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Hengdeli Holdings Limited
亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

2012 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
Results	**2012**	2011	YoY change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	(%)
Sales	**5,749,733**	5,407,147	+6.3
Gross profit margin	**26.7%**	25.7%	+100bps
Profit for the period	**613,621**	500,157	+22.7
Profit attributable to equity shareholders	**562,656**	447,944	+25.6
Basic earnings per share	**RMB0.128**	RMB0.102	+25.5

INTERIM RESULTS

The board of directors (the "Board") 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 2012, 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 2012 – unaudited
(Expressed in Renminbi)

		For the six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Turnover	*3*	**5,749,733**	5,407,147
Cost of sales		**(4,214,096)**	(4,014,872)
Gross profit	*3*	**1,535,637**	1,392,275
Other revenue	*4*	**86,838**	73,989
Other net income	*4*	**132,451**	6,470
Distribution costs		**(710,177)**	(618,099)
Administrative expenses		**(147,930)**	(130,992)
Profit from operations		**896,819**	723,643
Finance costs	*5(a)*	**(135,759)**	(74,523)
Share of gain of associates		**13,697**	–
Share of loss of jointly controlled entities		**(3,615)**	(2,245)
Profit before taxation	*5*	**771,142**	646,875
Income tax	*6*	**(157,521)**	(146,718)
Profit for the period		**613,621**	500,157
Attributable to:			
Equity shareholders of the Company		**562,656**	447,944
Non-controlling interests		**50,965**	52,213
Profit for the period		**613,621**	500,157
Earnings per share	*7*		
Basic		**RMB0.128**	RMB0.102
Diluted		**RMB0.124**	RMB0.101

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit for the period	**613,621**	500,157
Other comprehensive income for the period:		
Exchange differences on translation of financial statements	**14,198**	(38,743)
Total comprehensive income for the period	**627,819**	461,414
Attributable to:		
Equity shareholders of the Company	**576,854**	409,201
Non-controlling interests	**50,965**	52,213
Total comprehensive income for the period	**627,819**	461,414

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2012 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Fixed assets	8		
– Investment property		**253,519**	255,601
– Other property, plant and equipment		**781,013**	665,551
		1,034,532	921,152
Intangible assets		**31,107**	23,325
Goodwill		**402,707**	296,921
Interest in associates	9	**563,006**	85
Interest in jointly controlled entities		**58,434**	56,161
Other investments	9	**797**	39,711
Deferred tax assets		**70,907**	78,051
Other financial assets	10	**312,940**	434,000
		2,474,430	1,849,406
Current assets			
Inventories	11	**5,497,182**	4,521,297
Trade and other receivables	12	**1,096,359**	1,114,801
Pledged bank deposits		**1,279**	25,899
Cash and cash equivalents	13	**3,430,143**	3,941,828
		10,024,963	9,603,825
Assets classified as held for sale		**–**	136,233
		10,024,963	9,740,058

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

at 30 June 2012 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Current liabilities			
Trade and other payables	14	**1,271,952**	1,758,869
Bank loans	15	**2,492,223**	2,041,923
Current taxation		**126,570**	144,207
Convertible bonds	16	**48,481**	47,208
Embedded financial derivatives	16	**–**	1,222
		3,939,226	3,993,429
Liabilities directly associated with assets classified as held for sale		**–**	28,358
		3,939,226	4,021,787
Net current assets		**6,085,737**	5,718,271
Total assets less current liabilities		**8,560,167**	7,567,677
Non-current liabilities			
Bank loans	15	**745,088**	220,180
Convertible bonds	16	**2,013,097**	1,982,161
Deferred tax liabilities		**41,512**	34,669
Provisions	17	**146,736**	–
		2,946,433	2,237,010
NET ASSETS		**5,613,734**	5,330,667
CAPITAL AND RESERVES			
Share capital		**21,290**	21,309
Reserves		**5,157,149**	4,869,517
Total equity attributable to equity shareholders of the Company		**5,178,439**	4,890,826
Non-controlling interests		**435,295**	439,841
TOTAL EQUITY		**5,613,734**	5,330,667

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

		For the six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Cash (used in)/generated from operations		**(605,461)**	255,704
Income tax paid		**(161,171)**	(133,621)
Net cash (used in)/generated from operating activities		**(766,632)**	122,083
Net cash used in from investing activities		**(266,213)**	(460,839)
Net cash generated from/(used in) financing activities		**503,839**	(478,555)
Net decrease in cash and cash equivalents		**(529,006)**	(817,311)
Cash and cash equivalents at 1 January	*13*	**3,941,828**	3,409,807
Effect of foreign exchange rate changes		**17,321**	(33,734)
Cash and cash equivalents at 30 June	*13*	**3,430,143**	2,558,762

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 (the "Stock Exchange"), 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 authorised for issue on 21 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2011 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 2011 annual financial statements. The 2011 annual financial statements are available from the Company's registered office. The auditors have expressed an unqualified opinion on the 2011 annual financial statements in their report dated 20 March 2012.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these amendments have a material impact on the contents of this interim financial report.

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

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

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

(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.

For the six months ended 30 June	Retail: Mainland China 2012 RMB'000	Retail: Mainland China 2011 RMB'000	Retail: Hong Kong 2012 RMB'000	Retail: Hong Kong 2011 RMB'000	Retail: Taiwan 2012 RMB'000	Retail: Taiwan 2011 RMB'000	Wholesale 2012 RMB'000	Wholesale 2011 RMB'000	All others# 2012 RMB'000	All others# 2011 RMB'000	Total 2012 RMB'000	Total 2011 RMB'000
Revenue from external customers	**2,824,790**	2,596,200	**1,414,761**	1,448,813	**99,589**	102,628	**1,283,898**	1,155,848	**126,695**	103,658	**5,749,733**	5,407,147
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**1,741,606**	1,735,758	**1,320**	6,115	**1,742,926**	1,741,873
Reportable segment revenue	**2,824,790**	2,596,200	**1,414,761**	1,448,813	**99,589**	102,628	**3,025,504**	2,891,606	**128,015**	109,773	**7,492,659**	7,149,020
Reportable segment profit	**936,533**	841,784	**362,632**	344,613	**32,050**	30,405	**155,957**	145,461	**48,465**	30,012	**1,535,637**	1,392,275

	Retail: Mainland China 30 June 2012 RMB'000	Retail: Mainland China 31 December 2011 RMB'000	Retail: Hong Kong 30 June 2012 RMB'000	Retail: Hong Kong 31 December 2011 RMB'000	Retail: Taiwan 30 June 2012 RMB'000	Retail: Taiwan 31 December 2011 RMB'000	Wholesale 30 June 2012 RMB'000	Wholesale 31 December 2011 RMB'000	All others# 30 June 2012 RMB'000	All others# 31 December 2011 RMB'000	Total 30 June 2012 RMB'000	Total 31 December 2011 RMB'000
Reportable segment assets	**2,885,839**	2,553,961	**1,238,548**	1,054,451	**263,958**	272,514	**1,248,392**	796,874	**46,634**	48,236	**5,683,371**	4,726,036

Revenues from segments below the quantitative thresholds are mainly attributable to a watch repairing and maintenance business, a packaging and decoration business, a hotel and property management business. None of those segments met any of the quantitative thresholds for determining reportable segments.

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

	For the six months ended 30 June 2012 *RMB'000*	2011 *RMB'000*
Revenue		
Total revenues for reportable segments	**7,364,644**	7,039,247
Other revenue	**128,015**	109,773
Elimination of inter-segment revenue	**(1,742,926)**	(1,741,873)
Consolidated turnover	**5,749,733**	5,407,147

	For the six months ended 30 June 2012 *RMB'000*	2011 *RMB'000*
Profit		
Total profit for reportable segments	**1,487,172**	1,362,263
Other profit	**48,465**	30,012
	1,535,637	1,392,275
Other revenue	**86,838**	73,989
Other net income	**132,451**	6,470
Distribution costs	**(710,177)**	(618,099)
Administrative expenses	**(147,930)**	(130,992)
Finance costs	**(135,759)**	(74,523)
Share of gain of associates	**13,697**	–
Share of loss of jointly controlled entities	**(3,615)**	(2,245)
Consolidated profit before taxation	**771,142**	646,875

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Assets		
Total assets for reportable segments	**5,636,737**	4,677,800
Other assets	**46,634**	48,236
Elimination of inter-segment purchases	**(186,189)**	(204,739)
	5,497,182	4,521,297
Trade and other receivables	**1,096,359**	1,114,801
Pledged bank deposits	**1,279**	25,899
Cash and cash equivalents	**3,430,143**	3,941,828
Assets classified as held for sale	**–**	136,233
Non-current assets	**2,474,430**	1,849,406
Consolidated total assets	**12,499,393**	11,589,464

4 OTHER REVENUE AND NET INCOME

	For the six months ended 30 June 2012 *RMB'000*	2011 *RMB'000*
Other revenue		
Interest income	**30,766**	29,345
Government grants	**12,900**	7,825
Dividend income from unlisted investments	**37,542**	29,527
Rental income	**3,733**	2,350
Others	**1,897**	4,942
	86,838	73,989

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Other net income		
Changes in fair value of embedded financial derivatives *(note 16)*	**1,222**	3,015
Net gain on disposal of subsidiaries *(note 20)*	**122,247**	–
Net gain on deemed disposal of other investment *(note 9)*	**17,119**	–
Net loss on disposal of property, plant and equipment	**(2,208)**	–
Net foreign exchange (loss)/gain	**(6,444)**	3,455
Others	**515**	–
	132,451	6,470

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(a) Finance costs		
Interest expense on bank loans	**86,726**	25,749
Interest on convertible bonds *(note 16)*	**46,499**	46,861
Bank charges	**2,534**	1,913
	135,759	74,523

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(b) Other items		
Amortisation	**989**	1,361
Depreciation	**49,090**	36,833
Operating leases charges in respect of properties		
– minimum lease payments	**108,278**	85,948
– contingent rents	**237,141**	213,326
	345,419	299,274

6 INCOME TAX

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax		
Hong Kong profits tax	**43,587**	41,622
Mainland China income tax	**99,357**	105,668
Taiwan and Macau income taxes	**590**	1,112
Sub-total	**143,534**	148,402
Deferred taxation	**13,987**	(1,684)
	157,521	146,718

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2011: 16.5%) to the six months ended 30 June 2012.

Taxation for other overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries or jurisdictions.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share of the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company of RMB562,656,000 (six months ended 30 June 2011: RMB447,944,000) and the weighted average of 4,397,644,932 ordinary shares (six months ended 30 June 2011: 4,397,210,098 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share amount for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company of RMB607,933,000 and the weighted average of 4,914,657,443 ordinary shares, adjusting for the effects of conversion of United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") and conversion of Hong Kong Dollar ("HKD") Settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds").

The calculation of diluted earnings per share amount for the six months ended 30 June 2012 has not included the potential effects of the deemed issue of shares under the Company's share option scheme for nil consideration as it has anti-dilutive effects on the basic earnings per share amount during the interim period.

The calculation of diluted earnings per share amount for the six months ended 30 June 2011 is based on the profit attributable to equity shareholders of the Company of RMB447,341,000 and the weighted average of 4,419,074,295 ordinary shares) adjusting for the effects of conversion of the 2012 Convertible Bonds and the effect of deemed issue of shares under the Company's share option scheme for nil consideration.

The calculation of diluted earnings per share amount for the six months ended 30 June 2011 has not included the potential effects of the deemed conversion of the above mentioned the 2015 Convertible Bonds into ordinary shares as it has anti-dilutive effects on the basic earnings per share amount during the interim period.

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit attributable to equity shareholders (basic)	**562,656**	447,944
Effect of effective interest on the liability component of convertible bonds	**46,499**	1,203
Effect of gains recognised on the derivative component of convertible bonds	**(1,222)**	(3,015)
Effect of exchange loss recognised on the liability component of convertible bonds	**–**	1,209
Profit attributable to equity shareholders (diluted)	**607,933**	447,341

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

	For the six months ended 30 June	
	2012	2011
Weighted average number of ordinary shares (basic)	**4,397,644,932**	4,397,210,098
Effect of conversion of convertible bonds	**517,012,511**	12,206,760
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**–**	9,657,437
Weighted average number of ordinary shares (diluted)	**4,914,657,443**	4,419,074,295

8 FIXED ASSETS

(a) Additions and disposals

During the six months ended 30 June 2012, the Group made a prepayment of RMB77,220,000 for acquiring a property in Shanghai for administrative purpose and carried out certain decoration and construction projects with the total costs of approximately RMB53,140,000.

(b) Valuation

The investment properties are located in Shenzhen, Wuhan and Urumqi in Mainland China and Taipei in Taiwan, and are rented out under the terms of operating leases. The fair value of the investment property as at 30 June 2012, as determined by reference to recent market transactions of comparable properties, amounted to RMB351,526,000 (31 December 2011: RMB350,000,000). Rental income of RMB3,733,000 was received from leasing the investment properties during the six months ended 30 June 2012 (six months ended 30 June 2011: RMB2,350,000).

9 INTEREST IN ASSOCIATES

Name of associate	Form of business structure	Place of establishment	Proportion of ownership interest held by the Group	Issued/ registered capital	Principal activities
Ming Fung Jewellery Group Limited*	Incorporated	Cayman Islands	15.27%	HKD 43,660,273	Sales and distribution of jewelleries and watches
Harvest Max Holdings Limited**	Incorporated	British Virgin Islands	40%	HKD 160,000	Sales and distribution of jewelleries and watches

* On 13 April 2012, the Group completed an equity exchange transaction with Ming Fung Jewellery Group Limited ("Ming Fung"), a company listed on the Stock Exchange, pursuant to which the Group sold its equity interest in OMAS International S.A. and its subsidiary ("OMAS") to Ming Fung in exchange for 666,666,667 of Ming Fung's newly issued shares (the "Consideration Shares"), representing approximately 15.44% of the issued share capital of Ming Fung as enlarged by the issue of the Consideration Shares. Upon the completion of this transaction, the Group became Ming Fung's largest shareholder at that time.

** In 2011, the Group acquired 10% equity interest of Harvest Max Holdings Limited ("Harvest Max"). On 3 April 2012, the Group completed the acquisition of an additional 30% equity interest in Harvest Max. Upon the completion of this transaction, the Group held 40% equity interest in Harvest Max.

10 OTHER FINANCIAL ASSETS

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Prepayment in respect of the acquisition of subsidiaries	**312,940**	434,000
	312,940	434,000

11 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Raw materials	**22,078**	25,490
Work in progress	**21,972**	38,937
Finished goods	**5,453,132**	4,456,870
	5,497,182	4,521,297

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Current	**619,324**	684,850
Less than 1 month past due	**54,695**	63,384
1 to 3 months past due	**6,908**	11,186
More than 3 months but less than 12 months past due	**3,372**	25,996
More than 12 months past due	**1,645**	3,833
Trade debtors, net of allowance for doubtful debts	**685,944**	789,249
Prepayments and other receivables	**410,415**	325,552
	1,096,359	1,114,801

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.

13 CASH AND CASH EQUIVALENTS

As at 31 December 2011 and 30 June 2012, all the Group's cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated cash flow statement represents cash at bank and cash in hand.

14 TRADE AND OTHER PAYABLES

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Within 1 month	**821,173**	1,145,643
Over 1 month but less than 3 months	**243,432**	183,391
Over 3 months but less than 12 months	**24,316**	16,066
Over 1 year	**8,979**	31,971
Total creditors and bills payables	**1,097,900**	1,377,071
Other payables and accrued expenses	**140,039**	349,463
Advance receipts from customers	**34,013**	32,335
	1,271,952	1,758,869

15 BANK LOANS

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Current		
– secured bank loans	**14,325**	13,000
– unsecured bank loans	**2,477,898**	2,028,923
	2,492,223	2,041,923
Non-current		
– secured bank loans	**153,623**	157,149
– unsecured bank loans	**591,465**	63,031
	745,088	220,180

At 30 June 2012, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB255,790,000 (31 December 2011: RMB253,148,000).

16 CONVERTIBLE BONDS

(i) The 2012 Convertible Bonds

On 24 August 2007, the Company issued the 2012 Convertible Bonds with an aggregate principal amount of RMB1,150,000,000. The subscription amount payable in respect of each RMB1,000,000 principal amount of the Bonds is approximately USD132,282. The 2012 Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The movement of the liability component and embedded financial derivatives of the 2012 Convertible Bonds for the six months ended 30 June 2012 is set out below:

	Liability component	Embedded financial derivatives	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2011	47,208	1,222	48,430
Interest charged during the period *(note 5(a))*	1,273	–	1,273
Changes in fair value during the period *(note 4)*	–	(1,222)	(1,222)
As at 30 June 2012	48,481	–	48,481

No conversion, redemption or purchase and cancellation of the 2012 Convertible Bonds has occurred during the six months ended 30 June 2012.

(ii) The 2015 Convertible Bonds

On 20 October 2010, the Company issued the 2015 Convertible Bonds in the aggregate principal amount of HKD2,500,000,000. The 2015 Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The movement of the liability component and the equity component of the 2015 Convertible Bonds for the six months ended 30 June 2012 is set out below:

	Liability component	Equity component	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2011	1,982,161	60,412	2,042,573
Interest charged during the period *(note 5(a))*	45,226	–	45,226
Interest paid during the period	(25,476)	–	(25,476)
Foreign currency translation difference	11,186	–	11,186
As at 30 June 2012	2,013,097	60,412	2,073,509

No conversion, redemption or purchase and cancellation of the 2015 Convertible Bonds has occurred during the six months ended 30 June 2012.

17 PROVISIONS

In respect of acquisition of the Ming Fung's equity interests in 2012 (see note 9), the Group has committed to make further payment to Ming Fung, if the profit target for OMAS as set forth in the relevant agreement are not achieved.

In addition, upon the acquisition of Harvest Max's 30% equity interest (see note 9), the Group committed to make additional payment to the shareholder of Harvest Max if the net profit target for Harvest Max as set forth in the share purchase agreement is achieved.

Both of the these contingent payments will be due after one year and were recorded based on management's best estimation on the probabilities of whether these profit targets will be achieved or not and the respective payment amounts as per the relevant contractual agreements.

18 CAPITAL, RESERVES AND DIVIDENDS

(a) 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, are as follows:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.064 per share (six months ended 30 June 2011: RMB0.042 per share)	**281,487**	184,665

(b) Purchase of own shares

During the period ended 30 June 2012, a total of a 4,800,000 shares were repurchased on the Stock Exchange at an aggregate price paid of HKD10,288,000 (RMB equivalent: 8,377,000) which includes related expenses of HKD35,000 (RMB equivalent: 29,000).

19 SHARE-BASED PAYMENTS

No share option was exercised during the six months ended 30 June 2012 (31 December 2011: 1,755,000 share options).

20 DISPOSAL OF SUBSIDIARIES

In September and October 2011, the Group entered into two contractual agreements, pursuant to which, the Group agreed to sell its equity interest in OMAS (see note 9) and another PRC subsidiary.

During the six months ended 30 June 2012, these transactions were completed and gains on disposal of subsidiaries totalling RMB122,247,000 were recognised in profit or loss for the current interim period.

21 CAPITAL COMMITMENTS

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Contracted for	**189,972**	–
	189,972	–

22 RELATED PARTY TRANSACTIONS

The Group has transactions with a jointly controlled entity and a company controlled by an associate. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

Recurring Transactions

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Lease expense to:		
A jointly controlled entity	**5,888**	4,433
Sales of goods to:		
A subsidiary of an associate	**18,574**	–
Purchase of goods from:		
A subsidiary of an associate	**8,163**	–

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2012, the mixed and challenging international economy had a significant impact on the PRC, which witnessed a slower yet still steady economic growth. Aligning itself with the pace of market movements, the Group adopted a prudent and progressive stance to expand its operations, achieving steady growing business results and effectively securing shareholders' interests.

I. Financial Review

Sales

As at 30 June 2012, the Group recorded sales of RMB5,749,733,000, representing an increase of 6.3% over the corresponding period last year. Retail sales amounted to RMB4,339,140,000, representing an increase of 4.6% over the corresponding period last year. The retail sales accounted for 75.5% of the total sales, which was in line with the direction of the Group's strategic development.

Thanks to the rapid growth of the middle class in the second and third tier cities in Mainland China, dynamic momentum was brought to the growth of the mid-end and mid-to-high end brands. With a sales growth of 24% over the corresponding period last year, mid-range watches delivered above-average same store sales growth. Meanwhile, the Group continuously enhanced its operation management, strived to increase the gross profit margin of the retail business, as well as adjusted its brand portfolio, optimised its inventory structure and improved its service quality promptly and reasonably in line with the actual market conditions so as to ensure a steady growth in its principal businesses.

In general, the growth of the Group's retail business slowed down as compared to the same period last year. This was mainly because the growth of the Group's overall sales was dragged down by subdued sales of high-end watches in the wake of the slowdown in China's economic growth amid the global economic turmoil.

Sales breakdown: (for the six months ended 30 June)

	2012		2011	
	RMB('000)	*%*	*RMB('000)*	*%*
Retail Business				
Mainland China	**2,824,790**	**49.1**	2,596,200	48.0
Hong Kong	**1,414,761**	**24.6**	1,448,813	26.8
Taiwan	**99,589**	**1.7**	102,628	1.9
Wholesale Business	**1,283,898**	**22.3**	1,155,848	21.4
Customer Services and Others	**126,695**	**2.3**	103,658	1.9
Total	**5,749,733**	**100**	5,407,147	100

Gross profit and gross profit margin

As at 30 June 2012, the Group's gross profit increased by 10.3% as compared to the same period last year to approximately RMB1,535,637,000. Gross profit margin was approximately 26.7%, representing an increase of 100bps over the corresponding period last year. The increase in gross profit margin was mainly attributable to the Group's ongoing efforts in expanding retail business with higher gross profit margin, the initiative for lowering the sales to some clients with low profit margin in the wholesale business, and the better understanding on the marketing and sales, as well as the continuous improvement of the retail management.

Profit for the period and profit margin

During the period under review, the Group's net profit increased by 22.7% as compared to the same period last year to approximately RMB613,621,000. The corresponding profit margin on sales was approximately 10.7%. The increase was mainly attributable to the completion of the acquisition deal between the Group and Ming Fung Jewellery Group Limited through exchange of shares, the steady increase in sales, the enhanced gross profit margin and the effective cost control over expenses.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position.

As at 30 June 2012, the Group's total equity interests were RMB5,613,734,000 and current net asset value was RMB6,085,737,000, of which bank deposits amounted to RMB3,430,143,000. The bank loans totalled RMB3,237,311,000.

On 30 June 2012, the net outstanding amount of the USD settled zero coupon convertible bonds due in 2012 issued by the Company in August 2007 was RMB44,000,000. The aggregate principal amount of the HKD settled convertible bonds due in 2015 issued by the Company on 21 October 2010 ("Convertible Bonds") was HKD2,500,000,000. Taking into account of the net amount of such convertible bonds, together with bank loans, the Group's total debt amounted to RMB5,298,889,000. As at 30 June 2012, the net debt to equity ratio of the Group, including convertible bonds, was approximately 33.3%. 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 significant risks associated with foreign exchange fluctuations.

The Group has been monitoring actively its foreign exchange risk.

Pledge of assets

As at 30 June 2012, the Group had bank deposits of RMB1,279,000 pledged as security for guarantees, as well as land and buildings of RMB255,790,000 pledged as security for mortgage.

Contingent liabilities

As at 30 June 2012, 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 RMB10,024,963,000, comprising inventories of approximately RMB5,497,182,000, trade and other receivables of approximately RMB1,096,359,000 and cash and cash equivalents of approximately RMB3,430,143,000.

Current liabilities

During the period under review, the current liabilities of the Group amounted to approximately RMB3,939,226,000, comprising bank loans of approximately RMB2,492,223,000, trade and other payables of approximately RMB1,271,952,000, and current tax payable of approximately RMB126,570,000.

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 period under review.

Capital structure

The Company's capital structure is composed of issued share capital, convertible bonds, reserves and accumulated profits. As at 30 June 2012, the issued share capital of the Company was 4,394,131,054 shares and the principal amount of the convertible bonds due 2012 was RMB44,000,000 and the principal amount of the convertible bonds due 2015 was HKD2,500,000,000.

II. Business Review

During the period under review, the Group's business primarily focused on the build-up of the retail network in the Greater China region with a core presence in Mainland China, supplemented with the provision of comprehensive customer services, manufacturing of packaging and display products, brand distribution and jewellery business.

Retail network

The Group's core business is the retail of middle-to-high-end internationally renowned watch brands.

Our retail network spans across the Greater China region where retail stores are mainly "Elegant", "Prime Time"/"Hengdeli", "With Time" and single-brand boutiques. "Elegant" mainly sells top grade internationally renowned watch brands; "Prime Time"/"Hengdeli" mainly sells middle-to-high-end internationally renowned watch brands, while "With Time" mainly sells internationally fashionable watches. Following the effective expansion and integration, as at 30 June 2012, the Group operated a total of 428 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, an increase of 23 outlets over the end of last year. Of these stores, 23 were "Elegant" shops (6 in Hong Kong, 16 in Mainland China and 1 in Taiwan), 259 were "Prime Time" and "Hengdeli" shops (221 in Mainland China and 38 in Taiwan), 68 were "With Time" shops (65 in Mainland China and 3 in Taiwan) and 78 were brand boutiques (50 in Mainland China, 9 in Hong Kong, 1 in Macau and 18 in Taiwan).

The Group has maintained good partnerships with numerous worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group and ROLEX Group. As at 30 June 2012, the Group distributed over 50 internationally renowned brands from the above four major brand suppliers and other independent watchmakers, including Vacheron Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, Cartier, IWC, Rolex, Omega, Van Cleef & Arpels, Scatola del Tempo, Vincent Berard, Longines, Tissot, Frederique Constant and Mido. The Group continued to step up efforts in bringing in and adjusting middle-to-high-end brands to enhance the sales portfolio of the brands, paving the way for the long-term business development and ongoing enhancement of overall sales performance.

Leveraging on the economic restructuring in the PRC during the period under review, the Group expanded its retail network in line with the market trend while focusing on strengthening the management of current retail outlets. By enhancing the quality of retail outlets, effectively controlling the costs, adjusting its brand portfolio and optimizing its inventory composition, the Group secured a steady growth in business. Despite the challenging international and domestic economies and the insipid retail market of high-end prestigious watch brands, the Group managed to achieve retail sales of RMB4,339,140,000 for the period under review, representing a growth of 4.6% as compared with the corresponding period last year. Retail sales accounted for 75.5% of the total sales of the Group. The gross profit of the retail business reached RMB1,331,215,000, representing a growth of 9.4% as compared with the corresponding period last year, and the gross profit margin recorded a growth of 140bps.

Mainland China

The Group had developed a comprehensive network of retail outlets in Mainland China, with heavy presence in key regions including Shanghai, Beijing, Northeast China, Zhejiang, Jiangsu, Henan, Shanxi and Hubei, which facilitated the consolidation of its market share. Meanwhile, the Group is also strengthening its retail network by expanding into Southwest and Central China as well as other regions.

In order to cater for the actual demand of Mainland consumers and complement the Group's high-end watch business strategy in Hong Kong, most of the Group's retail outlets in Mainland China are Prime Time shops and With Time shops, which are positioned to sell middle-to-high-end and mid-end watches. During the period under review, the Group committed tremendous efforts to re-position such retail shops through a number of approaches, leading to the consolidation and expansion of its retail network in the second, third and fourth tier cities. A total of 16 Prime Time and With Time shops were newly established, mainly in Southwest and Central China as well as in the second and third tier cities in East and North China. These initiatives enabled the Group to consolidate and increase its market share in such regions.

On the other hand, the coverage of Elegant shops which are engaged in the sales of high-end watches, is relatively small in Mainland China. As at 30 June 2012, there were 16 Elegant shops in Mainland China which were mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang.

During the period under review, the Group opened another Elegant shop in Hangzhou. Located in Dragon Hotel, a five-star hotel in Hangzhou, the shop offered a range of high-end brands such as Blancpain, IWC, Bulgari, Glashutte, Jaquet Droz and Zenith, each showcased in a dedicated elegant zone to interpret its unique glamour. The shop also adopted an innovative marketing approach by offering customers the privileged high grade club services, aiming to provide a better venue for high-end customers in Hangzhou and other cities of Zhejiang to purchase prestigious watch brands.

The Cuiwei Elegant shop, which was upgraded from a Prime Time shop, is the first in-store shop established by the Group in cooperation with Beijing Cuiwei Group. Through ongoing operations over 15 years, it has fostered a loyal client base as well as a reputation of privileged services. The shop focuses on a string of brands including Jaeger-LeCoultre, Glashutte, Rolex, Chopard, Bulgari, Zenith and Omega showcased in dedicated zones or counters.

As at 30 June 2012, the Group operated a total of 352 retail outlets in Mainland China. The Group recorded a slower growth pace in terms of domestic retail sales, mainly due to the slower growth momentum of Chinese economy and the relatively high benchmark for the same period last year. However, the Group took initiatives to enhance management through continuous upgrading of the standards of outlet establishment and evaluation, timely adjustments to brand portfolio, optimization of its inventory structure and effective cost control. As a result, the Group managed to achieve a 8.8% growth in sales and a satisfactory growth in the sales of mid-end brands, representing a growth of 24% as compared with the corresponding period last year.

Hong Kong and Macau

Due to the sluggish global economy, Hong Kong saw a slower growth in the retail business, especially for the high-end consumer goods, during the first half of the year. However, sales of Elegant (Hong Kong) remained stable during the period under review, which was attributable to the Group's extensive, solid and loyal client base in Hong Kong, the interaction between retail outlets in Mainland China and Hong Kong, as well as the comprehensive after-sales service network across the Greater China region, ensuring after-sales guarantees for Mainland tourists shopping in Hong Kong. Because of the difficult overall business environment and the closure of three boutiques due to expiry of the lease term, and the change of RMB-HKD exchange rate during the period under review, the Group recorded a slight drop of approximately 2.4% in sales in Hong Kong for the six months ended 30 June 2012 as compared to the same period last year, actually increased by 1.0% if the effect of exchange rates is excluded. Gross profit margin registered another growth of 180bps as compared with the corresponding period last year.

During the period under review, the Group did not open any new shops in Hong Kong, but was preparing for the debut of a number of brand boutiques. As at 30 June 2012, the Group operated a total of 15 retail outlets in Hong Kong (3 boutiques closed due to expiry of the lease term during the period under review), of which 6 were Elegant shops that sell various brands and 9 were single-brand boutiques or image shops. Mainly located in prime districts such as Tsim Sha Tsui, Central and Causeway Bay, these shops are able to maintain a leading position in high-end watch retail business in Hong Kong.

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, Piaget, Blancpain and Dewitt, as well as Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge by independent watchmakers. During the first half of the year, the Group also introduced certain new brands such as U-Boat and Devon. The sale of such high-end brands fully complemented our retail business in Mainland China and Taiwan, thus creating tremendous synergy.

The Omega boutique in Macau again achieved positive sales during the period under review. Given the changing economic conditions and improved economic status of Macau, the Group's businesses in Hong Kong and Macau will definitely complement well with each other, which will further consolidate the Group's leading position in the region.

Taiwan

The retail business of the Group in Taiwan is currently in the network-building stage. Similar to its sales strategy in Mainland China, the Group focuses on the sales of middle-to-high-end watches in Taiwan. As at 30 June 2012, the Group operated a total of 60 retail outlets in Taiwan, mainly located in major areas including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one Elegant shop which sells top-class watches and certain boutiques, all retail shops are Hengdeli and With Time shops which sell middle-to-high-end watch brands like Rado, TAG Heuer, Longines, Tissot, Certina and Hamilton.

During the period under review, our sales in Taiwan grew steadily. Currently, the target consumers in Taiwan are mainly local customers. However, following the signing of The Economic Cooperation Framework Agreement (the "ECFA"), the cross-strait business relations will be enhanced and the economic ties among Mainland China, Taiwan and Hong Kong will become closer. It is expected that more tourists in Mainland China will travel to Taiwan, creating new opportunities for Taiwan's retail industry.

Customer services and maintenance

During the period under review, the Group's customer services and maintenance had focused on the deep collaboration with brand suppliers and the solicitation and training of maintenance technicians. Apart from Tissot and Hamilton, our customer service platform had also opened up Green Channels for several brands to provide timely maintenance services, of which the efficiency had been further enhanced along with the effective communication with brands. By means of "exchange in the air", the maintenance procedure was greatly simplified and catalyzed so as to provide customers with the most convenient, fastest and most comprehensive assistance, and thus winning general applause from our customers.

The high-calibre maintenance technicians are the foundation of the Group's customer service. During the period under review, the Group had been active in dispatching selected maintenance technicians to the brands for training purposes while making our maintenance technicians more international. The Group's customer services are guaranteed to have achieved international standards through the consistent supply of high-calibre maintenance technicians accomplished by our good partnerships with watch maintenance schools in countries like Sweden and Japan. Our outstanding pre-sale, sale and after-sale services have drawn more and more brands' interests, thus making breakthroughs in the depth and scope of our partnerships with different brands.

"Advanced technology, online warranty, efficient management and considerate services" is one of the Group's assurance to our customers and brand suppliers. The Group delivers all-rounded services to customers through an interactive customer service network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points" and provides the most convenient and tailor-made 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 centralized service channel for the general public, offering timely advice and providing assurance and confidence to customers.

Packaging and display products

In spite of China's economic slowdown, the packaging and display segment of our watch business sustained a sound development for the first half of the year. The Group had strived to broaden sources of income and reduce expenditure by strengthening internal management and minimizing costs, and at the same time, optimized the production process and enhanced the quality of our products by introducing new technology. All of the above measures, complemented with our quality services, had gained broad recognition from customers, enhanced our competitiveness in the market and enabled the Group to explore into partnerships with different brands and expand product offerings. During the period under review, the Group had entered into such partnerships with 12 brands involving over 40 products. Apart from the core product types such as standard packaging and display windows, the Group also diversified display products and brand sales products. This had firmly supported the fast development of the Group's principal businesses including the retail business.

Brand distribution

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

The Group has maintained good partnerships with brand suppliers and numerous retailers. Backed by their extensive and tremendous support, the Group has achieved harmonious and mutually beneficial development.

Jewellery business

During the period under review, the Group became a substantial shareholder of Ming Fung Jewellery Group Limited following the completion of the stock-for-stock acquisition deal with the company. The wealthy population in Mainland China is emerging while people's consumption in jewellery remains relatively low. The Group believes that the development of our jewellery business will act as a new source of profit and generate satisfactory returns for our shareholders.

III. Human Resources and Training

As at 30 June 2012, the Group had a total of 7,382 employees in Mainland China, Hong Kong and Taiwan.

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 our 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 solid human resources reward system, the Group can attract and retain numerous senior salespersons and senior repair technicians. Also, a number of staff members have received the "Capital Labour Medal" and the "May 1st Labour Medal".

IV. Outlook

China's economy is generally steady. The Group believes that the PRC government will be able to achieve long-term sustainable development through structural economic adjustment, and is confident about the China's economic outlook. Therefore, the Group will adhere to the business development principle of maintaining its base in Mainland China while expanding business across the Greater China region in a cautious manner.

Our core development strategy remains to cautiously but progressively develop our retail business in line with market demand. In the second half of the year, the Group will strengthen the management of current outlets, based on which the opening of new outlets and adjustment of current outlets will be coordinated, so as to enhance the quality of our retail outlets. In Mainland China and Taiwan, "Prime Time"/"Hengdeli" and "With Time" will continue to be our main focus. Regionally, the Group will consolidate our leading position in the first tier cities, and attach great importance to our development in the second and third tier cities as well as certain fourth tier cities, with a view to perfecting our retail network and keeping in tune with market demand. Meanwhile, the Group will strengthen our partnerships with brands in various aspects including customer services, packaging and display products and brand distribution, thus forging closer relationships which are interactive, complementary and mutually beneficial to facilitate our business development. For the jewellery business, the Group will follow the market trend closely and input resources in a cautious but progressive manner.

Taking "pragmatic healthy development" as our principle, the Group will keep in line with the market trend and fully capitalize on business opportunities to achieve steady and sustainable profit growth in order to generate more satisfactory returns for our shareholders, investors, staff and society.

DIVIDEND DISTRIBUTION

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2012.

SHARE OPTION SCHEME

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

Details of the options granted by the Company are as follows:

(i) Options granted in 2007

Name of grantee	Date of grant	Exercise period	Exercise price *(HKD)*	Closing price of the shares immediately before the date of grant *(HKD)*	Number of options as at 1 January 2012	Number of options exercised during the period	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2012	Percentage of the options in the total share capital of the Company
Directors	—	—		—	—	—	—	—	—	—
Other eligible participants	28 August 2007	1 August 2010 to 31 July 2012	3.22	4.83	34,804,000	0	0	0	34,804,000	0.792%
Total					34,804,000	0	0	0	34,804,000	0.792%

(ii) Options granted in 2011

Name of grantee	Date of grant	Exercise period	Exercise price *(HKD)*	Closing price of the shares immediately before the date of grant *(HKD)*	Number of options as at 1 January 2012	Number of options exercised during the period	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2012	Percentage of the options in the total share capital of the Company
Directors	—	—		—	—	—	—	—	—	—
Other eligible participants	30 September 2011	30 September 2014 to 29 September 2016	2.93	2.71	4,150,000	0	0	0	4,150,000	0.094%
Total					4,150,000	0	0	0	4,150,000	0.094%

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company repurchased 4,800,000 listed shares on The Stock Exchange of Hong Kong Limited by way of acquisition from the market. The total consideration paid was HKD10,288,000. Upon the completion of the settlement of such repurchase, the Company has cancelled 4,108,000 repurchased shares.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices and the Corporate Governance Code

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

The Company has adopted the Code on Corporate Governance Practices ("CGP Code") during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code ("CG Code") during the period from 1 April 2012 to 30 June 2012 as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Directors are of the opinion that the Company complied with the CGP Code from 1 January 2012 to 31 March 2012 and the CG Code from 1 April 2012 to 30 June 2012, except for a deviation from the provision A2.1 of the CPG Code and the CG Code. Given the 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. All of them possess adequate independence and therefore the Board considers that the Company has achieved balance of power and provided sufficient assurance for scientific decision-making.

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 extraordinary items, and the discussion about the auditing internal controls and financial reporting matters, including a review on the interim report for the six months ended 30 June 2012.

Compliance with the Model Code for Securities Transactions by Directors

For the six months ended 30 June 2012, the Company has adopted a code for securities transactions by directors on terms no less exacting than the required standard set out on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. All Directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard for securities transactions by Directors set out in the above model code.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

An interim report for the six months ended 30 June 2012 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 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.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 21 August 2012