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HENGDELI HOLDINGS LIMITED
亨得利控股有限公司

(Incorporated in Cayman Islands with limited liability)
(Stock Code: 3389)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial Highlights

	For the year ended 31 December		
	2011	2010	Change
	RMB'000	*RMB'000*	*(%)*
Sales	**11,375,280**	8,215,643	+38.5
Gross profit	**2,857,068**	2,048,950	+39.4
Profit for the year	**918,276**	617,378	+48.7
Profit attributable to equity shareholders	**814,919**	553,989	+47.1
Basic earnings per share	**RMB0.185**	RMB0.133	+39.1

Proposed final dividend of RMB281,487,299, representing approximately 34.5% distribution from the profit attributable to equity shareholders of the Company for the financial year 2011.

The Board of Directors (the "Board") of Hengdeli Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2011 (hereinafter refer to as the "Year or Year under review"), which have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011
(Expressed in Renminbi)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Expressed in Renminbi)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Renminbi)

		2011		2010	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current assets					
Fixed assets					
– Investment property			**255,601**		240,467
– Other property, plant and equipment			**665,551**		664,476
			921,152		904,943
Intangible assets			**23,325**		25,721
Goodwill			**296,921**		277,921
Interest in an associate			**85**		1,850
Interest in jointly controlled entities			**56,161**		52,930
Other investments			**39,711**		797
Deferred tax assets			**78,051**		51,628
Other financial assets	*10*		**434,000**		121,050
			1,849,406		1,436,840
Current assets					
Inventories		**4,521,297**		3,197,859	
Trade and other receivables	*11*	**1,114,801**		1,004,900	
Pledged bank deposits		**25,899**		10,000	
Cash and cash equivalents		**3,941,828**		3,409,807	
		9,603,825		7,622,566	
Assets classified as held for sale		**136,233**		–	
		9,740,058		7,622,566	
Current liabilities					
Trade and other payables	*12*	**1,758,869**		881,026	
Bank loans		**2,041,923**		1,076,649	
Current taxation		**144,207**		97,485	
Convertible bonds		**47,208**		–	
Embedded financial derivatives		**1,222**		–	
		3,993,429		2,055,160	
Liabilities directly associated with assets classified as held for sale		**28,358**		–	
		4,021,787		2,055,160	
Net current assets			**5,718,271**		5,567,406

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2011

(Expressed in Renminbi)

		2011		2010	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Total assets less current liabilities			**7,567,677**		7,004,246
Non-current liabilities					
Bank loans		**220,180**		232,446	
Convertible bonds		**1,982,161**		2,084,677	
Embedded financial derivatives		**–**		9,062	
Deferred tax liabilities		**34,669**		32,380	
			2,237,010		2,358,565
NET ASSETS			**5,330,667**		4,645,681
CAPITAL AND RESERVES					
Share capital	*7(b)*		**21,309**		21,302
Reserves			**4,869,517**		4,295,113
Total equity attributable to equity shareholders of the Company			**4,890,826**		4,316,415
Non-controlling interests			**439,841**		329,266
TOTAL EQUITY			**5,330,667**		4,645,681

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

The preparation of financial statements in conformity with all applicable Hong Kong Financial Reporting Standards (HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance) requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

2. CHANGES IN ACCOUNTING POLICIES

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

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- Amendment to HKAS32, Financial instruments: Presentation-Classification of rights issued
- HK(IFRIC) 19, Extinguishing financial liabilities with equity instruments

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

The amendments to HKAS32 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

3. TURNOVER

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

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

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

4. OTHER REVENUE AND NET INCOME

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

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

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

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

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

5. PROFIT BEFORE TAXATION

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

(a) Finance costs

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

(b) Staff costs

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

(c) Other items

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

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

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

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

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

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

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

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

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

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

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

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

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

7. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

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

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

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

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

(b) Share capital

(i) Authorised and issued share capital

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

	2011		2010	
	Number of shares	*Amount HKD*	*Number of shares*	*Amount HKD*
Issued and fully paid:				
At 1 January	**4,396,484,054**	**21,982,420**	4,069,026,000	20,345,130
Share placement	**–**	**–**	300,000,000	1,500,000
Share issued under share option scheme	**1,755,000**	**8,775**	16,361,000	81,805
Conversion of convertible bonds	**–**	**–**	11,097,054	55,485
At 31 December	**4,398,239,054**	**21,991,195**	4,396,484,054	21,982,420
		equivalent *RMB'000*		equivalent *RMB'000*
		21,309		21,302

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

(ii) Shares issued under share option scheme

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

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

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

Each option entitles the holder to subscribe for one ordinary share in the Company.

8. EARNINGS PER SHARE

(a) Basic earnings per share

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

(i) Weighted average number of ordinary shares

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

(b) Diluted earnings per share

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

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

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

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

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

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

9. SEGMENT REPORTING

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

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

- Wholesale: this segment distributes numerous world renowned brand watches in Mainland China and Hong Kong.

(i) Segment results and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following 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 year ended 31 December 2011 and 2010 is set out below.

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

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

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

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

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

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

(iii) Geographic information

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

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

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

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

10. OTHER FINANCIAL ASSETS

The Group

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

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

11. TRADE AND OTHER RECEIVABLES

The Group

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

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

(a) Ageing analysis

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

The Group

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

Trade receivables are due within 30 to 60 days from the date of billing.

(b) Trade receivables that are not impaired

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

The Group

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

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

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

12. TRADE AND OTHER PAYABLES

The Group

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

An ageing analysis of trade payables is as follows:

The Group

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

I. FINANCIAL REVIEW

Sales

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

The Group's performance was desirable. Apart from the highly stable Chinese economy, it was mainly attributable to the highly synergistic and complementary nature of the Group's integrated retail network in Mainland China, Taiwan, Hong Kong and Macau. Mainland China and Taiwan focused on middle-to-high-end brands while Hong Kong and Macau focused on high-end brands. Our retail outlets achieved steady growth in the first tier cities in Mainland China, while those in the second, third and fourth tier cities grew rapidly. Retail outlets in Hong Kong quickly gained market share in prosperous areas, with steady growth in sales. In particular, thanks to the rapid growth of the economy and the middle class, the second, third and forth tier cities in Mainland China brought about a rapid growth of the middle-to-high-end brands. Moreover, with the principle of "Be strong and be big, stable yet progressive", during the Year, the Group adopted various measures to enhance its operation management and open boutiques. It also strived to reduce expense ratio. The number of quality shops continuously increased and same store sales recorded moderate growth.

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

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

Gross profit and gross profit margin

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

Profit for the year and profit margin

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

Financial position and net debt to asset ratio

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

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

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

Foreign exchange risk

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

The Group has been monitoring its foreign exchange risk with great attention, and will adopt prudent measures when appropriate.

Operating cash flow

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

Pledge of assets

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

Contingent liabilities

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

Current assets

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

Current liabilities

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

Capital structure

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

Material investment, acquisition and disposal

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

Final dividend

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

II. BUSINESS REVIEW

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

Retail network

Adhering to the principle of "Be strong and be big, stable yet progressive", during the Year under review, the Group expanded its retail network in line with the market while focusing particularly on strengthening the management of current retail outlets. By enhancing the quality of retail outlets, adjusting its brand portfolio, optimizing its inventory composition and effectively controlling the costs, the Group achieved a steady growth in business. During the Year, retail sales of the Group amounted to RMB8,589,323,000, representing an increase of 34.7% over the corresponding period last year. Retail sales accounted for 75.5% of the Group's total sales. Retail sales in Mainland China and Hong Kong amounted to RMB5,209,797,000 and RMB3,157,265,000, representing a growth of 38.2% and 30.9% respectively over the corresponding period last year. The growth in retail sales was attributable to the increase in the number of retail outlets, and more importantly the satisfactory increase in same store retail sales. Despite volatile market conditions and the high base effect, the growth rate of same store retail sales reached 28.4% on average. This highlighted the continuous improvement in the management capability of the Group.

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

The Group has maintained good partnerships with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and DKSH Group. As at 31 December 2011, the Group distributed over 50 internationally renowned brands from the above five major brand suppliers and other independent watchmakers, including Cartier, Vacheron Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Van Cleef & Arpels, Scatola del Tempo, Vincent Berard, Maurice Lacroix, Tissot, Frederique Constant and Mido. The Group continued to step up efforts in bringing in and adjusting middle-to-high-end brands to enhance sales portfolio of the brands, which would be favourable to the long-term business development and ongoing enhancement of overall sales performance. During the Year, the Group introduced brands including DeWitt, Ernst Benz and Romain Jerome.

Mainland China

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

As at 31 December 2011, the Group operated a total of 332 retail outlets in Mainland China. During the Year under review, the Group put tremendous effort in improving the re-positioning and sales of middle-to-high-end brands and consolidating and expanding the retail network of Prime Time and With Time through a number of approaches, the sales of which were positive in the second, third and fourth tier cities. During the Year under review, the Group acquired a number of retail outlets of 南昌華瑞鐘錶有限公司. Such outlets were mainly located in Nanchang, Jiangxi and the surrounding areas, selling watch brands including Hamilton, Longines, Rado, Tissot and Tudor. Such acquisitions expanded and strengthened the Group's retail network in Central and Southern China, thus increasing its market share in such second and third tier cities.

Based on the actual demand for watches in Mainland China and, in order to complement the Group's high-end watch retail business in Hong Kong, most of the Group's retail outlets in Mainland China are Prime Time shops which are positioned to sell middle-to-high-end watches, and With Time shops which sell fashionable watches. We believe that they will remain the Group's leading retail brands in Mainland China in the foreseeable future.

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

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

The Taiyuan Elegant shop is located in the new business district in Taiyuan with geographical advantage and comprehensive facilities. The shop has an area of more than 7,000 square feet and mainly sells top international brands such as Rolex, Piaget, IWC, Panerai, Jaeger-LeCoultre, Glashutte, TAG Heuer, Breguet, Blancpain and Omega. It also provides consumers with a platform for exchanging ideas and appreciating watches.

During the Year under review, there was a prominent growth in same store retail sales in Mainland China, with an increase of 30.1% over the corresponding period last year. On one hand, the growth was attributable to the rapid growth in consumption in the middle-to-high-end consumables market as a result of the robust Chinese economy where the middle class and the affluent class expanded rapidly. On the other hand, the growth benefited directly from the Group's effort in management. The Group's timely adjustment of its brand portfolio, optimization of its inventory structure and effective control of the costs, resulted in the continuously increasing of the number of quality shops.

Hong Kong and Macau

Due to the growing Chinese economy, continued inflow of customers from Mainland China, the relatively developed market, the Group's broad, profound and loyal clientele in Hong Kong as well as the interaction between retail outlets in Mainland China and Hong Kong, the comprehensive after-sales service network across the Greater China ensuring after-sale guarantee for Chinese tourists shopping in Hong Kong, the Group achieved robust growth in its retail business in Hong Kong during the Year under review. As at 31 December 2011, the sales and gross profit margin in Hong Kong both achieved a relatively substantial growth, up to 30.9% and 15.1% respectively as compared with the corresponding period last year. Same store sales continued to perform well, with an increment of 25.7% over the corresponding period last year.

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

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

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

As at 31 December 2011, the Group operated a total of 18 retail outlets in Hong Kong, of which 6 were Elegant shops that sell various brands and 12 were single-brand boutiques or image shops. These stores are mainly located in first tier business districts in Tsim Sha Tsui, Central and Causeway Bay.

The Group's retail business in Hong Kong mainly focuses on high-end brands, including Vacheron Constantin, Breguet, Cartier, Jaeger-LeCoultre, Omega, Chopard, Panerai, Zenith, IWC, Franck Muller and independent watchmakers' Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge. During the Year, the Group newly introduced brands like Piaget, Blancpain, DeWitt, Ernst Benz and Romain Jerome. Such high-end brands fully complemented our middle-to-high-end retail business in Mainland China and Taiwan, creating tremendous synergy.

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

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

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

Taiwan

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

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

Customer Services and Maintenance

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

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

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

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

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

Ancillary extension products

In spite of the impact brought by various unfavorable factors like appreciation of Renminbi, rise in labour cost and increase in purchase prices, the ancillary segment of our watch retail business kept expanding, which included partnerships with brands and expansion of business varieties. In addition to existing business with brands such as Omega, Rolex, Tudor, Rado, Longines and Tissot, the Group further partnered with brands including Hamilton. Apart from the core product types such as standard packaging and display windows, the Group also diversified its display products and brand sales ancillary products. This firmly supports the fast development of the Group's principal businesses including retail business.

Brand distribution

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

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

Jewellery business

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

III. OVERALL UPGRADE OF INFORMATION SYSTEM

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

IV. HUMAN RESOURCES AND TRAINING

As at 31 December 2011, the Group employed a total of 7,015 employees in Mainland China, Hong Kong and Taiwan. Staff costs of the Group for the year of 2011 amounted to approximately RMB603,056,000 (2010: RMB416,143,000). The costs included basic salaries and benefits as well as staff benefits. The Group is always committed to developing and building up human resources. We implement a systematic recruitment policy and allocate resources to various training programs for the managerial staff, front-line service staff and maintenance technicians. These training programs cover, among others, the art of management, sales skills, brand knowledge and service awareness, so as to enhance staff's knowledge, marketing skills and service capability. The Group also works with its brand suppliers on the provision of regular training to front-line service staff and maintenance technicians in brand knowledge and maintenance expertise.

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

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

V. OUTLOOK

The Chinese economy stayed positive despite the complicated and confusing global economic conditions. The Group maintains that the Chinese government will be making changes to the economic growth pattern, accelerating urbanization and keeping on adopting aggressive fiscal policy and prudent monetary policy in 2012, together they will provide momentum to the Chinese economy. The basic State policies of promoting consumption growth comprehensively, putting effort in the expansion of domestic demand, preserving a harmonious and stable society and maintaining a rapid yet balanced development of the Chinese economy will make China one of the markets with the greatest growth potential. Therefore, the Group will continue to adhere to the business development principle of maintaining a foothold in Mainland China while striving in the Greater China region.

To prudently and aggressively develop the internationally renowned brand watches in line with market demand, and keep improving the management standard to safeguard the growth of our primary businesses remain our core development strategies. In the year ahead, the Group will keep on adopting the principles of opening new outlets and strengthening the management of current outlets to continuously raise the quality of the retail outlets. As our retail network grows, the Group will also optimize the structure of our three retail network systems constantly, namely "Elegant", "Prime Time"/"Hengdeli" and "With Time", so as to better align the configuration of network system with market needs. The Group will also continue to strengthen its customer service system in Greater China region and the ancillary business, and establish closer partnerships with brand suppliers, so as to match with our rapid business development. For the jewellery market, the Group will stay close to the market trend and put resources with sound and deliberate principles to expand our retail network. The Group will fully capitalize on business opportunities to achieve steady and sustainable profit growth to generate more satisfactory returns for our shareholders, investors and the society.

CLOSURE OF REGISTER OF MEMBERS

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

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

PURCHASE, SALE OR REPURCHASE OF SECURITIES

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

As at 31 December 2011, the issued share capital of the Company was 4,398,239,054 shares. The Company had RMB44,000,000 bonds outstanding, which were listed on Singapore Exchange Securities Trading Limited on 24 August 2007, and HKD2.5 billion bonds outstanding, which were listed on Singapore Exchange Securities Trading Limited on 2 September 2010.

AUDIT COMMITTEE

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

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

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

CHANGE OF REMUNERATION COMMITTEE COMPOSITION

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

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

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

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

CHANGE OF NOMINATION COMMITTEE COMPOSITION

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

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

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

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

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

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

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

The Board of the Company is responsible to the shareholders and performs the following major duties: report duties to the shareholders; execute the resolutions of the shareholders; draft investment solutions and profit distribution solutions of the Company; formulate solutions as to increase or decrease the registered capital of the Company; draft solutions in respect of the split-up, consolidation, alteration and dismissal of the Company, appoint and dismiss the General Manager of the Company and determine his remunerations.

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

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

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

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

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

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

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

By order of the Board
Zhang Yuping
Chairman

Hong Kong 20 March 2012

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