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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)

2013 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
Results	**2013**	2012	YoY change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	(%)
Sales	**6,294,235**	5,749,733	+9.5
Gross Profit	**1,673,370**	1,535,637	+9.0
Gross profit margin	**26.6%**	26.7%	-10bps
Profit for the period *Note 1*	**302,199**	613,621	-50.8
Profit for the period excluding the non-core businesses *Note 2*	**353,489**	485,959	-27.3

Note 1, 2 Apart from the decrease in gross profit margin of sales due to the economic environment impact etc, the corresponding impairment provision of shares of Ming Fung Jewellery Group Limited ("Ming Fung Group") held by the Group upon the Company's share swap with the Ming Fung Group made according to accounting standards after the share price of Ming Fung Group plunged from the beginning of the year, and the relatively substantial impact on the non-recurring gain from the disposal of OMAS in the first half of 2012 also caused the decrease in profit for the period.

INTERIM RESULTS

The board of directors (the "Board") of Hengdeli Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Turnover	*3*	**6,294,235**	5,749,733
Cost of sales		**(4,620,865)**	(4,214,096)
Gross profit	*3*	**1,673,370**	1,535,637
Other revenue	*4*	**85,957**	86,838
Other net (loss)/income	*4*	**(50,124)**	132,451
Distribution costs		**(1,010,254)**	(710,177)
Administrative expenses		**(132,793)**	(147,930)
Profit from operations		**566,156**	896,819
Finance costs	*5(a)*	**(156,176)**	(135,759)
Share of profits less losses of associates		**9,315**	13,697
Share of profits/(losses) of joint ventures		**93**	(3,615)
Profit before taxation	*5*	**419,388**	771,142
Income tax	*6*	**(117,189)**	(157,521)
Profit for the period		**302,199**	613,621
Attributable to:			
Equity shareholders of the Company		**272,537**	562,656
Non-controlling interests		**29,662**	50,965
Profit for the period		**302,199**	613,621
Earnings per share	*7*		
Basic		**RMB0.057**	RMB0.116
Diluted		**RMB0.057**	RMB0.112

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Profit for the period	**302,199**	613,621
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**(34,412)**	14,198
Total comprehensive income for the period	**267,787**	627,819
Attributable to:		
Equity shareholders of the Company	**238,125**	576,854
Non-controlling interests	**29,662**	50,965
Total comprehensive income for the period	**267,787**	627,819

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2013 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Non-current assets			
Fixed assets	8		
– Investment property		**243,715**	255,342
– Other property, plant and equipment		**997,094**	996,586
		1,240,809	1,251,928
Intangible assets		**113,010**	111,599
Goodwill	19	**666,137**	362,504
Interest in associates	9	**162,799**	503,724
Interest in joint ventures		**57,230**	57,137
Other investments		**797**	797
Deferred tax assets		**51,266**	52,935
Other financial assets	10	**338,160**	335,350
		2,630,208	2,675,974
Current assets			
Inventories	11	**5,841,725**	5,569,961
Trade and other receivables	12	**1,504,394**	1,369,112
Pledged bank deposits		**–**	1,294
Other financial assets	10	**738,305**	–
Cash and cash equivalents	13	**2,429,573**	2,869,945
		10,513,997	9,810,312

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

at 30 June 2013 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Current liabilities			
Trade and other payables	14	**1,759,235**	2,163,049
Bank loans	15	**1,103,435**	1,598,789
Current taxation		**73,937**	29,798
Convertible bonds	16	**1,761,509**	2,023,009
		4,698,116	5,814,645
Net current assets		**5,815,881**	3,995,667
Total assets less current liabilities		**8,446,089**	6,671,641
Non-current liabilities			
Bank loans	15	**123,144**	561,540
Senior notes	17	**2,184,589**	–
Deferred tax liabilities		**50,948**	50,315
Provisions		**95,586**	145,944
		2,454,267	757,799
NET ASSETS		**5,991,822**	5,913,842
CAPITAL AND RESERVES			
Share capital		**22,935**	21,285
Reserves		**5,442,442**	5,435,579
Total equity attributable to equity shareholders of the Company		**5,465,377**	5,456,864
Non-controlling interests		**526,445**	456,978
TOTAL EQUITY		**5,991,822**	5,913,842

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2013 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Cash used in operations		**(100,166)**	(605,461)
Income tax paid		**(76,621)**	(161,171)
Net cash used in operating activities		**(176,787)**	(766,632)
Net cash used in investing activities		**(874,429)**	(266,213)
Net cash generated from financing activities		**629,932**	503,839
Net decrease in cash and cash equivalents		**(421,284)**	(529,006)
Cash and cash equivalents at 1 January	*13*	**2,869,945**	3,941,828
Effect of foreign exchange rates changes		**(19,088)**	17,321
Cash and cash equivalents at 30 June	*13*	**2,429,573**	3,430,143

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 29 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from the 2012 annual financial statements. The 2012 annual financial statements are available from the Company's registered office. The auditors have expressed an unqualified opinion on the 2012 annual financial statements in their report dated 26 March 2013.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and 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 HKAS 1, *Presentation of financial statements - Presentation of items of other comprehensive income*
- HKFRS 10, Consolidated financial statements
- HKFRS 11, Joint arrangements
- HKFRS 12, Disclosure of interests in other entities
- HKFRS 13, Fair value measurement

- Annual Improvements to HKFRSs 2009-2011 Cycle

- Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

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

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 9. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets materially different from the amounts reported in the last annual financial statements.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

3 SEGMENT REPORTING

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

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

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

(a) Information about profit or loss and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the profit or loss and assets attributable to each reportable segment on the following basis:

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".

Segment assets represent inventories only, without eliminating the unrealised inter-segment profits.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Retail													
	Mainland China		Hong Kong		Taiwan		Harvest Max#		Wholesale		All others##		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
For the six months ended 30 June														
Revenue from external customers	**2,852,386**	2,824,790	**1,592,678**	1,414,761	**90,179**	99,589	**284,143**	–	**1,361,145**	1,283,898	**113,704**	126,695	**6,294,235**	5,749,733
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–	**1,224,709**	1,741,606	**10,826**	1,320	**1,235,535**	1,742,926
Reportable segment revenue	**2,852,386**	2,824,790	**1,592,678**	1,414,761	**90,179**	99,589	**284,143**	–	**2,585,854**	3,025,504	**124,530**	128,015	**7,529,770**	7,492,659
Reportable segment profit	**909,327**	936,533	**343,013**	362,632	**27,834**	32,050	**200,627**	–	**153,270**	155,957	**39,300**	48,465	**1,673,370**	1,535,637

	Retail													
	Mainland China		Hong Kong		Taiwan		Harvest Max#		Wholesale		All others##		Total	
	30 June 2013	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**2,868,653**	2,968,170	**1,429,708**	1,371,845	**261,985**	273,120	**149,315**	–	**1,172,670**	1,016,385	**52,729**	63,681	**5,935,060**	5,693,201

\# Revenue from Harvest Max Holdings Limited ("Harvest Max") is mainly attributable to jewellery, watches and duty free commodities retail in Hong Kong

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

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Revenue		
Total revenues for reportable segments	**7,405,240**	7,364,644
Other revenue	**124,530**	128,015
Elimination of inter-segment revenue	**(1,235,535)**	(1,742,926)
Consolidated turnover	**6,294,235**	5,749,733
Profit		
Total profit for reportable segments	**1,634,070**	1,487,172
Other profit	**39,300**	48,465
	1,673,370	1,535,637
Other revenue	**85,957**	86,838
Other net (loss)/income	**(50,124)**	132,451
Distribution costs	**(1,010,254)**	(710,177)
Administrative expenses	**(132,793)**	(147,930)
Finance costs	**(156,176)**	(135,759)
Share of profits less losses of associates	**9,315**	13,697
Share of profits/(losses) of joint ventures	**93**	(3,615)
Consolidated profit before taxation	**419,388**	771,142

4 OTHER REVENUE AND NET (LOSS)/INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Other revenue		
Interest income	**30,477**	30,766
Government grants	**11,932**	12,900
Dividend income from unlisted investments	**34,977**	37,542
Rental income	**5,643**	3,733
Others	**2,928**	1,897
	85,957	86,838
Other net (loss)/income		
Impairment of interest in an associate *(note 9)*	**(54,771)**	–
Changes in fair value of embedded financial derivatives	**–**	1,222
Net gain on disposal of subsidiaries	**–**	122,247
Net gain on deemed disposal of other investment	**–**	17,119
Net loss on disposal of property, plant and equipment	**(2,081)**	(2,208)
Net foreign exchange gain/(loss)	**13,488**	(6,444)
Net loss on repurchases of convertible bonds *(note 16)*	**(6,760)**	–
Others	**–**	515
	(50,124)	132,451

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
(a) Finance costs		
Interest expense on bank loans	**47,536**	86,726
Interest on convertible bonds *(note 16)*	**44,557**	46,499
Interest on senior notes *(note 17)*	**60,600**	–
Bank charges	**3,483**	2,534
	156,176	135,759

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
(b) Other items		
Amortisation	**4,979**	989
Depreciation	**56,549**	49,090
Operating leases charges in respect of properties		
– minimum lease payments	**147,322**	108,278
– contingent rents	**259,076**	237,141
	406,398	345,419

6 INCOME TAX

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Current tax		
Hong Kong profits tax	**36,495**	43,587
Mainland China income tax	**78,214**	99,357
Taiwan and Macau income tax	**178**	590
Sub-total	**114,887**	143,534
Deferred taxation	**2,302**	13,987
	117,189	157,521

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2012: 16.5%) to the six months ended 30 June 2013.

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

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB272,537,000 (six months ended 30 June 2012: RMB562,656,000) and the weighted average of 4,808,580,318 ordinary shares (six months ended 30 June 2012: 4,837,409,425 ordinary shares) in issue during the interim period. The weighted average numbers of ordinary shares in issue for the six months ended 30 June 2012 and 2013 have been retrospectively adjusted for the effect of the bonus issue in May 2013 (Note 18(c)).

(b) Diluted earnings per share

The calculation of diluted earnings per share amount for the six months ended 30 June 2013 is based on the profit attributable to equity shareholders of the Company of RMB272,537,000 (six months ended 30 June 2012: RMB607,933,000) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 4,808,580,318 shares (six months ended 30 June 2012: 5,406,123,188), calculated as follows:

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Profit attributable to equity shareholders (basic)	**272,537**	562,656
Effect of effective interest on the liability component of convertible bonds	**–**	46,499
Effect of gains recognised on the derivative component of convertible bonds	**–**	(1,222)
Profit attributable to equity shareholders (diluted)	**272,537**	607,933

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

	Six months ended 30 June	
	2013	2012
		Restated
Weighted average number of ordinary shares (basic)	**4,808,580,318**	4,837,409,425
Effect of conversion of convertible bonds	**–**	568,713,763
Weighted average number of ordinary shares (diluted)	**4,808,580,318**	5,406,123,188

The weighted average numbers of ordinary shares in issue for the six months ended 30 June 2012 and 2013 have been retrospectively adjusted for the effect of the bonus issue in May 2013 (Note 18(c)).

The calculation of diluted earnings per share amount for the six months ended 30 June 2013 has not included the potential effects of the deemed issue of shares under the Company's share option scheme for nil consideration and the potential effects of the deemed conversion of Hong Kong Dollar ("HKD") settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds") into ordinary shares as they have anti-dilutive effects on the basic earnings per share amount during the interim period.

8 FIXED ASSETS

During the six months ended 30 June 2013, the Group incurred decoration and construction costs with a cost of RMB39,127,000 (six months ended 30 June 2012: RMB53,140,000).

There were no other significant acquisitions/disposals of fixed assets during the period from 1 January 2013 to 30 June 2013.

9 INTEREST IN ASSOCIATES

On 22 April 2013, the Group acquired 30% of the equity interest of Harvest Max, an associate in which the Group held 40% equity interest before this acquisition. Upon completion of this acquisition, Harvest Max became a subsidiary of the Group (Note 19).

On 13 April 2012, the Group completed an equity exchange transaction with Ming Fung Jewellery Group Limited ("Ming Fung"). In 2012, as the market price of Ming Fung's ordinary shares ("Ming Fung's Shares") decreased significantly, an impairment loss of RMB74,058,000 was recognised based on the market price of Ming Fung's Shares as quoted on the Stock Exchange. During the six months ended 30 June 2013, the market price of Ming Fung's Shares continued to decrease and an additional impairment provision of RMB54,771,000 has been made based on the market price of Ming Fung's Shares as quoted on the Stock Exchange as 30 June 2013.

10 OTHER FINANCIAL ASSETS

Other financial assets classified as non-current assets represent a prepayment in respect of the acquisition of subsidiaries.

Other financial assets classified as current assets included RMB620,405,000 of bank wealth management products and a 6-month time deposit of RMB100,000,000, all of which will mature within 2013 and are principal protected.

11 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2013	At 31 December 2012
	RMB'000	*RMB'000*
Raw materials	**27,090**	26,409
Work in progress	**18,843**	23,188
Finished goods	**5,795,792**	5,520,364
	5,841,725	5,569,961

12 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the due date and net of allowance for doubtful debts, is as follows:

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000*
Current	**866,435**	855,753
Less than 1 month past due	**19,236**	84,961
1 to 3 months past due	**20,119**	47,301
More than 3 months but less than 12 months past due	**30,943**	20,315
More than 12 months past due	**8,111**	3,539
Trade debtors, net of allowance for doubtful debts	**944,844**	1,011,869
Prepayments and other receivables	**559,550**	357,243
	1,504,394	1,369,112

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

Customers are normally granted credit terms of not more than 60 days depending on the credit worthiness of individual customers.

13 CASH AND CASH EQUIVALENTS

As at 31 December 2012 and 30 June 2013, all of the Group's cash and cash equivalents in the consolidated statement of financial position represented cash at bank and cash in hand.

14 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000*
Within 1 month	**1,112,671**	1,152,110
Over 1 month but less than 3 months	**359,197**	614,655
Over 3 months but less than 12 months	**15,240**	28,742
Over 1 year	**2,184**	2,044
	1,489,292	1,797,551
Other payables and accrued expenses	**234,433**	312,768
Advance receipts from customers	**35,510**	52,730
	1,759,235	2,163,049

15 BANK LOANS

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000*
Bank loans repayable within one year or on demand		
– Secured	**15,000**	25,575
– Unsecured	**1,088,435**	1,573,214
	1,103,435	1,598,789
Bank loans repayable after one year		
– Secured	**123,144**	138,618
– Unsecured	**–**	422,922
	123,144	561,540
	1,226,579	2,160,329

At 30 June 2013, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB218,117,000 (31 December 2012: RMB267,867,000).

16 CONVERTIBLE BONDS

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

The movement of the liability component and the equity component of the 2015 Convertible Bonds for the six months ended 30 June 2013 is set out below:

	Liability component *RMB'000*	**Equity component** *RMB'000*	**Total** *RMB'000*
As at 31 December 2012	2,023,009	60,412	2,083,421
Interest charged during the period *(note 5(a))*	44,557	–	44,557
Interest paid during the period	(24,915)	–	(24,915)
Derecognised due to repurchase by the Company during the period	(248,809)	(7,443)	(256,252)
Foreign currency translation difference	(32,333)	–	(32,333)
As at 30 June 2013	1,761,509	52,969	1,814,478

In February, May and June 2013, the Company purchased, by way of market acquisition, 2015 Convertible Bonds with a principal amount of HKD308,000,000 (the "Repurchased Bonds"), for a total consideration of HKD318,256,000 (RMB equivalent: 255,569,000). The Repurchased Bonds have been cancelled in accordance with the terms of the 2015 Convertible Bonds. Following the cancellation of the Repurchased Bonds, the aggregate principal amount of the 2015 Convertible Bonds remaining outstanding as at 30 June 2013 is HKD2,192,000,000.

No conversion of the 2015 Convertible Bonds has occurred during the six months ended 30 June 2013.

17 SENIOR NOTES

In January 2013, the Company issued 6.25% senior notes due in 2018 in the aggregate principal amount of United States Dollars("USD")350,000,000 ("the Notes"), which are listed on the Stock Exchange. The Notes are interest-bearing at 6.25% per annum and payable semi-annually in arrears. The Notes will mature on 29 January 2018, unless redeemed earlier in accordance with the terms of the Notes.

Pursuant to the terms of the Notes, the Notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Group. The Company regularly monitors its compliance with these covenants.

The Company may redeem part or all of the Notes or, upon the occurrence of certain events, the Company should make an offer to purchase all outstanding portions of the Notes at a price specified in the terms of the Notes.

The movement of the Notes is set out below:

	RMB'000
Upon the completion of the issuance of the Notes:	
Proceeds received for the issuance of the Notes	2,197,668
Transaction costs on issuance of the Notes	(38,719)
Interest charged during the period	60,600
Foreign exchange loss	1,952
Foreign currency translation difference	(36,912)
As at 30 June 2013	2,184,589

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) No interim dividend has been declared after the interim period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period, are as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the interim period, of RMB0.04 per share (six months ended 30 June 2012: RMB0.064 per share)	**174,651**	281,487

(b) Purchase of own shares

During the period ended 30 June 2013, a total of 26,160,000 shares were repurchased on the Stock Exchange at an aggregate consideration of HKD69,152,000 (RMB equivalent: 55,577,000) which includes related transaction costs of HKD248,000 (RMB equivalent: 199,000).

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of Cayman Islands Companies Law, an amount equivalent to the par value of the shares cancelled of RMB105,000 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of shares equivalent to RMB55,472,000 was charged to the retained profits.

(c) Issuance of bonus share

In May 2013, the annual general meeting of all the shareholders of the Company approved the issuance of bonus shares, on the basis of one bonus ordinary share for every 10 ordinary shares. On 20 May 2013, 436,627,905 shares were issued pursuant to the bonus issue. As a result, the issued share capital of the Company increased from HKD21,830,000 (equivalent to RMB21,180,000) to HKD24,013,000 (equivalent to RMB22,935,000) through capitalisation of share premium of HKD2,183,000 (equivalent to RMB1,755,000).

(d) Equity settled share-based transactions

No share option was exercised during the six months ended 30 June 2013 (31 December 2012: Nil).

19 ACQUISITION OF SUBSIDIARIES AND BUSINESS

As disclosed in Note 9, on 22 April 2013, the Group acquired an additional 30% equity interest in Harvest Max. Upon completion of the acquisition, the Company holds in aggregate 70% of the equity interest in Harvest Max and Harvest Max became a subsidiary of the Group. Harvest Max is principally engaged in retail of jewellery, watches and duty free commodities in Hong Kong.

Goodwill in respect of above acquisitions of RMB303,633,000 in the consolidated statement of financial position as at 30 June 2013 has been determined on a provisional basis with the assistance of an external valuer. The Group is still in the process of finalising the valuation of the fair value of the identifiable assets acquired. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the fair value of the amounts of assets/liabilities acquired at the acquisition date, then the acquisition accounting will be revised.

20 CAPITAL COMMITMENTS

	At 30 June 2013	At 31 December 2012
	RMB'000	*RMB'000*
Authorised but not contracted for	**80,325**	84,043

21 RELATED PARTY TRANSACTIONS

The Group has transactions with joint ventures and companies controlled by associates. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

Recurring transactions

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Lease expense to a joint venture	**3,340**	5,888
Sales of goods to associates	**12,130**	18,574
Purchase of goods from an associate	**9,328**	8,163
Payments made on behalf of associates	**1,341**	–
Payments made on behalf of a joint venture	**1,903**	–

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2013, the Group kept abreast of the changing market trends in light of the global economic volatility, the lackluster domestic economy and the sluggish retail sales. Adhering to its strategy of "seeking progress amidst stability", the Group pushed forward its business activities in a cautious manner through consolidation of internal strengths and achieved stable performance despite the adverse operating environment, with shareholders' interests effectively secured.

I. Financial Review

Sales

As at 30 June 2013, the Group recorded sales of RMB6,294,235,000, representing an increase of 9.5% over the corresponding period last year. Retail sales amounted to RMB4,819,386,000, representing an increase of 11.1% over the corresponding period last year, of which, domestic retail sales increased 1.0% year-on-year to RMB2,852,386,000, and Hong Kong retail sales increased 12.6% year-on-year to RMB1,592,678,000. The total retail sales accounted for 76.6% of the total sales, which was in line with the Group's strategic direction.

The rapid growth of second and third tier cities and the burgeoning middle class in Mainland China have provided a favorable precondition for a sound growth momentum of the Group's middle-end brands. Meanwhile, the Group continuously enhanced its operational management, timely and reasonably adjusted its brand portfolio, optimized its inventory structure and improved its service quality aligning with the changing market conditions to ensure a steady growth of its principal business. The sales of the Group's middle-end watches grew by 13.9% as compared with the corresponding period last year.

In general, the growth of the Group's retail business continued to retard year-on-year mainly due to the subdued sales of high-end watches in the wake of China's economic slowdown amid the global economic turmoil, which hindered the growth of the Group's overall sales.

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

	2013		2012	
	RMB('000)	*%*	*RMB('000)*	*%*
Retail Business				
Mainland China	**2,852,386**	**45.4**	2,824,790	49.1
Hong Kong	**1,592,678**	**25.3**	1,414,761	24.6
Taiwan	**90,179**	**1.4**	99,589	1.7
Harvest Max	**284,143**	**4.5**	–	–
Wholesale Business	**1,361,145**	**21.6**	1,283,898	22.3
Customer Services and Others	**113,704**	**1.8**	126,695	2.3
Total	**6,294,235**	**100**	5,749,733	100

Gross profit and gross profit margin

As at 30 June 2013, the Group's gross profit increased 9.0% year-on-year to approximately RMB1,673,370,000. Gross profit margin was approximately 26.6%, representing a decrease of 10bps over the corresponding period last year. Gross profit margin decreased mainly because the Group allowed more flexibility in discount offering in sales of high-end brands amid subdued economic environment, and the brand suppliers had not lifted the list prices this year, which offset the increase in gross profit margin arising from the high gross profit margin of the new acquisition of Harvest Max and the expanding proportion of middle-end brands.

Profit for the period

During the period under review, the Group's net profit was RMB302,199,000, representing a decrease of 50.8% as compared to the same period last year. Apart from a decrease in gross profit margin of sales and an increase in expenses arising from higher labor cost and rental expenses, the corresponding impairment provision of shares of Ming Fung Jewellery Group Limited ("Ming Fung Group") held by the Group upon the Company's share swap with the Ming Fung Group made according to accounting standards after the share price of Ming Fung Group plunged from the beginning of the year, and the relatively substantial impact on the non-recurring gain from the disposal of OMAS in the first half of 2012 also caused the decrease in net profits.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position.

As at 30 June 2013, the Group's total equity interests were RMB5,991,822,000 and current net asset value was RMB5,815,881,000, of which bank deposits amounted to RMB2,429,573,000. Bank loans totaled RMB1,226,579,000.

During the period under review, the Company issued senior notes in principal amount of USD350 million which are due in 2018 and to be settled in USD ("senior notes").

During the period under review, the Company repurchased certain convertible bonds which were listed on Singapore Exchange Securities Trading Limited on 22 October 2010 ("bonds") by way of market acquisition on Singapore Exchange Securities Trading Limited. The repurchased bonds have been cancelled in accordance with the terms of the convertible bonds.

As at 30 June 2013, the aggregate principal amount of the HKD settled convertible bonds due in 2015 issued by the Company on 20 October 2010 was HKD2,192,000,000. Taking into account of the net amount of such convertible bonds and the Senior Notes of USD350 million, together with bank loans, the Group's total debt amounted to RMB5,172,677,000. As at 30 June 2013, the net debt to equity ratio of the Group, including the bonds and the senior notes, was approximately 45.8%; including the other financial assets in the Bank, was approximately 33.8%. The directors of the Company believe that such net debt to equity ratio is within a reasonable range.

Foreign exchange risk

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

The Group has been actively monitoring its foreign exchange risk.

Pledge of assets

As at 30 June 2013, the Group had land and buildings of RMB218,117,000 pledged as security for mortgage.

Contingent liabilities

As at 30 June 2013, the Group did not have any material contingent liabilities.

Current assets

During the period under review, the current assets of the Group amounted to approximately RMB10,513,997,000, comprising inventories of approximately RMB5,841,725,000, trade and other receivables of approximately RMB1,504,394,000 and cash and cash equivalents of approximately RMB2,429,573,000.

Current liabilities

During the period under review, the current liabilities of the Group amounted to approximately RMB4,698,116,000, comprising bank loans of approximately RMB1,103,435,000, trade and other payables of approximately RMB1,759,235,000, and current tax payable of approximately RMB73,937,000.

Material investment, acquisition and disposal

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

Capital structure

The Company's capital structure is composed of issued share capital, convertible bonds, reserves and accumulated profits. As at 30 June 2013, the issued share capital of the Company was 4,802,906,959 shares and the principal amount of the convertible bonds due in 2015 was HKD2,192,000,000.

II. Business Review

During the period under review, the Group's business primarily focused on the build-up of a retail network for internationally renowned branded watches in Greater China with a core presence in Mainland China and Hong Kong, supplemented comprehensively by related customer services, packaging and display products, brand distribution and jewellery business.

Retail network

During the period under review, upholding the principle of "safeness" and "seeking progress amidst stability", the Group fully seized the opportunities arising from market adjustment by promptly responding to market movements and actively adjusting the pace and method in developing the retail network against the backdrop of economic slowdown domestically and globally. Leveraging on market adjustment, the Group also made great efforts to establish more model outlets with high productivity by continuously strengthening internal management, optimizing the management mechanism of outlets, improving the performance of retail outlets and reinforcing staff training. The Group also focused more on customer services by working closely with brand suppliers to extend the coverage of its multi-level comprehensive after-sales service network in Greater China to pre-sale and in-sale aspects, so as to enhance consumer confidence and protection with an integrated pre-sale, in-sale and after-sale service system. With all these strategies, the Group managed to maintain satisfactory performance in total retail sales despite the uncertain market environment, representing an increase of 11.1% over the corresponding period last year. Due to the high base of sales income recorded in the corresponding period last year and the downturn in sales of high-end watches during the year to date, the Group's retail sales in Mainland China continued to report a mild growth. Nonetheless, the sales of middle-end watches still managed to achieve a sound growth of 13.9%, which highlighted the Group's growth momentum.

Our retail network spans across the Greater China region where retail stores mainly include "Elegant", "Prime Time"/"Hengdeli" and certain single-brand boutiques. "Elegant" focuses on top-end internationally renowned brands, while "Prime Time"/"Hengdeli" mainly sells middle-end and middle-to-high-end international brands. After effective expansion, adjustment and integration, as at 30 June 2013, the Group operated a total of 462 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, representing an increase of 10 outlets over the end of the last year. Of these outlets, 23 were "Elegant" outlets (5 in Hong Kong, 17 in Mainland China and 1 in Taiwan), 369 were "Prime Time" and "Hengdeli" outlets (333 in Mainland China and 36 in Taiwan), and 70 were single-brand boutiques (34 in Mainland China, 13 in Hong Kong, 1 in Macau and 22 in Taiwan).

Over the years, the Group has maintained sound business relationships with many world-renowned brand suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group and ROLEX Group. As at 30 June 2013, the Group was engaged in the distribution of over 50 international brands from the above four major brand suppliers and other independent watchmakers, including Breguet, Cartier, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Rolex, Scatola del Tempo, TAG Heuer, Tissot, Vacheron-Constantin, Van Cleef & Arpels and Zenith etc. The Group has been stepping up its efforts in bringing in and aligning middle-end, middle-to-high-end and high-end brands in both Mainland China and Hong Kong to optimize its brand portfolio, paving the way for long-term business development and ongoing enhancement of overall sales performance.

Mainland China

In order to cater for the actual demand of Mainland consumers and complement the Group's high-end watch business strategy in Hong Kong, the Group deploys most of its retail resources in Mainland China to "Prime Time" shops, which are positioned to sell middle-end and middle-to-high-end watches. During the period under review, demand for middle-end watches was stronger than that of high-end watches, steering the Group toward a concentrated approach to re-position and adjust the middle-end outlets with a view to further expand the retail network of middle-end watches. New outlets have been set up prudently in the regions with the highest sales records, such as third and fourth tier cities in Eastern and Northern China as well as emerging second and third tier cities, to seize and secure larger market share both in depth and in scale. Meanwhile, highlighting the solidification and improvement of revenue contribution from single outlets, the Group intensified its efforts in streamlining outlets in the first tier market and high-end watch retail market which helped to stabilize and increase the Group's market share in various regions in Mainland China.

In response to the changes in the Mainland market, the Group underwent targeted and phased transformation and adjustment of the categories of retail outlets. Given the ever growing popularity of the middle-end brands, the Group commenced incremental integration and merger between "Prime Time" shops and "With Time" shops, so as to consolidate resources to secure and explore the market for middle-end and middle-to-high-end watches.

The Group's "Elegant" shops, which mainly sell high-end watches, have a relatively small coverage in Mainland China, and no new shop was added for the first half of the year. As at 30 June 2013, there were 17 "Elegant" shops in Mainland China, most of which are located in the first tier developed cities, such as Shanghai, Beijing, Hangzhou, Nanjing, Shenyang and Chengdu, etc.

During the period under review, the retail sales in Mainland China gained a modest growth of 1.0% over the corresponding period last year, which was mainly driven by middle-end brands. A sales growth of 13.9% was recorded in the Group's middle-end watches as compared to the corresponding period last year. The accelerated urbanization process, rapid growth of second and third tier cities and burgeoning middle class in Mainland China have provided a favorable precondition for a sound growth momentum of the Group's middle-end brands. Meanwhile, the Group continuously enhanced its operational management, timely and reasonably adjusted its brand portfolio, optimized its inventory structure, and improved its service quality aligning with the actual market conditions to ensure a smooth development of the principal business.

In general, the year-on-year growth rate of the Group's retail business in Mainland China continued to dawdle. This was mainly because the growth of the overall retail sales in Mainland China was dragged down by subdued retail sales of high-end watches on the backdrop of global economic turmoil and lackluster economic growth in China.

The Group's retail outlets substantially covered all key regions in Mainland China, such as Beijing, Shanghai, Zhejiang, Jiangsu, Henan, Shanxi, Hubei and Northeast, each of which with multiple outlets, thus reinforcing its leading market position. The Group is also strengthening its retail network by expanding into Southwest, Central and Southern China. As at 30 June 2013, the Group had 384 retail outlets in Mainland China, among which 333 were "Prime Time" shops that focus on selling middle-end and middle-to-high-end watches.

Hong Kong and Macau

Sales of Elegant (Hong Kong) remained positively stable during the period under review, which was attributable to advantages such as the Group's extensive, solid and loyal client base in Hong Kong, the interaction between retail outlets in Mainland China and Hong Kong, the favorable partnership with brand suppliers 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. As at 30 June 2013, the Group recorded an increase of 12.6% in sales in Hong Kong as compared to the same period last year, whereas gross profit margin decreased because the Group allowed more flexibility in discount offering in sales of high-end watches amid subdued economic environment, and the brand suppliers had not lifted the list prices this year.

As at 30 June 2013, the Group operated a total of 18 retail outlets in Hong Kong, of which 5 were "Elegant" shops that sell multiple brands and the remaining 13 were single-brand boutiques or image shops. 3 boutiques were closed due to expiry of the lease terms during the period under review. Currently, the Group's shops are mainly located in prime commercial districts such as Tsim Sha Tsui, Central, Causeway Bay and Shatin.

During the period under review, the Group opened a new multi-brand "Elegant" shop in New Town Plaza in Shatin, one of the top three shopping malls in Hong Kong conveniently located in the center of the New Territories. Occupying a floor area of 2,139 square feet, the new multi-brand shop focuses on starter high-end brands and certain middle-end brands, including IWC, Piaget, Chopard, Jaeger-LeCoultre, Rado, Baume & Mercier, TAG Heuer, Breitling, Bell & Ross, Zenith, Gucci, Montblanc, Bulgari, Hamilton, Reuge and Statola del Tempo, to cater for the specific needs of the customers. The brand new positioning is expected to enhance the sales of "Elegant" shops.

The Group's retail business in Hong Kong is mainly positioned in 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, Vincent Berard, Christophe Claret and Heuge, etc. During the first half of the year, certain new brands including Richard Mille were introduced. Fully complementing the Group's retail businesses in Mainland China and Taiwan, the sale of such high-end brands created huge synergistic effect which helped the Group to maintain its leading position among high-end watch retailers in Hong Kong.

Benefited from the increasing number of tourists and the continuous improvement in management, the Omega boutique in Macau achieved positive sales over the period under review. Customers and sales increased as the shop image escalated after renovation last year. The business in Macau is recuperating in order to go full steam ahead. The changing economic conditions and improving economic status of Macau will definitely bring synergy to the Group's businesses in Hong Kong and Macau, which will further consolidate the Group's leading position in the region.

Taiwan

The Group's retail business in Taiwan is currently in the process of network building and cultivation. Clinging to a similar sales strategy as in Mainland China, the Group focuses on the sales of middle-end and middle-to-high-end watches in Taiwan. The Group operated a total of 59 retail outlets in Taiwan as at 30 June 2013, mainly located in prime districts including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one "Elegant" shop which sells top-end watches and certain single-brand boutiques, all other retail outlets are "Hengdeli" shops which sell middle-end and middle-to-high-end watch brands like Rado, TAG Heuer, Longines, Tissot, Certina and Hamilton, etc.

During the period under review, 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 tightened and the economic ties among Mainland China, Taiwan and Hong Kong will become closer. It is expected that an increasing number of Mainland tourists will travel to Taiwan, creating new opportunities for Taiwan's retail industry.

Customer services and maintenance

The comprehensive and excellent customer services in the Greater China region is one of the Group's highlights. As a leading retailer of imported watches in Mainland China, the Group closely cooperated with all brand suppliers. During the period under review, in respect of customer services, the Group successively signed watch maintenance agent agreements with International Luxury Group and Eterna Group. As of now, the Group has become the maintenance agent for 65 international brands, of which 48 brands have engaged the Group as their exclusive maintenance agent.

As the number of brand suppliers increases and given the unfavorable retail condition in global markets, brand suppliers have put more emphasis on the integration and comprehensiveness of their brands' global services. Therefore, aside from the existing after-sale services, the Group is striving to deepen cooperation with these brands during the pre-sale and in-sale stage.

High-calibre maintenance technicians have been the foundation of the Group's customer services. During the period under review, the Group dispatched selected maintenance technicians to attend overseas training courses on a regular basis, and maintained good partnerships with watch maintenance technical schools in foreign countries like Sweden and Japan, so as to secure consistent supply of high-calibre maintenance technicians. Also, to support the Group's retail expansion in second and third tier cities, the Group organized maintenance technical training courses in and around these cities, with overseas senior technicians in charge of course planning and teaching, so as to provide strict training for the front-line maintenance technicians in a timely and phased manner. As a result, the Group's high-level customer services on par with the international standards are guaranteed.

The provision of "advanced technology, online warranty, efficient management and considerate services" is one of the assurances delivered by the Group to our customers and brand suppliers. The Group has been delivering all-round 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 customers with assurance and confidence.

Packaging and display products

During the period under review, the slumping global economy and the fluctuation of RMB to Euro exchange rate dented the sales of the Group's packaging and display segment. However, the overall business operation was in a robust momentum. In the first half of the year, the number of brands and models available for sale were on the rise constantly. New brands such as Fendi and Eterna joined partnership with the Group, adding nearly 50 new models to our product list. At the same time, the Group is striving proactively for a more reasonable pricing system to guarantee the overall interest of the packaging and display segment.

The packaging and display segment is one of the profit generators for the Group in the long run. The Group will seek multi-tiered cooperation from various perspectives with brand suppliers actively, maximizing the efficiency in division of labor and collaboration, so as to strengthen the new profit generator and facilitate the long-term progress of the Group.

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 labor in the integration of sale and supply.

The Group has about 400 wholesale customers in almost one hundred cities across Mainland China. The Group distributes and exclusively distributes world-known watch brands including TAG Heuer, Zenith, Bulgari of LVMH Group and Hamilton, Certina, Balmain, Tissot, Mido, and CK of Swatch Group.

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.

III. Human Resources and Training

As at 30 June 2013, the Group had a total of 7,970 employees in Mainland China, Hong Kong and Taiwan.

The Group always views human resources as its valuable assets and is always committed to developing and adding value to human resources. The Group implements a standardized recruitment system and allocates resources to various training programs for the managerial staff, front-line service staff and maintenance technicians. These training programs cover, among others, the art of management, sales skills, brand knowledge and service awareness, with an aim to enhance the knowledge, marketing skills and service capability of our staff. The Group also works with our brand suppliers on the provision of regular training to front-line service staff and maintenance technicians in brand knowledge and maintenance expertise.

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

Under a solid human resources reward system, the Group can attract and retain a number of senior sales persons and senior repair technicians. Also, certain staff members were awarded the "Capital Labor Medal" and the "May 1st Labor Medal".

IV. Outlook

In spite of the instability in global economy, we are fully confident in China's economic growth and the Group's outlook. We believe that the growth momentum in China remains stable. Under the government policy of "prosperity amid stability", which aims at stabilizing growth, optimizing structure and deepening reform, the pace of urbanization, the growth of second, third and even fourth tier cities, and the expansion of the middle class will be accelerated, and a wholesome business environment with increasing domestic demand and consumption will emerge.

Looking ahead to the second half year, the Group will adhere to its principle of "seeking progress amidst stability" to cautiously advance the expansion in second, third and even fourth tier cities, step up the adjustment of the retail structure in first tier cities, upgrade and refine the brand image of high-end "Elegant" shops, and gradually merge the middle-end "With Time" shops into the middle-to-high-end "Prime Time" shops to build a single presence of "Prime Time" shops, so as to enhance the sales of middle-end and middle-to-high-end brands with consolidated resources. Meanwhile, the Group will continue to strengthen internal management, improve the operation and expansion systems, and upgrade the quality of outlets and the brand image of all retail outlets. Continuous efforts will be also made in improving and strengthening the human resources management system and sales information platform, etc. In Hong Kong, the Group will integrate its competitive resources to build and improve the multi-level distribution system, and adjust the layout of retail outlets, so as to reinforce the synergy among all outlets to create better results.

The Group will also further optimize the close cooperation with brand suppliers in respect of customer services, packaging and display products, and brand distribution, in an attempt to forge interactive, complementary and mutually beneficial win-win relationships globally for the long-term business development of the Group. In respect of the jewellery business, the Group will adapt to the changes in the market and invest in a cautious manner.

In conclusion, the Group will continue to center our business in Mainland China and Hong Kong to gain a foothold in the Greater China region, while prudently expanding into Europe and the US. The Group will stay in tune with the market in a healthy and practical approach to grasp market opportunities and secure stable and sustainable progress, aiming to return shareholders, the community and employees with desirable results.

DIVIDEND DISTRIBUTION

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2013.

SHARE OPTION SCHEME

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

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

Options granted in 2011

Name of grantee	Date of grant	Exercise period	Exercise price *(HKD)*	Closing price of the shares immediately before the date of grant *(HKD)*	Number of options as at 1 January 2013	Number of options exercised during the period	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2013	Percentage of the number of options in the total number of issued shares of the Company
Directors	—	—		—	—	—	—	—	—	—
Other eligible participants	30 September 2011	30 September 2014 to 29 September 2016	2.66 *(Note 1)*	2.71	3,350,000	—	—	1,000,000	2,585,000 *(Note 1)*	0.054%
Total					3,350,000	—	—	1,000,000	2,585,000	0.054%

Note 1: As a result of the bonus issue by the Company during the period under review, adjustments were made to the exercise price and the number of options outstanding under the share option scheme. Please refer to the announcement of the Company dated 23 May 2013 for details.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company repurchased 26,160,000 listed shares on The Stock Exchange of Hong Kong Limited by way of acquisition from the market. The total consideration paid was HKD69,152,000. Upon the completion of the settlement of such repurchase, the Company has cancelled all the repurchased shares.

During the period under review, the Company repurchased certain convertible bonds on the Singapore Exchange Securities Trading Limited by way of acquisition from the market. Such bonds were listed on the Singapore Exchange Securities Trading Limited on 22 October 2010. The total consideration paid for the repurchased bonds with principal amount of HKD308,000,000 was HKD318,256,000. The repurchased bonds have been cancelled in accordance with the terms of bonds. As at 30 June 2013, the Company had HKD2,192,000,000 bonds remained outstanding.

Bonus Issue and Issue of Bonds

During the period under review, the Company capitalized approximately HKD2,183,000 in the share premium account and made a bonus issue of 436,627,905 bonus shares in aggregate in the proportion of 1 bonus share for every 10 shares held by qualified shareholders.

During the period under review, the Company issued USD settled 6.25% senior notes due 2018 in the aggregate principal amount of USD350 million which were listed on The Stock Exchange of Hong Kong Limited on 30 January 2013.

As at 30 June 2013, the issued share capital of the Company was 4,802,906,959 shares. The Company had HKD2,192,000,000 convertible bonds outstanding, which were listed on the Singapore Exchange Securities Trading Limited on 22 October 2010.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

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

The Company has adopted the Corporate Governance Code 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 Corporate Governance Code during the period under review, except for a deviation from the provision A.2.1. 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.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee of the Company comprises three independent non-executive Directors, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material extraordinary items, and the discussion about the auditing internal controls and financial reporting matters, including a review on the interim report for the six months ended 30 June 2013.

Compliance with the Model Code for Securities Transactions by Directors

For the six months ended 30 June 2013, the Company has adopted a code for securities transactions by directors on terms no less exacting than the standard required by the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard for securities transactions by Directors set out in the above model code.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

An interim report for the six months ended 30 June 2013 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Stock Exchange and the website of the Company in due course.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

GENERAL INFORMATION

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung Stan, the non-executive Director is Mr. Shi Zhongyang and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 29 August 2013