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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)

ANNOUNCEMENT

This is a voluntary announcement made by Hengdeli Holdings Limited (the “**Company**” or “**Hengdeli**”).

The board of directors (the “**Board**”) of the Company notes a recently published article (the “**Article**”) making several allegations relating to the business and financial conditions of the Company against which the Board would like to make a general clarification by this announcement.

REGARDING THE ALLEGATION OF UNTRUE DISCLOSURES OF STORES

The Article mentioned that certain of the Company’s stores in Mainland China were closed and were inconsistent with the information provided on the Company’s website. For this, the Company wishes to clarify as follows:

Store locations of the Company are adjusted, including closing of stores, responding the change of market (for example closing of shopping mall) and the disclosure on the Company’s website may not be updated simultaneously. Therefore, there might be some cases where such information is not consistent with the actual reality. Particular information of the closing stores is as follows: the store in Baisheng Mall in Liupanshui city Guizhou Province is still in operation; the store at Xin Xiangqiansheng Henan Province was closed in December 2011; the store at Yongwang Mengle in Tianjin was closed on 31 August 2012; the store at Youyi Zhengjia Guangzhou Province was closed on 20 November 2012.

The Company will listen to the opinions from different parties and increase the information update frequency in order to better serve the customers and the investors.

The Article mentioned that one of the Company’s stores in Henan Province still uses the name “Henan Fuhao Watch* (河南富豪表行)”: In Mainland China, “Hengdeli” watch is an old Chinese brand. For historical reason, in many cities in Mainland China, many entities have been trading in the same name.

Generally speaking, the Company will obtain the trademark right in a particular region by acquiring the Hengdeli watch stores at such region. So far, the Company has completed the acquisition of the “Hengdeli” trademark in most of the regions and cities in Mainland China. Nonetheless, still there are few stores in some cities such as in certain areas of Henan Province which have not been included in the Company’s structure. This explains why the Company has not changed the name “Henan Fuhao Watch* (河南富豪表行)”, which also shows the Company’s respect to local trademark rights.

REGARDING THE ALLEGATION OF NEGATIVE CASH FLOW AND HIGH INVENTORY LEVEL

In response to the Article’s allegation that in the years 2006-08 and 2010 the Company had a negative cash flow and high inventory level, the Board clarifies as follows:

The Company’s operating cash outflow mainly is caused by the faster expansion of network. In the first half of 2012, the cash outflow was also due to the increase in inventory. The increase in inventory is due to strategic consideration. Due to the scarcity of international brands, so long as the structure is reasonable, an optimal increase in inventory under control is beneficial to the Company. The Company has been taking positive measures to adjust the product structure in order to optimize our inventory structure.

Business in Mainland China represents an important portion to the Company. Due to wide geographic coverage, inventory turnover days will be higher than the peer companies in Hong Kong. Despite this, our inventory turnover days are still lower than many peer companies (including those whose base is in Hong Kong).

REGARDING THE ALLEGATION OF LOSING OF BIG BRANDS

The Article alleged that the Company’s brand distribution rights are gradually taken back, for this the Board has the following response:

At the beginning the Company focused on wholesale business. From 2002, after considering the policy and the market condition at that time, the Company strategically adjusted its development direction and moved its business focus from wholesale to retail. After strategic discussions with brand suppliers, there was support for the shifting from wholesale to retail business. With the development of the Company, this strategy has been well implemented and retail business stably takes up about 75% of our total business. The Company successfully achieves a synergy effect for the supply and sale integration with brand suppliers. The stronger retail scale also helps brand suppliers build up sales channel rapidly, which in turn attracts brand suppliers who want to enter in to the Chinese market to cooperate with the Company. The cooperation with the brand suppliers is strategic and changes according to market demand. Therefore, the selection of brands by the Company is market-oriented and a result from the negotiation with brand suppliers.

After the restructuring of business strategy, from 2003, Hengdeli no longer wholesales the brands of Omega and Rado, but sets up a joint venture company with Swatch for the wholesale business of Omega, Rado and Longines. Currently Hengdeli is the largest retailer for Omega and Rado in the People's Republic of China.

The brands Fendi and Dior of LVMH belonged to its watch & jewellery department and fell within the wholesale business of the Company. LVMH then underwent structure reform and the brands were re-allocated to fashion department.

The Company keeps a close and good relationship with international brands such as Swatch, LVMH, Richemont and Rolex, which are all important partners of the Company.

REGARDING THE ALLEGATION OF FREQUENT FUND RAISING ACTIVITY DESPITE HIGH CASH BALANCE

The Board would like to respond the above allegation as follows:

The Company takes very prudent financial policy and has the minimum cash balance requirement. In fact, the actual cash balance is much higher than minimum balance. In response to the conservative currency policy in Mainland China, the Company increases the level of borrowing so to increase the cash balance for business expansion. The issue of convertible bonds due 2015 in 2010 was mainly for the need of expansion of its retail network in Great China region according to market. The USD bonds issue in January 2013 is to be applied for the redemption of outstanding convertible bonds aforementioned. At the same time the Company will gradually lower the short term bank loans level and the need for business expansion to improve the debt structure, so to lay down a safe capital foundation for the future development of the Company.

REGARDING THE ALLEGATION OF ENGAGING IN IRRELEVANT BUSINESS

The Article states that the Company suddenly engages in lending business. The Board would like to clarify as follows:

Since it was difficult for the small-to-medium enterprises in Mainland China to obtain loans in 2011, in response to the support of the customers, the Company granted to its business partners certain short-term loans for their business development and the same were all fully repaid in the same year. The relevant information was disclosed in the annual reports of the Company.

In future if requests are made by the business partners, we will adopt cautious attitude and policy and strictly control the risk.

By Order of the Board
HENGDELI HOLDINGS LIMITED
Zhang Yuping
Chairman

Hong Kong, 6 February 2013

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