亨得利
HENGDELI

Hengdeli Holdings Limited

亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3389

ANNUAL REPORT 2010

Carry on the classic Bright up the future

Contents

CORPORATE PROFILE

Hengdeli Holdings Limited ("the Company" or "Hengdeli") and its subsidiaries, (collectively as "the Group") is the world's largest watch retailer of internationally renowned brands. Its shareholders include the Zhang's family, The Swatch Group Limited, the world's largest watch manufacturer and distributor, and the LVMH Group, the world's largest luxury goods conglomerate.

With internationally renowned watches serving as core focus, the distribution of a portfolio comprising middle-to-high-end consumables, such as jewellery, leather goods and writing instruments, remains the strategic development direction of the Group.

The Group owns an extensive retail network which comprises: Elegant (the top-grade internationally renowned brand watches), Prime Time/Hengdeli (middle-to-high-end internationally renowned brand watches) and With Time (formerly known as "TEMPTATION") and single-brand boutiques. For the financial year ended 31 December 2010, the Group had 350 retail outlets, selling more than 50 internationally renowned brand watches as well as middle-to-high-end jewellery and accessories in Mainland China, Hong Kong and Taiwan.

The Group provides the most excellent after-sale warranty services of internationally renowned brand watches within the Greater China region and has successfully developed the business of provision of the augmented products within the industry.

The Group has maintained sound business relationships with the suppliers of the world's truly premier brands such as the Swatch Group, the LVMH Group, the Richemont Group and the Rolex Group etc. The Group is engaged in the distribution of numerous internationally acclaimed watch brands on both exclusive and non-exclusive basis. The Group has more than 300 wholesale customers in over 50 major cities in the PRC.

The Group owns OMAS, an international luxury brand, and the famous Swiss watch brands such as NIVADA.

The Company has been listed on the Main Board of the Hong Kong Stock Exchange since September 2005 with the stock code 3389. The stock name abbreviation is Hengdeli.

Highlights of Brands sold at Hengdeli Group

Swatch Group

HAMILTON
CALVIN KLEIN
CERTINA

OMEGA
TISSOT
BLANCPAIN

LONGINES
GLASHUTTE
JAQUET DROZ

TIFFANY
RADO
MIDO

BREGUET

Rolex Group

ROLEX
TUDOR

LVMH Group

TAG HEUER
CHRISTIAN DIOR

ZENITH
FENDI

BULGARI

GUCCI

FRANCK MULLER

MAURICE LACROIX

Independent Brands

GUCCI	FRANCK MULLER	MAURICE LACROIX
CYMA	BEDAT & CO.	JEANRICHARD
ULYSSE NARDIN	BREITLING	RAYMOND WEIL
BALL	HERMES	
ORIS	GIRARD PERREGAUX	
TITONI	PARMIGIANI	

PANERAI

JAEGER-LECOULTRE

IWC

CARTIER

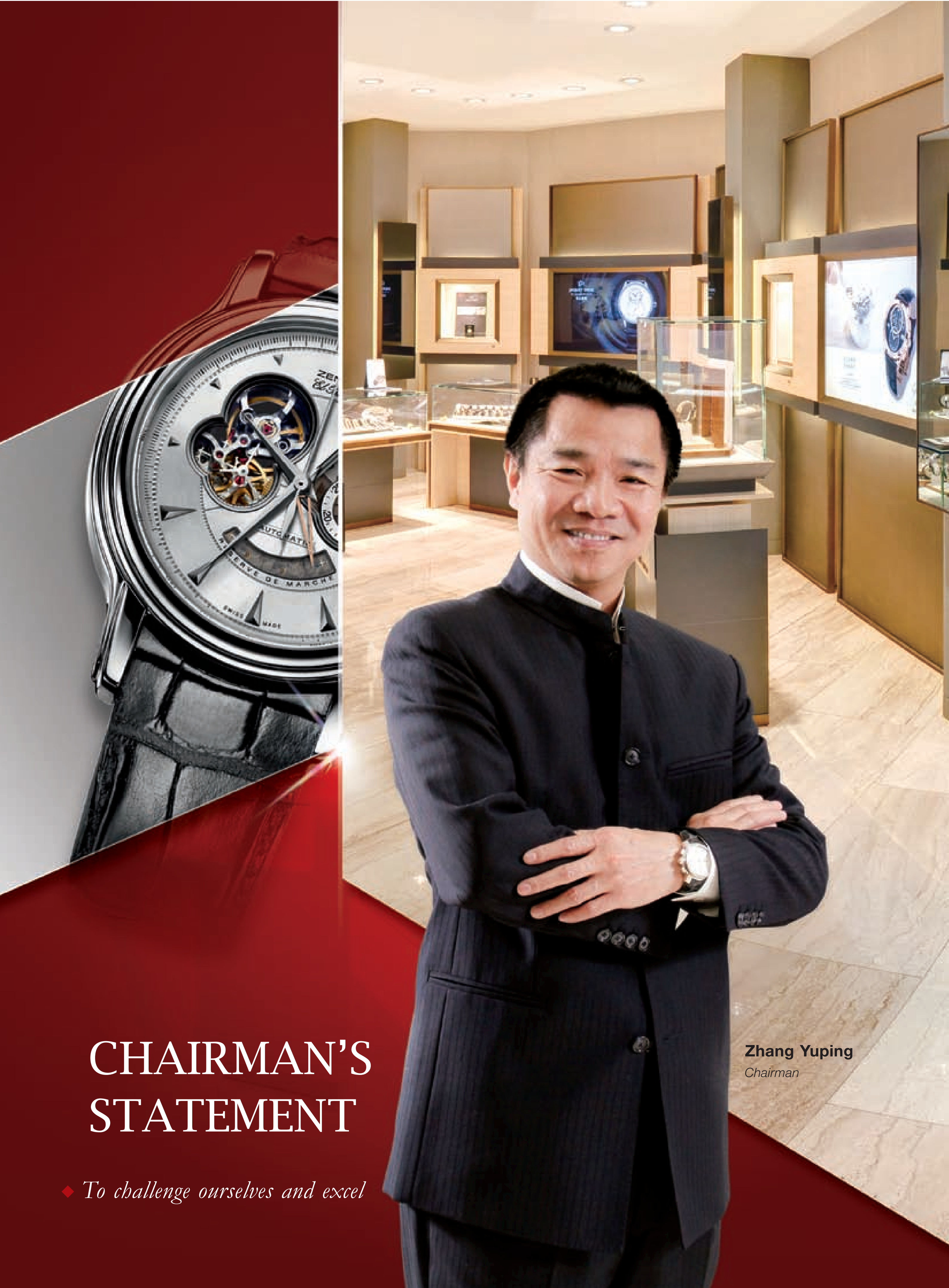
VACHERON CONSTANTIN

Richemont Group

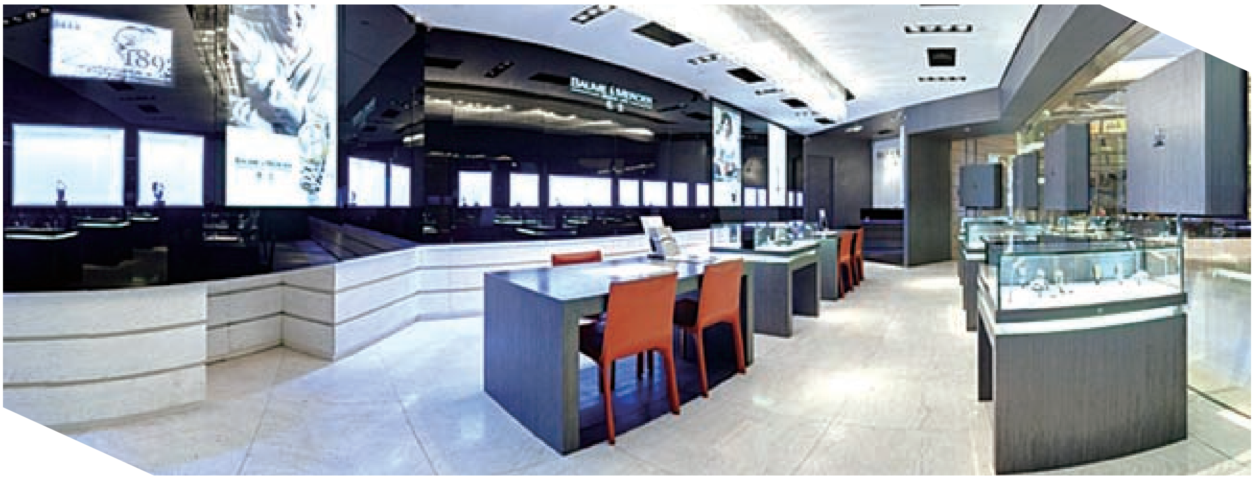
JAEGER-LECOULTRE	ALFRED DUNHILL	VACHERON CONSTANTIN
PANERAI	CARTIER	MONTBLANC
BAUME & MERCIER	IWC	

CHAIRMAN'S STATEMENT

◆ *To challenge ourselves and excel*



Zhang Yuping
Chairman



Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Hengdeli Holdings Limited (hereinafter referred to as the "Company") together with its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2010 (hereinafter referred to as the "Year" or the "Year under review") for your review.

The international economic situation was complicated and fluctuating but the Chinese economy was under stable development during 2010. Under the basically favourable economic environment, the Group fully captured the business opportunities. While ensuring a sound financial status, the Group adopted a proactive and aggressive approach to boost retail as its principal business, supplemented by other businesses such as customer services, auxiliary business and brand distribution business, which achieved satisfactory results.

For the year ended 31 December 2010, the Group recorded sales of RMB8,215,643,000, representing a growth of 39.3% over the corresponding period last year. Of these sales, retail sales amounted to RMB6,374,658,000, representing an increase of 43.7% over the corresponding period last year. The Group's operating profit was RMB885,427,000, representing an increase of 49.9% over the corresponding period last year. Excluding the effect of fair value valuation on convertible bonds and the profit/loss from currency exchange, the actual net profit for the year amounted to RMB657,474,000, representing an increase of 43.5% over the corresponding period last year. The Group's net profit for the year amounted to RMB617,378,000, representing a substantial increase of 59.9% over the corresponding period last year, achieved remarkable results.

During the Year under review, the Group's retail business achieved sound development. For the businesses in Mainland China, the Group insisted to consolidate businesses in the first tier cities, while expanding its businesses into the second and third tier cities and selectively exploring the fourth tier cities. The Group expanded its retail network by establishing its own shops, carrying out mergers and acquisitions as well as cooperating with other brands. In this regard, the Group achieved remarkable results. For the businesses in Hong Kong and Macau, the Group strengthened its regional network and devoted efforts to open boutiques in order to enlarge its market share. For the businesses in Taiwan, the Group focused on an innovative retailing model and strived to develop new portfolio of the retailing of high-end watches in Taiwan. As for the sales of brands, the

Group managed to adjust its strategies based on the location of its businesses. The Group optimized its brand portfolio, improved its inventory structure and continuously enhanced the quality of its retail outlets. For the year ended 31 December 2010, the number of our retail outlets increased from 270 over the corresponding period last year to 350. The average same store sales were also very satisfactory, with an increase of 35% over the corresponding period last year.

Along with the in-depth development of the retail operations in Taiwan, the Group's customer service network in the Greater China region has been further improved and a close relationship with customers was further established. Active efforts were made in collaborating with brand suppliers. The Group continuously developed and improved its customer services based on customers' new specifications so as to offer secured and value-added services to customers in a multi-dimensional and all-round manner. Leveraging on the Group's service philosophy of "customers being our top priority", the extensive warranty services rendered in the Greater China region as well as its advanced maintenance skills, it won appreciation from both of our brand suppliers and consumers, which provided strong support and assurance to the Group's retail business.

Despite of the continuous increase in costs such as labour costs and raw material costs, the operating results of the Group's auxiliary production business still increased significantly. During the Year, the Group's auxiliary business established the ISO9001 and 6S management system, and are recognized by international professional evaluation and assessment institution. This demonstrated an important effect in ensuring the quality of our products, improving our management level and gaining confidence from brand suppliers and customers as well as supporting the Company's continuous healthy development and enhancing our competitiveness in the market.

The Group continued to maintain a close and harmonic relationship with brand suppliers and seek more in-depth and extensive cooperation. During the Year under review, the Group entered into a cooperation agreement with Bulgari, an international renowned brand, and become the exclusive distributor of Bulgari watches in Mainland China.

With internationally renowned watches as the core focus, delivering a portfolio of middle-to-high-end consumer goods remained as the strategic business direction for the Group's development. During the Year, the Group started a trial on the sales of middle-to-high-end jewellery. It is believed that

this attempt would bring a new growth motivation to the Group's profits and also satisfactory return to its shareholders.

To ensure healthy and stable business development, during the Year, the Group and China Construction Bank Corporation, Shenzhen Branch ("Shenzhen CCB") entered into a strategic cooperation agreement, which further strengthened the close partnership between both parties. The Group is considered one of the most notable clients by the China Construction Bank, while Shenzhen CCB will provide all rounded financial services and support to the Group. The cooperation between the bank and the Group will lead to remarkable results.

Although the global economic situation will remain uncertain in 2011, the Group has confidence in the Chinese economy. The prudent monetary policy and the proactive and flexible fiscal policy of the Chinese government will become drivers of the Chinese economy. As the first year of the "12th Five-Year Program", the growth in consumption and the maintaining of rapid growth of the Chinese economy will definitely bring new opportunities to the Group. China will remain one of the most promising markets around the globe, which serves as a fundamental base for the Group's business development.

2011 is the first year of the second "Five-Year Program" which the Group experienced after its listing. Under the new economic situation, the Group will operate in line with market changes to expand its businesses in a proactive yet prudent approach so as to maintain and uplift its leading status in the international renowned brand watches retail business. In addition, it will explore other middle-to-high-end consumer goods sector such as jewellery and continuously seek new factors supporting profit growth. The Group will fulfill its promises and transcend its current status so as to generate more satisfactory returns for our shareholders and the society.

On behalf of the Group, I would like to express our sincere gratitude to our shareholders, suppliers, customers and other business partners for their ongoing care and support, as well as to all our staff for their dedicated endeavours and contributions to the Group during the past year.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 22 March 2011

MANAGEMENT DISCUSSION & ANALYSIS

◆ *To sustain growth and boost shareholder value*

2010 had been a year full of challenges and opportunities. Although the global economic situation was volatile, the Chinese policies of stabilizing and expanding domestic demand achieved satisfactory results and the economy was under stable development. Operating in line with the market, the Group focuses on the development of watch retail business in the Greater China region such as Mainland China, Hong Kong and Taiwan in a proactive and prudent manner. All businesses achieved fast growth and satisfactory results. For the year ended 31 December 2010, the Group's sales recorded a year-on-year increase of 39.3%, of which retail sales posted a growth of 43.7% over the corresponding period last year. Of the retail sales, sales in Mainland China and Hong Kong grew by 38.5% and 41.4% respectively over the corresponding period last year. The net profit after tax amounted to RMB617,378,000, representing a year-on-year increase of 59.9%, generating substantial returns for shareholders.

I. Financial Review

Sales

For the year ended 31 December 2010, the Group recorded sales of RMB8,215,643,000, representing an increase of 39.3% over the corresponding period last year. The Group's total retail sales achieved a desirable growth, increased by 43.7% year-on-year to RMB6,374,658,000, of which retail sales in Mainland China and Hong Kong amounted to RMB3,769,908,000 and RMB2,412,052,000, representing a growth of

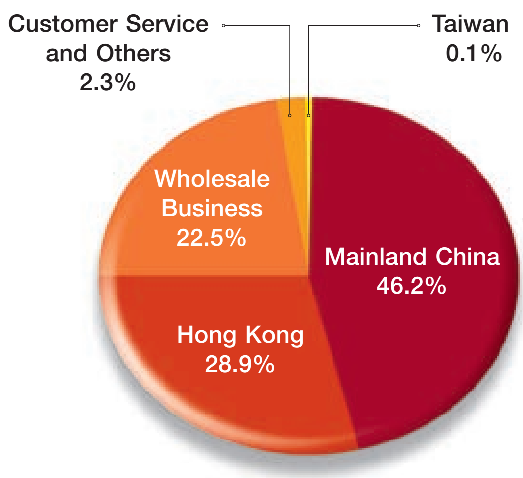
38.5% and 41.4% over the corresponding period last year respectively. The overall retail sales accounted for 77.6% of the total sales, which was completely in line with the direction of the Group's strategic development with retail as the core business.

During the Year, the Group maintained overall positive results. Apart from the relatively stable Chinese economy, it was mainly attributed to the high synergistic and complementary nature of the Group's integrated retail network in Mainland China, Hong Kong and Taiwan as well as the fast pace of development maintained by retail outlets in the second and third tier cities and the steady growth of the coastal first tier developed cities in Mainland China. Thanks to the rapid growth of the middle class, the second and third tier cities brought about a rapid increase of the middle-to-high-end brands. The growth rate of their same store sales was generally higher than the Group's average level. Meanwhile, the Group adjusted its brand portfolio, optimized its inventory structure, enhanced its operational management and improved its service quality promptly and reasonably in a consistent manner in line with the actual market conditions so as to ensure steady business growth.

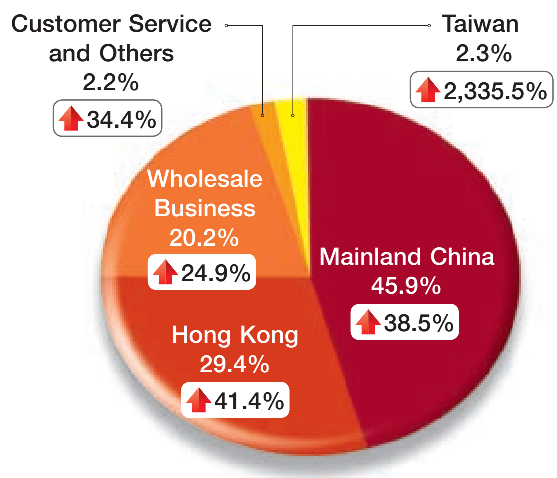
Sales breakdown: (for the year ended 31 December 2010)

	2010		2009	
	RMB'000	%	RMB'000	%
Retail Business				
Mainland China	3,769,908	45.9	2,722,275	46.2
Hong Kong	2,412,052	29.4	1,705,476	28.9
Taiwan	192,698	2.3	7,912	0.1
Wholesale Business	1,661,119	20.2	1,329,967	22.5
Customer Service and Others	179,866	2.2	133,792	2.3
Total	8,215,643	100	5,899,422	100

2009



2010



YOY Growth Rate

Gross profit and gross profit margin

For the year ended 31 December 2010, the Group's gross profit increased by 45.4% year-on-year to approximately RMB2,048,950,000. Gross profit margin was approximately 24.9%, showing an increase of 4.2% as compared to the corresponding period last year. The increase in gross profit margin was mainly attributable to the Group's ongoing proactive efforts in expanding retail business, which has a higher gross profit margin, its active steps in lowering the sales ratio of some clients with lower profit in the wholesale business, better understanding on the marketing and sales as well as the ongoing improvement of the retail management.

Profit for the Year and profit margin

During the Year under review, the Group recorded a substantial growth in net profit of approximately RMB617,378,000, representing an increase of 59.9% over the corresponding period last year. The profit margin was approximately 7.5% accordingly. The increase was mainly attributable to the steady increase of the Group's sales, effective and steady improvement of operational management efficiency as well as rational control and reduction of expense ratio. Excluding the effect of convertible bonds and the profit/loss from currency exchange, the Group recorded actual net profit for the Year of approximately RMB657,474,000, representing an increase of 43.5% from the corresponding period last year, the profit margin was approximately 8% accordingly.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position.

As at 31 December 2010, the Group's total equity interests were RMB4,316,415,000 and current net asset value was RMB5,567,406,000, of which bank deposits amounted to RMB3,419,807,000. In addition, the bank loans totalled RMB1,309,095,000.

On 20 October 2010, the Company has issued the HKD settled unsecured 2.5% coupon rate convertible bonds due 2015 of an aggregate principal amount of HKD2,500,000,000. On 31 December 2010, the remaining net bonds of the USD settled zero coupon convertible bonds due 2012 issued by the Company in August 2007 amounted to RMB44,000,000. Taking into account of such net convertible bonds, together with bank loans, the Group's total debt amounted to RMB3,402,834,000. As at 31 December 2010, the net debt to equity ratio of the Group, including convertible bonds, was zero, laying down a solid foundation for the potential business expansion.

Foreign exchange risk

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

The Group has been monitoring its foreign exchange risk with great attention.

Pledge of assets

As at 31 December 2010, the Group had bank deposits of RMB10,000,000 pledged as security for guarantees as well as land and buildings of RMB250,678,000 pledged as security for mortgage.

Contingent liabilities

As at 31 December 2010, 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 RMB7,622,566,000, comprising inventories of approximately RMB3,197,859,000, trade and other receivables of approximately RMB1,004,900,000 and cash and cash equivalents of approximately RMB3,409,807,000.

Current liabilities

During the Year under review, the current liabilities of the Group amounted to approximately RMB2,055,160,000, comprising bank loans of approximately RMB1,076,649,000, trade and other payables of approximately RMB881,026,000, and current tax payable of approximately RMB97,485,000.

Capital Structure

The Company's capital structure is composed of issued share capital, convertible bonds, reserve and accumulated profits. On 2 September 2010, the Company has placed 300,000,000 ordinary shares to the market. On the date of completion, the number of shares in issue of the Company was changed to 4,374,389,000 shares. Please refer to Note 30(c)(ii) to the financial statements for relevant details. As at 31 December 2010, the issued share capital of the Company was 4,396,484,054 shares and the principal amount of the convertible bonds due 2012 was RMB44,000,000 and the principal amount of the convertible bonds due 2015 was HKD2.5 billion.

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 Year under review.

Final dividend

The Company recommends the payment of a final dividend of RMB0.042 per share for the financial year ended 31 December 2010 in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on 12 May 2011. The proposed cash dividend will be paid on or before 26 May 2011 to shareholders whose names appear on the register of members of the Company on 6 May 2011.

II. Business Review

During the Year under review, the Group's business remained focusing on the build-up of the retail network in the Greater China region with a core presence in Mainland China. It is also supplemented with the provision of comprehensive customer services, manufacture of extension products related to watches, research and development of its own brands, brand distribution and jewellery business, etc.

Retail Network

Adhering to its business development strategy, the Group devotes efforts to maintaining and developing its leading position as the world's largest watch retail group of international renowned brands.

During the Year, the Group expanded its retail network by simultaneously carrying out mergers and acquisitions and developing its own retail outlets in line with the market in a proactive and progressive manner. By adjusting its brand portfolio, optimizing its inventory composition, strengthening management and enhancing the quality of retail outlets, a significant growth in business results was achieved. The retail sales of the Group amounted to RMB6,374,658,000, representing an increase of 43.7% over the corresponding period last year, the overall retail sales accounted for 77.6% of the total sales; of which retail sales in Mainland China and Hong Kong amounted to RMB3,769,908,000 and RMB2,412,052,000, representing a growth of 38.5% and 41.4% respectively. The gross profit of the retail

business reached approximately RMB1,783,007,000, representing a year-on-year growth of 48.6% and accounting for 87% of the Group's total gross profit. The significant growth of retail results was not only attributable to the success of business expansion and continuous growth of business scale, but more importantly the strong increase in same store retail sales. As compared to the corresponding period last year, the growth rate of same store sale was 35% in average.

Our retail network spans across the Greater China region where retail stores are mainly Elegant, Hengdeli/Prime Time, With Time (formerly known as TEMPTATION) and single-brand boutiques. "Elegant" mainly sells top grade internationally renowned brand watches; "Hengdeli"/"Prime Time" mainly sells middle-to-high-end internationally renowned brand watches, while "With Time" mainly sells middle-to-high-end internationally fashionable watches. As at 31 December 2010, the Group operated a total of 350 retail outlets

in Mainland China, Hong Kong, Macau and Taiwan, an increase of 80 outlets over the corresponding period last year. Of these stores, 17 were Elegant shops (4 in Hong Kong, 12 in Mainland China and 1 in Taiwan), 232 were Prime Time and Hengdeli shops (of which, 197 in Mainland China and 35 in Taiwan), 30 were With Time shops (all located in Mainland China) and 71 were brand image retail outlets (47 in Mainland China, 11 in Hong Kong, 1 in Macau and 12 in Taiwan).

The Group has been maintaining a sound partnership with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and DKSH Group. As at 31 December 2010, the Group distributed approximately 50 internationally renowned brands from the five major brand suppliers, including Breguet, TAG Heuer, Zenith, Cartier, Vacheron Constantin, Jaeger-LeCoultre, IWC, Chopard, Frank Muller, Glashutte, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant and Mido. In addition, efforts were stepped up to bring in and expand middle-to-high-end brands including Bulgari, Gucci and Balmain, as well as Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge from independent watchmakers. Sales of brands were adjusted in line with the market changes. This helped diversify and improve the sales portfolio of the Group's brands, which would be favorable to the long-term business development and ongoing enhancement of overall results.

Mainland China

Positioning of retail outlets

As the consumption level for high-end watches remains low and average in Mainland China, and in order to complement the Group's high-end watch retail business in Hong Kong, the Group's retail outlets in Mainland China are Prime Time and Hengdeli shops, which are positioned to sell middle-to-high-end watches. Prime Time and Hengdeli shops contributed more than two-thirds of the Group's total retail sales in Mainland China during the Year under review. Prime Time and Hengdeli shops will remain the Group's major retail brands in Mainland China in the second five-year normalization following the listing of the Group.

Engaging in the sale of high-end watches by the Group, Elegant shop has a relatively small coverage in Mainland China. As at 31 December 2010, there were 12 Elegant shops mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang. These shops implement a standardized management with the Elegant shops in Hong Kong and Taiwan region, providing them with steady development.

Footprint of retail network

As at 31 December, 2010, the Group operates a total of 286 retail outlets in Mainland China. The Group had a comprehensive distribution network of watch retail outlets covering most of the provinces and cities in Mainland China, with a multiple-point footprint in major first and second tier areas such as Shanghai, Beijing, Northeast, Zhejiang, Jiangsu, Henan and Shanxi, thus consolidating its market share. The distribution network in third and fourth tier cities is becoming more complete.

The Group committed tremendous efforts to improving the re-positioning of middle-to-high-end brands. We continued to strengthen and expand the retail network in second, third and fourth tier cities by various ways. During the Year, the Group acquired Guangzhou Longyue Watch Company Ltd (廣州隆越鐘錶有限公司), etc. These companies have retail outlets mainly in Hubei and Hunan etc, selling middle-to-high-end brand watches like Jaeger-LeCoultre, Rolex, Omega, Blancpain, IWC, Piaget, Rado, Longines, Tudor, TAG Heuer, Hamilton and Tissot etc.

During the Year, the Group tremendously expanded the retail network points in Yunnan, Guizhou, Sichuan and Guangxi which proactively and aggressively strengthened the multiple-point distribution and control in second and third tier cities in Yangtze River Delta region with Nanjing and Suzhou as centers.

These acquisitions and tremendous expansion greatly expanded and strengthened the retail network in South China and southwest regions of Mainland China, and improved the Group's market share in those regions, as well as further consolidated and improved the Group's central control of market share in East China regions.

Retail Sales

During the Year, retail sales in Mainland China recorded a growth of approximately 38.5% over the corresponding period last year. The strong growth was attributable to the continuous improvements in the macro markets on one side. As China's economy is improving steadily and the Government is expanding the domestic demand, the group of the middle class and the affluent class is becoming big, which reinforces their consumption confidence. The market in Mainland China is still developing promptly. Relevant reports show that in 2010 the consumption of luxury goods in China has reached US$6.5 billion, which was the world's highest growth rate in the consecutive 3 years. Another reason for the Group's strong sales growth was the direct benefit from the Group's rational and forward-looking outlet positioning. The retail of middle-to-high-end consumables in first tier cities in Mainland China has been mature, while many high-end consumables markets in second and third tier cities are becoming more mature, in addition to the expansion of the affluent group in second and third

tier cities brought by economic growth. Accordingly, the Group focus on middle-to-high-end brands in the Mainland China, and the active distribution strategies in second, third and even fourth tier cities have made a great success.

Hong Kong and Macau

As at 31 December 2010, the Group operated a total of 15 retail outlets in Hong Kong, of which 4 are Elegant shops that sell multiple brands and 11 are single-brand boutiques or image shops. These stores are mainly located in first tier business districts in Tsim Sha Tsui, Central and Causeway Bay.

Elegant under the Group has a long history in Hong Kong's watch retail industry. The Elegant flagship shop at Ocean Terminal in Tsim Sha Tsui opened in 1970, with an area of approximately 1,700 square feet and has maintained the highest sales record as a single shop. During the Year, the Group renovated and coordinated the shop with a brand new outlook to bring customers with a more comfortable and free shopping experience.

During the Year, the Group opened a new Elegant multi-brands shop. The shop located in the superb business district in Central, with neighbours of international well-known brands. The unique decoration in the shop reveals a stylish design, and the VIP area provides extremely professional, thoughtful and considerate services. The Elegant shop in Central has an area of 3,313 square feet and gathers up top international brands like Breguet, Chopard, Girard-Perregaux, Panerai, Van Cleef & Arpels and Zenith etc. Furthermore, during the Year, the Group opened a Panerai boutique in Times Square in Causeway Bay to strengthen the distribution of brand boutiques in Hong Kong. The Group also expanded the Vacheron Constantin boutique at Ocean Terminal in Tsim Sha Tsui, making the brand image more prominent and the environment more superb.

The Group's retail business in Hong Kong is principally positioned at high-end brands, including Vacheron Constantin, Breguet, Cartier, Jaeger-LeCoultre, Omega, Chopard, Panerai, Zenith, IWC, Frank Muller and independent watchmakers' Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge. These brands fully complemented our retail business in Mainland China and Taiwan, creating tremendous synergy.

Given the mature business districts and highly centralized wealth in Hong Kong, in addition to the benefits from Mainland's economic development, reinforced consumption confidence and the thriving tourism industry, its high-end watch consumption shows great performance. Meanwhile, thanks to the

Group's broad, profound and loyal clientele as well as the interactivity between outlets in Mainland China and Hong Kong, the service network across Greater China ensures after-sale guarantee for Chinese tourists shopping in Hong Kong. For the year ended 31 December 2010, the Group's retail sales in Hong Kong recorded a growth of 41.4%, which showed great potential growth.

At the end of the Year, the Group successfully entered Macau and opened the first shop – Omega boutique. The shop is located at the supreme area of Macau, and the sales performance is obvious since its opening. Following the changing economic situation and improved economic status of Macau, the Group's businesses in Hong Kong and Macau will definitely supplemented well with each other, further consolidating the Group's leading role in Greater China region.

Taiwan

To put its strategy of consolidating its leadership in Greater China region into practice, developing the retail network in Taiwan with a stable pace is the Group's fixed task. Followed by the acquisition of Timepiece (台灣精光堂時計有限公司) last year to establish a development platform for Taiwan business, the Group opened the first Taiwan "Elegant" flagship shop in Taipei this year. The shop is located at Chung Hsiao East Road in Taipei's supreme business district. The shop is a two-storey building with a total area of 1,230 square meter, having top ten first-class boutique

watches brands including Blancpain, Breguet, Cartier, Girard-Perregaux, Glashuette Original, Jaeger-LeCoultre, Jaquet Droz, Omega, Tiffany and Zenith, which opened up a new form and situation of high-end watches retail in Taiwan.

As at 31 December 2010, the Group operated a total of 48 retail outlets in Taiwan. They are mainly distributed in major areas like Taipei, Taichung, Kaohsiung, Tainan, Hsinchu and Chiayi. Except one Elegant shop which sells first-class watches, other retail shops mainly sell middle-to-high-end brands like Rado, TAG Heuer, Carl F. Bucherer and Longines, and use "Hengdeli" as the shop name.

During the Year, the Group's sales in Taiwan greatly increased compared to the corresponding period last year, with a high growth rate of 2,335.5%. Followed by the signing of The Economic Cooperation Framework Agreement (the "ECFA"), the deepened cross-strait business relation and the further integration of the economies of Mainland China, Taiwan and Hong Kong, there will be more tourists in Mainland China travelling to Taiwan, creating more opportunities for Taiwan's retail industry.

Customer Services and Maintenance

The Group is always dedicated to the provision of premium customer services, holding the belief that satisfying consumers' demand is our pursuit.

Through years of efforts, the Group has built up a mature customer services network. Apart from timely maintenance services in each retail outlet, the Group established three major service centers in Beijing and Shanghai, delivering all-round services to customers through an interactive customer services network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points". Following the deep expansion of Taiwan retail business, the Group's customer services network system in Greater China has been further strengthened, and the relationship with customers is becoming closer.

The cooperation between the Group and brand suppliers is developing constantly in a deeper and wider manner. According to the new features of customers' needs, we keep on developing and consolidating new modes of customer service. The multidimensional and all-round support and add-value services are provided to customers. During the Year under review, the Group obtained maintenance service dealership from a number of well-known international brands such as Gucci, Chaumet, which is a famous brand of LVMH Group, as well as an Italian jewellery and watch brand, DAMIANI.

With a number of certified senior maintenance technicians and intensive training to the Group by brand suppliers, our customer services have been widely recognized and tremendously supported by brand suppliers.

The advanced service philosophy, strong service network in Greater China, efficient channel management, strict quality control and proven technical support all contribute to the Group's admirable service image.

Brand distribution

The Group has more than 300 wholesale customers in over 50 cities throughout Mainland China, which distribute and exclusively distribute world's renowned brand watches including Jaeger-LeCoultre, TAG Heuer, Zenith, Carl F. Bucherer, Maurice Lacroix, Tissot, Mido, Calvin Klein and Frederique Constant.

The Group has always been maintaining a good partnership with brand suppliers and numerous retailers, with whose extensive and tremendous support which created a harmonious win-win situation. Meanwhile, the Group constantly adjusts its brand distribution business according to market's needs to ensure the interest of the shareholders.

During the Year under review, the Group had entered into a cooperation agreement with Bulgari, an international renowned brand, and become the exclusive distributor of Bulgari watches in Mainland China.

Ancillary extension products

During the Year, the Group continued to strengthen the internal management of Guangzhou Artdeco, an ancillary production company of the Group, added advanced machinery and equipment, optimized labour combinations, reduced various unreasonable fees and expenses, and improved its product research and development capabilities constantly. Accordingly, although costs of labour and raw materials increased unceasingly, sales revenue of Guangzhou Artdeco still showed a great boost. It achieved a breakthrough leap to provide a good foundation for next active and steady development of the Company.

During the Year, Guangzhou Artdeco has successfully established ISO9001 and 6S management system and has also gained certification from worldwide professional evaluation organization. This acted an important function on the assurance of product quality, comprehensive upgrade of management level, and better trust from brands and customers. It also provided tremendous support for the constant and healthy growth of the Company as well as enhanced its competitiveness in the market.

Jewellery market expansion

For the expansion of jewellery business, the Group achieved a breakthrough progress. During the Year, the Group entered into a legal-binding cooperation agreement with a famous jeweller Ming Fung Jewellery Group Limited, to jointly develop the middle-to-high-end jewellery retail business in Greater China. Currently, relevant business has entered substantive development stage.

The affluent group in Mainland China is emerging continuously, but the consumption of jewellery still remains low. Jewellery will become another consumption hotspot for citizens in Mainland China. According to the report of National Bureau of Statistics of China, the total annual retail of social consumables in Mainland China in 2010 increased 18.4% compared to the previous year. Amongst others, the category of jewellery increased 46.0%, which is the highest growth among all consumption categories. We believe that the opening up of jewellery business will bring to the Group a new point of profit growth, and generate more satisfactory returns for the shareholders.

III. Strategic cooperation between banks and enterprises

During the Year under review, the Group entered into a strategic cooperation agreement with China Construction Bank Corporation Shenzhen Branch ("Shenzhen CCB") to further strengthen the close partnership between the two and to ensure a healthy

development of our business. In the future, China Construction Bank will value the Group as one of their principal customers, and the Shenzhen CCB will provide comprehensive financial services and support to the Group. This tremendously guaranteed the Group a constant growth and sustainable development. The bank and enterprise join together to make a great success.

IV. Human resources and training

As at 31 December 2010, the Group employed a total of 5,530 employees in Mainland China, Hong Kong, Macau and Taiwan etc. Staff costs excluding directors' emoluments of the Group for the year of 2010 amounted to RMB408,725,000 (2009: RMB285,593,000). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, etc.

The Group is always committed to developing and building up human resources. We employ a systematic recruitment policy and commit 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, so as to enhance staff's knowhow, marketing skills and service capability. The Group also works with the 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, and regularly reviews the structure of relevant mechanisms to cope with the needs for corporate development. The Group had 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 benefits to the employees, including pension contribution plan, MPF plan, insurance scheme, housing and meal allowances, etc. Details of the remuneration package and other benefits are set out in the financial statements.

Under a sound human resources reserve policy, the Group has a number of senior salespersons and senior repair technicians. Staff members have received the "Capital Labour Medal" and the "May 1st Labour Medal".

V. Future Development

In 2011, the world's economic situation still has relatively large uncertainties. However, the sound and prudent currency policy of the Chinese government and its aggressive and flexible financial policy together inject the Chinese economy with healthy development incentive. Therefore, we are greatly confident in the Chinese economy. At the beginning year of the "12th Five-Year Program", promoting consumption growth comprehensively and maintaining a rapid yet balance development of the Chinese economy will surely bring us with new opportunities. China will remain to be one of the markets with the greatest growth potential, and is also the base of the Group's business. Under the good macro background, we have great confidence in the Group's development.

With international renowned watches as core focus, the distribution of a portfolio comprising middle-to-high-end consumables, such as watches, jewels, leather goods and writing instruments, remains to be our future development direction.

To aggressively yet prudently expand retail business in line with market demand remains to be our core development strategy. Having consolidated market share in first tier cities in the Mainland, we will step up accelerating the market expansion in the second, third and even fourth tier cities by carrying out acquisition and merging, as well as opening outlets on our own. We will also further expand the retail network in the Greater China region by launching new stores in Hong Kong, Macau and Taiwan.

As our retail network grows, the Group will also improve the structure of our three retail network systems constantly, namely Elegant, Prime Time/Hengdeli and With Time (formerly known as TEMPTATION), so as to better align the configuration of network system with market needs. The Group will also continue to optimize the positions of retail outlet and the setup of single-brand boutiques, in order to improve retail management.

On the other hand, the Group will optimize our brand portfolio with regard to the market's demand. More world-renowned and quality brand watches with diversified positioning will be introduced so as to fulfill different styles of our customers. Meanwhile, we strive to build a closer partnership with brand suppliers.

The Group will also continue to strengthen our customer service system in Greater China and proactively develop the watch-related ancillary business, so as to match with our strong business development.

For the jewellery market, the Group will stay closely with the market trend and put resources with sound and aggressive principles to expand our retail network.

Looking into the future, under a sound financial policy, we will develop the watch retail business in a proactive and aggressive approach, supplement with other business segments such as customer services and brand distribution, increase our market share, strengthen and consolidate our leading position in global middle-to-high-end watch retail sector. Furthermore, we will take initiatives to embark on the business of other middle-to-high-end consumables including jewels. The Group will fully capitalize on business opportunities to achieve steady and sustainable profit growth to generate more satisfactory returns for our shareholders and investors.

Report of the Directors

The Directors of the Company hereby present this annual report together with the audited accounts of the Company for the year ended 31 December 2010.

The Company

The Group is engaged in the retail and distribution of other middle-to-high-end consumer goods including internationally renowned watch brands, the related after-sale services and other extended goods.

The principal activities of the subsidiaries of the Company which materially affected the results, assets and liabilities of the Group are set out in Note 16 to the financial statements.

Distributable Reserve

As at 31 December 2010, the aggregate amount of distributable reserves of the Company was RMB2,585,779,000, which is set out in Note 30 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Financial Summary

The summary of the Group's results and balance in the last five financial years (for the year ended 31 December) are set out in P.39 of this annual report.

Purchase, Sale or Repurchase of Securities or Conversion

During the Year under review, the Company repurchased certain bonds on Singapore Exchange Securities Trading Limited by way of acquisition from the market. Such bonds were listed on Singapore Exchange Securities Trading Limited on 24 August 2007. The principal amount of the bonds repurchased was RMB103,000,000 and the aggregate price for the repurchase is RMB109,885,000. The bonds repurchased were cancelled according to the terms of the same.

During the Year under review, upon the request of investors, the convertible bonds mentioned above at a carrying amount of RMB40,000,000 were converted into 11,097,054 ordinary shares of the Company.

As of 31 December 2010, the Company still had such bonds outstanding at a carrying amount of RMB44,000,000.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or repurchased any of the Company's listed securities or convertible bonds.

Report of the Directors

Placing and Issue of Convertible Bonds

During the Year under review, the Company has completed a top-up placing of 300,000,000 ordinary shares of HKD0.005 each to not fewer than six placees comprising institutional investors at a placing price of HKD3.48 per share. The closing price of the shares as quoted on The Stock Exchange of Hong Kong Limited on the date of the relevant agreement was HKD3.87 and the net proceed raised per share placed was approximately HKD3.38 per share. The reason for the placing is to better equip the Company for future business development and opportunities and the funds raised has been used as general working capital of the Company. Upon completion of the top-up placing, being 2 September 2010, the number of shares in issue of the Company was changed to 4,374,389,000 shares. Please refer to Note 30(c)(ii) to the financial statements for relevant details.

As at 20 October 2010, the Company has issued the HKD settled unsecured 2.5% coupon rate convertible bonds (the "Convertible Bonds" or the "Bonds") due 2015 of an aggregate principal amount of HKD2,500,000,000. Such bonds were listed on Singapore Exchange Securities Trading Limited.

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.

Pursuant to the share option scheme, the Company granted 39,380,000 share options on 28 August 2007 to certain senior employees of the Group to subscribe for 39,380,000 ordinary shares at an exercise price of HKD4.83 per share at any time from 1 August 2010 to 31 July 2012 if certain performance targets are achieved during the period from 28 August 2007 to 31 July 2010. As the Company issued bonus shares to the qualifying shareholders on the basis of five bonus shares for every ten existing issued bonus shares in 2009, as at 1 January 2010, the number of the Company's shares to be subscribed under outstanding share options was 53,670,000 shares at an adjusted exercise price of HKD3.22 per share.

Due to the retirement of certain employees, 750,000 share options lapsed during the Year under review. In addition, pursuant to the share option scheme, the Company has granted 16,361,000 shares to relevant staff during the Year under review.

As of 31 December 2010, the total number of shares in issue was 4,396,484,054 shares.

Directors' Service Contracts

The Company has entered into service contracts with each of the executive Directors, non-executive directors and independent non-executive directors for a term of three years. The Company did not enter into service contracts that cannot be terminated without payment of compensation (other then statutory compensation) within one year.

Save as disclosed in this annual report, no Director has entered into any service agreement with any member of the Group.

Directors' Material Interests in Contracts

Save as described in this annual report, no contracts of significance in relation to the Group's business in which the Company or its subsidiaries, its controlling shareholder or any of its subsidiaries and any of its Directors had a material interest, whether directly or indirectly, subsisted during the Year under review.

Remuneration of the Directors and the Five Highest Paid Directors/Employees

Details of remuneration of the Directors made in accordance with specific basis during the Year under review are set out in Note 7 to the financial statements.

Details of remuneration of the five highest paid individuals during the Year under review are set out in Note 8 to the financial statements.

The remuneration policies of the Group are as follows:

– The amount of remuneration for the Directors or the employees is determined according to their relevant experiences, responsibilities, workload and year of service in the Group;

– The non-monetary benefits are determined by the Board and are provided in the remuneration package of the Directors or the employees;

– The Directors and the eligible employees shall be granted with options of the Company as determined by the Board to be part of their remuneration package.

Employee Retirement Benefit Scheme

Details of the Group's employee retirement benefit scheme are set out in Note 27 to the financial statements.

Directors and Senior Management's Biographies

Summary of the Directors and senior management's biographies are set out on pages 33 to 35 of this annual report.

Report of the Directors

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

As at 31 December 2010, the interests or short positions of each of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Nature of Interest	Number of shares	Approximate Percentage
Mr. Zhang Yuping ("Mr. Zhang")	Controlled Corporation and Personal *(Note 1)*	1,550,040,000 (L)	35.26%
Mr. Song Jianwen	Controlled Corporation *(Note 2)*	17,032,000 (L)	0.39%
Mr. Huang Yonghua	Personal	2,400,000 (L)	0.05%

The letter "L" denotes the person's long positions in the Shares.

Note 1: Mr. Zhang Yuping owned 82.90% of the issued share capital of Best Growth International Limited ("Best Growth"), which in turn held 1,522,524,000 shares of the Company as at 31 December 2010, representing 34.63% of the issued share capital of the Company. During the Year under review, Mr. Zhang Yuping held 27,516,000 shares of the Company under his name, representing 0.63% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 35.26% of the issued share capital of the Company in aggregate.

Note 2: Mr. Song Jianwen owned the entire share capital of Artnew Developments Limited, which in turn owned 0.39% of the issued share capital of the Company.

Report of the Directors

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As the Directors were aware, as at 31 December 2010, the interests or short positions of the persons, other than Directors and a chief executive of the Company, in the shares, underlying shares and debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Number of shares	Approximate Percentage
Best Growth *(Note 1)*	1,522,524,000 (L)	34.63%
Mr. Zhang Yuping *(Note 1)*	1,550,040,000 (L)	35.26%
FMR LLC *(Note 2)*	469,634,000 (L)	10.68%
The Swatch Group Hong Kong Limited *(Note 3)*	398,000,000 (L)	9.05%
The Swatch Group Limited *(Note 3)*	398,000,000 (L)	9.05%
LVMH Watches & Jewelry Hong Kong Limited *(Note 4)*	18,504,000 (L)	0.42%
TAG Heuer SA *(Note 4)*	18,504,000 (L)	0.42%
TAG Heuer International SA *(Note 4)*	18,504,000 (L)	0.42%
LVMH Asia Pacific Limited *(Note 4)*	259,620,000 (L)	5.91%
Sofidiv SAS *(Note 4)*	278,124,000 (L)	6.33%
LVMH SA *(Note 4)*	278,124,000 (L)	6.33%

The letter "L" denotes the person's long positions in the Shares.

Note 1: Best Growth is owned by the Zhang's family in the following manner:

Mr. Zhang Yuping	82.9%
Ms. Zhang Yuhong, younger sister of Mr. Zhang	14.7%
Mr. Zhang Yuwen, younger brother of Mr. Zhang	2.4%

During the Year under review, Mr. Zhang Yuping held 27,516,000 shares of the Company under his name, representing approximately 0.63% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 35.26% of the issued share capital of the Company in aggregate.

Note 2: FMR LLC held 469,634,000 shares of the Company as investment manager.

Note 3: These 398,000,000 Shares are held in the name of and registered in the capacity of The Swatch Group Hong Kong Limited as a beneficial owner. The entire issued share capital of The Swatch Group Hong Kong Limited is beneficially owned by The Swatch Group Limited. According to the SFO, the Swatch Group Limited is deemed to have interest in all the Shares held by The Swatch Group Hong Kong Limited.

Note 4: Among these 278,124,000 Shares, 18,504,000 Shares are held in the name of and registered in the capacity of LVMH Watches & Jewellery Hong Kong Limited and 259,620,000 shares are held in the name of and registered in the capacity of LVMH Asia Pacific Limited. LVMH Watches & Jewellery Hong Kong Limited's entire interest is owned by TAG Heuer SA, and TAG Heuer International SA beneficially owns 100% interest in TAG Heuer SA. Sofidiv SAS beneficially owns 100% interest in each of TAG Heuer International SA and LVMH Asia Pacific Limited. LVMH SA owns 100% interest in Sofidiv SAS.

Arrangement to Purchase Shares or Debentures

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the 12 months ended 31 December 2010 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their respective spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debentures of the Company or any other body corporate.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the Year under review.

Report of the Directors

Major Customers and Suppliers

The percentages of purchases and sales for the Year under review attributable to the Group's major suppliers and customers are as follows:

Purchase	
– the largest supplier	50%
– five largest suppliers combined	80%
Sales	
– the largest customer	3%
– five largest customers combined	10%

The Swatch Group Limited and LVMH Group, through their respective subsidiaries, constituted two of the five largest suppliers. Save as disclosed above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Connected Transactions

During the Year under review, the Company had no transactions which need to be disclosed as connected transactions in accordance with the Listing Rules.

Public Float

Based on the information that is publicly available to the Company and to the best of the Directors' knowledge at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

Auditors

The financial statements of the Company for the Year under review have been audited by KPMG which will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Since 9 July 2004, being the date of incorporation of the Company, there have been no change in our auditors.

Report of the Directors

Closure of Register of Members

The Register of Members will be closed from Friday, 6 May 2011 to Wednesday, 11 May 2011 (both days inclusive). 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 Thursday, 5 May 2011.

Disclosure of Information on the Website of the Company and the Stock Exchange

An annual report for the year ended 31 December 2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Company and the Stock Exchange 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 Year under review.

General Information

As at the date of this annual report, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Song Jianwen and Mr. Huang Yonghua, the non-executive Directors are Mr. Chen Sheng, Mr. Shen Zhiyuan and 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, 22 March 2011

Directors' and Senior Management Biographies

Executive Directors

Mr. Zhang Yuping (alia, Cheung Yu Ping) (張瑜平), aged 50, is the chairman and executive Director of the Company. He founded the Group in 1999. He is in charge of the Group's overall management and strategic development. He has more than 20 years of experience in the mid-to high-end consumables distribution industry for the PRC market.

Mr. Song Jianwen (宋建文), aged 58, is an executive Director. He joined the Group in 2001 and is in charge of finance and internal audit and control of the Group. Mr. Song graduated from Zhongnan University of Economics and Law（中南財經政法大學）with a master's degree in economics. Mr. Song has about 20 years of experience in finance and accounting.

Mr. Huang Yonghua (黃永華), aged 40, is an executive Director. He joined the Group in 2001 and is in charge of the Group's business co-ordination and operational supervision. Mr. Huang has more than 10 years of experience in the watch distribution industry and management for the PRC market.

Non-executive Directors

Mr. Chen Sheng (陳聖), aged 46, is a non-executive Director. He graduated from Fudan University in Shanghai with a master's degree in business administration. Mr. Chen joined the Company in 2007 and is responsible for investment of the Group.

Mr. Shen Zhiyuan (沈致遠), aged 68, is a non-executive Director. He graduated from Beijing Institute of Business (北京商學院). Mr. Shen was the general manager of Beijing Yishang Group (北京一商集團). He is currently the vice chairman of Association of PRC Enterprises (中國商業企業協會) and the chairman of Association of Beijing Enterprises (北京商業企業協會). Mr. Shen joined the Group in 2004.

Mr. Shi Zhongyang (史仲陽), aged 36, is a non-executive Director. Mr. Shi graduated from Nanjing University in the PRC and University of Goetting in Germany with a master's degree in law. Mr. Shi joined The Swatch Group Limited in 2000 and joined the Group in 2006. He is currently a legal counsel of the legal department of The Swatch Group Limited.

Independent Non-executive Directors

Mr. Cai Jianmin (蔡建民), aged 67, is an independent non-executive Director. He graduated from the industrial accounting faculty (工業會計系) of Shanghai College of Finance and Economics (上海財經學院). Mr. Cai holds a certificate for professional accountants (會計從業資格證書) in the PRC. He had held senior financial positions for various companies including Shanghai Hualian (Group) (上海華聯(集團)). Mr. Cai joined the Group in 2005.

Mr. Wong Kam Fai, William (黃錦輝), aged 51, is an independent non-executive Director. He graduated from University of Edinburgh, Scotland with a bachelor's degree and a doctorate degree in electrical engineering. Mr. Wong is currently a professor in the Department of Systems Engineering and Engineering Management in the Chinese University of Hong Kong. He obtained the qualification as a Chartered Engineer (CEng) since 1991, and is now a member of the Institute of Electrical Engineers and a professional member of the Association of Computing Machinery. Mr. Wong joined the Group in 2005.

Directors' and Senior Management Biographies

Mr. Liu Xueling (劉學靈), aged 53, is an independent non-executive Director. He graduated from East China University of Political Science and Law in Shanghai with a doctorate degree in history. At present, he is a senior lawyer in Shanghai Zhongxin Law Firm (上海市中新律師事務所). He joined the Group in 2007.

Senior Management

(Hengdeli Group and Shanghai Xinyu as mentioned below represent our major holding subsidiaries – Hengdeli Group Limited and Shanghai Xinyu Watch & Clock Group, Ltd. respectively)

Mr. Zhuang Liming (莊立明), aged 57, is the vice chairman of Shanghai Xinyu. Mr. Zhuang graduated from Beijing Institute of Foreign Trade (北京外貿學院). Before joining the Group in 2000, Mr. Zhuang had worked for PRC Light Industry Commodities Import and Export Company (中國輕工業品進出口總公司).

Ms. Wang Lingfei (王玲飛), aged 61, is the deputy president of Hengdeli Group. She joined the Group in 2005 and is responsible for branding. Before joining the Group, Ms. Wang was the deputy general manager of Beijing Yishang Group (北京一商集團).

Mr. Lee Wing On, Samuel (李永安), aged 46, is the deputy president of Hengdeli Group. He joined the Group in 2006 and is responsible for retail business in Hong Kong. Mr. Lee has over 20 years of experience in the watch retail industry and management in Hong Kong.

Mr. Stan Lee (李樹忠), aged 51, is the deputy president of Hengdeli Group. He joined the Group in 2007 and is responsible for retail business in Mainland China and Taiwan. He obtained a bachelor's degree in Arts from a university, and has pursued further studies in respect of Business Administration. He has over 20 years of experience in watch manufacturing and distribution.

Mr. Zhang Xingen (張新根), aged 66, is the deputy president of Shanghai Xinyu. He joined the Group in 1999 and is responsible for customer services activities. Before joining the Group, Mr. Zhang was a director of Shanghai Yimin Commercial Company Limited.

Mr. Werner Schuppisser, aged 48, is the deputy president of Hengdeli Group. He joined the Group in 2009 and is responsible for brand wholesale business. Mr. Werner Schuppisser graduated from School of Economics and Business Administration (蘇黎世經濟商業管理學院) in Zurich, Switzerland. Before joining the Group, he worked in the regional company of ASC Fine Wines (聖皮爾高級紅酒) in China and was a general manager for marketing and sales of Nestle Company in China.

Ms. Tan Li (談麗), aged 46, is the deputy president of Hengdeli Group and secretary to the Board. Ms. Tan graduated from Nanjing Normal University (南京師範大學) with a master's degree in Arts. She joined the Group in 2001. Before joining the Group, Ms. Tan taught at the branch colleges of Perking University in China. Since Ms. Tan joined the Group, she has been engaging in work related to the secretary to the Board of the Group.

Directors' and Senior Management Biographies

Mr. James Cheng (鄭世爵), aged 46, is the deputy president of Hengdeli Group. He joined the Group in 2010 and is responsible for high-end customer services work. Mr. Cheng obtained a bachelor's degree in Sciences from a university. Before joining the Group, he was the deputy president of Rado watches of The Swatch Group in China, the general manager for watches and jewellery of LVMH Group in China, and the chief executive of Fendi watches in Asia Pacific.

Ms. Li Xiangrong, Cathy (李向榮), aged 38, is the chief financial officer of Hengdeli Group. She joined the Group in 2010. Ms. Li graduated from Shanghai University of Finance and Economics (上海財經大學) and profession of international accountancy in Shanghai International Studies University (上海外語學院). She obtained a bachelor's degree in Economics and a master's degree in Executive Management Business Administration (高層管理人員工商管理碩士) from China Europe International Business School (中歐國際商學院). Ms. Li is a member of Association of Chartered Certified Accountants (ACCA) and The Chinese Institute of Certified Public Accountants. Before joining the Group, she was the financial controller of Unilever China.

Mr. Ng Man Wai, Peter (吳文偉), aged 40, is the company secretary and financial controller of the Company. Mr. Ng graduated from the University of Toronto with a bachelor's degree in commerce. He joined the Group in 2004. Mr. Ng is a member of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

Since its establishment, the Company has been committed to maintain a high standard of corporate governance practice to ensure transparency, such that the interests of our shareholders, customers, employees as well as the long term development of the Group can be safeguarded. The Group has established the Board, an audit committee, a remuneration committee and a nomination committee that are up to the requirements as being diligent, accountable and professional. KPMG has been appointed as the Group's external auditors.

The Company has adopted the Code on Corporate Governance Practices (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Board is of the opinion that the Company had complied with the Code on Corporate Governance as set out in Appendix 14 to the Listing Rules (the "Listing Rules") of the Stock Exchange throughout the year ended 31 December 2010 except for a deviation from the Code provision A2.1. Given the Group's existing corporate structure, the roles of the chairman and chief executive officer have not been separated. 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 after consultation with the Board and (where applicable) the committees of the Board. There are three independent non-executive Directors in the Board, therefore the Board considers the Company has achieved balance of power and provided sufficient assurance for its sound operation.

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, Song Jianwen and Huang Yonghua), three non-executive Directors (Messrs. Chen Sheng, Shi Zhongyang, and Shen Zhiyuan) 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. Song Jianwen is in charge of finance and internal audit and control of the Group, and Mr. Huang Yonghua is in charge of the Group's business coordination and business supervision.

Each of the three non-executive Directors has professional expertise and extensive experience in the areas of law and business administration respectively; they can offer supervision to the daily operation, and provide corresponding opinions and recommendations in a timely manner. We believe the non-executive Directors are beneficial to the standardised operation of the Company and the safeguard of the interests of our shareholders.

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.

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 audit and examination from 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 the same. Pursuant to the review made by independent review institutes to the internal control system of the Group, the Group will further improve its internal administration and control system.

Corporate Governance Report

In 2010, a total of seven meetings were held by the Board. Among which, four were regular meetings. All members of the Board attended all regular meetings and the rate of attendance was 100%.

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

The Board has received confirmation from all independent non-executive Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules. The Board considers that all current independent non-executive Directors have met the requirements of the guidelines set out in Rule 3.13 of the Listing Rules and remain independent.

Securities Transactions by Directors

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 Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made by the Company with all Directors, the Company has confirmed that during the Year under review, all Directors had complied with the standard as required by the Code mentioned above.

Accountability and Audit

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out on page 40 to 41 of the annual report.

Auditors' Remuneration

The audit fee to be received by the auditors of the Company for the year ended 31 December 2010 will be approximately RMB3,620,000.

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 2010 and 2010 interim report.

During the Year, two meetings had been held on 30 March 2010 and 10 August 2010 to review the full year and half year reports of the Group respectively. All members of the committee attended the meetings.

Corporate Governance Report

Remuneration Committee

The Company has established a remuneration committee in compliance with the Listing Rules. The remuneration committee comprises three Directors including Messrs. Zhang Yuping (Chairman), Cai Jianmin and Liu Xueling. 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 had been held during the Year to review matters related to the remuneration structure of the Directors and senior management. All members of the committee attended the meeting.

Nomination Committee

The Company has established a nomination committee in compliance with the Listing Rules. The nomination committee comprises three Directors including Messrs. Song Jianwen (Chairman), Cai Jianmin and Liu Xueling. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and management of Board succession.

One meeting had been held during the Year to review matters related to the retirement of Directors of the Company by rotation and re-election. All members of the committee attended the meeting.

Investor Relations

The Company firmly believes the importance of effective communication with the investment community and the shareholders in attaining a high level of transparency. Since its listing, the Group has maintained various communication channels with the shareholders, mass media, analysts and fund managers such as one-on-one meetings, roadshows, seminars, press conferences, press releases, telephone communications and emails. The Company endeavours to provide accurate and timely information to the shareholders, so as to enhance the understanding of our investors about the status of the domestic luxury watch industry, as well as the business development strategy and direction of the Group.

During the Year under review, the Group's management held regular and ad hoc meetings with different analysts and investors, including the marketing campaign on investor relations in major investing center such as Hong Kong, Singapore, Beijing, Shanghai and the USA etc. Besides, the Group also held roadshows in various countries including the USA, Britain, Switzerland, Singapore, Japan and Malaysia, so as to facilitate the investors to acquire a deep, timely understanding of the Group.

In the future, the Group will continue to maintain a close relationship with investors and boost understanding of international investors of the Group so as to enhance investors' confidence in the Group.

Financial Summary

RESULTS	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Sales	2,404,699	4,578,741	5,516,496	5,899,422	**8,215,643**
Profit before taxation	293,829	551,688	618,984	513,755	**815,663**
Income tax	(80,231)	(109,535)	(130,819)	(127,662)	**(198,285)**
Profit for the year	213,598	442,153	488,165	386,093	**617,378**
Attributable to:					
Equity shareholders of the Company	199,101	417,523	460,087	364,809	**553,989**
Non-controlling interests	14,497	24,630	28,078	21,284	**63,389**
Profit for the year	213,598	442,153	488,165	386,093	**617,378**

ASSETS AND LIABILITIES	At 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	2,463,626	3,925,591	4,480,775	5,174,169	**9,059,406**
Total liabilities	855,066	1,943,220	2,148,755	2,050,092	**4,413,725**
Net assets	1,608,560	1,982,371	2,332,020	3,124,077	**4,645,681**
Total equity attributable to equity shareholders of the Company	1,472,086	1,785,498	2,095,798	2,866,645	**4,316,415**
Non-controlling interests	136,474	196,873	236,222	257,432	**329,266**
Total equity	1,608,560	1,982,371	2,332,020	3,124,077	**4,645,681**

Auditor's Report

Independent auditor's report to the shareholders of
Hengdeli Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hengdeli Holdings Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 42 to 133, which comprise the consolidated and company statements of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Turnover	*3 & 12*	**8,215,643**	5,899,422
Cost of sales		**(6,166,693)**	(4,490,297)
Gross profit		**2,048,950**	1,409,125
Other revenue	*4*	**54,690**	50,571
Other net income/(losses)	*4*	**11,918**	(38,506)
Distribution costs		**(947,526)**	(590,112)
Administrative expenses		**(281,086)**	(239,425)
Other operating expenses		**(1,519)**	(1,028)
Profit from operations		**885,427**	590,625
Finance costs	*5(a)*	**(82,958)**	(75,694)
Share of profits/(losses) of jointly controlled entities	*17*	**13,194**	(1,176)
Profit before taxation	*5*	**815,663**	513,755
Income tax	*6(a)*	**(198,285)**	(127,662)
Profit for the year		**617,378**	386,093
Attributable to:			
Equity shareholders of the Company	*9*	**553,989**	364,809
Non-controlling interests		**63,389**	21,284
Profit for the year		**617,378**	386,093
Earnings per share	*11*		
Basic		**RMB0.133**	RMB0.094
Diluted		**RMB0.133**	RMB0.094

The notes on pages 50 to 133 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(b).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Profit for the year		**617,378**	386,093
Other comprehensive income for the year	*10*		
Exchange differences on translation of financial statements of overseas subsidiaries		**(40,832)**	(1,060)
Total comprehensive income for the year		**576,546**	385,033
Attributable to:			
Equity shareholders of the Company		**513,157**	363,749
Non-controlling interests		**63,389**	21,284
Total comprehensive income for the year		**576,546**	385,033

The notes on pages 50 to 133 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2010

	Note	2010 RMB'000	2010 RMB'000	2009 RMB'000	2009 RMB'000
Non-current assets					
Fixed assets	13				
– Investment property			240,467		26,007
– Other property, plant and equipment			664,476		600,359
			904,943		626,366
Intangible assets	14		25,721		42,799
Goodwill	15		277,921		242,767
Interest in an associate			1,850		–
Interest in jointly controlled entities	17		52,930		35,784
Other investments	18		797		797
Deferred tax assets	29(b)(i)		51,628		39,405
Other financial asset	19		121,050		–
			1,436,840		987,918
Current assets					
Inventories	20	3,197,859		2,404,237	
Trade and other receivables	21	1,004,900		591,063	
Pledged bank deposits	22	10,000		40,000	
Cash and cash equivalents	23	3,409,807		1,150,951	
		7,622,566		4,186,251	
Current liabilities					
Trade and other payables	24	881,026		806,599	
Bank loans	25	1,076,649		823,878	
Current taxation	29(a)	97,485		61,813	
		2,055,160		1,692,290	
Net current assets			5,567,406		2,493,961
Total assets less current liabilities			7,004,246		3,481,879
Non-current liabilities					
Bank loans	25	232,446		141,694	
Convertible bonds	26	2,084,677		180,152	
Embedded financial derivatives	26	9,062		13,749	
Deferred tax liabilities	29(b)(ii)	32,380		22,207	
			2,358,565		357,802
NET ASSETS			4,645,681		3,124,077

The notes on pages 50 to 133 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

at 31 December 2010

	Note	2010 RMB'000	2010 RMB'000	2009 RMB'000	2009 RMB'000
CAPITAL AND RESERVES					
Share capital	*30(c)*		21,302		19,909
Reserves			4,295,113		2,846,736
Total equity attributable to equity shareholders of the Company			4,316,415		2,866,645
Non-controlling interests			329,266		257,432
TOTAL EQUITY			4,645,681		3,124,077

Approved and authorised for issue by the board of directors on 22 March 2011.

Zhang Yuping
Executive Director

Song Jianwen
Executive Director

The notes on pages 50 to 133 form part of these financial statements.

Statement of Financial Position

at 31 December 2010

	Note	2010 RMB'000	2010 RMB'000	2009 RMB'000	2009 RMB'000
Non-current assets					
Investments in subsidiaries	16		523,144		529,639
Current assets					
Trade and other receivables	21	2,687,559		1,266,305	
Cash and cash equivalents	23	1,440,913		14,506	
		4,128,472		1,280,811	
Current liabilities					
Trade and other payables	24	17,955		79,468	
Bank loans	25	17,018		21,836	
		34,973		101,304	
Net current assets			4,093,499		1,179,507
Total assets less current liabilities			4,616,643		1,709,146
Non-current liabilities					
Bank loans	25	68,072		–	
Convertible bonds	26	2,084,677		180,152	
Embedded financial derivatives	26	9,062		13,749	
			2,161,811		193,901
NET ASSETS			2,454,832		1,515,245
CAPITAL AND RESERVES	30(a)				
Share capital			21,302		19,909
Reserves			2,433,530		1,495,336
TOTAL EQUITY			2,454,832		1,515,245

Approved and authorised for issue by the board of directors on 22 March 2011.

Zhang Yuping
Executive Director

Song Jianwen
Executive Director

The notes on pages 50 to 133 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2009		12,903	1,189,784	24	3,161	(69,222)	137,825	821,323	2,095,798	236,222	2,332,020
Changes in equity for 2009											
Profit for the year		–	–	–	–	–	–	364,809	364,809	21,284	386,093
Other comprehensive income		–	–	–	–	(1,060)	–	–	(1,060)	–	(1,060)
Total comprehensive income		–	–	–	–	(1,060)	–	364,809	363,749	21,284	385,033
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	–	(138,694)	(138,694)	–	(138,694)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	–	(20,074)	(20,074)
Issuance of bonus share		5,976	(5,976)	–	–	–	–	–	–	–	–
Purchase of own shares											
– par value paid		(10)	–	–	–	–	–	–	(10)	–	(10)
– premium paid		–	–	–	–	–	–	(2,539)	(2,539)	–	(2,539)
– transfer between reserves		–	–	10	–	–	–	(10)	–	–	–
Transfer between reserves		–	–	–	–	–	33,371	(33,371)	–	–	–
Share placement		1,040	543,823	–	–	–	–	–	544,863	–	544,863
Transaction cost attributable to share placement		–	(15,818)	–	–	–	–	–	(15,818)	–	(15,818)
Equity settled share-based transactions	*28*	–	–	–	19,296	–	–	–	19,296	–	19,296
Capital contribution from holders of non-controlling interests		–	–	–	–	–	–	–	–	20,000	20,000
Balance at 31 December 2009 and 1 January 2010		19,909	1,711,813	34	22,457	(70,282)	171,196	1,011,518	2,866,645	257,432	3,124,077
Changes in equity for 2010											
Profit for the year		–	–	–	–	–	–	553,989	553,989	63,389	617,378
Other comprehensive income		–	–	–	–	(40,832)	–	–	(40,832)	–	(40,832)
Total comprehensive income		–	–	–	–	(40,832)	–	553,989	513,157	63,389	576,546
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	–	(109,864)	(109,864)	–	(109,864)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	–	(13,049)	(13,049)
Transfer between reserves		–	–	–	–	–	47,345	(47,345)	–	–	–
Share placement	*30(c)(ii)*	1,276	902,492	–	–	–	–	–	903,768	–	903,768
Transaction cost attributable to share placement	*30(c)(ii)*	–	(26,186)	–	–	–	–	–	(26,186)	–	(26,186)
Shares issued under share option scheme	*28*	70	63,208	–	(17,369)	–	–	–	45,909	–	45,909
Equity settled share-based transactions	*28*	–	–	–	10,695	–	–	–	10,695	–	10,695
Conversion of convertible bonds	*26*	47	51,832	–	–	–	–	–	51,879	–	51,879
Equity component of convertible bonds	*26*	–	–	–	60,412	–	–	–	60,412	–	60,412
Capital contribution from holders of non-controlling interests		–	–	–	–	–	–	–	–	12,946	12,946
Acquisition of subsidiaries	*33*	–	–	–	–	–	–	–	–	8,548	8,548
Balance at 31 December 2010		21,302	2,703,159	34	76,195	(111,114)	218,541	1,408,298	4,316,415	329,266	4,645,681

The notes on pages 50 to 133 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 RMB'000	2010 RMB'000	2009 RMB'000	2009 RMB'000
Operating activities					
Cash (used in)/generated from operations	*23(b)*	(51,164)		824,248	
Income tax paid		(164,663)		(128,469)	
Net cash (used in)/generated from operating activities			(215,827)		695,779
Investing activities					
Payment for the purchase of property, plant and equipment		(393,272)		(110,486)	
Proceeds from sale of property, plant and equipment		43,328		104	
Payment for the purchase of intangible assets		(1,531)		(1,934)	
Proceeds from sale of intangible assets		26,720		–	
Proceeds from sale of a subsidiary	*17*	28,375		–	
Proceeds from sale of a jointly controlled entity	*17*	4,900		–	
Payment for the purchase of trading securities		–		(74,268)	
Proceeds from sale of trading securities		–		79,308	
Decrease in pledged bank deposits		40,000		89,097	
Increase in pledged bank deposits		(10,000)		(32,600)	
Interest received		18,615		5,435	
Payment for capital injection to jointly controlled entity		–		(10,000)	
Payment for acquisition of subsidiaries, net of cash acquired	*19,21&33*	(360,248)		(48,146)	
Dividend received from unlisted investments		19,252		16,434	
Net cash used in investing activities			(583,861)		(87,056)

The notes on pages 50 to 133 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

for the year ended 31 December 2010

	Note	2010 RMB'000	2010 RMB'000	2009 RMB'000	2009 RMB'000
Financing activities					
Capital contributions from non-controlling holders of interests		12,946		20,000	
Payment for repurchase of shares		–		(2,549)	
Proceeds from new bank loans		1,397,845		1,262,592	
Repayment of bank loans		(1,062,442)		(1,092,827)	
Proceeds from the issue of new shares	*30*	903,768		544,863	
Payment of transaction costs on issue of new shares		(26,186)		(15,818)	
Proceeds from shares issued under share option scheme		45,909		–	
Payment for redemption and purchases of Convertible Bonds	*26*	(109,885)		(562,301)	
Proceeds from the issue of Convertible Bonds, net of transaction costs		2,104,069		–	
Borrowing costs paid		(49,491)		(47,071)	
Dividend paid to equity shareholders of the Company	*30*	(109,864)		(138,694)	
Dividend paid to non–controlling holders of interests		(13,049)		(13,977)	
Net cash generated from/ (used in) financing activities			3,093,620		(45,782)
Net increase in cash and cash equivalents			2,293,932		562,941
Effect of foreign exchange rate changes			(35,076)		–
Cash and cash equivalents at 1 January			1,150,951		588,010
Cash and cash equivalents at 31 December			3,409,807		1,150,951

The notes on pages 50 to 133 form part of these financial statements.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies

Hengdeli Holdings Limited ("the Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 9 July 2004 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 September 2005.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together, the "Group") is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Group and the Group's interest in an associate and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at fair value as explained in the accounting policies set out below (see note 1(n)).

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 38.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in accordance with note 1(p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 1 (d)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note (1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Company's statement of financial position, investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(k)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

1. Significant accounting policies *(Continued)*

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(u)(iii) and (iv).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(k)).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(f) Other investments in debt and equity securities *(Continued)*

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(u)(iii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(u)(iv). When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are measured at cost less accumulated depreciation and impairment losses (see note 1(k)). Depreciation is calculated to write off the cost of investment property less its estimated residual value using the straight line method over its estimated useful life of 20 years. Rental income from investment properties is accounted for as described in note 1(u)(ii).

(h) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(h) Other property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Freehold land is not depreciated.

– Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.

– Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

– Leasehold improvements	1-5 years
– Motor vehicles	8 years
– Office equipment and other fixed assets	3-5 years

No depreciation is provided for construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment and other fixed assets is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

EDOX agency rights and patents	5-10 years
Trademarks with finite useful life	5-10 years
Software licence	5-10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(j) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries (see note 1(k)(ii))), and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1. Significant accounting policies *(Continued)*

(k) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and jointly controlled entities recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit and loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(k) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses in respect of available-for-sale debt securities are reversed if a subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- investment property;
- other property, plant and equipment;
- intangible assets;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and 1(k)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The fair value of inventories acquired in a business combination is determined based on their estimated selling price in the ordinary course of business less the estimated costs of sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Convertible bonds and derivatives

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(n) Convertible bonds and derivatives *(Continued)*

(i) Convertible bonds that contain an equity component (Continued)

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative components of the convertible bonds are measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative components is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiary in the Company's statement of financial position which is eliminated on consolidation.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(r) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(s) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations which have a functional currency other than Renminbi ("RMB") are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1. Significant accounting policies *(Continued)*

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) Segment reporting

Operating segments, and amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2. Changes in accounting policies

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations 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:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Improvements to HKFRSs (2009)
- HK(Int) 5, Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause

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

The issuance of HK(Int) 5 has had no material impact on the Group's financial statements as the Interpretation's conclusion was consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of some of the revisions to HKFRS 3, HKAS 27 and HKFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, has had no material impact on the Group's financial statements as the classification of the Group's interests in leasehold land as operating leases continues to be appropriate.

2. Changes in accounting policies *(Continued)*

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  – In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2. Changes in accounting policies *(Continued)*

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:

  – If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

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.

Further details regarding the Group's principal activities are disclosed in note 12 to these financial statements.

4. Other revenue and net income/(losses)

	2010 RMB'000	2009 RMB'000
Other revenue		
Interest income	18,615	5,435
Government grants	8,800	16,350
Dividend income from unlisted investments (note 18)	19,252	16,434
Rental income	4,363	4,360
Others	3,660	7,992
	54,690	50,571

One of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group., Ltd. ("Shanghai Xinyu"), received unconditional grants totalling RMB8,800,000 and RMB16,350,000 for the years ended 31 December 2010 and 2009, respectively, from the municipal government of Shanghai, in support of Shanghai Xinyu's development.

	2010 RMB'000	2009 RMB'000
Other net income/(losses)		
Changes in fair value of embedded financial derivatives (note 26)	(21,519)	(38,024)
Gain/(loss) on redemption and purchases of convertible bonds (note 26)	7,723	(5,205)
Net realised gain on trading securities	–	5,040
Gain on sale of a subsidiary and on interest in a jointly controlled entity (note 16 & 17)	6,471	–
Net gain on sale of trademarks (note 14)	12,270	–
Gain/(loss) on sale of property, plant and equipment	6,973	(317)
	11,918	(38,506)

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

5. Profit before taxation

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

(a) Finance costs

	2010 RMB'000	2009 RMB'000
Interest on bank loans wholly repayable within five years	48,402	40,839
Interest on other loans	475	440
Interest on convertible bonds (note 26)	26,355	29,867
Bank charges	7,781	5,526
Net foreign exchange gain	(55)	(978)
Finance costs	82,958	75,694

(b) Staff costs

	2010 RMB'000	2009 RMB'000
Wages, salaries and other benefits	359,411	238,376
Contributions to defined contribution retirement plans	46,037	34,793
Equity-settled share-based payment expenses (note 28)	10,695	19,296
	416,143	292,465

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

5. Profit before taxation *(Continued)*

(c) Other items

	2010 RMB'000	2009 RMB'000
Amortisation of intangible assets	2,380	2,109
Depreciation of fixed assets	51,088	41,741
Operating lease charges in respect of properties		
– minimum lease payments	125,172	89,101
– contingent rents	339,068	197,613
	464,240	286,714
Auditors' remuneration – audit services	3,620	3,603
Rentals receivable from investment property	2,755	2,087
Cost of inventories	6,166,693	4,490,297

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

6. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2010 RMB'000	2009 RMB'000
Current tax		
Provision for Hong Kong profits tax for the year	49,328	35,672
Provision for PRC income tax for the year	147,717	83,455
Provision for Taiwan income tax for the year	2,340	–
Under-provision in respect of prior years	950	815
Sub-total	200,335	119,942
Deferred tax		
Origination and reversal of temporary differences (note 29)	(2,050)	7,720
Sub-total	(2,050)	7,720
Total	198,285	127,662

Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than Hong Kong, the PRC, Taiwan, Macau and Italy, are not subject to any income tax in these jurisdictions.

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

On 16 March 2007, the PRC government enacted the new Enterprise Income Tax law ("new EIT law"), which unified the income tax rate to 25% for all companies incorporated in the PRC. The new EIT law was effective as of 1 January 2008. The new EIT law and its relevant regulations provide a 5-year transition period from its effective date for those companies which were established before 16 March 2007 and which were entitled to a preferential lower tax rate under the then effective tax laws and regulations, as well as grandfathering certain tax holidays granted under the previous tax law. In accordance with the transitional provisions, one of the Group's subsidiaries located in the Shenzhen Economic Zone is subject to income tax rates of 18%, 20%, 22%, and 24% for 2008, 2009, 2010 and 2011 respectively, and 25% thereafter.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

6. Income tax in the consolidated income statement *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

Pursuant to the new EIT law and its relevant regulations, another subsidiary of the Group located in Guangzhou is subject to income tax at 12.5% according to the policy of "two years exemption and three years half rate reduction" for the 3 years from 2009 to 2011 and 25% thereafter.

Both of the above PRC subsidiaries will be subject to the unified tax rate of 25% from 2012.

The applicable income tax rate of the Group's other PRC subsidiaries is 25%.

In May 2009, the Taiwan Government announced a decrease in the statutory income tax rate from 25% to 17% for the year ended 31 December 2010. Accordingly the provision for Taiwan income tax for 2010 is calculated at 17% (2009: 25%) of the estimated assessable profits for the year end.

Income tax is calculated at 31.4% and 12% of any assessable profits in Italy and Macau respectively. No such assessable profits were generated in these jurisdictions during 2010.

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	**815,663**	513,755
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**181,263**	120,080
Tax effect of non-taxable income	**(7,025)**	(11,340)
Tax effect of non-deductible expenses	**5,806**	1,133
Under-provision in prior years	**950**	815
Tax effect of unused tax losses not recognized	**8,378**	10,488
Withholding taxes on profits distributions of the Group's subsidiaries	**8,913**	6,486
Actual tax expense	**198,285**	127,662

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

7. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 27)*	Total RMB'000
Year ended 31 December 2010				
Executive Directors				
Mr. Zhang Yuping	–	3,525	11	3,536
Mr. Song Jianwen	–	1,243	55	1,298
Mr. Huang Yonghua	–	1,682	–	1,682
Non-executive Directors				
Mr. Chen Sheng	604	–	–	604
Mr. Shen Zhiyuan	42	–	–	42
Mr. Shi Zhongyang	85	–	–	85
Independent Non-executive Directors				
Mr. Cai Jianmin	43	–	–	43
Mr. Wong Kam Fai, William	85	–	–	85
Mr. Liu Xueling	43	–	–	43
Total	902	6,450	66	7,418

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

7. Directors' remuneration *(Continued)*

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 27)*	Total RMB'000
Year ended 31 December 2009				
Executive Directors				
Mr. Zhang Yuping	–	2,696	11	2,707
Mr. Song Jianwen	–	1,288	55	1,343
Mr. Huang Yonghua	–	1,878	–	1,878
Non-executive Directors				
Mr. Chen Sheng	636	–	–	636
Mr. Shen Zhiyuan	44	–	–	44
Mr. Shi Zhongyang	88	–	–	88
Independent Non-executive Directors				
Mr. Cai Jianmin	44	–	–	44
Mr. Wong Kam Fai, William	88	–	–	88
Mr. Liu Xueling	44	–	–	44
Total	944	5,862	66	6,872

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group during the two years ended 31 December 2010 and 2009. There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 December 2010 and 2009.

During the years ended 31 December 2010 and 2009, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

8. Individuals with highest emoluments

The five highest paid individuals of the Group during the year ended 31 December 2010 include one (2009: two) director of the Group, whose emoluments are reflected in note 7. Details of emoluments paid to the remaining highest paid individuals of the Group are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other emoluments	10,829	5,473
Contributions to retirement benefit plans	69	41
Bonuses	28,668	8,850
Share-based payments	210	351
	39,776	14,715

The emoluments of the four (2009: three) individuals, other than directors, with the highest emoluments are within the following bands:

HKD	2010 Number of individuals	2009 Number of individuals
Nil – 1,000,000	–	–
1,000,001 – 1,500,000	–	1
1,500,001 – 2,000,000	–	1
2,500,001 – 3,000,000	1	–
4,500,001 – 5,000,000	2	–
12,500,001 – 13,000,000	–	1
30,500,001 – 31,000,000	1	–

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

9. Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB57,684,000 (2009: loss RMB81,695,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2010 RMB'000	2009 RMB'000
Amount of loss attributable to equity shareholders dealt with in the Company's financial statements	(57,684)	(81,695)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	125,006	150,707
Company's profit for the year (note 30(a))	67,322	69,012

Details of dividends paid and payable to equity shareholders of the Company are set out in note 30(b).

10. Other comprehensive income

Tax effect relating to other comprehensive income:

	2010			2009		
	Before-tax RMB'000	Tax RMB'000	Net-of-tax RMB'000	Before-tax RMB'000	Tax RMB'000	Net-of-tax RMB'000
Exchange differences on translation of financial statement of overseas subsidiaries	(40,832)	–	(40,832)	(1,060)	–	(1,060)

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

11. 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 RMB553,989,000 (2009: RMB364,809,000) and the weighted average of 4,172,241,793 ordinary shares (2009: 3,891,655,282 ordinary shares) in issue during the year.

Weighted average number of ordinary shares

	2010	2009
Issued ordinary shares at 1 January	4,069,026,000	2,479,000,000
Effect of conversion of convertible bonds (note 26)	738,790	–
Effect of share options exercised (note 28)	3,846,866	–
Effect of shares repurchased	–	(3,359,786)
Effect of bonus issue	–	1,239,500,000
Effect of share placements (note 30(c)(ii))	98,630,137	176,515,068
Weighted average number of ordinary shares at 31 December	4,172,241,793	3,891,655,282

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity shareholders of the Company (diluted) of RMB553,989,000 (2009: RMB364,809,000) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 4,177,925,374 (2009: 3,891,655,282).

The calculation of diluted earnings per share amount for the year ended 31 December 2010 has not included the potential effect of the deemed conversion of the convertible bonds into ordinary shares during the year as it has an anti-dilutive effect on the basic earnings per share amount for the year.

Weighted average number of ordinary shares (diluted)

	2010	2009
Weighted average number of ordinary shares	4,172,241,793	3,891,655,282
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 28)	5,683,581	–
Weighted average number of ordinary shares (diluted) at 31 December	4,177,925,374	3,891,655,282

12. 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 the PRC). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

- Wholesale: this segment distributes numerous world renowned brand watches in the PRC.

(a) Segment results and assets

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

Segment assets represent inventories only.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is “gross profit”.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

12. Segment reporting *(Continued)*

(a) Segment results and assets *(Continued)*

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		Wholesale		All others #		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	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	3,769,908	2,722,275	2,412,052	1,705,476	192,698	7,912	1,661,119	1,329,967	179,866	133,792	8,215,643	5,899,422
Inter-segment revenue	–	–	–	–	–	–	2,764,134	2,081,781	1,562	3,395	2,765,696	2,085,176
Reportable segment revenue	3,769,908	2,722,275	2,412,052	1,705,476	192,698	7,912	4,425,253	3,411,748	181,428	137,187	10,981,339	7,984,598
Reportable segment profit	1,220,177	875,113	496,616	322,122	66,214	2,462	210,525	164,173	55,418	45,255	2,048,950	1,409,125
Reportable segment assets	1,825,530	1,413,872	780,659	617,453	180,067	11,929	493,091	429,936	67,393	57,298	3,346,740	2,530,488

Revenues from segments below the quantitative thresholds are mainly attributable to a watch repairing and maintenance business, manufacture and distribution business of writing instruments branded OMAS, a packaging and decoration business, and a watch retail business in Macau. None of those segments met any of the quantitative thresholds for determining reportable segments.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

12. Segment reporting *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss and assets

Revenue	2010 RMB'000	2009 RMB'000
Total revenues for reportable segments	10,799,911	7,847,411
Other revenue	181,428	137,187
Elimination of inter-segment revenue	(2,765,696)	(2,085,176)
Consolidated turnover	8,215,643	5,899,422

Profit	2010 RMB'000	2009 RMB'000
Total profit for reportable segments	1,993,532	1,363,870
Other profit	55,418	45,255
	2,048,950	1,409,125
Other revenue	54,690	50,571
Other net income/(losses)	11,918	(38,506)
Distribution costs	(947,526)	(590,112)
Administrative expenses	(281,086)	(239,425)
Other operating expenses	(1,519)	(1,028)
Finance costs	(82,958)	(75,694)
Share of profits/(losses) of jointly controlled entities	13,194	(1,176)
Consolidated profit before taxation	815,663	513,755

Assets	2010 RMB'000	2009 RMB'000
Total assets for reportable segments (inventories)	3,279,347	2,473,190
Other assets	67,393	57,298
Elimination of unrealised inter-segment profit	(148,881)	(126,251)
	3,197,859	2,404,237
Trade and other receivables	1,004,900	591,063
Pledged bank deposits	10,000	40,000
Cash and cash equivalents	3,409,807	1,150,951
Non-current assets	1,436,840	987,918
Consolidated total assets	9,059,406	5,174,169

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

12. Segment reporting *(Continued)*

(c) 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 an associate, interests in jointly controlled entities and other investments ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interest in an associate, interests in jointly controlled entities and other investments.

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

	2010 **RMB'000**	2009 RMB'000
Revenue from external customers		
Mainland China	**5,576,586**	4,102,031
Hong Kong	**2,416,843**	1,761,191
Taiwan	**192,698**	7,912
Others	**29,516**	28,288
Total	**8,215,643**	5,899,422
Specified non-current assets		
Mainland China	**740,845**	617,029
Hong Kong	**246,873**	256,716
Taiwan	**249,063**	46,017
Others	**27,381**	28,751
Total	**1,264,162**	948,513

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13. Fixed assets

The Group

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment and other fixed assets RMB'000	Construction in progress RMB'000	Sub-Total RMB'000	Investment property RMB'000	Total fixed assets RMB'000
Cost:								
Balance at 1 January 2009	332,980	92,184	14,487	43,193	160,587	643,431	31,032	674,463
Additions	13,087	37,125	2,380	8,725	49,169	110,486	–	110,486
Additions through acquisition of subsidiaries	–	1,088	–	–	–	1,088	–	1,088
Transfer from construction in progress	–	6,215	–	377	(6,592)	–	–	–
Disposals	–	(4,605)	(1,116)	(2,363)	–	(8,084)	–	(8,084)
Balance at 31 December 2009 and 1 January 2010	346,067	132,007	15,751	49,932	203,164	746,921	31,032	777,953
Additions	–	63,461	6,691	15,494	130,695	216,341	194,850	411,191
Additions through acquisition of subsidiaries	–	–	–	1,558	–	1,558	–	1,558
Transfer from construction in progress	128,160	17,667	–	–	(167,984)	(22,157)	22,157	–
Disposals	(34,243)	(5,802)	(2,807)	(2,165)	–	(45,017)	–	(45,017)
Disposals of subsidiaries	(58,874)	–	–	–	–	(58,874)	–	(58,874)
Balance at 31 December 2010	381,110	207,333	19,635	64,819	165,875	838,772	248,039	1,086,811
Accumulated depreciation:								
Balance at 1 January 2009	(46,435)	(41,437)	(6,191)	(20,185)	–	(114,248)	(3,261)	(117,509)
Charge for the year	(12,299)	(17,860)	(1,837)	(7,981)	–	(39,977)	(1,764)	(41,741)
Written back on disposals	–	4,605	976	2,082	–	7,663	–	7,663
Balance at 31 December 2009 and 1 January 2010	(58,734)	(54,692)	(7,052)	(26,084)	–	(146,562)	(5,025)	(151,587)
Charge for the year	(10,130)	(27,254)	(2,444)	(8,713)	–	(48,541)	(2,547)	(51,088)
Written back on disposals	112	5,802	1,989	759	–	8,662	–	8,662
Written back on disposals of subsidiaries	12,145	–	–	–	–	12,145	–	12,145
Balance at 31 December 2010	(56,607)	(76,144)	(7,507)	(34,038)	–	(174,296)	(7,572)	(181,868)
Net book value:								
At 31 December 2010	324,503	131,189	12,128	30,781	165,875	664,476	240,467	904,943
At 31 December 2009	287,333	77,315	8,699	23,848	203,164	600,359	26,007	626,366

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13. Fixed assets *(Continued)*

i) Land owned by the Group is located in Italy and Taiwan, which has an unlimited useful life and therefore is not depreciated. The carrying amount of the land located in Italy and Taiwan as at 31 December 2010 is RMB7,779,000 (2009: RMB7,779,000) and RMB7,544,000 (2009: RMB38,368,000), respectively.

ii) The buildings owned by the Group are located in the PRC, Italy, Hong Kong and Taiwan.

iii) As at 31 December 2010, land and buildings in Taiwan and Hong Kong with carrying amounts of RMB13,423,000 and RMB42,561,000, respectively (2009: RMB45,749,000 in Taiwan and RMB45,232,000 in Hong Kong) were pledged to banks as security for certain loans (see note 25).

iv) As at 31 December 2010, the Group was in the process of obtaining property ownership certificates for its buildings in Guangzhou and Taiyuan with carrying amounts of approximately RMB30,685,000 (2009: RMB39,780,000).

v) The investment properties are located in Shenzhen and Wuhan in Mainland China and Taipei in Taiwan (2009: in Shenzhen only), and are rented out under the terms of operating leases. The fair value of the investment property as at 31 December 2010, as determined by reference to recent market transactions of comparable properties, amounted to RMB277,076,000 (2009: RMB58,160,000). The fair value of the investment properties has not been evaluated by an independent external valuer.

As at 31 December 2010, investment property in Taiwan with a carrying amount of RMB194,694,000 (2009: nil) was pledged to bank as security for certain loans (see note 25).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

14. Intangible assets

The Group

	Trademarks with indefinite useful lives RMB'000	Trademarks with finite useful lives RMB'000	Edox agency rights and patents RMB'000	Software licence RMB'000	Total RMB'000
Cost:					
At 1 January 2009	32,149	8,259	3,969	764	45,141
Additions during the year	–	485	224	1,225	1,934
At 1 January 2010	32,149	8,744	4,193	1,989	47,075
Additions during the year	–	–	67	1,464	1,531
Disposals during the year	(16,229)	–	–	–	(16,229)
At 31 December 2010	15,920	8,744	4,260	3,453	32,377
Amortisation:					
At 1 January 2009	–	(1,085)	(1,045)	(37)	(2,167)
Charge for the year	–	(1,140)	(799)	(170)	(2,109)
At 1 January 2010	–	(2,225)	(1,844)	(207)	(4,276)
Charge for the year	–	(1,145)	(831)	(404)	(2,380)
At 31 December 2010	–	(3,370)	(2,675)	(611)	(6,656)
Net book value:					
At 31 December 2010	15,920	5,374	1,585	2,842	25,721
At 31 December 2009	32,149	6,519	2,349	1,782	42,799

The amortisation charges for trademarks with finite useful lives, Edox agency rights and patents, and software licence are included in "Administrative expenses" in the consolidated income statement.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

14. Intangible assets *(Continued)*

The basis of impairment tests for cash-generating units containing trademarks with indefinite useful lives is as follows:

The recoverable amount of the cash-generating unit is determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on estimated annual growth rates in sales ranging from 3% to 15% (2009: 3% to 15%), a growth rate in gross profit ratio ranging from 1% to 4% (2009: 0% to 4%), and a discount rate of 10% (2009: 8% to 10%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

15. Goodwill

	The Group
	RMB'000
Cost:	
At 1 January 2009	228,367
Additions	14,400
At 31 December 2009 and 1 January 2010	242,767
Additions (note 33)	35,154
At 31 December 2010	277,921
Accumulated impairment losses:	
At 1 January 2009, 31 December 2009 and 1 January 2010 and 31 December 2010	–
Carrying amount:	
At 31 December 2010	277,921
At 31 December 2009	242,767

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

15. Goodwill *(Continued)*

Goodwill is allocated to the Group's cash-generating units identified according to the reportable segments as follows:

	2010 RMB'000	2009 RMB'000
Retail – Hong Kong		
Elegant Jewellery Holding Limited ("Elegant")	**171,163**	171,163
Retail – Taiwan		
台灣精光堂時計有限公司*(note 33)* ("Timepiece")	**22,654**	–
Retail – Mainland China		
蘇州工業園區新宇世家鐘錶有限公司 ("Suzhou Xinyu")	**16,845**	16,845
北京世紀英迪商貿有限責任公司 ("Beijing Yingdi")	**15,275**	15,275
武漢新宇老亨達利有限公司 ("Wuhan Xinyu")	**14,400**	14,400
河南富豪錶行有限公司 ("Henan Fuhao")	**8,197**	8,197
無錫新宇鐘錶有限公司 ("Wuxi Xinyu")	**8,000**	8,000
新疆世紀百達投資有限公司 ("Xinjiang Century Baida")	**4,246**	4,246
深圳市瑞時達貿易有限公司 ("Shenzhen Ruishida")	**2,956**	2,956
青島亨得利有限公司*(note 33)* ("Qingdao Hengdeli")	**8,000**	–
廣州瑞越鐘錶貿易有限公司*(note 33)* ("Guangzhou Ruiyue")	**4,500**	–
All others		
廣州市雅迪裝飾包裝有限公司 ("Guangzhou Yadi")	**1,685**	1,685
	277,921	242,767

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on estimated annual growth rates in sales ranging from 1% to 15% (2009: 1% to 10%), a growth rate in gross profit ratio ranging from -1% to 10% (2009: -1% to 8%), and a discount rate of 15% (2009: 15%). The growth rate does not exceed the long-term average growth rate for the relevant markets.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

16 Investments in subsidiaries

The Company

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	523,144	529,639

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activities
Shanghai Xinyu	the PRC	95%	RMB550,000,000/ RMB550,000,000	Retail and wholesale of watches
北京市亨得利瑞士鐘錶有限責任公司 ("Beijing Hengdeli")	the PRC	55%	RMB156,800,000/ RMB156,800,000	Retail and wholesale of watches
哈爾濱盛時鐘錶有限公司 ("Harbin Shengshi")	the PRC	100%	RMB50,000,000/ RMB50,000,000	Retail of watches
遼寧新宇三寶鐘錶有限公司 ("Liaoning Xinyu Sanbao")	the PRC	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
深圳市亨得利陽光鐘錶有限責任公司 ("Shenzhen Yangguang")	the PRC	100%	RMB15,000,000/ RMB15,000,000	Retail of watches
Henan Fuhao	the PRC	70%	RMB30,000,000/ RMB30,000,000	Retail of watches
安徽三新鐘錶有限公司 ("Anhui Sanxin")	the PRC	70%	RMB20,000,000/ RMB20,000,000	Retail of watches
Guangzhou Yadi	the PRC	100%	HKD45,000,000/ HKD45,000,000	Decoration and packaging
深圳亨得利鐘錶有限公司 (previously known as "深圳新宇鐘錶有限公司") ("Shenzhen Hengdeli")	the PRC	100%	HKD50,000,000/ HKD50,000,000	Wholesale of watches

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

16. Investments in subsidiaries *(Continued)*

Name of company	Place of incorporation and operation	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activities
Elegant	Hong Kong	100%	HKD5,000,000/ HKD5,000,000	Retail of watches and jewellery
Omas SRL	Italy	90.1%	EUR1,000,000/ EUR1,000,000	Production and wholesale of luxury writing instruments
Suzhou Xinyu	the PRC	60%	RMB50,000,000/ RMB50,000,000	Retail of watches
Beijing Yingdi	the PRC	100%	RMB500,000/ RMB500,000	Retail of watches
Wuxi Xinyu	the PRC	80%	RMB36,000,000/ RMB36,000,000	Retail of watches
Shenzhen Ruishida	the PRC	80%	RMB10,000,000/ RMB10,000,000	Retail of watches
Xinjiang Century Baida	the PRC	100%	RMB7,000,000/ RMB7,000,000	Retail of watches
新疆世紀之星商貿有限公司 ("Xinjiang Century Star")	the PRC	100%	RMB900,000/ RMB900,000	Retail of watches
杭州新宇鐘錶有限公司 ("Hangzhou Xinyu")	the PRC	60%	RMB10,000,000/ RMB10,000,000	Retail of watches
Wuhan Xinyu	the PRC	60%	RMB50,000,000/ RMB50,000,000	Retail of watches
Timepiece	Taiwan	80%	TWD15,000,000/ TWD15,000,000	Retail of watches
Guangzhou Ruiyue	the PRC	75%	RMB10,000,000/ RMB10,000,000	Retail of watches
新宇亨得利投資(深圳)有限公司 ("Xinyu Hengdeli Investment (Shenzhen)")	the PRC	100%	HKD350,000,000/ HKD350,000,000	Investment holding
耀偉國際有限公司 ("Bright Ford")	Hong Kong	100%	HKD10,000/ HKD10,000	Wholesale of watches
Relojoaria Francisco Limitada	Macau	60%	MOP100,000/ MOP100,000	Retail of watches

Note: All the subsidiaries incorporated in the PRC are domestic enterprises, except for Shanghai Xinyu, Guangzhou Yadi, Shenzhen Hengdeli and Xinyu Hengdeli Investment (Shenzhen), which are foreign invested enterprises.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

17. Interest in jointly controlled entities

The Group

	2010 RMB'000	2009 RMB'000
Share of net assets	52,930	26,515
Amount due from jointly controlled entities	–	9,269
	52,930	35,784

Details of the Group's interest in the jointly controlled entities are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity held by subsidiaries 2010	Percentage of equity held by subsidiaries 2009	Principal activity
上海瑞亨琪鐘錶商業有限公司 ("Shanghai Ruihengqi")	Incorporated	the PRC	RMB 30,000,000	50%	50%	Retail of watches
北京亨聯達鐘錶有限責任公司 ("Beijing Henglianda")	Incorporated	the PRC	RMB 30,000,000	–	50%	Retail of watches
北京新宇亨瑞鐘錶有限責任公司 ("Beijing Hengrui")	Incorporated	the PRC	RMB 40,000,000	50%	100%	Retail of watches

In March 2010, the Group disposed of 50% of its equity interest in its 100% owned subsidiary Beijing Hengrui for a consideration of RMB28,375,000. The remaining 50% equity interest in Beijing Hengrui is accounted for as an interest in a jointly controlled entity.

In October 2010, the Group disposed of all of its 50% equity interest in Beijing Henglianda for a consideration of RMB16,300,000. By 31 December 2010, RMB4,900,000 of this consideration had been received.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

17. Interest in jointly controlled entities *(Continued)*

Summary financial information on jointly controlled entities – the Group's effective interest:

	2010 RMB'000	2009 RMB'000
Non-current assets	39,240	2,616
Current assets	26,673	40,599
Non-current liabilities	–	(5,250)
Current liabilities	(12,983)	(11,450)
Net assets	52,930	26,515
Income	24,994	49,813
Expenses	(11,800)	(50,989)
Profits/(losses) for the year	13,194	(1,176)

18. Other investments

The Group

	2010 RMB'000	2009 RMB'000
Unlisted investments	797	797

The Group received dividends totaling RMB19,252,000 and RMB16,434,000 for the years ended 31 December 2010 and 2009, respectively, from its unlisted investments.

19. Other financial asset

The Group

	2010 RMB'000	2009 RMB'000
Other financial asset	121,050	–

Other financial asset as at 31 December 2010 represents a prepayment in respect of the acquisition of a subsidiary which is due to be completed in 2011.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

20. Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2010 RMB'000	2009 RMB'000
Raw materials	33,056	29,043
Work in progress	21,158	16,472
Finished goods	3,143,645	2,358,722
	3,197,859	2,404,237
Inventories carried at fair value less cost to sell	157,041	111,435

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2010 RMB'000	2009 RMB'000
Carrying amount of inventories sold	6,157,134	4,482,597
Write down of inventories	9,559	7,700
	6,166,693	4,490,297

21. Trade and other receivables

The Group

	2010 RMB'000	2009 RMB'000
Trade receivables	518,745	389,473
Less: allowance for doubtful debts (note 21(b))	(5,961)	(6,836)
Receivables	512,784	382,637
Prepayments and deposits#	492,116	208,426
	1,004,900	591,063

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

21. Trade and other receivables *(Continued)*

The Company

	2010 RMB'000	2009 RMB'000
Other receivables	**99**	9,943
Receivables due from subsidiaries (note 34(b))	**2,687,460**	1,256,362
	2,687,559	1,266,305

\# Prepayments and deposits as at 31 December 2010 include a prepayment totaling RMB216,950,000 for the acquisition of a subsidiary. As at the date of approval of these financial statements, the likelihood and date of completion of this acquisition is uncertain.

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 70 days depending on the credit worthiness of individual customers.

(a) Ageing analysis

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) is as follows:

The Group

	2010 RMB'000	2009 RMB'000
Current	**440,198**	325,074
Less than 1 month past due	**51,027**	41,271
1 to 3 months past due	**9,005**	9,397
More than 3 months but less than 12 months past due	**7,743**	4,991
More than 12 months past due	**4,811**	1,904
Amounts past due	**72,586**	57,563
	512,784	382,637

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

21. Trade and other receivables *(Continued)*

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

The Group

	2010 RMB'000	2009 RMB'000
At 1 January	6,836	5,808
Impairment loss recognised	1,723	3,484
Uncollectible amounts written off	(1,924)	–
Reversal of impairment loss upon receipts	(674)	(2,456)
At 31 December	5,961	6,836

(c) 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:

The Group

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	440,198	325,074
Less than 1 month past due	51,027	41,271
1 to 3 months past due	9,005	9,397
More than 3 months but less than 12 months past due	7,672	4,505
	67,704	55,173
	507,902	380,247

Receivables that were neither past due nor 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. The Group does not hold any collateral over these balances.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

22. Pledged bank deposits

The Group

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

23. Cash and cash equivalents

(a) Cash and cash equivalents comprise:

The Group

As at 31 December 2010 and 2009, all the Group's cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement represented cash at bank and cash in hand.

	2010	2009
	RMB'000	RMB'000
Cash and cash equivalents in the consolidated statement of financial position and cash flow statement	**3,409,807**	1,150,951

The Company

As at 31 December 2010 and 2009, all the Company's cash and cash equivalents in the statement of financial position represented cash at bank and cash in hand.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

23. Cash and cash equivalents *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Notes	2010 RMB'000	2009 RMB'000
Profit before taxation		**815,663**	513,755
Adjustments for:			
Depreciation	*5(c)*	**51,088**	41,741
Amortisation of intangible assets	*5(c)*	**2,380**	2,109
Finance costs	*5(a)*	**83,013**	76,672
Dividend income from unlisted investments	*4*	**(19,252)**	(16,434)
Interest income	*4*	**(18,615)**	(5,435)
Changes in fair value of embedded financial derivatives	*4*	**21,519**	38,024
Share of (gain)/losses of jointly controlled entities	*17*	**(13,194)**	1,176
(Gain)/loss on sale of property, plant and equipment	*4*	**(6,973)**	317
(Gain)/loss on redemption and purchases of convertible bonds	*4*	**(7,723)**	5,205
Equity-settled share-based payment expenses	*5(b)*	**10,695**	19,296
Net realised gain on trading securities	*4*	**–**	(5,040)
Gain on sale of a subsidiary and a jointly controlled entity	*4*	**(6,471)**	–
Gain on sale of trademarks	*4*	**(12,270)**	–
Operating profit before changes in working capital		**899,860**	671,386
(Increase)/decrease in inventories		**(738,672)**	42,497
Increase in trade and other receivables		**(226,706)**	(104,851)
Increase in trade and other payables		**14,354**	215,216
Cash (used in)/generated from operating activities		**(51,164)**	824,248

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24. Trade and other payables

The Group

	2010	2009
	RMB'000	RMB'000
Trade payables	**537,121**	639,966
Other payables and accrued expenses	**206,153**	110,278
Advance receipts from customers	**117,046**	35,505
Amounts due to related parties (note 34(c))	**20,706**	20,850
	881,026	806,599

The Company

	2010	2009
	RMB'000	RMB'000
Other payables and accrued expenses	**260**	304
Amounts due to subsidiaries (note 34(c))	**17,695**	79,164
	17,955	79,468

An ageing analysis of trade payables is as follows:

The Group

	2010	2009
	RMB'000	RMB'000
Within 1 month	**438,287**	468,903
Over 1 month but less than 3 months	**55,058**	148,579
Over 3 months but less than 12 months	**25,875**	4,978
Over 1 year	**17,901**	17,506
	537,121	639,966

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25. Bank loans

At 31 December 2010, the bank loans were repayable as follows:

The Group

	2010 RMB'000	2009 RMB'000
Within 1 year or on demand	**1,076,649**	823,878
After 1 year but within 2 years	**48,250**	102,871
After 2 years but within 5 years	**173,067**	8,799
After 5 years	**11,129**	30,024
	232,446	141,694
	1,309,095	965,572

Certain of the Group's banking facilities are subject to the fulfillment of a covenant imposing certain specific performance requirements on the Group and a minimum shareholding requirement on the Group's major shareholder. If the Group were to breach the covenant, the drawn down facility amounting to RMB145,090,000 would become payable on demand. The Group regularly monitors its compliance with the covenant. As at 31 December 2010, the Group had complied with the covenant.

The Company

	2010 RMB'000	2009 RMB'000
Within 1 year or on demand	**17,018**	21,836
After 1 year but within 2 years	**34,036**	–
After 2 years but within 5 years	**34,036**	–
	68,072	–
	85,090	21,836

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25. Bank loans *(Continued)*

At 31 December 2010, the bank loans were secured as follows:

The Group

	2010 RMB'000	2009 RMB'000
Bank loans within one year or on demand		
– Secured	**5,765**	2,835
– Unsecured	**1,070,884**	821,043
	1,076,649	823,878
Bank loans after one year		
– Secured	**163,011**	41,694
– Unsecured	**69,435**	100,000
	232,446	141,694
	1,309,095	965,572

The Company

	2010 RMB'000	2009 RMB'000
Bank loans within one year or on demand		
– Unsecured	**17,018**	21,836
	17,018	21,836
Bank loans after one year		
– Unsecured	**68,072**	–
	68,072	–
	85,090	21,836

At 31 December 2010, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB250,678,000 (2009: RMB90,981,000).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

26. Convertible bonds

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds")

On 24 August 2007, the Company issued the 2012 Convertible Bonds with an aggregate principal amount of RMB1,150,000,000. The subscription amount payable in respect of each RMB1,000,000 principal amount of the Bonds is approximately USD132,282. The 2012 Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The principal terms of the 2012 Convertible Bonds are as follows:

(a) Optional conversion

Each bond will, at the option of the holder ("Bondholders"), be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 21 February 2008 up to and including 17 August 2012 into fully paid ordinary shares of the Company with a par value of HKD0.005 each at an initial conversion price (the "Conversion Price") of HKD7.06 per share and a fixed exchange rate of HKD1.00 to RMB0.96637. Pursuant to the Company's announcement dated 11 September 2009, 26 August 2010 and 2 September 2010, the conversion price of the 2012 Convertible Bonds has been adjusted from HKD7.06 per share to HKD3.73 per share in accordance with the terms and conditions of the 2012 Convertible Bonds as a result of bonus issue, reset of conversion price and share placement.

(b) Redemption

– Redemption at maturity

Unless previously redeemed, converted, or purchased and cancelled, the bonds will be redeemed on 24 August 2012 at an amount equal to the USD equivalent of their RMB principal amount, translated at the exchange rates quoted by the People's Bank of China (the "PBOC rate") ruling two business days prior to 24 August 2012, multiplied by 111.0103%.

– Redemption at the option of the Company

On or at any time after 24 August 2010 and prior to 24 August 2012, the Company may redeem all of the Convertible Bonds at a redemption price equal to the Early Redemption Amount (an amount representing a gross yield of 2.1% per annum for the Bondholders, calculated on a semi-annual basis up to the relevant redemption date) on the redemption date if the volume weighted average price of the Company's shares for any 20 trading days out of the 30 consecutive trading days ending within five trading days immediately prior to the date upon which notice of redemption is given, is at least 120% of the conversion price then in effect.

26. Convertible bonds *(Continued)*

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") *(Continued)*

(b) Redemption (Continued)

– Redemption at the option of the Company *(Continued)*

The Early Redemption Amount, for each RMB1,000,000 principal amount of the Bonds is set out in the table below, assuming that the date fixed for redemption is the semi-annual date:

Semi-annual Date	Early Redemption Amount (RMB)
24 August 2010	1,064,677.09
24 February 2011	1,075,856.19
24 August 2011	1,087,152.69
24 February 2012	1,098,567.79

If at any time at least 90% of the aggregate principal amount of the Bonds has already been converted, redeemed or purchased and cancelled, then the Company shall have the option to redeem all but not only some of the outstanding Convertible Bonds at a price equal to the USD equivalent of their Early Redemption Amount translated at the PBOC rates ruling two business days prior to the redemption.

– Redemption at the option of the Bondholders

The Company could, at the option of any of the Bondholders, redeem all or some of the Bondholders' Bonds on 24 August 2010 at a price equal to 106.4677% of the USD equivalent of the then principal amount of such Convertible Bonds, translated at the PBOC rate ruling two business days prior to 24 August 2010.

As the functional currency of the Company is the Hong Kong Dollar ("HKD") and the Conversion Price is subject to adjustments, the conversion of the Convertible Bonds denominated in RMB will not be settled by exchange of a fixed amount of cash in HKD or a fixed number of the Company's equity instruments, in accordance with the requirements of HKAS 39 *Financial Instruments – Recognition and Measurement*, the 2012 Convertible Bonds contract must be separated into a liability component consisting of the straight debt element of the bonds and a number of embedded financial derivatives consisting of redemption options and the option of the Bondholders to convert the bonds into equity. The proceeds received from the issue of the Convertible Bonds have been split as follows:

(i) Liability components were initially measured by deducting the fair value of the embedded financial derivatives from the proceeds of issue of the Convertible Bonds as a whole.

The interest charged for the period is calculated by applying an effective interest rate of 5.46% to the liability component since the 2012 Convertible Bonds were issued.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

26. Convertible bonds *(Continued)*

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") *(Continued)*

(ii) Embedded derivatives comprise:

- The fair value of the call option of the Company to redeem the Convertible Bonds; and

- The fair value of the conversion option of the Bondholders to convert the Convertible Bonds into the Company's shares.

The fair value of the embedded financial derivatives was calculated using the Barrier Option Valuation model. The major inputs used in the models as at 31 December 2009 and 31 December 2010 were as follows:

	31 December 2010	31 December 2009
Stock price	**HKD4.62**	HKD2.94
Exercise price	**HKD3.73**	HKD4.71
Risk-free rate	**0.586%**	1.117%
Expected life	**602 days**	968 days
Volatility	**51.07%**	60.27%

The Company's stock prices were HKD4.62 and HKD2.94 as at 31 December 2010 and 2009, respectively. The risk-free rates were determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected lives were estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatilities of comparable companies under the same periods as the expected lives.

Any changes in the major inputs into the model will result in changes in the fair value of the embedded financial derivatives. The variables and assumptions used in calculating the fair value of the embedded financial derivatives are based on the directors' best estimates.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

26. Convertible bonds *(Continued)*

(i) United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 (the "2012 Convertible Bonds") *(Continued)*

The movement of the liability component and embedded financial derivatives of the 2012 Convertible Bonds for the year is set out below:

	Liability component RMB'000	Embedded financial derivatives RMB'000	Total RMB'000
As at 31 December 2008 and 1 January 2009	680,146	2,960	683,106
Interest charged during the year	29,867	–	29,867
Purchased by the Company during the year	(529,861)	(27,235)	(557,096)
Changes in fair value during the year	–	38,024	38,024
As at 31 December 2009 and 1 January 2010	180,152	13,749	193,901
Interest charged during the year	7,865	–	7,865
Redeemed and purchased by the Company during the year	(102,771)	(14,837)	(117,608)
Converted into shares	(40,510)	(11,369)	(51,879)
Changes in fair value during the year	–	21,519	21,519
As at 31 December 2010	44,736	9,062	53,798

On 24 August 2010 the Company has, at the option of the Bondholders, redeemed the bonds in the aggregate principal amount of RMB100,000,000, for a total consideration of RMB106,778,000.

In December 2010, the Bondholders have converted Bonds with a principal amount of RMB40,000,000 into 11,097,054 shares.

On 30 December 2010, the Company purchased, by way of market acquisition, Bonds listed on the Singapore Exchange Securities Trading Limited, with a principal amount of RMB3,000,000, for a total consideration of RMB3,107,000. The purchased Bonds have been cancelled in accordance with the terms of the Bonds.

The changes in the fair value of the embedded financial derivatives for the year ended 31 December 2010 resulted in a fair value loss of RMB21,519,000 (2009: RMB38,024,000), which has been recorded in other net income/(losses) in the income statement.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

26. Convertible bonds *(Continued)*

(ii) HKD Settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds")

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

The principal terms of the Convertible Bonds are as follows:

(a) Optional conversion

Each bond could, at the option of the Bondholders, be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 30 November 2010 up to the close of business on the day falling ten days prior to 20 October 2015 into fully paid ordinary shares of the Company with a par value of HKD0.005 each at an initial conversion price of HKD4.9524 per share. The Conversion Price is subject to adjustments in the manner set out in the 2015 Convertible Bonds agreement as a result of dilutive events.

(b) Mandatory conversion

At any time after 20 October 2013, the Company may at its sole discretion, elect to convert the bonds in whole but not in part into fully paid ordinary shares of the Company provided that the closing prices of the Company's shares for 30 consecutive trading days immediately prior to the date upon which such mandatory conversion notice is given was at least 130% of the early redemption amount (an amount representing the principal amount of the 2015 Convertible Bonds plus a gross yield of 3.5% per annum for the Bondholders, calculated on a semi-annual basis up to the relevant redemption date) of a bond divided by the conversion ratio.

(c) Redemption

– Redemption at maturity

Unless previously redeemed, converted, or purchased and cancelled, the bonds will be redeemed on 20 October 2015 at 105.413% of its principal amount together with accrued and unpaid interest thereon.

– Redemption at the option of the Company

If at any time at least 90% of the aggregate principal amount of the bonds has already been converted, redeemed or purchased and cancelled, then the Company shall have the option to redeem all but not some only of the outstanding 2015 Convertible Bonds at their early redemption amount as at such date together with interest accrued to such date.

(Expressed in RMB unless otherwise indicated)

26. Convertible bonds *(Continued)*

(ii) HKD Settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds") *(Continued)*

(c) Redemption (Continued)

– Redemption at the option of the Company *(Continued)*

The Early Redemption Amount, for each HKD1,000,000 principal amount of the bonds is set out in the table below, assuming that the date fixed for redemption is the semi-annual date:

Semi-annual Date	Early Redemption Amount (HKD)
20 April 2011	1,005,000.00
20 October 2011	1,010,087.50
20 April 2012	1,015,264.03
20 October 2012	1,020,531.15
20 April 2013	1,025,890.45
20 October 2013	1,031,343.53
20 April 2014	1,036,892.04
20 October 2014	1,042,537.65
20 April 2015	1,048,282.06

– Redemption at option of the Bondholders

The Company will, at the option of any of the Bondholders, redeem all or some of the Bondholders' bonds on 20 October 2013 at its early redemption amount as at such date together with interest accrued to such date.

The Company will also, at the option of any of the Bondholders, redeem all or some of the bonds its early redemption amount as at such date together with interest accrued to such date when there is a change of control of the Company, or when the Shares cease to be listed or admitted to trading on the Stock Exchange.

As the functional currency of the Company is the HKD, the conversion of the 2015 Convertible Bonds will be settled by exchange of a fixed amount of cash in HKD with a fixed number of the Company's equity instruments. In accordance with the requirements of HKAS 39 *Financial Instruments – Recognition and Measurement*, the 2015 Convertible Bonds contract needs to be separated into a liability component consisting of the straight debt element and redemption elements of the bonds, and an equity component representing the options of the Bondholders to convert the bonds into equity. The proceeds received from the issue of the Convertible Bonds have been split as follows:

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

26. Convertible bonds *(Continued)*

(ii) HKD Settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds") *(Continued)*

(i) Liability component represents the fair value of the contractually determined stream of cash flows discounted at the prevailing market interest rate applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion features.

The interest charged for the period is calculated by applying an effective interest rate of 4.6% to the liability component since the 2015 Convertible Bonds were issued.

The fair value of the liability component of the Convertible Bonds was calculated using the Discounted Cash Flow model. The major inputs used in the model as at 20 October 2010 were as follows:

	Liability component of the Company
Stock price	HKD4.20
Exercise price	HKD4.9524
Risk-free rate	1.12%
Expected life	5 years
Volatility	48.62%

The Company's stock price was HKD4.20 as at 20 October 2010. The risk-free rate was determined with reference to the Hong Kong Exchange Fund Notes Yields as extracted from Bloomberg. The expected life was the remaining life of the 2015 Convertible Bonds. The volatility was determined based on the historical price volatility of the Company.

Any changes in the major inputs used in the model will result in changes in the fair value of the liability component. The variables and assumptions used in calculating the fair value of the liability component are based on the directors' best estimates.

26. Convertible bonds *(Continued)*

(ii) HKD Settled 2.5% Convertible Bonds due 2015 (the "2015 Convertible Bonds") *(Continued)*

(ii) Equity component represents the conversion options, which is determined by deducting the fair value of the liability component from the proceeds of issue of the 2015 Convertible Bonds as a whole.

The movement of the liability component and the equity component of the 2015 Convertible Bonds for the year is set out below:

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
As at 20 October 2010	2,088,754	61,746	2,150,500
Transaction costs on issue of the 2015 Convertible Bonds	(45,097)	(1,334)	(46,431)
Interest charged during the period from 20 October 2010 to 31 December 2010	18,490	–	18,490
Foreign currency translation difference	(22,206)	–	(22,206)
As at 31 December 2010	2,039,941	60,412	2,100,353

No conversion, redemption or purchase and cancellation of the 2015 Convertible Bonds has occurred up to 31 December 2010.

27. Employee retirement benefits

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 9% to 25% of the eligible employees' salaries for the years ended 31 December 2010 and 2009.

Pursuant to the labour regulations of Italy and Macau, the Group joined defined contribution retirement plans for its employees. The Group is required to make contributions to the retirement plans at the applicable rates based on the eligible employees' salaries.

Pursuant to the labour regulations of Taiwan, the Group joined a defined contribution retirement plan for its employees. The Group is required to make contributions to the retirement plan at 6% of the employees' salaries while the employees are entitled to choose whether to pay their own contributions at rates ranging from 1% to 6% of salaries.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

27. Employee retirement benefits *(Continued)*

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD20,000. Contributions to the scheme vest immediately.

The Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than the contributions described above.

28. Share-based payments

On 27 August 2005, the Company adopted a share option scheme pursuant to the resolutions of the shareholders of the Company. According to the share option scheme, the Company may grant up to 745,350,000 share options.

On 28 August 2007, the Company granted 39,380,000 share options to certain senior employees of the Group to subscribe for 39,380,000 ordinary shares at an exercise price of HKD4.83 per share at any time from 1 August 2010 to 31 July 2012 if certain performance targets are achieved during the period from 28 August 2007 to 31 July 2010. On 12 September 2009, following the bonus issue, the exercise price was adjusted to HKD3.22.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are to be settled by physical delivery of shares:

Options granted to employees:	Number of shares involved in the option	Vesting condition	Contractual life of options
– on 28 August 2007	39,380,000	The purchase rights may be executed from 1 August 2010 if certain performance targets were achieved by then	5 years

(Expressed in RMB unless otherwise indicated)

28. Share-based payments *(Continued)*

(b) Fair value of shares involved in the options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binomial model as required by HKFRS 2. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the model.

	Granted in August 2007
Fair value at grant date	HKD73,699,474
Share price	HKD4.83
Exercise price	HKD4.83
Expected volatility	48.3%
Expected dividend yield	1.75%
Option life	5 years
Risk-free interest rate (based on Hong Kong Exchange Fund Notes Rate)	4.369%

The expected volatility is based on the historic volatility of the Company's share price, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on management estimation. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted with service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

During the year ended 31 December 2010, 6,150,000 share options have lapsed (2009: 5,400,000 share options) due to resignation of employees and 16,361,000 share options were excised to subscribe for 16,361,000 ordinary shares (2009: nil share options). Except for this, no share option has been exercised, lapsed or cancelled pursuant to the above share option scheme during the year ended 31 December 2010.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

29. Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

The Group

	2010 **RMB'000**	2009 RMB'000
Provision for income tax for the year	**199,385**	119,127
Income tax paid	**(101,900)**	(57,314)
	97,485	61,813

(b) Deferred tax assets and liabilities recognised

i) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the two years ended 31 December 2010 are as follows:

The Group

	Impairment of trade receivables RMB'000	**Write down of inventories** RMB'000	**Tax losses not utilised** RMB'000	**Unrealised profit** RMB'000	**Accrued expenses** RMB'000	**Total** RMB'000
At 1 January 2009	1,452	3,532	751	31,721	2,500	39,956
(Charged)/credited to profit or loss	(415)	(668)	691	(159)	–	(551)
At 31 December 2009 and 1 January 2010	1,037	2,864	1,442	31,562	2,500	39,405
Credited to profit or loss	739	3,074	2,752	5,658	–	12,223
At 31 December 2010	1,776	5,938	4,194	37,220	2,500	51,628

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

29. Income tax in the consolidated statement of financial position *(Continued)*

(b) Deferred tax assets and liabilities recognised *(Continued)*

ii) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the two years ended 31 December 2010 are as follows:

The Group

	Expected profit distribution by the Group's PRC subsidiaries RMB'000	Fair value adjustments in relation to business combinations RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	7,681	7,189	168	15,038
Charged/(credited) to profit or loss	6,486	783	(100)	7,169
At 31 December 2009 and 1 January 2010	14,167	7,972	68	22,207
Charged/(credited) to profit or loss	6,496	(321)	3,998	10,173
At 31 December 2010	20,663	7,651	4,066	32,380

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB151,290,000 (2009: RMB101,002,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. These tax losses will expire during the period from 2011 to 2015.

(d) Deferred tax liabilities not recognised

Pursuant to the Tax Law of the PRC, 10% withholding tax is levied on foreign investors (5% for foreign investors who are registered in Hong Kong provided they meet certain criteria) in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As at 31 December 2010, deferred tax liabilities of RMB20,663,000 (31 December 2009: RMB14,167,000) have been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. Deferred tax liabilities of RMB34,621,000 have not been recognised, as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that certain of the profits earned by the Group's PRC subsidiaries for the year from 1 January 2008 to 31 December 2010 will not be distributed in the foreseeable future.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

30. Capital, reserves and dividends

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) The Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained losses RMB'000	Total RMB'000
At 1 January 2009		12,903	1,189,784	24	29,235	(188,775)	(2,607)	1,040,564
Profit for the year		–	–	–	–	–	69,012	69,012
Other comprehensive income		–	–	–	–	(1,429)	–	(1,429)
Total comprehensive income		–	–	–	–	(1,429)	69,012	67,583
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	(138,694)	(138,694)
Issuance of bonus share		5,976	(5,976)	–	–	–	–	–
Purchase of own shares								
– par value paid		(10)	–	–	–	–	–	(10)
– premium paid		–	–	–	–	–	(2,539)	(2,539)
– transfer between reserves		–	–	10	–	–	(10)	–
Share placement		1,040	543,823	–	–	–	–	544,863
Transaction cost attributable to share placement		–	(15,818)	–	–	–	–	(15,818)
Equity settled share-based transactions	*28*	–	–	–	19,296	–	–	19,296
At 31 December 2009 and 1 January 2010		19,909	1,711,813	34	48,531	(190,204)	(74,838)	1,515,245
Profit for the year		–	–	–	–	–	67,322	67,322
Other comprehensive income		–	–	–	–	(64,348)	–	(64,348)
Total comprehensive income		–	–	–	–	(64,348)	67,322	2,974
Dividends approved in respect of the previous year	*30(b)*	–	–	–	–	–	(109,864)	(109,864)
Share placement	*30(c)(ii)*	1,276	902,492	–	–	–	–	903,768
Transaction cost attributable to share placement	*30(c)(ii)*	–	(26,186)	–	–	–	–	(26,186)
Shares issued under share option scheme	28	70	63,208	–	(17,369)	–	–	45,909
Equity settled share-based transactions	*28*	–	–	–	10,695	–	–	10,695
Conversion of convertible bonds	*26*	47	51,832	–	–	–	–	51,879
Equity component of convertible bonds	*26*	–	–	–	60,412	–	–	60,412
At 31 December 2010		21,302	2,703,159	34	102,269	(254,552)	(117,380)	2,454,832

30. Capital, reserves and dividends *(Continued)*

(b) Dividends

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

	2010 **RMB'000**	2009 RMB'000
Final dividend proposed after the balance sheet date of RMB0.042 per ordinary share (2009: RMB0.027 per ordinary share)	**184,665**	109,864

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

	2010 **RMB'000**	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.027 per share (2009: RMB0.056 per share)	**109,864**	138,694

(c) Share capital

(i) Authorised and issued share capital

	2010		2009	
	Number of shares	**Amount HKD**	Number of shares	Amount HKD
Authorised:				
Ordinary shares of HKD0.005 each	**10,000,000,000**	**50,000,000**	10,000,000,000	50,000,000

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

30. Capital, reserves and dividends *(Continued)*

(c) Share capital *(Continued)*

(i) Authorised and issued share capital (Continued)

Issued and fully paid:

	2010 Number of shares	2010 Amount HKD	2009 Number of shares	2009 Amount HKD
At 1 January	**4,069,026,000**	**20,345,130**	2,479,000,000	12,395,000
Repurchase of shares	**–**	**–**	(2,316,000)	(11,580)
Share placement (note 30(c)(ii))	**300,000,000**	**1,500,000**	236,000,000	1,180,000
Issuance of bonus share	**–**	**–**	1,356,342,000	6,781,710
Exercise of share option (note 28)	**16,361,000**	**81,805**	–	–
Conversion of convertible bonds (note 26)	**11,097,054**	**55,485**	–	–
At 31 December	**4,396,484,054**	**21,982,420**	4,069,026,000	20,345,130

	2010 equivalent RMB'000	2009 equivalent RMB'000
	21,302	19,909

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) Share placement

A placement of 300,000,000 shares of the Company at a price of HKD3.48 per share was made with independent investors on 24 August 2010 and completed in September 2010. The placing price represents (i) a discount of approximately 10.08% to the closing price of HKD3.87 per share as quoted on the Stock Exchange on 24 August 2010, being the date of the Placing and Subscription Agreement; and (ii) a discount of approximately 7.62% to the average closing price of HKD3.77 per share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 24 August 2010. Arrangement fees of RMB26,186,000 were set-off against share premium.

Upon the completion of the placement, 300,000,000 new shares of the Company were issued at the same price per share. These shares rank pari passu with the existing ordinary shares of the Company in all respects.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

30. Capital, reserves and dividends *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by the Companies Law of the Cayman Islands.

(ii) Capital reserve

The capital reserve comprises the following:

– The excess of the consideration paid by the Company over the aggregate of the nominal value of the share capital of the subsidiaries acquired under the Group's reorganisation in 2005.

– The portion of the grant date fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 1(r)(ii).

– The amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 1(n).

(iii) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(iv) PRC statutory reserve

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

PRC statutory reserves include general reserve, enterprise expansion fund, and statutory surplus reserve.

According to the relevant PRC laws and regulations, the PRC subsidiaries of the Group, which are wholly foreign owned enterprises in the PRC, are required to transfer 10% of their profit after taxation, as determined under PRC Accounting Regulations, to the general reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund.

The general reserve fund can only be used to make good previous years' losses upon approval by the relevant authority. The enterprise expansion fund can only be used to increase the entity's capital or to expand its production operations upon approval by the relevant authority.

Statutory surplus reserve can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the balance of the reserve after such conversion is not less than 25% of the registered capital of the subsidiaries.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

30. Capital, reserves and dividends *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(v) Distractibility of reserves

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The aggregate amount of distributable reserves of the Company as at 31 December 2010 was RMB2,585,779,000 (2009: RMB1,636,975,000).

(e) Capital management

The Group's policy is to maintain investor, creditor and market confidence and to sustain future development of business.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The gearing ratio as at 31 December 2010 is 73% (2009: 37%). The gearing ratio is calculated by dividing total interest-bearing borrowings and convertible bonds with total equity.

The Group is not subject to externally imposed capital requirements.

31. Commitments

(a) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2010 **RMB'000**	2009 RMB'000
Less than one year	**124,448**	114,992
Between one and five years	**189,206**	205,222
More than five years	**41,845**	58,529
	355,499	378,743

The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum rental payments disclosed above, the Group has a commitment to pay rent based on a proportion of turnover for certain leased properties. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

31. Commitments *(Continued)*

(b) Commitments of guaranteed profit

	2010 **RMB'000**	2009 RMB'000
Less than one year	–	8,800
Between one and five years	–	6,800
	–	15,600

Pursuant to a management agreement dated 30 December 2006 entered into between Shanghai Xinyu and Shanghai Yi Min Department Stores Company Limited ("Yi Min"), Yi Min agreed to entrust to Shanghai Xinyu the operation and management of a shop located in Shanghai, and in return, Yi Min was entitled to receive an annual guaranteed profit of RMB6,800,000 from the Group for the period from 1 January 2007 to 31 December 2011. The agreement was terminated on 31 December 2010.

Pursuant to a management agreement dated 31 December 2005 entered into between Shanghai Xinyu and Qingdao Hengdeli, Qingdao Hengdeli agreed to entrust to Shanghai Xinyu the operation and management of its four retail shops for the period from 31 December 2005 to 31 December 2010, and in return, Qingdao Hengdeli was entitled to receive annual guaranteed profits of RMB2,000,000 from the Group. The Company terminated the agreement with Qingdao Hengdeli and acquired the retail business of Qingdao Hengdeli on 1 January 2010 (note 33).

32. Contingent liabilities

As at the end of the reporting period, the Company has issued guarantees of HKD364,150,000 (RMB equivalent: RMB309,855,000 ; 2009: HKD418,050,000 (RMB equivalent: RMB368,093,000)) given to banks to secure facilities granted to a subsidiary company. The facilities were utilised to the extent of HKD52,622,000 (RMB equivalent: RMB44,776,000; 2009: HKD83,889,000 (RMB equivalent: RMB73,864,000)) at the end of the reporting period.

As at the end of the reporting period, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees. No provision was therefore made in this respect at 31 December 2010 and 2009.

33. Acquisition of subsidiaries

On 1 January 2010, the Group acquired the retail business of Qingdao Hengdeli, which is principally engaged in retail of watches, for a cash consideration of RMB8,000,000. During the year ended 31 December 2010, the Qingdao Hengdeli business acquired contributed a profit of RMB2,835,000 to the Group.

On 1 January 2010, the Group acquired the retail business of Timepiece, which is principally engaged in retail of watches through its 31 retail shops in Taiwan, for a cash consideration of RMB56,846,000. During the year ended 31 December 2010, the Timepiece business acquired contributed a profit of RMB8,824,000 to the Group.

On 1 December 2010, the Group acquired the retail business of Guangzhou Ruiyue which is principally engaged in retail of watches, for a cash consideration of RMB4,500,000. During the year ended 31 December 2010, the business acquired contributed a profit of RMB1,011,000 to the Group.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

33. Acquisition of subsidiaries *(Continued)*

Effect of acquisition:

	Pre-acquisition carrying amounts					
	Acquisition of Qingdao Hengdeli's business in 2010	Acquisition of Timpiece's business in 2010	Acquisition of Guangzhou Ruiyue's business in 2010	Subtotal	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	–	1,558	–	1,558	–	1,558
Cash and cash equivalents	–	10,703	–	10,703	–	10,703
Trade and other receivables	–	26,451	–	26,451	–	26,451
Inventories	4,312	54,951	5,997	65,260	–	65,260
Bank loan	–	(8,120)	–	(8,120)	–	(8,120)
Trade and other payables	(4,312)	(42,803)	(5,997)	(53,112)	–	(53,112)
Net identifiable assets and liabilities	–	42,740	–	42,740	–	42,740
Non–controlling interests	–	(8,548)	–	(8,548)	–	(8,548)
Goodwill – Qingdao Hengdeli						8,000
– Timepiece						22,654
– Guangzhou Ruiyue						4,500
Cash consideration						69,346
Cash acquired						(10,703)
Net cash outflow in year 2009						31,895
Net cash outflow in year 2010						22,248
Net cash outflow in year 2011						4,500
						58,643

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their fair values (see notes 1(h), (i) and (l) for methods used in determining fair values), which approximate to their pre-acquisition carrying amounts, according to valuation reports issued by Jones Lang LaSalle Sallmanns, an independent valuer.

34. Related party transactions

The Group has transactions with companies controlled by the ultimate shareholders ("Ultimate shareholders' companies"), non-controlling shareholders of subsidiaries ("Non-controlling shareholders") and a jointly controlled entity. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the two years ended 31 December 2010.

(a) Recurring transactions

	2010 RMB'000	2009 RMB'000
Lease expenses to:		
Ultimate shareholder's company	–	169
Jointly controlled entity	6,763	–
Guaranteed profit to:		
Non-controlling shareholders	–	8,800
Sales of goods to:		
Jointly controlled entity	–	19,907

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

(b) Trade and other receivables due from:

The Company

	2010 RMB'000	2009 RMB'000
Subsidiaries	2,687,460	1,256,362

(c) Trade and other payables due to:

The Group

	2010 RMB'000	2009 RMB'000
Holders of non-controlling interests	20,706	20,850

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

34. Related party transactions *(Continued)*

(c) Trade and other payables due to: *(Continued)*

The Company

	2010 RMB'000	2009 RMB'000
Subsidiaries	17,695	79,164

(d) Key management personnel compensation and post-employment benefit plans

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	25,854	23,709
Post-employment benefits	325	178
	26,179	23,887

Total remuneration is included in "staff costs" (see note 5(b)).

35. Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Group does not obtain collateral from customers.

At the end of the reporting periods, the Group had no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

35. Financial instruments *(Continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

31 December 2010	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000	Over 5 years RMB'000	Undiscounted contractual cash flow RMB'000	Carrying amount RMB'000
Trade and other payables excluding advance receipts from customers	(763,980)	–	–	–	(763,980)	763,980
Secured interest–bearing loans	(6,242)	(13,762)	(145,705)	(12,573)	(178,282)	168,776
Unsecured interest–bearing loans	(1,089,396)	(35,748)	(35,379)	–	(1,160,523)	1,140,319
Convertible bonds	(53,181)	(102,026)	(2,401,942)	–	(2,557,149)	2,084,677
	(1,912,799)	(151,536)	(2,583,026)	(12,573)	(4,659,934)	4,157,752

31 December 2009	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000	Over 5 years RMB'000	Undiscounted contractual cash flow RMB'000	Carrying amount RMB'000
Trade and other payables excluding advance receipts from customers	(771,094)	–	–	–	(771,094)	771,094
Secured interest-bearing loans	(3,833)	(3,845)	(11,561)	(33,163)	(52,402)	44,529
Unsecured interest-bearing loans	(847,205)	(102,397)	–	–	(949,602)	921,043
Convertible bonds	–	–	(207,589)	–	(207,589)	180,152
	(1,622,132)	(106,242)	(219,150)	(33,163)	(1,980,687)	1,916,818

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

35. Financial instruments *(Continued)*

(b) Liquidity risk *(Continued)*

The Company

31 December 2010	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000	Over 5 years RMB'000	Undiscounted contractual cash flow RMB'000	Carrying amount RMB'000
Trade and other payables excluding advance receipts from customers	(17,955)	–	–	–	(17,955)	17,955
Unsecured interest–bearing loans	(18,982)	(35,277)	(34,450)	–	(88,709)	85,090
Convertible bonds	(53,181)	(102,026)	(2,401,942)	–	(2,557,149)	2,084,677
	(90,118)	(137,303)	(2,436,392)	–	(2,663,813)	2,187,722

31 December 2009	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000	Over 5 years RMB'000	Undiscounted contractual cash flow RMB'000	Carrying amount RMB'000
Trade and other payables excluding advance receipts from customers	(79,468)	–	–	–	(79,468)	79,468
Unsecured interest-bearing loans	(21,836)	–	–	–	(21,836)	21,836
Convertible bonds	–	–	(207,589)	–	(207,589)	180,152
	(101,304)	–	(207,589)	–	(308,893)	281,456

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing loans, convertible bonds, cash and cash equivalents and pledged bank deposits.

Cash and cash equivalents comprise mainly cash at bank, with interest rates ranging from 0.12% to 0.36% per annum as at 31 December 2010 (2009: ranging from 0.02% to 0.36% per annum). Pledged bank deposits are not held for speculative purposes but are placed to obtain letters of guarantee for import of watches.

35. Financial instruments *(Continued)*

(c) Interest rate risk *(Continued)*

Borrowings issued at variable rates, and borrowings and convertible bonds issued at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and maturity information of the interest-bearing bank loans, and convertible bonds are disclosed in note 25 and 26.

The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements and rates are relatively fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2010 Effective interest rate %	2010 RMB'000	2009 Effective interest rate %	2009 RMB'000
Fixed rate instruments				
Pledged bank deposits	**0.36%**	**10,000**	1.71%-2.25%	40,000
Unsecured interest-bearing loans	**0.25%-5.81%**	**(309,453)**	4.20%-5.31%	(640,000)
Convertible bonds	**4.6%-5.46%**	**(2,084,677)**	5.46%	(180,152)
		(2,384,130)		(780,152)
Variable rate instruments				
Cash at bank	**0.12%-0.36%**	**3,409,807**	0.02%-0.36%	1,150,951
Secured interest-bearing loans	**1.75%-2.2%**	**(168,776)**	1.7%-2.7%	(44,529)
Unsecured interest-bearing loans	**0.9%-5.81%**	**(830,866)**	2%-5.31%	(281,043)
		2,410,165		825,379

(d) Foreign currency risk

The Group is exposed to currency risks primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily RMB, USD, EUR, CHF and HKD.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the PBOC rates.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

35. Financial instruments *(Continued)*

(d) Foreign currency risk *(Continued)*

In respect of trade and other receivables, trade and other payables and borrowings held in a currency other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) *Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December 2010 (expressed in RMB)				
	RMB	**USD**	**EUR**	**CHF**	**HKD**
	'000	**'000**	**'000**	**'000**	**'000**
Cash and cash equivalents	**819**	**947**	**24,553**	**586**	**861,589**
Trade and other payables	**–**	**–**	**–**	**(45,343)**	**(1,336,565)**
Bank loans	**–**	**(33,008)**	**–**	**–**	**–**
Convertible bonds	**(44,736)**	**–**	**–**	**–**	**–**
Overall net exposure	**(43,917)**	**(32,061)**	**24,553**	**(44,757)**	**(474,976)**

	As at 31 December 2009 (expressed in RMB)				
	RMB	USD	EUR	CHF	HKD
	'000	'000	'000	'000	'000
Cash and cash equivalents	47	1,004	8,494	5,789	106
Trade and other payables	–	–	–	–	(363,206)
Convertible bonds	(180,152)	–	–	–	–
Overall net exposure	(180,105)	1,004	8,494	5,789	(363,100)

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

35. Financial instruments *(Continued)*

(d) Foreign currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's net profit for the year that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. The sensitivity analysis includes balances between group companies where the balances are denominated in a currency other than the functional currencies of the lender or the borrower.

	2010 RMB'000	2009 RMB'000
HKD		
– 5% strengthening of RMB	16,559	9,147
– 5% weakening of RMB	(16,559)	(9,147)
USD		
– 5% strengthening of RMB	1,330	(50)
– 5% weakening of RMB	(1,330)	50
EUR		
– 5% strengthening of RMB	(1,025)	(424)
– 5% weakening of RMB	1,025	424
CHF		
– 5% strengthening of RMB	1,869	(289)
– 5% weakening of RMB	(1,869)	289

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the end of next annual reporting period. The analysis is performed on the same basis for 2009.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

35. Financial instruments *(Continued)*

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial derivatives of the Group. As at the end of the reporting period the Group is exposed to this risk through the redemption rights attached to the convertible bonds issued by the Company as disclosed in note 26(i)(b).

(f) Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	The Group and the Company			
2010	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Derivative financial instruments:				
– Embedded financial derivative in convertible bonds	**–**	**–**	**9,062**	**9,062**

	The Group and the Company			
2009	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments:				
– Embedded financial derivative in convertible bonds	–	–	13,749	13,749

35. Financial instruments *(Continued)*

(f) Fair value *(Continued)*

(i) *Financial instruments carried at fair value (Continued)*

The movement during the period in the balance of level 3 fair value measurements is as follows:

	The Group and the Company RMB'000
Embedded financial derivative in convertible bonds:	
At 1 January 2010	13,749
Redeemed and purchased by the Company during the year	(14,837)
Converted into shares	(11,369)
Changes in fair value recognised in profit or loss during the year	21,519
At 31 December 2010	9,062
Total losses for the year included in profit or loss	21,519

The losses arising from the remeasurement of the embedded derivatives in the convertible bonds are presented in "Other net income/(losses)" in the consolidated income statement (note 4).

(ii) *Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009.

(g) Estimation of fair values

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) *Cash and cash equivalents, pledged bank deposits, trade and other receivables, and trade and other payables*

The carrying values approximate fair value because of the short maturities of these instruments.

(ii) *Interest-bearing bank loans*

The carrying amounts of bank loans approximate their fair value based on the borrowing rate currently available for bank loans with similar terms and maturity.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

35. Financial instruments *(Continued)*

(g) Estimation of fair values *(Continued)*

(iii) Convertible bonds

The Group selects appropriate valuation methods and makes assumptions with reference to market conditions existing at the end of each reporting period, to determine the fair value of the embedded financial derivatives of the convertible bonds that are separated from the host debt contract. The basis for determining the fair value is disclosed in note 26.

36. Non-adjusting events after the reporting period

After the end of the reporting period the directors proposed a final dividend on 22 March 2011. Further details are disclosed in note 30(b).

37. Ultimate holding company

The directors consider the ultimate holding company of the Company at 31 December 2010 to be Best Growth International Limited, which is incorporated in British Virgin Islands.

38. Accounting estimates and judgements

Notes 14, 15, 26, 28 and 35 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, convertible bonds, share-based payments and financial instruments. Other judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are as follows:

(a) Depreciation

Property, plant and equipment and investment property are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and the residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market conditions and the historical experience of distributing and selling products of a similar nature. Managements reassess the estimations at the end of each reporting period.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

39. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

The following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting period beginning on or after unless specified
Revised HKAS 24, Related party disclosures	1 January 2011
HKFRS 9 Financial Instruments	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Amendments to HKFRS 7, Financial instruments	1 July 2011
Amendments to HKAS 12, Income taxes	1 January 2012

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

Corporate Information

Stock Information

Place of Listing: Main Board of the Stock Exchange of Hong Kong Limited
Stock Short Name: Hengdeli
Stock Code: 3389
Company Website: www.hengdeliholdings.com

Board of Directors

Executive Directors

Mr. Zhang Yuping *(the Group's Chairman)*
Mr. Song Jianwen
Mr. Huang Yonghua

Non-executive Directors

Mr. Chen Sheng
Mr. Shen Zhiyuan
Mr. Shi Zhongyang

Independent Non-executive Directors

Mr. Cai Jianmin
Mr. Wong Kam Fai, William
Mr. Liu Xueling

Audit Committee

Mr. Cai Jianmin *(Committee Chairman)*
Mr. Wong Kam Fai, William
Mr. Liu Xueling

Remuneration Committee

Mr. Zhang Yuping *(Committee Chairman)*
Mr. Cai Jianmin
Mr. Liu Xueling

Nomination Committee

Mr. Song Jianwen *(Committee Chairman)*
Mr. Cai Jianmin
Mr. Liu Xueling

Company Secretary

Mr. Ng Man Wai, Peter (HKICPA, ACCA)

Investors Inquiry

Ms. Li Xiangrong, Cathy
Shanghai Xinyu Watch & Clock Group Ltd.
7/F, Jinzhong Plaza
No.98, Huaihaizhonglu
Shanghai, PRC
Tel: (21) 5385 8965
Fax: (21) 5385 8965
Email: cathy-xr.li@xinyuwatch.com

Communications Inquiry

Ms. Ruby Chan
Room 301
Lippo Sun Plaza
28 Canton Road
Tsim Sha Tsui
Kowloon, Hong Kong
Tel: (852) 2375 2323
Fax: (852) 2375 8010
Email: ruby.chan@hengdeli.com.hk
Ms. Kelly Fung
Room 2009-2018, 20/F
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong
Tel: (852) 3150 6788
Fax: (852) 3150 6728
Email: kelly.fung@pordahavas.com

Registered Office

Cricket Square
Hutchins Drive
P.O Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Room 301, 3/F
Lippo Sun Plaza
28 Canton Road
Tsim Sha Tsui
Kowloon, Hong Kong

Auditors

KPMG
Certified Public Accountant
8/F, Prince's Building
10 Chater Road
Central, Hong Kong

Company's Legal Adviser

As to Hong Kong Law
Gallant Y. T. Ho & Co.
5/F, Jardine House
1 Connaught Place
Central, Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Cayman Island Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands