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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)

PROPOSED ISSUE OF SENIOR NOTES

The Company proposes to conduct an international offering of guaranteed US dollar denominated senior fixed rate notes. In connection with the Proposed Notes Issue, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group which may not have previously been made public. A summary of the updated information which the Company considers to be material to the operation of the Company is set out in this announcement.

Completion of the Proposed Notes Issue is subject to, among others, market conditions and investor interest. The Notes are proposed to be guaranteed by the Subsidiary Guarantors. Deutsche Bank, Standard Chartered Bank and J.P. Morgan, as the joint global coordinators, and Deutsche Bank, Standard Chartered Bank, J.P. Morgan and HSBC, as the joint bookrunners and joint lead managers, are managing the Proposed Notes Issue. As at the date of this announcement, the principal amount, the interest rates, the payment date and certain other terms and conditions of the Proposed Notes Issue are yet to be finalised. Upon finalising the terms of the Notes, it is expected that Deutsche Bank, Standard Chartered Bank, J.P. Morgan, HSBC, the Subsidiary Guarantors and the Company will enter into the Purchase Agreement. The Company intends to use the net proceeds of the Notes to redeem its outstanding 2015 Convertible Bonds, refinance its other debt obligations and for general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions, and thus, reallocate the use of proceeds.

The Company will seek a listing of the Notes on the Stock Exchange. A confirmation of the eligibility for the listing of the Notes has been received from the Stock Exchange.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

THE PROPOSED NOTES ISSUE

Introduction

The Company proposes to conduct an international offering of guaranteed US dollar denominated senior fixed rate notes. In connection with the Proposed Notes Issue, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group which may not have previously been made public. A summary of the updated information which the Company considers to be material to the operation of the Company is set out in this announcement.

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Reasons for the Proposed Notes Issue

The Group believes it is the largest retailer of internationally renowned Swiss watches in the Greater China region in terms of turnover and number of retail stores. The Group has an extensive network of branded retail stores across the PRC, Hong Kong, Macau and Taiwan and a wholesale network covering the PRC. The Group has well-established business relationships with various internationally renowned watch brand owners such as the Swatch Group, the LVMH Group, the Richemont Group, the Rolex Group and the DKSH Group. As of 30 June 2012, the Group's product portfolio consisted of over 50 internationally renowned mid- to high-end brands from these five major brand suppliers and other independent watchmakers, including brands such as Cartier, Vacheron Constantin, Jaeger-LeCoultre,

TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Maurice Lacroix, Tissot, Frederique Constant and Mido. The Group actively manages the mix of watch brands in its portfolio to enhance its returns and better serve its target customers. The Group targets predominantly mid- to high-income consumers in the Greater China region seeking well-known international luxury watch brands.

The Company intends to use the net proceeds of the Notes to redeem its outstanding 2015 Convertible Bonds, refinance its other debt obligations and for general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of proceeds. The Directors also consider that the Proposed Notes Issue will strengthen the financial position of the Company and further extend the Company's international profile and improve its ability to access the international capital markets to support the growth of the Group in the future.

Listing

The Company will seek a listing of the Notes on the Stock Exchange. A confirmation of the eligibility for the listing of the Notes has been received from the Stock Exchange.

GENERAL

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Further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

UPDATED INFORMATION ABOUT THE GROUP

Description of Other Material Indebtedness

To fund our business development and to finance our working capital requirements, we have entered into financing agreements with various financial institutions. As of June 30, 2012, our total bank loans and convertible bonds amounted to RMB5,298.9 million (US\$834.1 million). Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

PRC Loan Agreements

Certain of our PRC subsidiaries have in the past entered into loan agreements with local branches of various PRC banks, including banks such as Industrial and Commercial Bank of China, Agricultural Bank of China, China Merchants Bank, China Construction Bank and Bank of China. These loans include loans to finance the expansion of our business through organic growth and acquisitions as well as our working capital requirements. They have terms ranging from 4.5 months to 36 months. As of

June 30, 2012, the aggregate outstanding amount under these loans totaled approximately RMB2,187.5 million (US\$344.3 million), of which RMB2,178.0 million (US\$342.8 million) was due within one year and RMB9.5 million (US\$1.5 million) was due between one and five years. Our PRC loans are typically guaranteed by certain of our other PRC subsidiaries.

Interest

The principal amounts outstanding under the PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lending banks. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement.

Covenants

Under these PRC loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on any part of their operating property or assets or dealing with their assets in a way that may adversely affect their ability to repay their loans;
- granting guarantees to any third parties that may adversely affect their ability to repay their loans;
- making any major changes to their corporate structures, such as entering into joint ventures, mergers, acquisitions and reorganizations;
- altering the nature or scope of their business operations in any material respect which may affect the interests of the lenders;
- transferring part or all of their liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing of assets; and
- incurring other indebtedness that may adversely affect their ability to repay their loans.

Events of Default

The PRC loan agreements contain certain customary events of default, including failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires the latter's approval, and material breach of the terms of the loan agreement. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

Certain of our PRC subsidiaries have entered into guarantee or security agreements with the PRC banks and financial institutions in connection with some of the PRC loans pursuant to which these subsidiaries have guaranteed or pledged certain assets to secure all liabilities of the subsidiary borrowers under these loans. Further, as of June 30, 2012, RMB1,300.0 million (US\$204.6 million) of the PRC loans were guaranteed by the subsidiary borrowers and/or our other PRC subsidiaries.

Hong Kong Loan Agreements

Certain of our Hong Kong subsidiaries, comprising Elegant Jewellery Holding Limited, Elegant Watch & Jewellery Company Limited and Hengdeli International Company Limited, that will also guarantee the Notes offered hereby, as well as our Company, have in the past entered into loan agreements with offshore banks, including banks such as Standard Chartered Bank (Hong Kong) Limited, Hang Seng Bank and The Hongkong and Shanghai Banking Corporation Limited for general working capital and trade finance purposes. Such loan agreements have terms ranging from one month to 36 months, or provide for repayment on demand. As of June 30, 2012, the aggregate outstanding amount under these loans totaled approximately RMB812.3 million (US\$127.9 million), and RMB215.8 million (US\$34.0 million) of which was due within one year. As of the date of this announcement, some of such loans have been fully settled.

Guarantee and Security

Certain of our Hong Kong subsidiaries and our Company have entered into guarantee agreements with PRC and offshore banks and financial institutions in connection with some of the PRC or Hong Kong loan agreements pursuant to which they have guaranteed all liabilities of the borrowers under these loan agreements.

Interest

The principal amounts outstanding under these loans generally bear interest at fixed rates or floating rates calculated with reference to the Hong Kong Interbank Offered Rate or the Hong Kong Dollar Prime Rate.

Covenants

Under these Hong Kong loan agreements, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on any part of their revenue or assets; and
- granting any guarantee or indemnity in respect of any indebtedness except in the ordinary course of business;

In addition, under these Hong Kong loan agreements, our Company has agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on any part of its assets;
- making any major changes to its corporate structure, such as through mergers, acquisitions and reorganizations;
- disposing of any major assets except in the ordinary course of business; and
- making any substantial change to the general nature of its business.

Events of Default

These loans contain certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

Taiwan Loan Agreements

Certain of our Taiwan subsidiaries, that will not guarantee the Notes offered hereby, have entered into loan agreements with offshore banks, including banks such as Standard Chartered Bank (Taiwan) Limited, Chang Hwa Bank and E.Sun Commercial Bank, for general working capital and trade finance purposes. Such loan agreements have terms ranging from approximately 11 months to 15 years. As of June 30, 2012, the aggregate outstanding amount under these loans totaled approximately RMB237.5 million (US\$37.4 million), and RMB98.4 million (US\$15.5 million) of which was due within one year.

Guarantee and Security

Our Company has entered into guarantee agreements with the offshore banks and financial institutions in connection with some of the Taiwan loan agreements pursuant to which they have guaranteed all liabilities of the borrowers under these loan agreements.

Interest

The principal amounts outstanding under these loans generally bear interest at floating rates calculated with reference to the Taiwan Postal Savings Fund rate or the relevant bank's cost of funds.

Events of Default

These loans contain certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set forth below unless the context requires otherwise:

“2015 Convertible Bonds”	HK\$2,500 million 2.5% convertible bonds due 2015 issued by the Company
“Board”	the board of Directors
“Company”	Hengdeli Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Deutsche Bank”	Deutsche Bank AG, Singapore Branch, one of the joint global coordinators, joint bookrunners and joint lead managers in respect of the offer and sale of the Notes
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited, one of the joint bookrunners and joint lead managers in respect of the offer and sale of the Notes
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“J.P. Morgan”	J.P. Morgan Securities plc, one of the joint global coordinators, joint bookrunners and joint lead managers in respect of the offer and sale of the Notes

“Macau”	Macau Special Administrative Region of the PRC
“Notes”	the US\$ denominated senior notes to be issued by the Company subject to the terms and conditions of the Purchase Agreement
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of this announcement
“Proposed Notes Issue”	the proposed issue of the Notes by the Company
“Purchase Agreement”	the agreement to be entered into between, among others, the Company, the Subsidiary Guarantors, Deutsche Bank, Standard Chartered Bank, J.P. Morgan and HSBC in relation to the Proposed Notes Issue
“RMB”	Renminbi
“Securities Act”	the United States Securities Act of 1933, as amended
“Standard Chartered Bank”	Standard Chartered Bank, one of the joint global coordinators, joint bookrunners and joint lead managers in respect of the offer and sale of the Notes
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary Guarantors”	certain non-PRC subsidiaries of the Company that on the issue date of the Notes will provide guarantees to secure the Company’s obligations under the Notes
“US\$”	United States dollar(s), the lawful currency of the United States
“%”	per cent

By Order of the Board
HENGDELI HOLDINGS LIMITED
Zhang Yuping
Chairman

Hong Kong, 16 January 2013

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), 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.