亨得利
HENGDELI

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 2012

Financial Highlights

	For the year ended 31 December		
	2012	**2011**	Change
	RMB'000	*RMB'000*	*(%)*
Sales	**12,120,448**	11,375,280	+6.6
Gross profit	**3,154,433**	2,857,068	+10.4
Profit for the year	**945,518**	918,276	+3.0
Profit attributable to equity shareholders	**855,153**	814,919	+4.9
Basic earnings per share	**RMB0.195**	RMB0.185	+5.4

Proposed final dividend of RMB174,651,000, representing approximately 20.4% distribution from the profit attributable to equity shareholders of the Company for the financial year 2012. In addition, the Company proposed a bonus issue of 1 bonus ordinary share for every 10 existing ordinary shares in return for shareholders' support.

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 2012 (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 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Turnover	*3 & 9*	**12,120,448**	11,375,280
Cost of sales		**(8,966,015)**	(8,518,212)
Gross profit		**3,154,433**	2,857,068
Other revenue	*4*	**137,063**	141,486
Other net income	*4*	**80,215**	76,382
Distribution costs		**(1,551,963)**	(1,325,024)
Administrative expenses		**(355,745)**	(368,978)
Other operating income/(expenses)		**1,310**	(3,436)
Profit from operations		**1,465,313**	1,377,498
Finance costs	*5(a)*	**(266,445)**	(178,240)
Share of profits of associates		**31,138**	–
Share of gain/(loss) of jointly controlled entities		**976**	(1,119)
Profit before taxation	*5*	**1,230,982**	1,198,139
Income tax	*6(a)*	**(285,464)**	(279,863)
Profit for the year		**945,518**	918,276
Attributable to:			
Equity shareholders of the Company		**855,153**	814,919
Non-controlling interests		**90,365**	103,357
Profit for the year		**945,518**	918,276
Earnings per share			
Basic	*8(a)*	**RMB0.195**	RMB0.185
Diluted	*8(b)*	**RMB0.193**	RMB0.184

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(Expressed in Renminbi)

	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**945,518**	918,276
Other comprehensive income for the year		
Exchange differences on translation of financial statements	**2,555**	(57,424)
Total comprehensive income for the year	**948,073**	860,852
Attributable to:		
Equity shareholders of the Company	**857,708**	757,495
Non-controlling interests	**90,365**	103,357
Total comprehensive income for the year	**948,073**	860,852

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

(Expressed in Renminbi)

		2012		2011	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current assets					
Fixed assets					
– Investment property			**255,342**		255,601
– Other property, plant and equipment			**996,586**		665,551
			1,251,928		921,152
Intangible assets			**111,599**		23,325
Goodwill			**362,504**		296,921
Interest in associates			**503,724**		85
Interest in jointly controlled entities			**57,137**		56,161
Other investments			**797**		39,711
Deferred tax assets			**52,935**		78,051
Other financial assets	*10*		**335,350**		434,000
			2,675,974		1,849,406
Current assets					
Inventories		**5,569,961**		4,521,297	
Trade and other receivables	*11*	**1,369,112**		1,114,801	
Pledged bank deposits		**1,294**		25,899	
Cash and cash equivalents		**2,869,945**		3,941,828	
		9,810,312		9,603,825	
Assets classified as held for sale		**–**		136,233	
		9,810,312		9,740,058	
Current liabilities					
Trade and other payables	*12*	**2,163,049**		1,758,869	
Bank loans		**1,598,789**		2,041,923	
Current taxation		**29,798**		144,207	
Convertible bonds		**2,023,009**		47,208	
Embedded financial derivatives		**–**		1,222	
		5,814,645		3,993,429	
Liabilities directly associated with assets classified as held for sale		**–**		28,358	
		5,814,645		4,021,787	
Net current assets			**3,995,667**		5,718,271
Total assets less current liabilities			**6,671,641**		7,567,677

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2012

(Expressed in Renminbi)

		2012		2011	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current liabilities					
Bank loans		**561,540**		220,180	
Convertible bonds		**–**		1,982,161	
Provision		**145,944**		–	
Deferred tax liabilities		**50,315**		34,669	
			757,799		2,237,010
NET ASSETS			**5,913,842**		5,330,667
CAPITAL AND RESERVES					
Share capital	*7(b)*		**21,285**		21,309
Reserves			**5,435,579**		4,869,517
Total equity attributable to equity shareholders of the Company			**5,456,864**		4,890,826
Non-controlling interests			**456,978**		439,841
TOTAL EQUITY			**5,913,842**		5,330,667

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2012 comprise the Group and the Group's interest in associates 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 Hong Kong Financial Reporting Standards ("HKFRSs") 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 several amendments to HKFRSs 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:

Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets

Amendments to HKAS 12, Income taxes – Deferred tax: recovery of underlying assets

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

The above developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods.

3. TURNOVER

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

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

	2012	2011
	RMB'000	*RMB'000*
Other revenue		
Interest income	**65,130**	89,911
Government grants	**13,578**	10,055
Dividend income from unlisted investments	**37,542**	27,754
Rental income	**10,420**	6,701
Others	**10,393**	7,065
	137,063	141,486

The Group purchased certain bank wealth management products from banks, all of which were principal-protected, with a total principal amount of RMB2,720,000,000 during 2012. By the end of 2012, all the principal and interest relating to these products had been received and the Group had recognised a total interest income of RMB32,680,000 on these products.

	2012	2011
	RMB'000	*RMB'000*
Other net income		
Gain on disposal of subsidiaries	**122,247**	–
Impairment of interest in an associate	**(74,058)**	–
Gain on deemed disposal of other investment	**17,463**	–
Net foreign exchange gain	**16,063**	46,753
Net loss on disposal of property, plant and equipment	**(3,237)**	(457)
Changes in fair value of embedded financial derivatives	**1,222**	7,840
Gain on disposal of an associate	**515**	4,123
Compensation from termination of a property purchase contract	**–**	18,123
	80,215	76,382

5. PROFIT BEFORE TAXATION

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

(a) Finance costs

	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**160,919**	74,077
Interest on other loans	**4,290**	2,867
Interest on convertible bonds	**92,900**	93,950
Bank charges	**8,336**	7,346
Finance costs	**266,445**	178,240

(b) Staff costs

	2012	2011
	RMB'000	*RMB'000*
Contributions to defined contribution retirement plans	**79,584**	65,293
Equity-settled share-based payment expenses	**842**	280
Salaries, wages and other benefits	**591,965**	537,483
	672,391	603,056

(c) Other items

	2012 *RMB'000*	2011 *RMB'000*
Amortisation of intangible assets	**5,634**	2,786
Depreciation of fixed assets	**107,105**	72,208
(Reversal)/Impairment losses for trade and other receivables	**(1,310)**	3,169
Operating lease charges in respect of properties		
– minimum lease payments	**237,957**	196,627
– contingent rents	**503,988**	427,973
	741,945	624,600
Auditors' remuneration	**4,070**	3,930
Rental income from investment property	**7,399**	6,701
Cost of inventories	**8,966,015**	8,518,212

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 *RMB'000*	2011 *RMB'000*
Current tax		
Provision for Hong Kong profits tax for the year	**76,084**	71,910
Provision for Mainland China income tax for the year	**180,353**	218,097
Provision for Taiwan and Macau income tax for the year	**2,491**	5,519
Under-provision in respect of prior years	**2,155**	2,315
Sub-total	**261,083**	297,841
Deferred tax		
Origination and reversal of temporary differences	**24,381**	(17,978)
Sub-total	**24,381**	(17,978)
Total	**285,464**	279,863

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, and Macau, are not subject to any income tax in these jurisdictions.

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

The applicable income tax rate of the Group's Mainland China subsidiaries is 25% in 2012.

The provision for Taiwan income tax for 2012 is calculated at 17% (2011: 17%) of the estimated assessable profits for the year end.

The provision for Macau income tax is calculated based on progressive rates up to 12% and the assessable profits for the year ended 31 December 2012.

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

	2012 ***RMB'000***	2011 *RMB'000*
Profit before taxation	**1,230,982**	1,198,139
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**290,723**	259,786
Tax effect of non-taxable income	**(27,922)**	(10,541)
Tax effect of non-deductible expenses	**7,119**	7,878
Under-provision in prior years	**2,155**	2,315
Tax effect of tax losses not recognised	**13,389**	7,520
Withholding taxes on profits distributions of the Group's Mainland China subsidiaries	**–**	12,905
Actual tax expense	**285,464**	279,863

7. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2012 ***RMB'000***	2011 *RMB'000*
Final dividend proposed after the end of the reporting date of RMB0.04 per ordinary share (2011: RMB0.064 per ordinary share)	**174,651**	281,487

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

	2012	2011
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.064 per share (2011: RMB0.042 per share)	**281,487**	184,665

(b) Share capital

(i) Authorised and issued share capital

	2012		2011	
	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

	2012		2011	
	Number of shares	***Amount HKD***	*Number of shares*	*Amount HKD*
Issued and fully paid:				
At 1 January	**4,398,239,054**	**21,991,195**	4,396,484,054	21,982,420
Shares issued under share option scheme	**–**	**–**	1,755,000	8,775
Share repurchase	**(5,800,000)**	**(29,000)**	–	–
At 31 December	**4,392,439,054**	**21,962,195**	4,398,239,054	21,991,195
		Equivalent		Equivalent
		RMB'000		*RMB'000*
		21,285		21,309

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) ***Purchase of own shares***

During the period ended 31 December 2012, a total of 5,800,000 shares were repurchased on the Stock Exchange of Hong Kong Limited at an aggregate price paid of HKD12,487,000 (RMB equivalent: 10,124,000) which includes related expenses of HKD50,000 (RMB equivalent: 41,000).

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

Exercise period	**Exercise price**	**2012 Number**	2011 Number
1 August 2010 to 31 July 2012	HKD3.22	**–**	34,804,000
30 September 2014 to 29 September 2016	HKD2.93	**3,350,000**	4,150,000
		3,350,000	38,954,000

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 RMB855,153,000 (2011: RMB814,919,000) and the weighted average of 4,395,043,600 ordinary shares (2011: 4,397,715,322 ordinary shares) in issue during the year, calculated as follows:

(i) ***Weighted average number of ordinary shares***

	2012	2011
Issued ordinary shares at 1 January	**4,398,239,054**	4,396,484,054
Effect of share options exercised	**–**	1,231,268
Effect of share repurchased	**(3,195,454)**	–
Weighted average number of ordinary shares at 31 December	**4,395,043,600**	4,397,715,322

(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 RMB946,831,000 (2011: RMB903,503,000) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 4,909,271,521 shares (2011: 4,922,685,187 shares), calculated as follows:

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

	2012	2011
	RMB'000	*RMB'000*
Profit attributable to equity shareholders (basic)	**855,153**	814,919
Effect of effective interest on the liability component of convertible bonds	**92,900**	93,950
Effect of gains recognised on the derivative component of convertible bonds	**(1,222)**	(7,840)
Effect of exchange loss recognised on the liability component of convertible bonds	**–**	2,474
Profit attributable to equity shareholders (diluted)	**946,831**	903,503

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

	2012	2011
Weighted average number of ordinary shares	**4,395,043,600**	4,397,715,322
Effect of conversion of convertible bonds	**514,227,921**	519,356,444
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	–	5,613,421
Weighted average number of ordinary shares (diluted) at 31 December	**4,909,271,521**	4,922,685,187

The calculation of diluted earnings per share amount for the year ended 31 December 2012 has not included the potential effect of the deemed issuance of shares under the Company's share option scheme during the year as it has an anti-dilutive effect on the basic earnings per share amount for that year.

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, Hong Kong and Taiwan). 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 (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: 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 bases:

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 years ended 31 December 2012 and 2011 is set out below.

	Retail											
	Mainland China		Hong Kong		Taiwan		Wholesale		All others#		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**5,627,893**	5,209,797	**3,113,940**	3,157,265	**214,612**	222,261	**2,924,747**	2,550,534	**239,256**	235,423	**12,120,448**	11,375,280
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**3,075,736**	3,753,735	**1,155**	1,437	**3,076,891**	3,755,172
Reportable segment revenue	**5,627,893**	5,209,797	**3,113,940**	3,157,265	**214,612**	222,261	**6,000,483**	6,304,269	**240,411**	236,860	**15,197,339**	15,130,452
Reportable segment profit	**1,905,137**	1,651,719	**753,042**	747,439	**69,137**	74,709	**338,131**	300,056	**88,986**	83,145	**3,154,433**	2,857,068
Reportable segment assets	**2,968,170**	2,553,961	**1,371,845**	1,054,451	**273,120**	272,514	**1,016,385**	796,874	**63,681**	48,236	**5,693,201**	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, and a hotel and property management 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

Revenue	**2012** *RMB'000*	2011 *RMB'000*
Total revenues for reportable segments	**14,956,928**	14,893,592
Other revenue	**240,411**	236,860
Elimination of inter-segment revenue	**(3,076,891)**	(3,755,172)
Consolidated turnover	**12,120,448**	11,375,280

Profit	**2012** *RMB'000*	2011 *RMB'000*
Total profit for reportable segments	**3,065,447**	2,773,923
Other profit	**88,986**	83,145
	3,154,433	2,857,068
Other revenue	**137,063**	141,486
Other net income	**80,215**	76,382
Distribution costs	**(1,551,963)**	(1,325,024)
Administrative expenses	**(355,745)**	(368,978)
Other operating income/(expenses)	**1,310**	(3,436)
Finance costs	**(266,445)**	(178,240)
Share of profits of associates	**31,138**	–
Share of gain/(loss) of jointly controlled entities	**976**	(1,119)
Consolidated profit before taxation	**1,230,982**	1,198,139

Assets	**2012** *RMB'000*	2011 *RMB'000*
Total assets for reportable segments (inventories)	**5,629,520**	4,677,800
Other assets	**63,681**	48,236
Elimination of unrealised inter-segment profit	**(123,240)**	(204,739)
	5,569,961	4,521,297
Trade and other receivables	**1,369,112**	1,114,801
Pledged bank deposits	**1,294**	25,899
Cash and cash equivalents	**2,869,945**	3,941,828
Assets classified as held for sale	**–**	136,233
Non-current assets	**2,675,974**	1,849,406
Consolidated total assets	**12,486,286**	11,589,464

(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 associates, 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 associates, 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.

	2012	2011
	RMB'000	*RMB'000*
Revenue from external customers		
Mainland China	**8,721,505**	7,943,600
Hong Kong	**3,181,545**	3,157,265
Taiwan	**214,612**	222,261
Others	**2,786**	52,154
Total	**12,120,448**	11,375,280

	2012	2011
	RMB'000	*RMB'000*
Specified non-current assets		
Mainland China	**1,470,991**	780,785
Hong Kong	**567,796**	309,190
Taiwan	**248,561**	246,998
Others	**341**	382
Total	**2,287,689**	1,337,355

10. OTHER FINANCIAL ASSETS

	2012	2011
	RMB'000	*RMB'000*
Prepayment for business acquisition	**335,350**	434,000

Other financial assets as at 31 December 2011 represents prepayments in respect of the acquisitions of two watch retail businesses in Mainland China.

One of the acquisitions has been completed on 1 April 2012.

11. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**993,796**	794,877
Amount due from associates	**18,604**	–
Amount due from a jointly controlled entity	**287**	–
Less: allowance for doubtful debts	**(818)**	(5,628)
	1,011,869	789,249
Prepayments and deposits	**146,198**	137,283
Other receivables	**208,296**	188,269
Amount due from associates	**526**	–
Amount due from a jointly controlled entity	**2,223**	–
	1,369,112	1,114,801

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:

	2012	2011
	RMB'000	*RMB'000*
Current	**855,753**	684,850
Less than 1 month past due	**84,961**	63,384
1 to 3 months past due	**47,301**	11,186
More than 3 months but less than 12 months past due	**20,315**	25,996
More than 12 months past due	**3,539**	3,833
Amounts past due	**156,116**	104,399
	1,011,869	789,249

Trade receivables are due within 30 to 90 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:

	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**855,753**	684,850
Less than 1 month past due	**84,961**	63,384
1 to 3 months past due	**47,301**	11,186
More than 3 months but less than 12 months past due	**20,099**	25,507
More than 12 months past due	**706**	–
	153,067	100,077
	1,008,820	784,927

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

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**1,782,100**	1,377,071
Amounts due to an associate	**15,451**	–
	1,797,551	1,377,071
Other payables and accrued expenses	**310,261**	349,463
Advance receipts from customers	**52,730**	32,335
Amounts due to a jointly controlled entity	**2,507**	–
	2,163,049	1,758,869

MANAGEMENT DISCUSSION AND ANALYSIS

In 2012, amid the volatile global economy with increasingly gloomy outlook, coupled with the increasing challenges the domestic economic development exposed to and the hindrance to China's economic growth, the Group adhered to its principle of "seeking progress amidst stability", and managed to achieve satisfactory business results and secure the shareholders' interests by grasping every market opportunity to develop its businesses in a cautious manner.

I. FINANCIAL REVIEW

Sales

As at 31 December 2012, the Group recorded sales of RMB12,120,448,000, representing an increase of 6.6% over the corresponding period last year. Total retail sales amounted to RMB8,956,445,000, representing an increase of 4.3% over the corresponding period last year, of which retail sales in Mainland China amounted to RMB5,627,893,000, representing an increase of 8.0% over the corresponding period last year, and that in Hong Kong amounted to RMB3,113,940,000, representing a decrease of 1.4% over the corresponding period last year. The retail sales accounted for 73.9% of the total sales, which was in line with the direction of the Group's strategic development of focusing on retail sales.

Sales breakdown: (for the year ended 31 December 2012)

	2012		2011	
	RMB'000	***%***	*RMB'000*	*%*
Retail Business				
Mainland China	**5,627,893**	**46.4**	5,209,797	45.8
Hong Kong	**3,113,940**	**25.7**	3,157,265	27.8
Taiwan	**214,612**	**1.8**	222,261	1.9
Wholesale Business	**2,924,747**	**24.1**	2,550,534	22.4
Customer Services and Others	**239,256**	**2.0**	235,423	2.1
Total	**12,120,448**	**100**	11,375,280	100

Benefitting from the rapid growth of the middle class in second and third tier cities in Mainland China, middle-end brands recorded robust growth. With a sales growth of 22.2% over the corresponding period last year, middle-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, and 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 global economic turmoil and the slowdown in China's economic growth.

Gross profit and gross profit margin

As at 31 December 2012, the Group's gross profit increased by 10.4% as compared to the same period last year to approximately RMB3,154,433,000. Gross profit margin was approximately 26.0%, representing an increase of 90bps over the corresponding period last year. The increase in gross profit margin was mainly attributable to the Group's ongoing efforts in expanding and strengthening retail business with higher gross profit margin, the initiative of lowering the sales to some clients with low profit margin in the wholesale business, and a better understanding of marketing and sales, as well as continuous improvement in retail management.

Profit and profit margin for the year

During the year under review, the Group's net profit increased by 3.0% as compared to the same period last year to approximately RMB945,518,000. The corresponding net profit margin on sales was approximately 7.8%. Profit attributable to shareholders soared by 4.9% as compared to the same period last year to approximately RMB855,153,000. The increase was mainly attributable to the steady increase in sales, improvement in gross profit margin and the completion of the stock-for-stock acquisition deal between the Group and Ming Fung Jewellery Group Limited.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position.

As at 31 December 2012, the Group's total equity interests were RMB5,913,842,000 and current net asset value was RMB3,995,667,000, of which bank deposits amounted to RMB2,869,945,000. The bank loans totaled RMB2,160,329,000.

On 24 August 2012, the Company redeemed all the outstanding convertible bonds in principal amount of RMB44,000,000 listed on the Singapore Exchange Securities Trading Limited on 24 August 2007 for a sum of RMB48,844,000. Upon such redemption, the Company's RMB settled bonds listed on the Singapore Exchange Securities Trading Limited on 24 August 2007 were fully settled.

As at 31 December 2012, the aggregate principal amount of the HKD settled convertible bonds ("convertible bonds" or "bonds") due in 2015 issued by the Company on 20 October 2010 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 RMB4,183,338,000. As at 31 December 2012, the net debt to equity ratio of the Group, including convertible bonds, was approximately 22.2%. The directors of the Company believe that such net debt to equity ratio is within a reasonable range, and can provide the Group with sufficient liquidity for laying a solid foundation for further business development.

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 significant risks associated with foreign exchange fluctuations.

The Group has been actively monitoring its foreign exchange risk and adopts cautious measures in a timely manner.

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 inventory structure and enhanced financial management while putting great efforts in developing its businesses, so as to ensure steady and healthy operating cash flow, which has laid a sound foundation for the Company's further business development.

Pledge of assets

As at 31 December 2012, the Group had bank deposits of RMB1,294,000 pledged as security for guarantees, as well as land and buildings of RMB267,867,000 pledged as security for mortgage.

Contingent liabilities

As at 31 December 2012, 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 RMB9,810,312,000, comprising inventories of approximately RMB5,569,961,000, trade and other receivables of approximately RMB1,369,112,000 and cash and cash equivalents of approximately RMB2,869,945,000.

Current liabilities

During the year under review, the current liabilities of the Group amounted to approximately RMB5,814,645,000, comprising bank loans of approximately RMB1,598,789,000, trade and other payables of approximately RMB2,163,049,000, and current tax payable of approximately RMB29,798,000.

Capital structure

The Company's capital structure is composed of issued share capital, convertible bonds, reserves and accumulated profits. As at 31 December 2012, the issued share capital of the Company was 4,392,439,054 shares and the principal amount of the issued convertible bonds due in 2015 was HKD2.5 billion with 2.5% annual interest rate.

Material investment, acquisition and disposal

There was no material acquisition or disposal of subsidiaries and associated companies, nor was there any significant investment held by the Company during the year under review.

Final dividend and bonus issue of shares

The Company recommends the payment of a final dividend of RMB0.04 per share for the financial year ended 31 December 2012 and a bonus issue of 1 bonus ordinary share for every 10 existing ordinary shares held ("Bonus Issue") in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on 15 May 2013. The proposed cash dividend and shares issued under the Bonus Issue will be distributed on or before 30 May 2013 to shareholders whose names appear on the register of members of the Company on 24 May 2013.

Further detail of the Bonus Issue will be disclosed in the circular of the Company to be published on or before 9 April 2013.

II. BUSINESS REVIEW

During the year 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 and Hong Kong, supplemented with comprehensive customer services, manufacturing of packaging and display products, brand distribution and jewellery business.

Retail network

During the year under review, the Group developed its businesses with its principle of "seeking progress amidst stability", and has achieved better results through effective management. The Group adjusted its pace in retail network expansion in response to market pulse. Regionally, the

Group reinforced its leading position in first tier cities while it strengthened itself in and expanded into second and third tier cities. Strategically, the Group placed greater emphasis on and improved the complementary positioning between the mid-end network of "Prime Time" and "With Time" in mainland and the high-end network of "Elegant" in Hong Kong. It also launched several measures to optimize its outlet management in order to comprehensively improve the performance of its retail outlets, and made great efforts to have more model outlets with high productivity. The Group also focused more on customer service by extending the coverage of its multi-level comprehensive network in Greater China to pre-sale, in-sale and after-sale aspects, so as to grant a greater confidence and guarantee to its consumers. With all these strategies, the Group managed to maintain a satisfactory total sales and profit margin despite the uncertain market environment. Due to the high base of sales income in the corresponding period last year and the downturn in high-end retail market of watches this year, the Group's same store sales has recorded a milder growth. Nonetheless, the sales of middle-end watches still managed to achieve a pleasant growth with an increment of 22.2%, which also highlights the Group's overall growth.

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" focuses on top-grade internationally renowned brands while "Prime Time"/"Hengdeli" sells middle-to-high-end international brands, and "With Time" sells middle-end internationally renowned watches. Following effective integration and expansion, as at 31 December 2012, the Group operated a total of 452 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, representing an increase of 24 outlets over the end of first half of the year. Of these outlets, 23 were "Elegant" outlets (5 in Hong Kong, 17 in Mainland China and 1 in Taiwan), 282 were "Prime Time" and "Hengdeli" outlets (248 in Mainland China and 34 in Taiwan), 70 were "With Time" outlets (68 in Mainland China and 2 in Taiwan) and 77 were single-brand boutiques (41 in Mainland China, 16 in Hong Kong, 1 in Macau and 19 in Taiwan).

The Group has been in good partnerships with numerous world-renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group and ROLEX Group. As at 31 December 2012, the Group distributed over 50 international brands from the above four major brand suppliers and other independent watchmakers, including Breguet, Cartier, Vacheron Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, IWC, Rolex, Omega, Van Cleef & Arpels, Scatola del Tempo, Longines, Tudor, Tissot, Frederique Constant and Mido. The Group continued to step up its efforts in bringing in and aligning brands to enhance its brand portfolio, paving the way for long-term business development and ongoing enhancement of overall sales performance.

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 on middle-to-high-end and middle-end watches. During the year 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 and third tier cities. A total of 46 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 engage in the sales of high-end watches and operate mainly as image stores, is relatively small in Mainland China. As at 31 December 2012, there were 17 Elegant shops in Mainland China, mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang. In recent years, the Elegant shops are also establishing their presence in some emerging second-tier cities.

During the year 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 bring its unique glamour into full play. The shop also adopted an innovative marketing approach by offering customers privileged club services, aiming to provide a better venue for high-end customers in Hangzhou and Zhejiang to purchase prestigious brand-named watches.

The Cuiwei Elegant shop of Beijing, which was upgraded form a Prime Time shop, is now the first in-store shop through the cooperation between the Group and Beijing Cuiwei Group. During its 15 years of ongoing operation, Cuiwei Elegant has fostered a loyal client base as well as a reputation of privileged services. The shop focuses on a string of brands including Jaeger-Le Coultre, Glashutte, Rolex, Chopard, Bulgari, Zenith and Omega showcased in dedicated zones or counters.

As at 31 December 2012, the Group operated a total of 374 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 the China's economy and the relatively high base 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 of brand portfolio, optimization of its inventory structure and effective cost control. As a result, the Group managed to achieve a growth of 8.0% over the corresponding period last year, while sales of middle-end brands increased by 22.2%.

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 year. However, sales of Elegant (Hong Kong) remained stable during the year 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 change of RMB-HKD exchange rate, the Group recorded a drop of approximately 1.4% in sales in Hong Kong as at 31 December 2012 as compared to the same period last year, which was an actual increase of 1.1% if the effect of exchange rate changes is excluded. Gross profit margin registered another growth of 50bps as compared with the corresponding period last year.

During the year under review, to accommodate the demands from market and brands, the Group opened 8 shops in Hong Kong, most of which are brand boutiques and brand image shops for brands such as Omega, Lange, Vacheron Constantin, IWC, Jaeger-LeCoultre and Cartier. Brand boutiques and image shops not only satisfied the market demands for high-end watches, but also strengthened the ties between the Group and brand suppliers, consolidating the Group's market share and even forming economies of scale when teamed up with Elegant multi-brand shops, thus, effectively boosting business results.

To reorganize and consolidate resources and further improve the image and performance of retail shops, the Group merged the two Elegant multi-brand shops located in Times Square, Causeway Bay during the year. The new shop after merging is spacious and magnificent with a mixed air of elegance and fashion, offering watches of various prestige brands with different designs, such as Breguet, Blancpain, Tiffany and Glashutte. The shop combines business operation with culture, providing an ideal place for consumers in pursuit of a cultivated lifestyle.

As at 31 December 2012, the Group operated a total of 21 retail outlets in Hong Kong, of which 5 were Elegant shops that sell various brands and 16 were single-brand boutiques or image shops. Currently, the shops operated by the Group in Hong Kong are mainly located in prime districts such as Tsim Sha Tsui, Central and Causeway Bay. The Group will consider more business districts in light of the market's demands, so as to provide timely and considerate services for consumers.

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, Dewitt as well as independent watchmakers namely Scatola del Tempo, Christophe Claret and Heuge. During the year, certain new brands such as U-Boat and Devon were introduced. The sale of such high-end brands fully complemented our middle-end retail business in Mainland China and Taiwan, thus creating tremendous synergy.

Benefitted from the heating-up tourism in Macau, the Omega boutique in Macau again achieved positive sales. 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 building and stabilizing its network. Similar to its sales strategy in Mainland China, the Group focuses on the sales of mid-end and high-end watches in Taiwan. As at 31 December 2012, the Group operated a total of 56 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 outlets are Hengdeli and With Time shops which sell mid-end and high-end watch brands like Rado, TAG Heuer, Longines, Tissot, Certina and Hamilton.

During the year, the sales in Taiwan remained steady. 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 Mainland tourists will travel to Taiwan, creating new opportunities for Taiwan's retail industry.

Customer services and maintenance

During the year under review, the Group's customer services and maintenance had focused on the broader and deeper 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 express Green Channels for several brands to provide timely maintenance services, of which the efficiency had been further enhanced along with the effective communication with brand suppliers. 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 comprehensive assistance, thus winning general applause from our customers.

The high-calibre maintenance technicians are the foundation of the Group's customer services. During the year under review, the Group had been active in dispatching selected maintenance technicians to the brands for training purposes while making our maintenance technicians more internationalised. 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, in-sale and after-sale services have drawn more and more brands' interests, thus making breakthroughs in the depth and scope of our partnerships with brands. During the year, the Group signed watch maintenance agent agreements with multiple brands such as Balmain, Franck Muller and Cerruti 1881. Currently, the Group has become the maintenance agent for 65 international brands, of which 46 brands appoint us as their exclusive maintenance agent.

The provision of "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 (Guangzhou Yadi) of our watch business achieved steady development. 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 products by introducing new technology. During the year, Guangzhou Yadi was awarded the titles of "A-Grade Harmonious Business Unit" and "A-Grade Creditworthy Business Unit".

Our creditworthiness and quality services had gained broad recognition from customers and enhanced our competitiveness in the market. During the year under review, the Group widened partnerships with different brands and expanded product offerings 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 and also laid a solid foundation for the Group's profit growth in the future.

Brand distribution

In the brand distribution business, the Group has always sought cooperation with brand suppliers in market-friendly approaches, which leverages on each other's advantages to strive for a coordinated division of labour in the integration of sale and supply.

The Group has about 400 wholesale customers in almost one hundred cities across 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 year under review, the Group became a substantial shareholder of Ming Fung Jewellery Group Limited ("Ming Fung") following the completion of the stock-for-stock acquisition deal with Ming Fung. During the year, Ming Fung has commenced the integration of mid-and-high-end jewellery sale business in Mainland China. The wealthy population in Mainland China is emerging while people's consumption on jewellery remains low. The Group believes that the development of the jewellery business will act as a new source of profit and generate favourable returns for our shareholders.

III. UPGRADE OF INFORMATION SYSTEM

During the year under review, with the successful go-live of SAP system, the Group has upgraded all its existing operating, financial, supply chain and daily management information systems. The effective operation of the SAP system has facilitated an advancement in its management standard in respect of "professional management" and "integrated operation", and lead to a significant development on the Group's business size and management capability. In addition, the Group believes that SAP, being an internationally advanced project, will definitely contribute to the Group's long-term, stable, healthy and rapid growth and must be one of the Group's core competitive edges.

IV. HUMAN RESOURCES AND TRAINING

As at 31 December 2012, the Group employed a total of 7,995 employees in Mainland China, Hong Kong and Taiwan. The Group always places a high priority on developing and enhancing human resources. The Group adopts a systematic recruitment system and is well-planned in allocating resources to various training programs for managerial staff, front-line service staff and maintenance technicians. These training programs cover, among others, the art of management, sales techniques, 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 on brand knowledge and maintenance expertise to front-line service staff and maintenance technicians.

With a view to coping with corporate development needs, the Group offers competitive remuneration packages and various incentives, and conducts regular reviews on the structure of relevant mechanisms. The Group grants options to general managerial staff and associates in recognition of their contributions to the Group and as an incentive for their further commitment in the future. Concurrently, the Group offers various benefits to employees, including pension plans, MPF plans, insurance schemes, housing and meal allowances, etc. Details of the remuneration packages and other benefits are set out in the financial statements.

Under a sound human resources reward system, the Group possesses a substantial pool of senior salespersons and senior maintenance technicians. Furthermore, a number of staff members are awarded the "Capital Labour Medal" and the "May 1st Labour Medal".

V. OUTLOOK

With the global economic conditions remaining complex and uncertain, corporates are facing various challenges ahead. However, the Group still has full confidence in both China's economic outlook and the Group's further development. With China's consistent policy of sustaining steady economic growth, we believe that the Group will surely benefit from the opportunities created by Chinese government's endeavors to advocate and ensure an innovative and solid economy with a focus on increasing the quality and effectiveness of economic growth.

In the year ahead, the Group will adopt the principle of "seeking progress amids stability" for business development in accordance with its established strategic blueprint. The Group will develop internationally renowned watch brands prudently in line with market demand and enhance management standards, as well as safeguard its core business by extending its retail network through strengthening the management of existing outlets and enhancing the quality of its retail network. Concurrently, the Group will continue to optimize the structure of our three retail network systems, namely "Elegant", "Prime Time"/"Hengdeli" and "With Time", by adopting international and professional standards, so as to better align the configuration of our network with market demand. The Group will also continue to strengthen its customer service system and packaging business in the Greater China region, and cooperate more closely with brand suppliers.

In Conclusion, in the current economic conditions, the Group will continue to closely monitor and respond to latest market trends. The Group will cautiously expand its middle-to-high-end watch retail and related businesses, focusing on Mainland China market with Greater China markets including Hong Kong being complements. The Group will strive to achieve steady and sustainable profit growth in a pragmatic manner to generate more satisfying returns for our shareholders, investors, staff and society.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 13 May 2013 to Wednesday, 15 May 2013 (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 Friday, 10 May 2013.

The Register of Members will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013 (both days inclusive) to confirm the Register of Members who are entitled to the proposed final dividend and Bonus Issue. In order to establish entitlements to the proposed final dividend and Bonus Issue, 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 Tuesday, 21 May 2013.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the year under review, the Company repurchased 5,800,000 listed shares on The Stock Exchange of Hong Kong Limited by way of acquisition from the market. The total consideration paid was HKD12,487,000. Upon the completion of the settlement of such repurchase, the Company has cancelled all repurchased shares.

On 24 August 2012, the Company also redeemed all the outstanding convertible bonds with principal amount of RMB44,000,000 which were listed on the Singapore Exchange Limited on 24 August 2007 at RMB48,844,000. Therefore, all the Company's RMB settled bonds listed on Singapore Exchange Securities Trading Limited on 24 August 2007 were settled.

As at 31 December 2012, the issued share capital of the Company was 4,392,439,054 shares. The Company had HKD2.5 billion convertible bonds outstanding, which were listed on Singapore Exchange Securities Trading Limited on 22 October 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 2011 and 2012 interim report.

During the year, two meetings were held on 20 March 2012 and 21 August 2012 to review the annual and interim financial reports of the Group respectively. All members of the committee namely, Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling, attended the meetings.

In order to align with the new requirements regarding the corporate governance of listed companies by Hong Kong Stock Exchange, the Company has adopted and implemented the new terms of reference for the audit committee since 1 April 2012.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the Listing Rules. During the Year under review, the remuneration committee comprises three Directors including Messrs. Liu Xueling (Chairman) and Cai Jianmin, both of them are independent non-executive Directors and Mr. Zhang Yuping, the Chairman and an executive director of the Group. 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 was held during the Year to review matters related to the remuneration structure of the Directors and senior management of the Company. All members, namely Messrs. Liu Xueling, Cai Jianmin and Zhang Yuping, attended the meetings.

In order to align with the new requirements regarding the corporate governance of listed companies by Hong Kong Stock Exchange, the Company has adopted and implemented 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 Board retain the ultimate power to approve the remuneration of the Directors and senior management.

NOMINATION COMMITTEE

The Company has established a nomination committee in compliance with the Listing Rules. During the Year under review, the nomination committee comprises Mr. Zhang Yuping, the Chairman and an executive Director of the Group, independent non-executive Directors Messrs. Cai Jianmin and Liu Xueling. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and succession planning for Directors.

One meeting was held during the year to review matters related to the structure, size and composition of the Board of the Company, retirement by rotation and re-election of Directors. All members, namely Messrs. Zhang Yuping, Cai Jianmin and Liu Xueling attended the meetings.

In order to align with the new requirements regarding the corporate governance of listed companies by Hong Kong Stock Exchange, the Company has adopted and implemented the new terms of reference for the nomination committee since 1 April 2012.

CORPORATE GOVERNANCE

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 during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code during the period from 1 April 2012 to 31 December 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 Code on Corporate Governance Practices (from 1 January 2012 to 31 March 2012) and the Corporate Governance Code (from 1 April 2012 to 31 December 2012) except for a deviation from the provisions A.2.1 and A.6.7 of the Code on Corporate Governance 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 (where applicable) after consultation with 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. Besides, according to provision A.6.7, independent non-executive directors and other non-executive directors should regularly attend meetings of the board and any committees on which they serve and should attend general meetings and develop a balanced understanding of the views of shareholders. Although Mr. Wong Kam Fai, William, independent non-executive Directors, was taken leave of absence at one of the six Board meetings and at the annual general meeting in 2012, he has given constructive and informed comments to the Board and has developed a balanced understanding of the views of the shareholders.

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 (Chairman of the Group), Song Jianwen and Huang Yonghua), three independent non-executive Directors (Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling) and three non-executive Directors (Messrs. Chen Sheng, Shi Zhongyang, and Ms. Zheng Yu).

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 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: 26/9/2011-25/9/2014;
Wong Kam Fai, William: 26/9/2011-25/9/2014;
Liu Xueling: 1/6/2010-31/5/2013.

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.

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; determine 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 audits and examination of 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 this system. Further to reviews made by independent review organisations of the internal control system of the Group, the Group will continue to improve its internal administration and control systems.

In 2012, a total of six meetings were held by the Board, among which, four were regular meetings. Further, an annual general meeting was held. The attendance of the Directors at the meetings was as follows:

	Frequency of attendance at the Board meetings	**Rate of Attendance**	**Remarks**	**Frequency of attendance at the general meeting**	**Rate of Attendance**	**Remarks**
Zhang Yuping	6	100%		1	100%	
Song Jianwen	6	100%		1	100%	
Huang Yonghua	6	100%		1	100%	
Cai Jianmin	6	100%		1	100%	
Wong Kam Fai, William	5	83.3%	Take leave of absence	0	0%	Take leave of absence
Liu Xueling	6	100%		1	100%	
Chen Sheng	6	100%		1	100%	
Shi Zhongyang	6	100%		1	100%	
Zheng Yu	6	100%		1	100%	

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 non-executive Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange. 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 of Hong Kong Stock Exchange and remain independent.

The Board of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange as the Company's own code for securities transactions by its Directors. Following specific enquiry made by the Company with all Directors, the Company has confirmed that during the Year under review, all Directors had complied with the standard as required by the code mentioned above.

By order of the Board
Zhang Yuping
Chairman

Hong Kong 26 March 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.