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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)

**2014 INTERIM RESULTS**

<b>FINANCIAL HIGHLIGHTS</b>	<b>For the six months ended 30 June</b>		
	<b>2014</b>	<b>2013</b>	<b>YoY change</b>
Results	<i>RMB'000</i>	<i>RMB'000</i>	(%)
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	
Sales	<b>7,206,514</b>	6,294,235	+14.5
Gross profit	<b>2,060,351</b>	1,673,370	+23.1
Gross profit margin	<b>28.6</b>	26.6	+200 bps
Profit for the period	<b>320,038</b>	302,199	+5.9

## 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 2014, 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 2014 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2014	2013
	Note	RMB'000	RMB'000
<b>Turnover</b>	3	<b>7,206,514</b>	6,294,235
Cost of sales		<b>(5,146,163)</b>	(4,620,865)
<b>Gross profit</b>	3	<b>2,060,351</b>	1,673,370
Other revenue	4	<b>69,273</b>	85,957
Other net loss	4	<b>(46,303)</b>	(50,124)
Distribution costs		<b>(1,367,142)</b>	(1,010,254)
Administrative expenses		<b>(167,560)</b>	(132,793)
<b>Profit from operations</b>		<b>548,619</b>	566,156
Finance costs	5(a)	<b>(118,555)</b>	(156,176)
Share of profits less losses of associates		<b>(1,521)</b>	9,315
Share of profits of joint ventures		<b>1,161</b>	93
<b>Profit before taxation</b>	5	<b>429,704</b>	419,388
Income tax	6	<b>(109,666)</b>	(117,189)
<b>Profit for the period</b>		<b>320,038</b>	302,199
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>279,646</b>	272,537
Non-controlling interests		<b>40,392</b>	29,662
<b>Profit for the period</b>		<b>320,038</b>	302,199
<b>Earnings per share</b>	7		
Basic		<b>RMB0.058</b>	RMB0.057
Diluted		<b>RMB0.058</b>	RMB0.057

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2014 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
<b>Profit for the period</b>	<b>320,038</b>	302,199
<b>Other comprehensive income for the period:</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>9,192</u>	<u>(34,412)</u>
<b>Total comprehensive income for the period</b>	<u><b>329,230</b></u>	<u>267,787</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>288,838</b>	238,125
Non-controlling interests	<u><b>40,392</b></u>	<u>29,662</u>
<b>Total comprehensive income for the period</b>	<u><u><b>329,230</b></u></u>	<u><u>267,787</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 – unaudited

(Expressed in Renminbi)

		At 30 June 2014		At 31 December 2013	
	Note	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Fixed assets	8				
– Investment property			241,959		242,704
– Other property, plant and equipment			1,433,145		1,452,763
			<u>1,675,104</u>		<u>1,695,467</u>
Intangible assets			105,123		109,793
Goodwill			840,521		840,521
Interest in associates	9		69,850		83,861
Interest in joint ventures			55,196		54,035
Other investments			797		797
Deferred tax assets			64,848		67,409
			<u>2,811,439</u>		<u>2,851,883</u>
<b>Current assets</b>					
Inventories	10	6,649,153		6,328,722	
Trade and other receivables	11	1,484,848		1,366,795	
Deposits with banks		102,000		100,000	
Cash and cash equivalents	12	1,517,577		2,185,922	
			<u>9,753,578</u>	<u>9,981,439</u>	
<b>Current liabilities</b>					
Trade and other payables	13	1,888,135		2,358,545	
Bank loans	14	1,290,745		1,354,737	
Current taxation		45,451		18,738	
			<u>3,224,331</u>	<u>3,732,020</u>	
<b>Net current assets</b>			<u>6,529,247</u>	<u>6,249,419</u>	
<b>Total assets less current liabilities</b>			<u>9,340,686</u>	<u>9,101,302</u>	

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)***at 30 June 2014 – unaudited**(Expressed in Renminbi)*

		<b>At 30 June 2014</b>		<b>At 31 December 2013</b>	
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current liabilities</b>					
Bank loans	14	<b>465,892</b>		460,814	
Senior notes	16	<b>2,182,230</b>		2,159,231	
Convertible bonds	15	<b>77,637</b>		76,104	
Deferred tax liabilities		<b>125,731</b>		126,643	
Provisions		<b>95,250</b>		94,344	
			<b>2,946,740</b>		2,917,136
<b>NET ASSETS</b>					
			<b>6,393,946</b>		6,184,166
<b>CAPITAL AND RESERVES</b>					
Share capital			<b>22,920</b>		22,935
Reserves			<b>5,738,687</b>		5,576,299
<b>Total equity attributable to equity shareholders of the Company</b>					
			<b>5,761,607</b>		5,599,234
<b>Non-controlling interests</b>					
			<b>632,339</b>		584,932
<b>TOTAL EQUITY</b>					
			<b>6,393,946</b>		6,184,166

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2014 – unaudited

(Expressed in Renminbi)

	<i>Note</i>	Six months ended 30 June	
		2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cash used in operations		<b>(216,531)</b>	(100,166)
Income tax paid		<b>(81,304)</b>	(76,621)
Net cash used in operating activities		<b>(297,835)</b>	(176,787)
Net cash used in investing activities		<b>(56,845)</b>	(874,429)
Net cash (used in)/generated from financing activities		<b>(320,023)</b>	629,932
Net decrease in cash and cash equivalents		<b>(674,703)</b>	(421,284)
Cash and cash equivalents at 1 January	12	<b>2,185,922</b>	2,869,945
Effect of foreign exchange rates changes		<b>6,358</b>	(19,088)
Cash and cash equivalents at 30 June	12	<b><u>1,517,577</u></b>	<b><u>2,429,573</u></b>

## 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, 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 19 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any 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 2013 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 2013 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 those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2014.

### 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- HK(IFRIC) 21, *Levies*

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

## **Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities**

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as Hengdeli Holdings Limited does not qualify to be an investment entity.

## **Amendments to HKAS 32, Offsetting financial assets and financial liabilities**

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

## **HK(IFRIC) 21, Levies**

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

### **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 retail revenue 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	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	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	3,224,564	2,852,386	1,406,584	1,592,678	89,176	90,179	698,932	284,143	1,613,660	1,361,145	173,598	113,704	7,206,514	6,294,235
Inter-segment revenue	-	-	-	-	-	-	-	-	1,727,309	1,224,709	9,000	10,826	1,736,309	1,235,535
Reportable segment revenue	<u>3,224,564</u>	<u>2,852,386</u>	<u>1,406,584</u>	<u>1,592,678</u>	<u>89,176</u>	<u>90,179</u>	<u>698,932</u>	<u>284,143</u>	<u>3,340,969</u>	<u>2,585,854</u>	<u>182,598</u>	<u>124,530</u>	<u>8,942,823</u>	<u>7,529,770</u>
Reportable segment profit	<u>990,006</u>	<u>909,327</u>	<u>294,125</u>	<u>343,013</u>	<u>23,081</u>	<u>27,834</u>	<u>522,794</u>	<u>200,626</u>	<u>178,281</u>	<u>153,270</u>	<u>52,064</u>	<u>39,300</u>	<u>2,060,351</u>	<u>1,673,370</u>

	Retail													
	Mainland China		Hong Kong		Taiwan		Harvest Max†		Wholesale		All others##		Total	
	30 June	December	30 June	December	30 June	December	30 June	December	30 June	December	30 June	December	30 June	December
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Reportable segment assets	<u>3,098,124</u>	<u>3,171,910</u>	<u>1,607,852</u>	<u>1,507,122</u>	<u>230,669</u>	<u>239,496</u>	<u>125,373</u>	<u>120,253</u>	<u>1,556,386</u>	<u>1,291,340</u>	<u>87,472</u>	<u>66,768</u>	<u>6,705,876</u>	<u>6,396,889</u>

# 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 watch case manufacturing 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	
	2014	2013
	RMB'000	RMB'000
<b>Revenue</b>		
Total revenues for reportable segments	8,760,225	7,405,240
Other revenue	182,598	124,530
Elimination of inter-segment revenue	<u>(1,736,309)</u>	<u>(1,235,535)</u>
Consolidated turnover	<u><b>7,206,514</b></u>	<u><b>6,294,235</b></u>
<b>Profit</b>		
Total profit for reportable segments	2,008,287	1,634,070
Other profit	<u>52,064</u>	<u>39,300</u>
	<b>2,060,351</b>	<b>1,673,370</b>
Other revenue	69,273	85,957
Other net loss	(46,303)	(50,124)
Distribution costs	(1,367,142)	(1,010,254)
Administrative expenses	(167,560)	(132,793)
Finance costs	(118,555)	(156,176)
Share of profits less losses of associates	(1,521)	9,315
Share of profits of joint ventures	<u>1,161</u>	<u>93</u>
Consolidated profit before taxation	<u><b>429,704</b></u>	<u><b>419,388</b></u>

#### 4 OTHER REVENUE AND NET LOSS

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Other revenue</b>		
Interest income	9,088	30,477
Government grants	17,502	11,932
Dividend income from unlisted investments	33,494	34,977
Rental income	5,581	5,643
Others	3,608	2,928
	<u>69,273</u>	<u>85,957</u>
<b>Other net loss</b>		
Impairment of interest in an associate	(34,293)	(54,771)
Net loss on disposal of property, plant and equipment	(109)	(2,081)
Net foreign exchange (loss)/gain	(11,901)	13,488
Net loss on repurchases of convertible bonds	–	(6,760)
	<u>(46,303)</u>	<u>(50,124)</u>

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
<b>(a) Finance costs</b>		
Interest expense on bank loans	41,097	47,536
Interest on convertible bonds ( <i>note 15</i> )	1,736	44,557
Interest on senior notes ( <i>note 16</i> )	70,178	60,600
Bank charges	5,544	3,483
	<u>118,555</u>	<u>156,176</u>
<b>(b) Other items</b>		
Amortisation	<u>5,437</u>	<u>4,979</u>
Depreciation	<u>70,722</u>	<u>56,549</u>
Operating lease charges in respect of properties		
– minimum lease payments	139,812	147,322
– contingent rents	274,963	259,076
	<u>414,775</u>	<u>406,398</u>

## 6 INCOME TAX

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
<b>Current tax</b>		
Hong Kong profits tax	27,742	36,495
Mainland China income tax	80,275	78,214
Taiwan and Macau income tax	–	178
	<u>108,017</u>	<u>114,887</u>
Sub-total		
	<u>1,649</u>	<u>2,302</u>
<b>Deferred taxation</b>		
	<u>109,666</u>	<u>117,189</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2013: 16.5%) to the six months ended 30 June 2014.

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 RMB279,646,000 (six months ended 30 June 2013: RMB272,537,000) and the weighted average of 4,800,158,893 ordinary shares (six months ended 30 June 2013: 4,808,580,318 ordinary shares) in issue during the interim period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share amount for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB279,646,000 (six months ended 30 June 2013: RMB272,537,000) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 4,800,158,893 shares (six months ended 30 June 2013: 4,808,580,318).

The calculation of diluted earnings per share amount for the six months ended 30 June 2014 has not included the potential effects of the deemed issue of shares under the Company's share option scheme 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 2014, the Group incurred decoration and construction costs with a total amount of RMB40,022,000 (six months ended 30 June 2013: RMB39,127,000).

## 9 INTEREST IN ASSOCIATES

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Interest in associates	<b>266,094</b>	245,812
Less: impairment loss	<b>(196,244)</b>	(161,951)
	<b><u>69,850</u></b>	<u>83,861</u>

As of 31 December 2013, the Group held 666,666,667 shares, approximate 15.27% of Ming Fung Jewellery Group Limited ("Ming Fung"). On 10 April 2014, Ming Fung issued open offer of 2,183,013,646 shares at the subscription price of HK\$0.08 each on the basis of one offer share for every two shares held, through which the Group purchased 333,333,333 shares at a total consideration of RMB21,125,000 (HKD26,667,000).

## 10 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Raw materials	<b>32,706</b>	31,922
Work in progress	<b>33,901</b>	30,673
Finished goods	<b>6,582,546</b>	6,266,127
	<b><u>6,649,153</u></b>	<u>6,328,722</u>

## 11 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:

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Current	<b>1,013,315</b>	844,218
Less than 1 month past due	<b>27,608</b>	2,371
1 to 3 months past due	<b>6,429</b>	29,890
More than 3 months but less than 12 months past due	<b>14,746</b>	19,672
More than 12 months past due	<b>5,470</b>	1,276
	<b><u>1,067,568</u></b>	897,427
Trade debtors, net of allowance for doubtful debts		
Prepayments and other receivables	<b>417,280</b>	469,368
	<b><u>1,484,848</u></b>	<u>1,366,795</u>

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.

## 12 CASH AND CASH EQUIVALENTS

As at 31 December 2013 and 30 June 2014, all of the Group's cash and cash equivalents in the consolidated statement of financial position represented cash at bank and cash in hand.

### 13 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:

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Within 1 month	797,171	1,072,438
Over 1 month but less than 3 months	679,707	814,882
Over 3 months but less than 12 months	6,101	26,328
Over 1 year	<u>14,163</u>	<u>14,666</u>
	<b>1,497,142</b>	1,928,314
Other payables and accrued expenses	352,518	387,731
Advance receipts from customers	<u>38,475</u>	<u>42,500</u>
	<b><u>1,888,135</u></b>	<b><u>2,358,545</u></b>

### 14 BANK LOANS

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Bank loans repayable within one year or on demand		
– Secured	15,900	23,856
– Unsecured	<u>1,274,845</u>	<u>1,330,881</u>
	<b><u>1,290,745</u></b>	<b><u>1,354,737</u></b>
Bank loans repayable after one year		
– Secured	111,705	110,740
– Unsecured	<u>354,187</u>	<u>350,074</u>
	<b><u>465,892</u></b>	<b><u>460,814</u></b>
	<b><u>1,756,637</u></b>	<b><u>1,815,551</u></b>

At 30 June 2014, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB218,496,000 (31 December 2013: RMB434,591,000).

## 15 CONVERTIBLE BONDS

Convertible bonds balances represent the 2015 Convertible Bonds issued by the Company on 20 October 2010. 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 2014 is set out below:

	<b>Liability component</b> <i>RMB'000</i>	<b>Equity component</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
As at 31 December 2013	76,104	2,296	78,400
Interest charged during the period ( <i>note 5(a)</i> )	1,736	–	1,736
Interest paid during the period	(938)	–	(938)
Foreign currency translation difference	735	–	735
	<hr/>	<hr/>	<hr/>
As at 30 June 2014	<u>77,637</u>	<u>2,296</u>	<u>79,933</u>

## 16 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.

The movement of the Notes is set out below:

	<i>RMB'000</i>
As at 31 December 2013	2,159,231
Interest charged during the period ( <i>note 5(a)</i> )	70,178
Interest paid	(67,101)
Foreign exchange loss	(824)
Foreign currency translation difference	20,746
	<hr/>
As at 30 June 2014	<u>2,182,230</u>



## 17 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:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the interim period, of RMB0.025 per share (six months ended 30 June 2013: RMB0.04 per share)	<b><u>119,978</u></b>	<u>174,651</u>

### (b) Purchase of own shares

During the six months ended 30 June 2014, a total of 3,776,000 shares were repurchased on the Stock Exchange at an aggregate consideration of HKD6,182,000 (RMB equivalent: 4,884,000) which includes related transaction costs of HKD18,000 (RMB equivalent: 14,000).

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 RMB15,000 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of shares equivalent to RMB4,869,000 was charged to the retained profits.

### (c) Equity settled share-based transactions

No share option was exercised during the six months ended 30 June 2014 (31 December 2013: Nil).

## 18 CAPITAL COMMITMENTS

	<b>At 30 June 2014 RMB'000</b>	At 31 December 2013 RMB'000
Authorised but not contracted for	<b><u>55,514</u></b>	<u>66,625</u>

## 19 RELATED PARTY TRANSACTIONS

The Group has transactions with joint ventures, which are jointly held by the Group and the Swatch Group (Hong Kong) Limited, 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

	<b>Six months ended 30 June</b>	
	<b>2014 RMB'000</b>	2013 RMB'000
Lease expense to a joint venture	<b>1,500</b>	3,340
Sales of goods to associates	<b>11,307</b>	12,130
Purchase of goods from an associate	<b>9,229</b>	9,328
Payments made on behalf of associates	<b>4,726</b>	1,341
Payments made on behalf of a joint venture	<b>3,429</b>	1,903

## MANAGEMENT DISCUSSION AND ANALYSIS

In the absence of any fundamental change in the domestic and global economic landscape as compared with 2013, the first half of 2014 witnessed continuous restructuring of China's economy, posing further uncertainties ahead. However, China's economy remained intact on the whole. Adhering to its market-oriented strategy of "seeking progress amidst stability" established in 2013, the Group achieved steady business results and effectively secured the interests of shareholders.

### I. Financial Review

#### *Sales*

As at 30 June 2014, the Group recorded sales of RMB7,206,514,000, representing an increase of 14.5% over the corresponding period last year. Retail sales amounted to RMB5,419,256,000, representing an increase of 12.4% over the corresponding period last year, of which, domestic retail sales increased 13.0% year-on-year to RMB3,224,564,000, and Hong Kong retail sales decreased 11.7% year-on-year to RMB1,406,584,000 (if excluding the impact of foreign exchange gains and losses, a decrease of 10.1% was recorded as compared to the same period last year).

Growth in the Group's total retail sales mainly generated from new outlets and middle-end brands. Under the impact of the general economic environment, the process of restructuring in Mainland China continued and the sales of high-end watches remained weak, exerting an overall impact on the Group's retail sales. However, the decline in the sales of high-end watches began to narrow in the first half of the year. Meanwhile, the sales of middle-end brands remained favorable, posting a growth of 19.3% over the corresponding period last year. Same store sales also achieved a growth of 4.0%, which is above the average growth of the Group.

#### *Sales breakdown:*

*(for the six months ended 30 June)*

	2014		2013	
	RMB('000)	%	RMB('000)	%
Retail Business				
Mainland China	3,224,564	44.8	2,852,386	45.4
Hong Kong	1,406,584	19.5	1,592,678	25.3
Taiwan	89,176	1.2	90,179	1.4
Harvest Max	698,932	9.7	284,143	4.5
Wholesale Business	1,613,660	22.4	1,361,145	21.6
Customer Services and Others	173,598	2.4	113,704	1.8
Total	<u>7,206,514</u>	<u>100</u>	<u>6,294,235</u>	<u>100</u>

### ***Gross profit and gross profit margin***

As at 30 June 2014, the Group's gross profit increased 23.1% year-on-year to approximately RMB2,060,351,000. Gross profit margin was approximately 28.6%, representing an increase of 200bps over the corresponding period last year. If excluding the contribution from Harvest Max, the gross profit margin of the Group's retail business represents a slight decrease. It 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 period***

During the period under review, the Group's net profit amounted to RMB320,038,000, representing an increase of 5.9% as compared to the same period last year. Profit attributable to equity shareholders amounted to RMB279,646,000, representing an increase of 2.6% as compared to the same period last year, which was mainly due to the effective expansion and refined management of the Group.

### ***Financial status and net debt to equity ratio***

The Group maintained a sound and stable financial position.

As at 30 June 2014, the Group's total equity interests were RMB6,393,946,000 and current net asset value was RMB6,529,247,000, of which bank deposits amounted to RMB1,517,577,000. Bank loans totaled RMB1,756,637,000.

As at 30 June 2014, 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. The aggregate principal amount of the USD settled senior notes due in 2018 (the "Senior Notes") was USD350 million. 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 RMB4,016,504,000. The net debt to equity ratio of the Group was approximately 39.1%; including fixed deposits, it was 37.5%. The directors of the Company believe that such net debt to equity ratio is within a reasonable range.

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

### ***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 2014, the Group had land and buildings of RMB218,496,000 pledged as security for mortgage.

### ***Contingent liabilities***

As at 30 June 2014, 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 RMB9,753,578,000, comprising inventories of approximately RMB6,649,153,000, trade and other receivables of approximately RMB1,484,848,000 and cash and cash equivalents of approximately RMB1,517,577,000, and deposits with banks of RMB102,000,000.

### ***Current liabilities***

During the period under review, the current liabilities of the Group amounted to approximately RMB3,224,331,000, comprising bank loans of approximately RMB1,290,745,000, trade and other payables of approximately RMB1,888,135,000, and current tax payable of approximately RMB45,451,000.

### ***Capital structure***

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 30 June 2014, the issued share capital of the Company was 4,799,130,959 shares and the reserve and accumulated profits totaled RMB5,738,687,000.

### ***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.

## *Dividends*

The Company does not recommend the payment of any interim dividend for the period ended 30 June 2014.

## **II. Business Review**

During the period under review, the Group's business primarily focused on the retail of internationally renowned branded watches in the Greater China region with a core presence in Mainland China and Hong Kong, comprehensive related customer services, manufacturing of packaging and display products, distribution of internationally renowned branded watches and e-commerce, etc.

### *Retail network*

In the first half of 2014, the retail market for watches in the Greater China region experienced no significant changes when compared with last year. The Group believes that refined business management is particularly crucial when the sales market is unstable. Business operations were effectively stabilized through a sound policy combining prudent expansion, inventory optimization, bolstered sales force as well as revamped retail outlet and improved customer management, to raise the performance level of individual stores. Geographically, the Group continued to reinforce and expand its business operations in second, third and fourth-tier cities during the period under review, maintaining middle-end brands as the mainstay of its brand mix. Along with inventory clearance and structural optimization, the efforts in refined management resulted in visible achievements. Meanwhile, the Group invested more manpower and resources and collaborated closely with brand suppliers in uplifting our customer services to provide consumers with greater confidence with our multi-level comprehensive customer services in the Greater China region. As a result, the Group was able to achieve a better performance in overall retail sales during the period under review amid the volatile market environment with sales reaching RMB5,419,256,000, representing an increase of 12.4% as compared with the corresponding period last year. Despite a negative growth in high-end watches, the Group's sales from middle-end brands still grew well by 19.3%.

As a pacesetter in the sales of internationally renowned watch brands in the world, the Group has maintained sound business relationships with many world-renowned brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHMONT Group, ROLEX Group and KERING Group, etc. As at 30 June 2014, 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, Girard-Peregaux, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Rolex, Scatola del Tempo, TAG Heuer, Tissot, Vacheron-Constantin, Van Cleef & Arpels and Zenith, etc. During the period under review, 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. During the first half of 2014, the Group secured several new brands such as Manufacture Royale and MB&F.

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 2014, the Group operated a total of 494 retail outlets in Mainland China, Hong Kong, Macau and Taiwan, as detailed below:

	<b>As at 30 June 2014</b>				
	<b>Mainland China</b>	<b>Hong Kong</b>	<b>Taiwan</b>	<b>Macau</b>	<b>Total</b>
Elegant	17	5	1	–	23
Prime Time/Hengdeli	364	7 (Harvest Max)	34	–	405
Brand boutiques	<u>29</u>	<u>16</u>	<u>20</u>	<u>1</u>	<u>66</u>
Total	<u><u>410</u></u>	<u><u>28</u></u>	<u><u>55</u></u>	<u><u>1</u></u>	<u><u>494</u></u>

### ***Mainland China***

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

The retail outlet “Prime Time” is positioned to sell middle-end and middle-to-high-end internationally renowned branded watches in Mainland China. This marketing strategy is mainly designed to cater for the actual demand of Mainland consumers and complement the Group’s high-end watch business strategy in Hong Kong. As at 30 June 2014, the Group had 410 retail outlets in Mainland China, including 364 “Prime Time” shops. The Group’s “Elegant” shops, which mainly sell high-end watches, have a relatively small coverage in Mainland China. Most of the 17 “Elegant” shops are located in first-tier developed cities such as Shanghai, Beijing, Hangzhou, Nanjing, Shenyang and Chengdu, with no new shop being opened during the period under review.

During the period under review, the Group's retail strategy in Mainland China focused on keeping paces with the market adjustment to deepen its refined management for better performance of individual outlets, and expanding sales network effectively. The middle-end brand market is more sophisticated than the high-end brand, steering the Group toward a middle-end concentrated approach to re-position and adjust the middle-end outlets with a view to steadily expand the retail network of middle-end watches during its expansion in Mainland China. New outlets have been set up in the regions with the highest sales records, such as third and fourth-tier cities as well as emerging second and third-tier cities, to consolidate and expand its market share. Meanwhile, highlighting the solidification and improvement of revenue contribution from single outlets, the Group continued to intensify its efforts in streamlining outlets in the first tier market and high-end watch retail market. In response to the changing market conditions, the Group timely and reasonably adjusted its brand portfolio, optimised its inventory structure, enhanced the sales skill of its frontline staff and improved its customer relationship management of outlets.

The two-winged strategy on refined management and effective expansion achieved desirable effect. Following such adjustment and consolidation, "Prime Time" shops in Mainland China became the sole contributor to the Group's net increase among all outlets during the period under review. Retail sales in Mainland China recorded a growth of 13.0% year-on-year; and the average same store sales also increased by 1.1%. While sales of high-end watches recorded a narrowed decline, sales of middle-end watches grew well by 19.3% year-on-year. These results stabilized and reinforced the Group's market shares in different regions in Mainland China, paving the way to the sustainability in the medium and long term.

The accelerating industrialization and 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 middle-end brands. The sales strategy of targeting at middle-end and middle-to-high-end internationally renowned branded watches will still be the developing direction of the Group in Mainland China in the short and medium term.

### ***Hong Kong and Macau***

The Group's retail business in Hong Kong mainly focuses on high-end brands, including Blancpain, Breguet, Cartier, Chopard, Dewitt, Franck Muller, Girard-Peregaux, IWC, Jaeger-LeCoultre, Omega, Panerai, Piaget, Vacheron-Constantin and Zenith as well as independent watchmakers namely Scatola del Tempo, Christophe Claret and Heuge. During the period under review, certain new brands such as Manufacture Royale and MB&F were introduced. The sales of such high-end brands fully complemented our retail business in Mainland China and Taiwan, thus created tremendous synergy. To adapt to the change in the mix of mainland visitors, the Group also started to deploy 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.



As at 30 June 2014, the Group operated a total of 21 retail outlets in Hong Kong under the name of “Elegant”, of which 5 were multi-brand “Elegant” shops and 16 were single-brand boutiques or image stores. 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.

Amidst the macro economic constraints, Hong Kong’s retail sector was lackluster in the first half of the year, as witnessed by the subdued consumer demand for high-end brands and the continued weakness in high-end watch retail market. According to the Census and Statistics Department of Hong Kong, the Hong Kong retail value index for jewellery, timepieces and precious gifts registered a double-digit decline year-on-year in the first half of 2014. The market downturn was also reflected in a year-on-year decrease in sales of Elegant Hong Kong during the period under review. However, the decrease was much smaller than the industry average, which was attributable to the Group’s extensive, solid and loyal client base in Hong Kong, the interaction between retail outlets in Mainland China and Hong Kong, the favorable partnership with brand suppliers, as well as the comprehensive after-sale service network across the Greater China region, which helped ensure after-sale guarantees for Mainland tourists shopping in Hong Kong.

Instead of adding new outlets, Elegant Hong Kong focused on refined management during the period under review, including strengthening the training of staff at different levels and enhancing the knowledge in watches and the service level of the sales front. Efforts were also taken to upgrade the management model and build up a talent pool to foster a world-class professional sales force for expanding market share.

Meanwhile, Elegant Hong Kong continued to strengthen its marketing campaigns. Resources were committed to collaborate more closely with a broadened portfolio of international brands in advertising, VIP events and other promotional activities. Social networking platforms such as Facebook, Weibo and WeChat were employed to establish and maintain sound interaction with consumers, aiming to enhance their awareness and loyalty for Elegant Hong Kong and hence uplift the international visibility of “Elegant” brand.

In light of the adjustment of the high-end consumer goods industry in Hong Kong, we anticipate that rental costs may start to decline in the second half of the year. Capitalizing on its strengths, Elegant Hong Kong will ride on the opportunities to capture more market share and improve profitability against the market adversity.

During the period under review, the Group's 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 55 retail outlets in Taiwan as at 30 June 2014, 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 period 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*

Currently at a ramp-up stage, the Group's e-commerce platform is mainly operated under the model of single-brand flagship stores franchised by brand owners, while the multi-brand "Prime Time" platform is still under development. During the period under review, the existing single-brand stores performed desirably both in terms of page views and turnover.

The Group attaches great importance to e-commerce platform and regards it as another important bridge to interact with customers. In addition to its positioning as a trading portal for internationally renowned branded watches, the e-commerce platform is expected to be built into an information channel connecting customers and a carrier for communications of the culture of watches. It is designed to effectively combine the quick access to information of internationally renowned branded watches and the privileged shopping experience for customers, while instilling the culture of internationally renowned branded watches into their daily life. Such unity is believed to deliver flawless interaction between the Group's online and offline sales to ensure mutual benefit.

## *Customer services and maintenance*

High quality service is the cornerstone of our existence. In addition to the store and customer management system, the highest assurance for consumers and brand suppliers is also based upon the Group's advanced technology, online warranty, considerate services and efficient management. Coupled with the continuing training provided by brand suppliers to the Group's technical personnel, the human resources policy of recruiting talents worldwide has ensured the Group to stay at the cutting edge of maintenance expertise. The warranty covering the Greater China region including Mainland China, Hong Kong, Macau and Taiwan, as well as the interactive customer service network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points", ensure the delivery of all-round and one-stop services to customers. 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 less favorable retail condition in global markets, brand suppliers have put more emphasis on the integration and comprehensiveness of their brands' global services. Capitalizing on its sound services and expertise, the Group continues to broaden and deepen the cooperation with these brands. During the period under review, the Group entered into an exclusive watch maintenance agent agreement with KERING Group for the Girard-Perregaux brand. As of now, the Group has become the maintenance agent for 66 international brands, of which 49 brands have engaged the Group as their exclusive maintenance agent. During the period under review, the Group also deepened its partnership in comprehensive customer services arrangements with Tissot, Mido, Certina and other watch brands of the SWATCH Group.

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 for a number of times, 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, with the increasing number of shops in second and third tier cities, the scale of maintenance technical training courses was also expanded, 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.

During the period under review, the Group uplifted the role of customer services from merely a support arm to retail sales to a strategic level, and started a pilot consolidation of customer service scheme in designated regions. We believe that the strategic development of customer services will be of great benefit to the Group's long-term development.

### ***Packaging and display products***

Under the strategy newly developed last year, the Group consolidated its industrial segment during the period under review, and took initiatives to integrate and plan for its watchcase manufacturing and display supplies businesses. Meanwhile, the packaging business of Guangzhou Yadi has been carried out steadily. Together with the refined management to improve working conditions, labor intensity and employee benefits, Guangzhou Yadi optimized the mix of labor resources and increased the investment in mechanization and automation to boost productivity. During the period under review, it supplied more than 50 types of products for over 13 brands, including 42 types of branded packaging accessories. As for display supplies, the Group made a new breakthrough in cooperation with certain brands including Tissot, Hamilton, etc. Based on strict management and effective development, both sales and profit from this segment recorded notable growths over the same period last year.

The Group believes that under its new strategy, the packaging and display segment which is ancillary to watch sales will be forged into an integral link in the watch manufacturing and distribution business chain, providing another stable profit source to secure the Group's long-term growth.

### ***Brand distribution***

In the brand distribution business, the Group has always sought cooperation with brand suppliers and retailers in exploring the market, leveraging on each other's strengths to strive for a coordinated division of labor in the integration of sale and supply. During the period under review, the Group worked closely with brand suppliers to respond to the changing market by streamlining and improving inventory mix for a healthy and sustainable development. Based on joint market research, a number of incentive policies and sales programs closely aligned with market needs and regional characteristics were developed, to provide retailers more comprehensive and thoughtful services to stimulate their enthusiasm in the retail end.

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. During the period under review, both sales and gross profit from brand distribution witnessed steady improvement.

The Group has about 400 wholesale customers in over 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.

### **III. Social Responsibility and Human Resources**

Embracing the human-oriented core value, the Group advocates the entrepreneurship of “mutual respect, shouldering responsibility, close collaboration and ongoing innovations” which is taken as the cornerstone for its corporate management and social responsibility.

As at 30 June 2014, the Group had a total of 9,515 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.

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 a “paperless” office by using an online OA system to improve its administrative functions. Environmental protection is one of the top priorities for the Group’s sustainable development. During the period under review, 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.

As the largest internationally renowned branded watch retailer group in the world, the Group has maintained sound business relationships with many world-renowned watch brand suppliers over the years, including SWATCH Group, LVMH Group, RICHMONT Group, ROLEX Group and KERING Group. During the period under review, 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 to align with national quality standards, which fully guaranteed the interests of clients and consumers.

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

#### **IV. Outlook**

In the second half of the year, the Group still see opportunities intertwined with challenges. The complexity and uncertainty in global economic recovery will continue to cast a shadow over watch sales. Nevertheless, China is still on the path to industrialization and urbanization. Based on current economic policies, development trend and dynamics, and the consumption structure in Mainland China, the accurately targeted efforts and regulations made by the Chinese government will steer the economy soundly towards its major goals and lay a solid foundation for moderate to robust growth in the long term. In this context, we remain cautiously optimistic about the prospects given the Group's established core competitive advantages.

Persisting to the strategies adopted in the first half of the year, the Group will strive to consolidate its footprints while prudently seeking new heights of success. On watches sales, middle-end brands will continue to serve as the mainstay with a focus on expansion into second-, third- and fourth-tier cities. The sales interaction between Hong Kong, Macau and Taiwan and Mainland China will be opportunistically adjusted and optimized according to market conditions. The Group expects to ensure steady business growth by further refining its management and inventory mix and upgrading the quality of outlets and the image of retail brands. Based on the current healthy operation, we will aim at new progresses including: leveraging upon quality services and a variety of initiatives to ensure and improve sales; and accelerating the development of our industrial segment, customer services and e-commerce platform. The Group is committed to creating new value for shareholders and the society in a pragmatic and innovative approach.

## DIVIDEND DISTRIBUTION

The Board of Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2014.

## 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 2014	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 2014	Percentage of the number of options to the total share capital of the Company
Directors	—	—	—	—	—	—	—	—	—	—
Other eligible participants	30 September 2011	30 September 2014 to 29 September 2016	2.66	2.71	1,485,000	—	—	—	1,485,000	0.031%
Total					1,485,000	—	—	—	1,485,000	0.031%

As at 30 June 2014, the issued share capital of the Company was 4,799,130,959 shares; and the number of options outstanding was 1,485,000.

## PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company repurchased 3,776,000 listed shares on The Stock Exchange of Hong Kong Limited by way of acquisition from the market. The total consideration paid was HKD6,182,000. Upon completion of the settlement of such repurchase, the Company has cancelled all the repurchased shares.

As at 30 June 2014, the issued share capital of the Company was 4,799,130,959 shares. The Company had HKD95,000,000 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 as at 30 June 2014.

## **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 2014.

### **Compliance with the Model Code for Securities Transactions by Directors**

For the six months ended 30 June 2014, 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 COMPANY AND THE STOCK EXCHANGE**

An interim report for the six months ended 30 June 2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the 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 hereof, 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, 19 August 2014