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HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 3389)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

	For the year ended 31 December		
	2013	2012	Change
	RMB'000	RMB'000	(%)
Turnover	13,375,443	12,120,448	+10.4
Gross profit margin	27.2%	26.0%	+120 bps
Profit for the year ^{note 1}	468,872	945,518	-50.4
Profit attributable to equity shareholders ^{note 2}	400,421	855,153	-53.2
Profit attributable to equity shareholders excluding the non-core business ^{note 3}	514,066	786,648	-34.7
Proposed final dividend of RMB2.5 cents, representing approximately 30% distribution from the profit attributable to equity shareholders of the Company for the financial year 2013.			

Note ^{1, 2, 3}: Apart from the decrease in gross profit margin of sales of high-end watches due to the economic environment impact, the impairment provision for shares of Ming Fung Jewellery Group Limited ("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 2012 also caused the decrease in profit for the year.

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 2013 (hereinafter refer to as the “Year or year under review”), which have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

(Expressed in Renminbi)

	<i>Note</i>	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Turnover	3 & 9	13,375,443	12,120,448
Cost of sales		<u>(9,731,808)</u>	<u>(8,966,015)</u>
Gross profit		3,643,635	3,154,433
Other revenue	4	139,278	137,063
Other net (loss)/income	4	(105,477)	80,215
Distribution costs		(2,376,215)	(1,551,963)
Administrative expenses		(326,654)	(355,745)
Other operating (expenses)/income		<u>(5,583)</u>	<u>1,310</u>
Profit from operations		968,984	1,465,313
Finance costs	5(a)	(291,074)	(266,445)
Share of (losses)/profits of associates		(7,805)	31,138
Share of profits of joint ventures		<u>3,250</u>	<u>976</u>
Profit before taxation	5	673,355	1,230,982
Income tax	6(a)	<u>(204,483)</u>	<u>(285,464)</u>
Profit for the year		<u>468,872</u>	<u>945,518</u>
Attributable to:			
Equity shareholders of the Company		400,421	855,153
Non-controlling interests		<u>68,451</u>	<u>90,365</u>
Profit for the year		<u>468,872</u>	<u>945,518</u>
Earnings per share			
Basic	8(a)	<u>RMB0.083</u>	<u>RMB0.177</u>
Diluted	8(b)	<u>RMB0.083</u>	<u>RMB0.175</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

(Expressed in Renminbi)

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	468,872	945,518
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	<u>(31,181)</u>	<u>2,555</u>
Total comprehensive income for the year	<u>437,691</u>	<u>948,073</u>
Attributable to:		
Equity shareholders of the Company	369,240	857,708
Non-controlling interests	<u>68,451</u>	<u>90,365</u>
Total comprehensive income for the year	<u>437,691</u>	<u>948,073</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

(Expressed in Renminbi)

		2013		2012	
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets					
– Investment property			242,704		255,342
– Other property, plant and equipment			<u>1,452,763</u>		<u>996,586</u>
			1,695,467		1,251,928
Intangible assets					
Goodwill			109,793		111,599
Interest in associates	19		840,521		362,504
Interest in joint ventures			83,861		503,724
Other investments			54,035		57,137
Deferred tax assets			797		797
Other financial assets	10		67,409		52,935
			<u>–</u>		<u>335,350</u>
			2,851,883		2,675,974
Current assets					
Inventories	11	6,328,722		5,569,961	
Trade and other receivables	14	1,366,795		1,369,112	
Deposits with banks	12	100,000		1,294	
Cash and cash equivalents	13	2,185,922		2,869,945	
			<u>9,981,439</u>		<u>9,810,312</u>
Current liabilities					
Trade and other payables	15	2,358,545		2,163,049	
Bank loans	16	1,354,737		1,598,789	
Current taxation		18,738		29,798	
Convertible bonds	18	–		2,023,009	
			<u>3,732,020</u>		<u>5,814,645</u>
Net current assets			<u>6,249,419</u>		<u>3,995,667</u>
Total assets less current liabilities			9,101,302		6,671,641

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*At 31 December 2013*

(Expressed in Renminbi)

		2013		2012	
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities					
Bank loans	16	460,814		561,540	
Senior notes	17	2,159,231		–	
Convertible bonds	18	76,104		–	
Provisions		94,344		145,944	
Deferred tax liabilities		126,643		50,315	
			<u>2,917,136</u>		<u>757,799</u>
NET ASSETS			<u>6,184,166</u>		<u>5,913,842</u>
CAPITAL AND RESERVES					
Share capital	7(b)		22,935		21,285
Reserves			<u>5,576,299</u>		<u>5,435,579</u>
Total equity attributable to equity shareholders of the Company			5,599,234		5,456,864
Non-controlling interests			<u>584,932</u>		<u>456,978</u>
TOTAL EQUITY			<u>6,184,166</u>		<u>5,913,842</u>

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2013 comprise the Group and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

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 with the exception of the amendments to HKAS 36, Impairment of assets – Recoverable amount disclosures for non-financial assets, which modify the disclosure requirements for impaired non-financial assets. The amendments are effective for annual periods beginning on or after 1 January 2014, but as permitted by the amendments, the Group has adopted the amendments early.

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/(LOSS)

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Other revenue		
Interest income	64,992	65,130
Dividend income from unlisted investments	34,977	37,542
Government grants	15,753	13,578
Rental income	9,300	10,420
Others	14,256	10,393
	139,278	137,063

The Group purchased certain bank wealth management products from banks, all of which were principal-protected, with a total principal amount of RMB2,110,405,000 during 2013 (2012: RMB2,720,000,000). By the end of 2013, all of the principal and interest relating to these products had been received and the Group had recognised a total interest income of RMB35,626,000 on these products (2012: RMB32,680,000).

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Other net (loss)/income		
Impairment loss of interest in an associate	(87,893)	(74,058)
Gain on disposal of an associate	4,487	515
Gain on disposal of subsidiaries	-	122,247
Gain on deemed disposal of other investment	-	17,463
Net foreign exchange gain	25,540	16,063
Net loss on disposal of property, plant and equipment	(4,124)	(3,237)
Changes in fair value of embedded financial derivatives	-	1,222
Net loss on repurchase and redemption of convertible bonds	(43,487)	-
	(105,477)	80,215

5. PROFIT BEFORE TAXATION

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

(a) Finance costs

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	82,434	160,919
Interest on other loans	–	4,290
Interest on convertible bonds	69,185	92,900
Interest on senior notes	130,759	–
Bank charges	8,696	8,336
	<u>291,074</u>	<u>266,445</u>

(b) Staff costs

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Contributions to defined contribution retirement plans	92,992	79,584
Equity-settled share-based payment expenses	(243)	842
Salaries, wages and other benefits	640,267	591,965
	<u>733,016</u>	<u>672,391</u>

(c) **Other items**

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Amortisation of intangible assets	<u>10,402</u>	<u>5,634</u>
Depreciation of fixed assets	<u>127,471</u>	<u>107,105</u>
Impairment losses/(reversal)		
– trade and other receivables	5,583	(1,310)
– interest in associates	<u>87,893</u>	<u>74,058</u>
	<u>93,476</u>	<u>72,748</u>
Net foreign exchange gain	<u>25,540</u>	<u>16,063</u>
Operating lease charges in respect of properties		
– minimum lease payments	299,550	237,957
– contingent rents	<u>496,092</u>	<u>503,988</u>
	<u>795,642</u>	<u>741,945</u>
Auditors' remuneration	<u>4,190</u>	<u>4,070</u>
Rental income from investment property	<u>7,042</u>	<u>7,399</u>
Cost of inventories	<u>9,731,808</u>	<u>8,966,015</u>

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Current tax		
Provision for Hong Kong profits tax for the year	63,038	76,084
Provision for Mainland China income tax for the year	152,471	180,353
Provision for Taiwan and Macau income tax for the year	882	2,491
Under-provision in respect of prior years	1,933	2,155
	<hr/>	<hr/>
Sub-total	218,324	261,083
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Deferred tax		
Origination and reversal of temporary differences	(13,841)	24,381
	<hr/>	<hr/>
Sub-total	(13,841)	24,381
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total	204,483	285,464
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Pursuant to the rules and regulations of the Cayman Islands, the Company is exempted 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 2013 is calculated at 16.5% (2012: 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 2013 (2012: 25%).

The provision for Taiwan income tax for 2013 is calculated at 17% (2012: 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 2013 (2012: 12%).

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Profit before taxation	<u>673,355</u>	<u>1,230,982</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	201,200	290,723
Tax effect of non-taxable income	(11,669)	(27,922)
Tax effect of non-deductible expenses	4,163	7,119
Under-provision in respect of prior years	1,933	2,155
Tax effect of tax losses not recognised	<u>8,856</u>	<u>13,389</u>
Actual tax expense	<u>204,483</u>	<u>285,464</u>

7. CAPITAL, RESERVES AND DIVIDENDS

(a) **Dividends**

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Final dividend proposed after the end of the reporting date of RMB0.025 per ordinary share (2012: RMB0.04 per ordinary share)	<u>119,978</u>	<u>174,651</u>

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*

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.04 per share (2012: RMB0.064 per share)	<u>174,651</u>	<u>281,487</u>

(b) Share capital

(i) *Authorised and issued share capital*

	2013		2012	
	<i>Number of shares</i>	<i>Amount HKD</i>	<i>Number of shares</i>	<i>Amount HKD</i>
Authorised:				
Ordinary shares of HKD0.005 each	<u>10,000,000,000</u>	<u>50,000,000</u>	<u>10,000,000,000</u>	<u>50,000,000</u>
	2013		2012	
	<i>Number of shares</i>	<i>Amount HKD</i>	<i>Number of shares</i>	<i>Amount HKD</i>
Issued and fully paid:				
At 1 January	4,392,439,054	21,962,195	4,398,239,054	21,991,195
Share repurchase	(26,160,000)	(130,800)	(5,800,000)	(29,000)
Issuance of bonus shares	<u>436,627,905</u>	<u>2,183,139</u>	<u>–</u>	<u>–</u>
At 31 December	<u>4,802,906,959</u>	<u>24,014,534</u>	<u>4,392,439,054</u>	<u>21,962,195</u>
		Equivalent RMB'000		Equivalent RMB'000
		<u>22,935</u>		<u>21,285</u>

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 year ended 31 December 2013, a total of 26,160,000 shares were purchased 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).

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

Exercise period	Exercise price	2013 Number	2012 Number
30 September 2014 to 29 September 2016	<u>HKD2.66</u>	<u>1,375,000</u>	<u>3,685,000</u>

Each option entitles the holder to subscribe for one ordinary share in the Company.

(iv) *Issuance of bonus shares*

In May 2013, the annual general meeting of all the shareholders of the Company approved the issuance of bonus shares, on the basis of 1 bonus share, credited as fully paid, for every 10 existing issued ordinary shares. On 30 May 2013, 436,627,905 shares were issued pursuant to the bonus issue.

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 RMB400,421,000 (2012: RMB855,153,000) and the weighted average of 4,805,423,906 ordinary shares (2012: 4,834,547,960 ordinary shares after adjusting for the bonus issue in May 2013 (see note 7(iv)) in issue during the year, calculated as follows:

(i) *Weighted average number of ordinary shares*

	2013	2012
Issued ordinary shares at 1 January	4,395,043,600	4,398,239,054
Effect of shares repurchased	(29,124,054)	(3,195,454)
Effect of bonus issue	<u>439,504,360</u>	<u>439,504,360</u>
Weighted average number of ordinary shares at 31 December	<u><u>4,805,423,906</u></u>	<u><u>4,834,547,960</u></u>

(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 RMB400,421,000 (2012: RMB946,831,000) and the weighted average number of ordinary shares outstanding of 4,805,423,906 shares (2012: 5,400,198,673 shares after adjustment for the effect of all dilutive potential ordinary shares and after adjusting for the bonus issue in May 2013), calculated as follows:

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

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to equity shareholders (basic)	400,421	855,153
Effect of effective interest on the liability component of convertible bonds	–	92,900
Effect of gains recognised on the derivative component of convertible bonds	<u>–</u>	<u>(1,222)</u>
Profit attributable to equity shareholders (diluted)	<u><u>400,421</u></u>	<u><u>946,831</u></u>

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

	2013	2012 (Restated)
Weighted average number of ordinary shares	4,805,423,906	4,834,547,960
Effect of conversion of convertible bonds	–	565,650,713
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 31 December	<u>4,805,423,906</u>	<u>5,400,198,673</u>

The weighted average numbers of ordinary shares in issue for the year ended 31 December 2012 and 2013 have been retrospectively adjusted for the effect of the bonus issue in May 2013.

The calculation of diluted earnings per share amount for the years ended 31 December 2013 and 2012 has not included the potential effects of the deemed issue of shares under the Company's share option scheme for nil consideration into ordinary shares as it has anti-dilutive effect on the basic earnings per share amount during the years.

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 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 retail revenue through their own retail network.
- Wholesale segment: 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 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	RMB'000
Revenue from															
external customers	5,598,929	5,627,893	3,151,948	3,113,940	206,454	214,612	1,021,302	-	3,118,244	2,924,747	278,566	239,256	13,375,443	12,120,448	
Inter-segment revenue	-	-	-	-	-	-	-	-	2,631,246	3,075,736	-	1,155	2,631,246	3,076,891	
Reportable segment revenue	<u>5,598,929</u>	<u>5,627,893</u>	<u>3,151,948</u>	<u>3,113,940</u>	<u>206,454</u>	<u>214,612</u>	<u>1,021,302</u>	<u>-</u>	<u>5,749,490</u>	<u>6,000,483</u>	<u>278,566</u>	<u>240,411</u>	<u>16,006,689</u>	<u>15,197,339</u>	
Reportable segment profit	<u>1,747,421</u>	<u>1,905,137</u>	<u>683,102</u>	<u>753,042</u>	<u>63,649</u>	<u>69,137</u>	<u>735,824</u>	<u>-</u>	<u>326,687</u>	<u>338,131</u>	<u>86,952</u>	<u>88,986</u>	<u>3,643,635</u>	<u>3,154,433</u>	
Reportable segment assets	<u>3,171,910</u>	<u>2,968,170</u>	<u>1,507,122</u>	<u>1,371,845</u>	<u>239,496</u>	<u>273,120</u>	<u>120,253</u>	<u>-</u>	<u>1,291,340</u>	<u>1,016,385</u>	<u>66,768</u>	<u>63,681</u>	<u>6,396,889</u>	<u>5,693,201</u>	

Harvest Max Holdings Limited ("Harvest Max") carries out jewellery, watches and duty free commodities retail business in Hong Kong.

Results and assets of the segment below the quantitative thresholds are mainly attributable to a watch repairing and maintenance business, a packaging and decoration business, a watch case manufacturing business, a hotel business, and a property management business.

(ii) Reconciliations of reportable segment revenues and profit or loss

	2013	2012
Revenue	RMB'000	RMB'000
Total revenues for reportable segments	15,728,123	14,956,928
Revenue for other segments	278,566	240,411
Elimination of inter-segment revenue	(2,631,246)	(3,076,891)
	<hr/>	<hr/>
Consolidated turnover	13,375,443	12,120,448
	<hr/>	<hr/>
	2013	2012
Profit	RMB'000	RMB'000
Total profit for reportable segments	3,556,683	3,065,447
Profit for other segments	86,952	88,986
	<hr/>	<hr/>
	3,643,635	3,154,433
Other revenue	139,278	137,063
Other net (loss)/income	(105,477)	80,215
Distribution costs	(2,376,215)	(1,551,963)
Administrative expenses	(326,654)	(355,745)
Other operating (expenses)/income	(5,583)	1,310
Finance costs	(291,074)	(266,445)
Share of (losses)/profits of associates	(7,805)	31,138
Share of profits of joint ventures	3,250	976
	<hr/>	<hr/>
Consolidated profit before taxation	673,355	1,230,982
	<hr/>	<hr/>
	2013	2012
Assets	RMB'000	RMB'000
Total assets for reportable segments (inventories)	6,330,121	5,629,520
Assets for reportable segments (inventories)	66,768	63,681
Elimination of unrealised inter-segment profit	(68,167)	(123,240)
	<hr/>	<hr/>
	6,328,722	5,569,961
Trade and other receivables	1,366,795	1,369,112
Deposits with banks	100,000	1,294
Cash and cash equivalents	2,185,922	2,869,945
Non-current assets	2,851,883	2,675,974
	<hr/>	<hr/>
Consolidated total assets	12,833,322	12,486,286
	<hr/>	<hr/>

(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 joint ventures 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 joint ventures and other investments.

The Group's business is mainly managed in three principal economic environments, Mainland China, Hong Kong and Taiwan.

	2013	2012
Revenue from external customers	RMB'000	RMB'000
Mainland China	8,948,022	8,721,505
Hong Kong and Macau	4,220,967	3,181,545
Taiwan	206,454	214,612
Others	–	2,786
	<hr/>	<hr/>
Total	13,375,443	12,120,448
	<hr/> <hr/>	<hr/> <hr/>
	2013	2012
Specified non-current assets	RMB'000	RMB'000
Mainland China	1,855,985	1,470,991
Hong Kong	697,759	567,796
Taiwan	230,066	248,561
Others	664	341
	<hr/>	<hr/>
Total	2,784,474	2,287,689
	<hr/> <hr/>	<hr/> <hr/>

10. OTHER FINANCIAL ASSETS

Other financial assets as at 31 December 2012 represent the prepayment in respect of the acquisition of a watch retail business in mainland China. This acquisition has been completed on 11 December 2013.

11. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Raw materials	31,922	26,409
Work in progress	30,673	23,188
Finished goods	6,266,127	5,520,364
	<u>6,328,722</u>	<u>5,569,961</u>

12. DEPOSITS WITH BANKS

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Deposits with original maturities over three months	100,000	–
Pledged bank deposits	–	1,294
	<u>100,000</u>	<u>1,294</u>

Pledged bank deposits of the Group mainly represent deposits pledged at banks to secure letters of guarantee granted to the Group. The pledged bank deposits are released upon the termination of the related instruments.

13. CASH AND CASH EQUIVALENTS

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Cash and cash equivalents in the statement of financial position	<u>2,185,922</u>	<u>2,869,945</u>

14. TRADE AND OTHER RECEIVABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade receivables	901,227	993,796
Amount due from associates	2,021	18,604
Amount due from a joint venture	–	287
Less: allowance for doubtful debts	<u>(5,821)</u>	<u>(818)</u>
	897,427	1,011,869
Prepayments and deposits	206,943	146,198
Other receivables	231,309	208,296
Amount due from associates	20,583	526
Amount due from joint ventures	<u>10,533</u>	<u>2,223</u>
	<u>1,366,795</u>	<u>1,369,112</u>

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:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Current	<u>844,218</u>	<u>855,753</u>
Less than 1 month past due	2,371	84,961
1 to 3 months past due	29,890	47,301
More than 3 months but less than 12 months past due	19,672	20,315
More than 12 months past due	<u>1,276</u>	<u>3,539</u>
Amounts past due	<u>53,209</u>	<u>156,116</u>
	<u>897,427</u>	<u>1,011,869</u>

Trade receivables are due within 30 to 60 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:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Neither past due nor impaired	<u>844,218</u>	<u>855,753</u>
Less than 1 month past due	2,371	84,961
1 to 3 months past due	29,890	47,301
More than 3 months but less than 12 months past due	19,467	20,099
More than 12 months past due	<u>1,241</u>	<u>706</u>
	<u>52,969</u>	<u>153,067</u>
	<u>897,187</u>	<u>1,008,820</u>

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.

15. TRADE AND OTHER PAYABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade payables	1,923,219	1,782,100
Amounts due to associates	<u>5,095</u>	<u>15,451</u>
	1,928,314	1,797,551
Other payables and accrued expenses	387,731	310,261
Advance receipts from customers	42,500	52,730
Amounts due to a joint venture	<u>-</u>	<u>2,507</u>
	<u>2,358,545</u>	<u>2,163,049</u>

As of the end of the reporting period, the ageing analysis of trade payables and amount due to associates, based on invoice date, is as follows:

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	1,072,438	1,152,110
Over 1 month but less than 3 months	814,882	614,655
Over 3 months but less than 12 months	26,328	28,742
Over 1 year	14,666	2,044
	<u>1,928,314</u>	<u>1,797,551</u>

16. BANK LOANS

At 31 December 2013, the bank loans were secured as follows:

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans within one year or on demand		
– Secured	23,856	25,575
– Unsecured	1,330,881	1,573,214
	<u>1,354,737</u>	<u>1,598,789</u>
Bank loans after one year		
– Secured	110,740	138,618
– Unsecured	350,074	422,922
	<u>460,814</u>	<u>561,540</u>
	<u>1,815,551</u>	<u>2,160,329</u>

At 31 December 2013, the secured bank loans are all drawn down under certain bank facilities secured by mortgages over certain land and buildings and investment properties of the Group with an aggregate carrying value of RMB434,591,000 (2012: RMB267,867,000).

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 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. The net proceeds, after deducting the direct issuance costs, amounted to approximately USD343,969,622 (RMB equivalent: 2,158,949,000).

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 Group has complied with the imposed senior notes covenants for the year ended 31 December 2013.

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:

	<i>RMB'000</i>
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 year	130,759
Interest paid during the year	(67,685)
Foreign exchange loss	2,166
Foreign currency translation difference	(64,958)
	<hr/>
As at 31 December 2013	<u>2,159,231</u>

18. CONVERTIBLE BONDS

On 20 October 2010, the Company issued the HKD Settled 2.5% Convertible Bonds due 2015 (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 year is set out below:

	Liability component <i>RMB'000</i>	Equity component <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2012	1,982,161	60,412	2,042,573
Interest charged during the year	91,264	–	91,264
Interest paid during the year	(50,672)	–	(50,672)
Foreign currency translation difference	256	–	256
	<hr/>	<hr/>	<hr/>
As at 31 December 2012 and 1 January 2013	2,023,009	60,412	2,083,421
Interest charged during the year	69,185	–	69,185
Interest paid during the year	(46,632)	–	(46,632)
Derecognised due to repurchase by the Company during the year	(247,211)	(7,443)	(254,654)
Derecognised due to redemption by the Company during the year	(1,690,367)	(50,673)	(1,741,040)
Foreign currency translation difference	(31,880)	–	(31,880)
	<hr/>	<hr/>	<hr/>
As at 31 December 2013	<u>76,104</u>	<u>2,296</u>	<u>78,400</u>

In January, 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: 254,127,000). The Repurchased Bonds have been cancelled in accordance with the terms of the 2015 Convertible Bonds.

On 18 October 2013, the Company redeemed 2015 Convertible Bonds in an aggregate principal amount of HKD2,097,000,000 (the “Redemption Bonds”), for a total sum of HKD2,162,727,000 (RMB equivalent: 1,726,938,000).

Following the cancellation of the Repurchased Bonds and Redemption Bonds, the aggregate principal amount of the 2015 Convertible Bonds remaining outstanding as at 31 December 2013 is HKD95,000,000.

No conversion of the 2015 Convertible Bonds has occurred up to 31 December 2013.

19. INTEREST IN ASSOCIATES

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Interest in associates	245,812	577,782
Less: impairment loss	(161,951)	(74,058)
	<u>83,861</u>	<u>503,724</u>

The decrease in interest in associates is attributable to the purchase of additional 30% equity interest in Harvest Max, which became a subsidiary of the Group (see note 20).

20. ACQUISITION OF EQUITY INTERESTS IN HARVEST MAX

The Group acquired 10% equity interest and 30% equity interest in Harvest Max in September 2011 and April 2012, respectively. Consideration of RMB38,913,000, RMB184,816,000 and RMB36,641,000 were paid in 2011, 2012 and 2013, respectively.

On 22 April 2013, the Group acquired an additional 30% equity interest in Harvest Max with a cash consideration of HKD238,000,000 (equivalent to RMB190,178,000). Upon completion of the acquisition, the Group 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.

21. ACQUISITION OF SUBSIDIARIES

On 1 July 2013, the Group acquired the business of watchcase manufacturing of a local third party for a cash consideration of HKD39,855,000 (RMB equivalent 31,747,000). In the six months ended 31 December 2013, this acquired business contributed revenue of RMB35,415,000 and profit of RMB4,182,000 to the Group's result.

On 31 December 2013, the Group acquired the business of counters and stores decoration of a local third party for a cash consideration of RMB18,000,000.

On 11 December 2013, the Group acquired the retail business of a local third party, which is principally engaged in retail of watches, gold and jewellery in mainland China, for a cash consideration of RMB469,476,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Not all of our expectations came true in 2013. In the context of a tamed global economic recovery, China's economy showed smooth and positive signs through structural adjustments. Well positioned for every market opportunity, the Group gave full play to its strengths to align its professional operations with market dynamics in a customer-oriented approach, seeking to provide consumers the thoughtful and personalized service experience with an aim at new development. As a result, the Group achieved stable performance despite the challenging market environment, effectively safeguarding the interests of its shareholders.

I. FINANCIAL REVIEW

Sales

For the year ended 31 December 2013, the Group recorded sales of RMB13,375,443,000, representing an increase of 10.4% over the corresponding period last year. Retail sales amounted to RMB9,978,633,000, representing an increase of 11.4% over the corresponding period last year, of which, domestic retail sales decreased by 0.5% year-on-year to RMB5,598,929,000, and Hong Kong retail sales increased by 1.2% year-on-year to RMB3,151,948,000. The total retail sales accounted for 74.6% of the total sales.

In general, the growth of the Group's retail business continued to retard year-on-year, still mainly due to the subdued sales of high-end watches amid the global turmoil, when the growth rate of Chinese economy goes down and the economic structural adjustments carry on, which hindered the growth of the Group's overall sales.

Nevertheless, the Group maintained a stable growth of 8.9% year-on-year for sales of middle-end brands in Mainland China, thanks to the efficient execution of sales strategy catering to the advancement of China's policies concerning people's livelihood along with the urbanization paces of smaller towns. The growth not only mirrored a success of the Group's sales strategy, but also justified its approach in Mainland China in the coming years.

Sales breakdown: (for the year ended 31 December 2013)

	2013		2012	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Retail Business				
Mainland China	5,598,929	41.9	5,627,893	46.4
Hong Kong	3,151,948	23.6	3,113,940	25.7
Taiwan	206,454	1.5	214,612	1.8
Harvest Max	1,021,302	7.6	–	–
Wholesale Business	3,118,244	23.3	2,924,747	24.1
Customer Services and Others	278,566	2.1	239,256	2.0
	<hr/>	<hr/>	<hr/>	<hr/>
Total	13,375,443	100	12,120,448	100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Gross profit and gross profit margin

As at 31 December 2013, the Group's gross profit increased by 15.5% year-on-year to approximately RMB3,643,635,000. Gross profit margin was approximately 27.2%, representing an increase of 120 bps from the corresponding period last year. If excluding the contribution from Harvest Max, it represents a slightly decrease. The decrease in gross profit margin was mainly due to more flexibility in discount offering in sales of high-end brands amid intensified market competition and subdued economic environment.

Profit for the year

Excluding the non-core businesses, the Group recorded net profit of RMB582,517,000, a year-on-year drop of 33.6% due to the impact from external business environment. The Group's comprehensive net profit for the year was RMB468,872,000, representing a decrease of 50.4% as compared to the same period last year. Apart from a decrease in gross profit margin of sales of high-end watches and an increase in expenses arising from higher labor cost and rental expenses, the decrease in net profit was also attributable to the impairment provision for shares of Ming Fung Jewellery Group Limited ("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 2012.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position.

During the year 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 year 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 31 December 2013, the aggregate principal amount of the HKD settled convertible bonds due in 2015 issued by the Company on 20 October 2010 was HKD95,000,000. 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 RMB4,050,886,000. As at 31 December 2013, the net debt to equity ratio of the Group, including the bonds and the senior notes, was approximately 30.2%; including principal-guaranteed financial products and fixed deposits, was 28.5%. The directors of the Company believe that such net debt to equity ratio is within a reasonable range.

The Group adopts conservative treasury policies in financial and cash management, managing bank credit availability and monitoring risks of credit cost centrally but in various ways. The Group maintains good partnership with a number of banks which provide facilities, and reviews their funding liquidity and financing requirements regularly.

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.

Foreign exchange risk

The Group’s transactions are mainly denominated in RMB, HKD and USD. 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.

Pledge of assets

As at 31 December 2013, the Group had land and buildings and investment properties of RMB434,591,000 pledged as security for mortgage.

Contingent liabilities

As at 31 December 2013, 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 RMB9,981,439,000, comprising inventories of approximately RMB6,328,722,000, trade and other receivables of approximately RMB1,366,795,000, cash and cash equivalents of approximately RMB2,185,922,000, and deposits with banks of RMB100,000,000.

Current liabilities

During the year under review, the current liabilities of the Group amounted to approximately RMB3,732,020,000, comprising bank loans of approximately RMB1,354,737,000, trade and other payables of approximately RMB2,358,545,000, and current tax payable of approximately RMB18,738,000.

Capital structure

The Company's capital structure is composed of issued share capital, convertible bonds, reserves and accumulated profits. As at 31 December 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 HKD95,000,000 (equivalent to RMB76,104,000).

Material investment, acquisition and disposal

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

Final dividend

The Company recommends the payment of a final dividend of RMB2.5 cents per share for the financial year ended 31 December 2013 in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on Friday, 16 May 2014. The proposed cash dividend will be paid on or before Friday, 6 June 2014 to shareholders whose names appear on the register of members of the Company on Wednesday, 21 May 2014.

II. BUSINESS REVIEW

During the year under review, the Group's business primarily focused on the retail business development 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 e-commerce.

Retail network

Given the essentially unchanged retail market for watches compared with last year, the Group continued to give priorities to business restructuring and refined management to foster new growth sources in 2013. Upholding the principle of "safeness" and "seeking progress amidst stability", the Group promptly responded to market changes and actively adjusted 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 invested more human and monetary resources in customer services by working closely with brand suppliers to extend the coverage of its multi-level comprehensive after-sale service network in Greater China to pre-sale and in-sale aspects to provide consumer with greater 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 which increased by 11.4% year-on-year to RMB9,978,633,000, despite the uncertain market environment. Albeit with a milder growth in average same store sales, the Group's sales of middle-end watches continued to expand in 2013 with a growth at 8.9% as driven by the booming demands.

Over the years, the Group has maintained sound business relationships with many world-renowned watch brand suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group, and KERING Group. As at 31 December 2013, the Group was engaged in the distribution of over 50 international brands from the above five major brand suppliers and other independent watchmakers, including Breguet, Bulgari, Cartier, Gucci, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Rolex, Scatola del Tempo, TAG Heuer, Tissot, Vacheron-Constantin, Van Cleef & Arpels and Zenith etc. During the year, the Group continued to step 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.

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 31 December 2013, the Group operated a total of 470 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, representing an increase of 18 outlets year-

on-year. Of these outlets, 23 were “Elegant” outlets (5 in Hong Kong, 17 in Mainland China and 1 in Taiwan), 381 were “Prime Time” and “Hengdeli” outlets (338 in Mainland China, 7 in Hong Kong and 36 in Taiwan), and 66 were single-brand boutiques (29 in Mainland China, 16 in Hong Kong, 1 in Macau and 20 in Taiwan).

Mainland China

The Group had developed a comprehensive and full-fledged network of retail outlets in Mainland China, with heavy presence in key regions including Beijing, Shanghai, Zhejiang, Jiangsu, Henan, Shanxi, Hubei and Northeastern China where the consolidation of its market share has been completed. Meanwhile, the Group is expanding its shares in Southwest, Central and South China as well as other regions to bolster its market position.

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. As at 31 December 2013, the Group had 384 retail outlets in Mainland China, including 338 “Prime Time” shops. 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 in the year. As at 31 December 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, Chengdu, etc.

During the year under review, demand for middle-end watches was more obvious than that of high-end watches, steering the Group toward a middle-end concentrated approach to re-position and adjust the middle-end outlets with a view to further expand and strengthen the retail network of middle-end watches in Mainland China. New outlets have been set up 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 in Sichuan, Hubei and other regions, to seize and secure the market shares. 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. As a result of adjustment and consolidation, the Group recorded an increase of 22 “Prime Time” outlets in Mainland China during the year. Such initiatives 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 has completed almost all targeted and phased consolidation, transformation and adjustment of “Prime Time” shops and “With Time” shops, allowing the Group to consolidate resources to secure and explore the market for middle-end watches.

During the year under review, the Group’s retail sales in Mainland China recorded a slight decline of 0.5% from last year, mainly attributable to the decrease in sales from high-end watches, which was partially offset by an obviously higher sales from middle-end watches with a growth at 8.9% year-on-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. As a result, the sales strategy of targeting at middle-end watches will still be the developing direction of the Group in Mainland China within the next few years.

Hong Kong and Macau

Sales of Elegant Hong Kong remained positively stable during the year 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-sale service network across the Greater China region, ensuring after-sale guarantees for Mainland tourists shopping in Hong Kong. As at 31 December 2013, the Group recorded an increase of 1.2% in sales in Elegant Hong Kong, an increase of 2.8% if excluding the impact of foreign exchange gains and losses 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.

During the year 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 Baume & Mercier, Bell & Ross, Breitling, Bulgari, Chopard, Gucci, Hamilton, IWC, Jaeger-LeCoultre, Montblanc, Piaget, Rado, TAG Heuer and Zenith as well as Reuge and Scatola del Tempo, to cater for the specific needs of the customers. The brand new positioning boosted the sales of "Elegant" shops.

To adapt to market needs, the Group repositioned its Elegant shops in Hong Kong during the year by opening three single-brand boutiques respectively for Jaeger-LeCoultre, Panerai and TAG Heuer at the 8th floor in Times Square shopping mall. While providing a larger shopping space, the new boutiques have a close proximity to other multi-brand shops and single-brand boutiques of the Group, allowing them to achieve synergism, to form regionalization, and hence to create more sales value.

As at 31 December 2013, the Group operated a total of 21 retail outlets in Hong Kong under "Elegant"'s name, 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, Causeway Bay and Shatin.

The Group's retail business in Elegant Hong Kong mainly focuses on high-end brands, including Blancpain, Breguet, Cartier, Chopard, Dewitt, Franck Muller, IWC, Jaeger-LeCoultre, Omega, Panerai, Piaget, Vacheron-Constantin and Zenith as well as independent watchmakers namely Christophe Claret, Heuge, Scatola del Tempo. During the year, certain

new brands such as Richard Mille were introduced. The sale of such high-end brands fully complemented our retail business in Mainland China and Taiwan, thus creating tremendous synergy.

To adapt to the change in the mix of mainland visitors, the Group also deployed multi-layer brand positionings in Hong Kong, introducing certain middle-end brands in order to expand market share and maintain its leading position 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 year 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. Along with the changing economic conditions and improving economic status of Macau, the Group's businesses in Hong Kong and Macau will definitely achieve synergism, further consolidating 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 nurturing. 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 57 retail outlets in Taiwan as at 31 December 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 Certina, Hamilton, Longines, Rado, TAG Heuer and Tissot, etc.

During the year under review, the sales in Taiwan remained steady and held the line of last year. Currently, the target consumers in Taiwan are mainly local customers. However, as the cross-strait business relations and the economic ties among Mainland China, Taiwan and Hong Kong become closer, it is expected that an increasing number of Mainland tourists will travel to Taiwan, creating new opportunities for Taiwan's retail industry.

E-commerce

As mobile Internet is increasingly penetrating into traditional business models, e-commerce platform is bound to become an integral part of a modern enterprise in the Internet age. As authorized by the brand supplier, the Group began to set foot in online retails in cooperation with certain brands, and opened the first single-brand flagship store during the year. During the "11 November" event in the year, the store was added to favorites over 14,000 times and the sales amount also turned out very good. The established O2O interactive sales platform is believed to become a new driver to the Group's development in a new economic era.

Customer services and maintenance

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.

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. Aside from the existing after-sale services, the Group capitalized on its sound services and expertise to broaden and deepen the cooperation with these brands during the pre-sale and in-sale stages. During the year 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 internationally brands, of which 48 brands have engaged the Group as their exclusive maintenance agent. During the year under review, the Group worked closely with SWATCH Group to provide pre-sale services for Tissot and other watch brands distributed by the Group. Such cooperation is expected to expand further.

High-calibre maintenance technicians have been the foundation of the Group’s customer services. During the year under review, the Group dispatched selected maintenance technicians to attend overseas training courses on a regular basis, and maintained good partnerships with brand suppliers in Switzerland and 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.

Furthermore, the Group established the “Tang’s Studio” operated by Mr. Tang, a National Model Worker in the service center at Wangfujing, Beijing during the year. It is designed to provide a close access to high level services and better interaction with service staff, and hence a strong assurance for consumers.

Packaging and display products

During the year 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. During 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 continued to strive 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. As such, the Group developed a new strategic goal during the year, under which the Group repositioned and consolidated the segment by introducing high-calibre industry players to jointly establish companies for manufacturing watchcase, display and packaging supplies. This move aims to build up a comprehensive and complete platform to support the Group's watch business and forge a new growth base in the long run.

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. During the year, the Group worked closely with brand suppliers to respond to the changing market by streamlining and improving inventory mix on a healthy and sustainable basis. At the same time, based on joint market research, an array of schemes were developed to provide retailers more comprehensive and thoughtful services.

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.

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 Balmain, Certina, CK, Hamilton, Mido and Tissot of SWATCH Group, as well as Bulgari, TAG Heuer and Zenith of LVMH Group.

III. SOCIAL RESPONSIBILITY AND HUMAN RESOURCES

The Group adopts "respect, cooperation, innovation, commitment" as its core values and the cornerstones for its corporate management and social responsibility. The Group also strives to improve the participation mechanism for stakeholders. Through various channels including dialogues and actions in concert, the Group seeks to understand their expectations and appeals to improve mutual understanding and reach the consensus.

As at 31 December 2013, the Group had a total of 8,130 employees in Mainland China, Hong Kong and Taiwan. The Group 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. The Group also offers various welfares 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”.

The Group actively implements the concept of “paperless” office, tapping on online OA system to improve its administrative functions. Environmental protection is one of the top priorities for the Group’s sustainable development. During the year, subsidiaries of the Group’s industrial segment were in strict compliance with national regulations. Reports on pollutants were submitted to environmental authorities regularly as required. All pollutant emissions including sewage and gas passed the annual inspection and the monitoring results met the national standards.

Over the years, the Group as the largest imported watch retailer group in the world has maintained sound business relationships with many world-renowned watch brand suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and KERING Group. During the year, the Group was engaged in the distribution of over 50 international brands from the above five major brand suppliers and other independent watchmakers. Subsidiaries of the Group’s industrial segment carried out strict quality control processes on products in line with national quality standards, which fully guaranteed the interests of clients and consumers.

As a pacesetter in the timepiece industry, the Group extended active presence in public welfare activities in addition to its efforts in delivering business interests and brand value. The Group has conscientiously made contribution to education, healthcare, sports and other welfare undertakings through its donations to Community Chest of Hong Kong, Po Leung Kuk of Hong Kong, Hong Kong Red Cross and Huangpu District Government of Shanghai.

IV. OUTLOOK

We still have expectations in 2014. Despite the challenges ahead for corporates amid uncertainties in global economy, we believe that opportunities will come along with challenges in a new era. With Chinese government's commitment to stabilize economic growth and its advocacy and practices focusing on increasing the quality and effectiveness of economic growth, we believe that an innovative and solid economy is ahead to provide the Group new opportunities and a favorable backdrop for its development in the long run.

In the coming year, the Group will adhere to the market-oriented, customer-centric and service-driven approaches, seeking transformation and progress amidst stability based on its prudent and stable operations. Specifically, the Group will continue to prioritize its resources in middle-end brand operations in order to deepen the refined management, improve the operation and expansion systems, and upgrade quality of outlets and image of retail brands for the steady business growth. Continuous efforts will be also made in improving allocation of human resources, the information management platform, etc. In Hong Kong, the Group will integrate its competitive resources to further improve the multi-level distribution system and adjust the layout of retail outlets, so as to reinforce the synergy among outlets to create better results.

Moreover, under its new strategy for the new environment, the Group will speed up the construction of e-commerce platform and seek O2O sales interaction subject to authorization of brand suppliers; build up and improve the business platform for packaging and display products related to watches; and further expand the scope of customer services to build it into a new profit generator while serving the Group's retail business. The Group will seek all-round progresses in a practical manner to ensure its stability and sustainability in pursuit of greater social responsibility and value additions for shareholders and the community.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 14 May 2014 to Friday, 16 May 2014 (both days inclusive) to confirm the Register of Members who are eligible to attend and vote at the annual general meeting. In order to establish entitlements to attending and voting at the annual 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 Tuesday, 13 May 2014.

The Register of Members will be closed on Thursday, 22 May 2014 to Monday, 26 May 2014 (both days inclusive) to confirm the Register of Members who are entitled to the proposed final dividend. In order to establish entitlements to the proposed final dividend, 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 Wednesday, 21 May 2014.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the year 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 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 HKD2,405,000,000 was HKD2,480,983,000. The repurchased bonds have been cancelled in accordance with the terms of bonds. As at 31 December 2013, the Company had bonds with principal amount of HKD95,000,000 remained outstanding.

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 2012 and 2013 interim report. The Company has adopted and implemented the terms of reference of the audit committee.

During the year, two meetings were held on 26 March 2013 and 29 August 2013 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.

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 whom 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 meeting.

The Company has adopted and implemented the new terms of reference for the remuneration committee. According to the 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 retains 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 (Chairman), the Chairman and an executive Director of the Group, and independent non-executive Directors Messrs. Cai Jianmin and Liu Xueling. The Company has adopted and implemented the new terms of reference for the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and succession planning for the Board.

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, as well as formulation of board diversity policy and related measurable objectives, and review procedures for achieving such objectives. All members, namely Messrs. Zhang Yuping, Cai Jianmin and Liu Xueling, attended the meeting.

CORPORATE GOVERNANCE

Since its establishment, the Company has been committed to maintaining a high standard of corporate governance practice to ensure transparency of the Group's management, 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 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 except for a deviation from the provisions 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.

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), Huang Yonghua and Mr. Lee Shu Chung, Stan), one non-executive Director (Mr. Shi Zhongyang) and three independent non-executive Directors (Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling).

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. Lee Shu Chung, Stan is in charge of the overall business operation of the Group, and Mr. Huang Yonghua is responsible for coordination and 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: 1/6/2013-31/5/2016.

One non-executive Director has professional expertise and extensive experience in the areas of law and business administration; he can offer supervision to the daily operation, and provide corresponding opinions and recommendations in a timely manner. We believe the non-executive Director is beneficial to the standardised operation of the Company and the safeguard of the interests of our shareholders. His name and terms of office are:

Shi Zhongyang: 15/2/2012-14/2/2015.

The Board of the Company is responsible to the general meetings and performs the following major duties: report duties to the general meetings; execute the resolutions of the general meetings; determine investment solutions and profit distribution solutions of the Company; formulate solutions as to increase or decrease of 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.

In respect of the corporate governance functions, during the Year under review, the Board formulated the terms of reference on the corporate governance duties and performed corporate governance duties in accordance with the terms of reference. To be specific, the Board mainly performed the following corporate governance duties during the Year under review:

- To review the Company's policies and practices on corporate governance;
- To review and monitor the training and continuous professional development of directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To review and monitor the code of conduct applicable to directors and employees;
- To review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Members of the Board are provided with appropriate and sufficient information in a timely manner for their understanding of the latest developments of the Group, which in turn supports the discharge of their duties.

The management of the Company is responsible to the Board and performs the following major duties: report duties to the Board; execute the resolutions of the Board; and 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 the internal administration and control systems of the Company.

ATTENDANCE OF THE DIRECTORS AT THE MEETINGS

In 2013, a total of five meetings were held by the Board. Further, an annual general meeting was held. The attendance of the Directors at the meetings was as follows:

Name	Frequency of attendance at the Board meetings	Rate of Attendance	Remarks	Frequency of attendance at the general meeting	Rate of Attendance	Remarks
Zhang Yuping	5	100%		1	100%	
Huang Yonghua	5	100%		1	100%	
Cai Jianmin	5	100%		1	100%	
Wong Kam Fai, William	5	100%		1	100%	
Liu Xueling	5	100%		1	100%	
Shi Zhongyang	5	100%		1	100%	
Lee Shu Chung, Stan	2	100%	approval for appointment at the general meeting held in May 2013	1	100%	
Song Jianwen	3	100%	approval for retirement at the general meeting held in May 2013	1	100%	
Chen Sheng	3	100%	approval for retirement at the general meeting held in May 2013	1	100%	
Zheng Yu	3	100%	approval for retirement at the general meeting held in May 2013	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 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 the 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 of the Company had complied with the standard as required by the code mentioned above.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 25 March 2014

As at the date hereof, the Executive Directors of the Company are Mr. Zhang Yuping (chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung Stan, the Independent Non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xueling, the Non-executive Director is Mr. Shi Zhongyang.