		<b>3,643,170</b>	3,481,879
<hr/>			
<b>Non-current liabilities</b>			
Bank loans	17	66,847	141,694
Convertible bonds	19	185,152	180,152
Embedded financial derivatives	19	14,796	13,749
Deferred tax liabilities		27,005	22,207
		<b>293,800</b>	357,802
<hr/>			
<b>NET ASSETS</b>		<b>3,349,370</b>	3,124,077
<hr/>			
<b>CAPITAL AND RESERVES</b>			
Share capital		19,909	19,909
Reserves		3,060,984	2,846,736
<hr/>			
<b>Total equity attributable to equity shareholders of the Company</b>		<b>3,080,893</b>	2,866,645
Non-controlling interests		268,477	257,432
<hr/>			
<b>TOTAL EQUITY</b>		<b>3,349,370</b>	3,124,077
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The notes on pages 33 to 55 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2010 – unaudited

Note	Attributable to equity shareholders of the Company										
	Capital			PRC				Non-		Total equity	
	Share capital	Share premium	Share redemption reserve	Capital reserve	Exchange reserve	statutory reserve	Retained profits	Total	controlling interests		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>At 1 January 2009</b>	12,903	1,189,784	24	3,161	(69,222)	137,825	821,323	2,095,798	236,222	2,332,020	
Dividends to equity shareholders	-	-	-	-	-	-	(138,694)	(138,694)	-	(138,694)	
Dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	(8,068)	(8,068)	
Repurchase of own shares											
- par value paid	(10)	-	-	-	-	-	-	(10)	-	(10)	
- premium paid	-	-	-	-	-	-	(2,539)	(2,539)	-	(2,539)	
- transfer between reserves	-	-	10	-	-	-	(10)	-	-	-	
Equity settled share-based payment transactions	-	-	-	10,786	-	-	-	10,786	-	10,786	
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	4,000	4,000	
Total comprehensive income	-	-	-	-	(4,325)	-	212,198	207,873	13,357	221,230	
<b>At 30 June 2009 and 1 July 2009</b>	12,893	1,189,784	34	13,947	(73,547)	137,825	892,278	2,173,214	245,511	2,418,725	
Dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	(12,006)	(12,006)	
Transfer between reserves	-	-	-	-	-	33,371	(33,371)	-	-	-	
Share placement	1,040	543,823	-	-	-	-	-	544,863	-	544,863	
Transaction cost attribute to share placement	-	(15,818)	-	-	-	-	-	(15,818)	-	(15,818)	
Issuance of bonus shares	5,976	(5,976)	-	-	-	-	-	-	-	-	
Equity settled share-based payment transactions	-	-	-	8,510	-	-	-	8,510	-	8,510	
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	16,000	16,000	
Total comprehensive income	-	-	-	-	3,265	-	152,611	155,876	7,927	163,803	

Attributable to equity shareholders of the Company

	Note	Capital			PRC			Non-		Total equity	
		Share capital	Share premium	redemption reserve	Capital reserve	Exchange reserve	statutory reserve	Retained profits	Total		controlling interests
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>At 31 December 2009</b>											
<b>and 1 January 2010</b>		19,909	1,711,813	34	22,457	(70,282)	171,196	1,011,518	2,866,645	257,432	3,124,077
Dividends to equity shareholders	8	-	-	-	-	-	-	(109,864)	(109,864)	-	(109,864)
Dividends to non-controlling shareholders		-	-	-	-	-	-	-	-	(9,107)	(9,107)
Equity settled share-based payment transactions	20	-	-	-	9,649	-	-	-	9,649	-	9,649
Acquisition of subsidiaries	11	-	-	-	-	-	-	-	-	8,548	8,548
Capital contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	8,906	8,906
Total comprehensive income		-	-	-	-	(13,795)	-	306,411	292,616	24,545	317,161
<b>At 30 June 2010</b>		19,909	1,711,813	34	32,106	(84,077)	171,196	1,208,065	3,059,046	290,324	3,349,370

The notes on pages 33 to 55 form part of this interim financial report.



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2010 – unaudited

	Note	For the six months ended 30 June	
		2010 RMB'000	2009 RMB'000
Cash generated from operations		<b>61,639</b>	157,264
Income tax paid		<b>(98,819)</b>	(93,596)
Net cash (used in)/generated from operating activities		<b>(37,180)</b>	63,668
Net cash generated from investing activities		<b>61,405</b>	52,136
Net cash used in financing activities		<b>(188,413)</b>	(49,351)
Net (decrease)/increase in cash equivalents		<b>(164,188)</b>	66,453
Cash and cash equivalents at 1 January	16	<b>1,150,951</b>	588,010
Effect of foreign exchange rate changes		<b>(130)</b>	(80)
Cash and cash equivalents at 30 June	16	<b>986,633</b>	654,383

The notes on pages 33 to 55 form part of this interim financial report.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in RMB unless otherwise indicated)*

## **1 BASIS OF PREPARATION**

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorized for issue on 10 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from the 2009 annual financial statements. The 2009 annual financial statements are available from the Company's registered office. The auditors have expressed an unqualified opinion on the 2009 annual financial statements in their report dated 30 March 2010.

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

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

- 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)

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

The developments resulted in changes in accounting policy 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.
  - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously 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 change in policies will be applied as from 1 January 2010:
  - 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 date of statement of financial position 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.

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.
- As a result of the amendment to HKAS 17, Leases, arising from the *“Improvements to HKFRSs (2009)”* omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group’s judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate, with the exception of those interests which are registered and transferable ownership interests in land located in the Hong Kong Special Administrative Region and subject to the Government’s land policy of renewal without payment of additional land premium. These leasehold interests will no longer be classified by the Group as operating leases as the Group considers that it is in a position economically similar to that of a purchaser. This change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

The following changes in policy have no material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3 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 (previously known as minority 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 HKFRSs (2009) omnibus standard in respect of HKAS 17, Leases, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

The impact of the development in HKAS 27 (amended 2008) is as follows:

- As a result of the adoption of HKAS 27 (amended 2008), when the Group loses control of a subsidiary (note 12), the transaction is 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. Previously such transactions were treated as partial disposals.

### **3 SEGMENT INFORMATION**

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in the 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 (including 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		2010	2009	2010	2009	2010	2009
For the six months ended 30 June	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
Revenue from										
external customers	1,774,053	1,270,355	1,045,915	681,940	751,329	680,687	143,470	61,996	3,714,767	2,694,978
Inter-segment revenue	-	-	-	-	1,296,781	843,543	803	6,688	1,297,584	850,231
Reportable segment revenue	1,774,053	1,270,355	1,045,915	681,940	2,048,110	1,524,230	144,273	68,684	5,012,351	3,545,209
Reportable segment profit	562,929	413,576	207,717	148,043	101,114	83,571	42,800	18,520	914,560	663,710

	Retail									
	PRC									
	(Other than Hong Kong)		Hong Kong		Wholesale		All others #		Total	
	30 June	December	30 June	December	30 June	December	30 June	December	30 June	December
	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
Reportable segment assets	1,663,266	1,425,801	739,582	617,453	450,050	429,936	169,254	57,298	3,022,152	2,530,488

# Revenues from segments below the quantitative thresholds are mainly attributable to four operating segments of the Group. Those segments include a watch retail business in Taiwan, a watch repairing and maintenance business, a 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

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
<b>Revenue</b>		
Total revenues for reportable segments	4,868,078	3,476,525
Other revenue	144,273	68,684
Elimination of inter-segment revenue	(1,297,584)	(850,231)
Consolidated turnover	3,714,767	2,694,978



	For the six months ended 30 June	
	2010 RMB'000	2009 RMB'000
<b>Profit</b>		
Total profit for reportable segments	871,760	645,190
Other profit	42,800	18,520
	<b>914,560</b>	<b>663,710</b>
Other revenue	40,316	41,364
Other net income/(losses)	25,642	(6,820)
Distribution costs	(395,572)	(257,669)
Administrative expenses	(132,161)	(113,240)
Other operating expenses	(20)	(1,967)
Finance costs	(27,555)	(39,810)
Share of gain/(losses) of jointly controlled entities	643	(1,008)
Consolidated profit before taxation	<b>425,853</b>	<b>284,560</b>
	<b>At 30 June 2010 RMB'000</b>	<b>At 31 December 2009 RMB'000</b>
<b>Assets</b>		
Total assets for reportable segments	2,852,898	2,473,190
Other assets	169,254	57,298
Elimination of inter-segment purchases	(137,812)	(126,251)
	<b>2,884,340</b>	<b>2,404,237</b>
Trade and other receivables	656,643	591,063
Pledged bank deposits	8,295	40,000
Cash and cash equivalents	986,633	1,150,951
Non-current assets	976,898	987,918
Consolidated total assets	<b>5,512,809</b>	<b>5,174,169</b>

#### 4 OTHER REVENUE AND NET INCOME

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
<b>Other revenue</b>		
Government grants	8,500	16,350
Dividend income from unlisted investments	19,252	17,334
Interest income #	6,650	2,319
Rental income	1,696	1,318
Others	4,218	4,043
	<b>40,316</b>	<b>41,364</b>

One of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group., Ltd. ("Shanghai Xinyu"), received unconditional grants totaling RMB8,500,000 for the six months ended 30 June 2010 (the six months ended 30 June 2009: RMB16,350,000) from the local government in Shanghai, in support of Shanghai Xinyu's development.

# *The comparative figure for interest income in the amount of RMB2,319,000 has been reclassified from net finance costs to reflect more appropriately the substance of the expenses and conform with current period's presentation.*

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
<b>Other net income/(losses)</b>		
Changes in fair value of embedded financial derivatives (note 19)	(1,047)	(9,711)
Gain on purchases of convertible bonds (note 19)	–	2,891
Net gain on disposal of a subsidiary (note 12)	7,650	–
Net gain on disposal of property, plant and equipment (note 9)	6,769	–
Net gain on disposal of intangible asset (note 10)	12,270	–
	<b>25,642</b>	<b>(6,820)</b>

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2010 RMB'000	2009 RMB'000
<b>(a) Finance costs</b>		
Interest expense on bank loans	19,820	20,113
Interest on convertible bonds (note 19)	5,000	17,000
Bank charges #	2,238	5,039
Net foreign exchange loss/(gain)	497	(2,342)
<b>Total finance costs</b>	<b>27,555</b>	<b>39,810</b>

# The comparative figure for commission charges on credit card sales in the amount of RMB10,976,000 has been reclassified to distribution costs to reflect more appropriately the substance of the expenses and conform with current period's presentation.

	For the six months ended 30 June	
	2010 RMB'000	2009 RMB'000
<b>(b) Other items</b>		
Amortisation of intangible assets	1,130	485
Depreciation – property, plant and equipment, and investment property	22,013	16,312
Operating leases charges in respect of properties		
– minimum lease payments	61,118	39,929
– contingent rents	141,887	94,067
	<b>203,005</b>	<b>133,996</b>
Cost of inventories	2,800,207	2,032,600

## 6 INCOME TAX

	For the six months ended 30 June	
	2010 RMB'000	2009 RMB'000
<b>Current tax</b>		
Provision for Hong Kong profits tax for the period	22,614	15,745
Provision for PRC income tax for the period	66,212	35,842
Provision for Taiwan income tax for the period	2,346	–
<b>Deferred tax</b>		
Origination and reversal of temporary difference	3,725	7,418
	<b>94,897</b>	<b>59,005</b>

- (a) Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than Hong Kong, the PRC, Taiwan and Italy, are not subject to any income tax in these jurisdictions.
- (b) The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the period.
- (c) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

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 located in Guangzhou 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 22% preferential tax rate in 2010, and will be subject to the transitional income tax rate of 24% in 2011.

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

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

- (d) Effective from 1 January 2010, the income tax rate applicable to the Group's operations in Taiwan has been reduced from 25% to 17%.
- (e) The provision for Italy income tax is calculated at the income tax rate of 31.4% of the estimated assessable profits. There was no such assessable profit generated during the period.

## **7 EARNINGS PER SHARE**

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

The calculation of basic earnings per share of the six months ended 30 June 2010 is based on the profit attributable to equity shareholders of the Company of RMB306,411,000 (six months ended 30 June 2009: RMB212,198,000) and the weighted average of 4,069,026,000 ordinary shares (six months ended 30 June 2009: 3,715,274,000 ordinary shares) in issue during the period.

In calculation for the basic earnings per share for the six months ended 30 June 2009, the weighted average number of ordinary shares in issue has been retrospectively adjusted to 3,715,274,000 ordinary shares for the effect of the bonus issue in September 2009.

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

The calculation of diluted earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity shareholders of the Company of RMB306,411,000 (six months ended 30 June 2009: RMB212,198,000) and the weighted average of 4,069,026,000 ordinary shares (six months ended 30 June 2009: 3,715,274,000 ordinary shares).

In calculation for the diluted earnings per share for the six months ended 30 June 2009, the weighted average number of ordinary shares in issue has been retrospectively adjusted to 3,715,274,000 ordinary shares for the effect of the bonus issue in September 2009.

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

## 8 DIVIDENDS

- (i) No interim dividend was declared after the interim period.
- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period.

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>RMB'000</b>	RMB'000
Dividend in respect of the previous financial year, approved and paid during the period	<b>109,864</b>	138,694

## 9 FIXED ASSETS

### (a) Additions and disposals

During the six months ended 30 June 2010, the Group incurred decoration and construction costs with the total amount of RMB50,492,000.

A property located in Taiwan was disposed of during the six months ended 30 June 2010 for cash consideration of RMB41,137,000. This transaction resulted in a net gain on disposal of RMB6,769,000. Another property located in Beijing with a cost of RMB42,371,000 was disposed through the disposal of a subsidiary's 50% equity shares (note 12). Apart from that, there are no significant acquisitions/disposals during the period from 1 January 2010 to 30 June 2010.

### (b) Valuation

The investment property of the Group is located in the PRC and has been rented out under the terms of operating leases. The fair value of the investment property as at 30 June 2010, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to RMB58,172,000 (31 December 2009: RMB58,160,000). The investment property has not been valued by an external independent valuer. Rental income of RMB1,493,000 was received from leasing the investment property during the six months ended 30 June 2010 (six months ended 30 June 2009: RMB1,280,000).

## 10 INTANGIBLE ASSETS

The trademark of Numa Jeannin and Olma was disposed of during the six months ended 30 June 2010 for cash consideration of RMB26,720,000. Such transaction resulted in a gain on disposal of RMB12,270,000.

## 11 GOODWILL

On 1 January 2010, the Group acquired the retail business of Qingdao Hengdeli Watches Co., Ltd (“Qingdao Hengdeli”). As a result, goodwill of RMB8,000,000 was recognized in the consolidated financial statements.

On 1 January 2010, the Group acquired the retail business of Taiwan Jing Guang Timepiece Holdings Ltd (“Timepiece”), which is principally engaged in retail of watches through its 31 retail shops in Taiwan. As a result, goodwill of RMB13,942,000 was recognized in the consolidated financial statements.

The above goodwill recognised on the acquisitions is attributable mainly to the skills and technical ability of the acquired business’s work force, and the synergies expected to be achieved from integrating Qingdao Hengdeli and Timepiece into the Group’s existing retail network in the PRC and Taiwan, respectively. In accordance with the equity transfer agreement signed between the Group and Timepiece, the consideration for the above acquisition is to be determined based on the adjusted profit of Timepiece for the year ended 31 December 2009. As the adjusted profit of Timepiece for the year ended 31 December 2009 has not been finalized, the goodwill is subject to further adjustment if the consideration for the above acquisition of Timepiece is materially different.

## 12 INTEREST IN JOINTLY CONTROLLED ENTITIES

In March 2010, the Group disposed 50% equity interest in Beijing Hengrui Co., Ltd. (“Beijing Hengrui”) for a consideration of RMB28,375,000. The Group holds 50% equity shares of Beijing Hengrui after the disposal and therefore accounts for it as interest in a jointly controlled entity as at 30 June 2010.

## 13 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	<b>At 30 June 2010 RMB'000</b>	At 31 December 2009 RMB'000
Raw materials	<b>28,206</b>	29,043
Work in progress	<b>19,178</b>	16,472
Finished goods	<b>2,836,956</b>	2,358,722
	<b>2,884,340</b>	2,404,237

## 14 TRADE AND OTHER RECEIVABLES

	<b>At 30 June 2010 RMB'000</b>	At 31 December 2009 RMB'000
Trade receivables	437,959	382,637
Prepayments and other receivables	218,684	208,426
	<b>656,643</b>	591,063

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>At 30 June 2010 RMB'000</b>	At 31 December 2009 RMB'000
Current	372,150	325,074
Less than 1 month past due	47,177	41,271
1 to 3 months past due	11,550	9,397
More than 3 months but less than 12 months past due	4,702	4,991
More than 12 months past due	2,380	1,904
	<b>437,959</b>	382,637



## 15 PLEDGED BANK DEPOSITS

The amount mainly represents deposits pledged at banks to secure letters of guarantee granted to the Group. The pledged bank deposits will be released upon the termination of the relevant instruments.

## 16 CASH AND CASH EQUIVALENTS

As at 31 December 2009 and 30 June 2010, all the Group's cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement represented cash at bank and cash in hand.

## 17 BANK LOANS

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Current		
– secured bank loans	1,972	2,835
– unsecured bank loans	843,030	821,043
	<b>845,002</b>	<b>823,878</b>
Non-current		
– secured bank loans	26,542	41,694
– unsecured bank loans	40,305	100,000
	<b>66,847</b>	<b>141,694</b>

At 30 June 2010, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB55,598,000 (31 December 2009: RMB90,981,000).

## 18 TRADE AND OTHER PAYABLES

	<b>At 30 June 2010 RMB'000</b>	At 31 December 2009 RMB'000
Trade payables	<b>779,806</b>	639,966
Other payables and accrued expenses	<b>169,570</b>	145,783
Payables due to related parties	<b>21,095</b>	20,850
	<b>970,471</b>	806,599

An ageing analysis of the trade payables is as follows:

	<b>At 30 June 2010 RMB'000</b>	At 31 December 2009 RMB'000
Within 1 month	<b>516,324</b>	468,903
Over 1 month but less than 3 months	<b>188,075</b>	148,579
Over 3 months but less than 12 months	<b>60,003</b>	4,978
Over 1 year	<b>15,404</b>	17,506
	<b>779,806</b>	639,966

## 19 CONVERTIBLE BONDS

On 24 August 2007, the Company issued United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 in the aggregate principal amount of RMB1,150,000,000 (the "Convertible Bonds" or "the Bonds"). The subscription amount payable in respect of each RMB1,000,000 principal amount of Bonds is approximately USD132,282. The Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The movement of the liability component and embedded financial derivatives of the Convertible Bonds for the six months ended 30 June 2010 is set out below:

	<b>Liability component</b>	<b>Embedded financial derivatives</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
As at 31 December 2009	180,152	13,749	193,901
Interest charged during the period ( <i>note 5(a)</i> )	5,000	–	5,000
Changes in fair value during the period ( <i>note 4</i> )	–	1,047	1,047
<b>As at 30 June 2010</b>	<b>185,152</b>	<b>14,796</b>	<b>199,948</b>

No conversion of the Convertible Bonds has occurred up to 30 June 2010.

The changes in the fair value of the embedded financial derivatives from 31 December 2009 to 30 June 2010 resulted in a loss of RMB1,047,000 (for the year ended 31 December 2009: RMB38,024,000), which has been recorded in other net income/(losses) in the unaudited consolidated income statement for the six months ended 30 June 2010.

The fair value of the embedded financial derivatives was calculated using the Barrier Option Valuation model. The major inputs used in the models as at 31 December 2009 and 30 June 2010 were as follows:

	31 December 2009	<b>30 June 2010</b>
Stock price	HKD2.94	<b>HKD3.39</b>
Exercise price	HKD4.71	<b>HKD4.71</b>
Risk-free rate	1.117%	<b>0.765%</b>
Expected life	968 days	<b>786 days</b>
Volatility	60.27%	<b>64.42%</b>

The Company's stock prices were as at 31 December 2009 and 30 June 2010 respectively. The risk-free rates were determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected lives were estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatilities of comparable companies under the same periods as the expected lives.

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

## **20 SHARE-BASED PAYMENTS**

On 27 August 2005, the Company adopted a share option scheme pursuant to the resolutions of the shareholders of the Company. Pursuant to the share option scheme, the Company may grant 745,350,000 share options.

On 28 August 2007, the Company granted 39,380,000 share options to certain senior employees of the Group to subscribe for 39,380,000 ordinary shares at an exercise price of HKD4.83 per share at any time from 1 August 2010 to 31 July 2012 if certain performance targets are achieved during the period from 28 August 2007 to 31 July 2010. On 12 September 2009, following the bonus issue, the exercise price was adjusted to HKD3.22.

As at 30 June 2010, 6,150,000 share options have lapsed (31 December 2009: 5,400,000 share options) as 7 employees resigned prior to 30 June 2010. Except for this, no share option has been exercised, lapsed or cancelled pursuant to the above share option scheme during the six months ended 30 June 2010.

## 21 COMMITMENTS

### (a) Operating lease commitments

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	131,117	114,992
Between one and five years	170,082	205,222
More than five years	50,154	58,529
	<b>351,353</b>	<b>378,743</b>

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

### (b) Commitments of guaranteed profit

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Less than one year	6,800	8,800
Between one and five years	3,400	6,800
	<b>10,200</b>	<b>15,600</b>

Pursuant to a management agreement dated 31 December 2006 between Shanghai Xinyu and Shanghai Yi Min Department Stores Company Limited (“Yi Min”), a related party, Yi Min agreed to entrust to Shanghai Xinyu the operation and management of a shop located in Shanghai, and is entitled to receive an annual guaranteed profit of RMB6,800,000 from the Group for the period from 1 January 2007 to 31 December 2011.

Pursuant to a management agreement dated 31 December 2005 entered into between Shanghai Xinyu and Qingdao Hengdeli, whereby Qingdao Company agreed to entrust to Shanghai Xinyu the operation and management of its four retail shops for the period from 31 December 2005 to 31 December 2010, and in return, Qingdao Hengdeli is entitled to receive an annual guaranteed profits of RMB2,000,000 from the Group. The Company terminated the agreement with Qingdao Hengdeli and acquired the retail business of Qingdao Hengdeli on 1 January 2010 (note 11).

## 22 RELATED PARTY TRANSACTIONS

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

### (a) Recurring

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>RMB'000</b>	RMB'000
<b>Lease expense to:</b>		
A jointly controlled entity	<b>1,080</b>	–
Ultimate shareholders’ companies	–	169
<b>Guaranteed profit to:</b>		
Non-controlling shareholders	<b>1,647</b>	4,400
<b>Sales of goods to:</b>		
A jointly controlled entity	<b>12,488</b>	8,481

(b) Amounts due from

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
<b>Trade and other receivables from:</b>		
A jointly controlled entity	11,200	9,269

(c) Amounts due to

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
<b>Other payables due to:</b>		
Non-controlling shareholders	21,095	20,850

## 23 COMPARATIVE FIGURES

Certain items in the comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison. Details of these reclassifications are disclosed in notes 4 and 5.

## 24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2010

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2010 and which have not been adopted in these financial statements.

The following developments may result in new or amended disclosures in the financial statements:

	<b>Effective Date (for annual financial statements covering periods beginning on or after unless specified)</b>
Amendment to HKAS 32, <i>Financial instruments: Presentation – Classification of rights issues</i>	1 February 2010
HK(IFRIC) 19, <i>Extinguishing financial liabilities with equity instruments</i>	1 July 2010
Amendment to HKFRS 1, <i>First-time adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters</i>	1 July 2010
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Revised HKAS 24, <i>Related party disclosures</i>	1 January 2011
Amendment to HK(IFRIC) 14, HKAS 19 – <i>The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement</i>	1 January 2011
HKFRS 9, <i>Financial instruments</i>	1 January 2013



## CORPORATE INFORMATION

### Stock Information

Place of Listing: Main Board of the  
Stock Exchange of  
Hong Kong Limited

Stock Short Name: Hengdeli  
Stock Code: 3389  
Company Website: [www.hengdeliholdings.com](http://www.hengdeliholdings.com)

### Board of Directors

#### *Executive Directors*

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

#### *Non-executive Directors*

Mr. Chen Sheng  
Mr. Shen Zhiyuan  
Mr. Shi Zhongyang

#### *Independent Non-executive Directors*

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

#### *Company Secretary*

Mr. Ng Man Wai, Peter

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### Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services  
Limited  
Shops 1712-1716 17th Floor, Hopewell  
Centre 183 Queen's Road East Hong Kong

### Cayman Island Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House 68 Fort Street  
P.O. Box 609 Grand Cayman KY1-1107  
Cayman Islands

### Auditors

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Certified Public Accountant  
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10 Chater Road  
Central, Hong Kong

### Legal Advisor

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