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HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

All terms used herein have the same meaning as defined in the announcement of Hengdeli Holdings Limited (the “**Company**”) dated 21 September 2010, unless otherwise defined.

Please refer to the attached offering circular (the “**Offering Circular**”) in relation to the issue of HK\$2,500,000,000 2.5% Convertible Bonds due 2015 by the Company, which has been published on the website of Singapore Exchange Securities Trading Limited on 9 November 2010.

The posting of the Offering Circular on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.09(2) of the Listing Rules and not for any other purposes.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities. The securities referred to the Offering Circular will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the US Securities Act. The Company does not intend to make any public offering of securities in the United States.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Circular.

By Order of the Board
HENGDELI HOLDINGS LIMITED
Zhang Yuping
Chairman

9 November 2010, Hong Kong

As at the date hereof, the Executive Director and Chairman of the Company is Mr. Zhang Yuping, the Executive Directors are Mr. Song Jianwen and Mr. Huang Yonghua, the Non-executive Directors are Mr. Chen Sheng, Mr. Shen Zhiyuan and Mr. Shi Zhongyang, the Independent Non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xueling.

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HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

H.K.\$2,500,000,000 2.5% CONVERTIBLE BONDS DUE 2015 Issue price: 100.0 per cent.

The H.K.\$2,500,000,000 2.5% CONVERTIBLE BONDS DUE 2015 (the "Bonds") will be issued in registered form by Hengdeli Holdings Limited (the "Issuer", the "Company" or "Hengdeli").

The Bonds are convertible by holders into fully paid ordinary shares of H.K.\$0.005 each of the Issuer (the "Shares") at any time on or after 30 November 2010 up to the close of business (at the place where the certificate evidencing the Bonds are deposited for conversion) on the day falling ten days prior to 20 October 2015, or, if such Bonds shall have been called for redemption by the Issuer before 20 October 2015 (both days inclusive), then up to and including the close of business (at the place aforesaid) on a date no later than seven days (at the place aforesaid) prior to the date fixed for redemption thereof. The conversion price (subject to adjustment in the manner provided herein) (the "Conversion Price") will initially be H.K.\$4.9524 per Share. The Shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and conditional approval for the listing of the Shares to be issued on conversion of the Bonds on the Hong Kong Stock Exchange has been granted by the Hong Kong Stock Exchange. On 20 September 2010, the closing price of the Shares on the Hong Kong Stock Exchange was H.K.\$4.01 per Share. See "Terms and Conditions of the Bonds – Conversion" and "Information Concerning the Shares".

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 105.413 per cent. of its principal amount together with accrued and unpaid interest thereon on 20 October 2015. At any time after 20 October 2013, the Issuer may at its sole discretion elect to convert the Bonds in whole but not in part into Shares provided that no such conversion may be made unless the Volume Weighted Average Price (as defined in the "Terms and Conditions of the Bonds") of a Share for each of the 30 consecutive Trading Days immediately prior to the date upon which the Forced Conversion Notice (as defined in the "Terms and Conditions of the Bonds") is given was at least 130 per cent. of the Early Redemption Amount (as defined in the "Terms and Conditions of the Bonds") of a Bond divided by the Conversion Ratio (as defined in the "Terms and Conditions of the Bonds"). The Bonds may also be redeemed in whole, and not in part, at any time at the option of the Issuer at a redemption price equal to their Early Redemption Amount together with any accrued and unpaid interest, if any, on the date fixed for such redemption if at any time at least 90 per cent. in principal amount of the Bonds has already been redeemed, converted or purchased and cancelled. On 20 October 2013, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all or some only of the Bonds of such holder at the Early Redemption Amount at such date together with interest accrued to such date. The holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all or some only of that holder's Bonds at their Early Redemption Amount together with accrued and unpaid interest, if any, following the occurrence of a Relevant Event (as defined in the "Terms and Conditions of the Bonds"). The Bonds may also be redeemed in whole, and not in part, at any time at the option of the Issuer at their Early Redemption Amount together with accrued and unpaid interest, if any, on the date fixed for such redemption in the event of certain changes relating to taxation in the Cayman Islands or Hong Kong Special Administrative Region ("Hong Kong") or any political subdivision or any authority thereof or therein.

The Bonds will be represented by a Global Certificate (as defined herein) in registered form and deposited with, and representing Bonds registered in the name of a nominee of, a common depository for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 20 October 2010, being the closing date (the "Closing Date"), for the accounts of their respective accountholders.

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States.

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited ("SGX-ST"). Permission will be granted when the Bonds have been admitted to the Official List of the SGX-ST. The SGX-ST takes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Approval for the listing of the Bonds on the SGX-ST and admission of the Bonds on the SGX-ST are not to be taken as an indication of the merits of the Issuer, its subsidiaries, the Bonds or the new Shares.

For a discussion of certain factors to be considered in connection with an investment in the Bonds, see "Risk Factors".

Joint Bookrunners and Joint Lead Managers

J.P.Morgan



The Issuer, having made all reasonable enquiries, confirms that (i) all information will be contained in this Offering Circular with respect to the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole (the “Group”) and to the Shares and the Bonds which is material in the context of the issue and offering of the Bonds (including the information which, is required by applicable laws of the Cayman Islands and Hong Kong and according to the particular nature of the Issuer, the Shares and the Bonds, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer, the Shares and the Bonds); (ii) the statements contained in it relating to the Issuer, and to the Group, will be in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in it with regard to the Issuer and to the Group will be honestly held, have been reached after considering all relevant circumstances and will be based on reasonable assumptions; (iv) there will be no other facts in relation to the Issuer, the Group or the Shares or the Bonds the omission of which would, in the context of the issue and offering of the Bonds make any statement in the Offering Circular misleading in any material respect; (v) all reasonable enquiries will have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements; and (vi) this Offering Circular does not, include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they were made, not misleading.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, J.P. Morgan Securities Ltd. and Standard Chartered Bank (the “Managers”) or The Bank of New York Mellon (the “Trustee”) to subscribe or purchase, any of the Bonds where the offer or sale is not permitted. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Offering Circular, see “Subscription and Sale”.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Managers or the Trustee. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date. None of the Managers nor the Trustee has separately verified the information contained in this Offering Circular. Accordingly, no representation or warranty, express or implied, is made by any of the Managers or the Trustee or any of their respective affiliates or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by any of the Managers or the Trustee, or any of their respective affiliates or advisers.

Each person purchasing the Bonds acknowledges that:

- it has not relied on any of the Managers or the Trustee or any person affiliated with any of the Managers or the Trustee in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorised to give any information or to make any representation concerning the Bonds or the Shares other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorised by the Issuer, any of the Managers or the Trustee.

The Bonds and the Shares to be delivered upon conversion of the Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the terms of the Bonds and the Shares and such prospective investors should consult their own tax, legal and business advisers to the extent it deems necessary. None of the Issuer, the Managers and the Trustee is making any representation or warranty, express or implied, to any purchaser of Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice.

IN CONNECTION WITH THE ISSUE OF THE BONDS, THE MANAGERS OR PERSONS ACTING ON THEIR BEHALF MAY, SUBJECT TO ALL APPLICABLE LAWS, EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE MANAGERS OR PERSONS ACTING ON BEHALF OF THE MANAGERS WILL UNDERTAKE ANY STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, AND IN ANY EVENT WILL END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS.

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless indicated otherwise, in this Offering Circular all references to (i) the “Issuer”, the “Company” or “Hengdeli” are to Hengdeli Holdings Limited, and (ii) the “Group” are to Hengdeli and its subsidiaries and its affiliates.

All references in this Offering Circular to “Singapore” are to the Republic of Singapore.

All references in this Offering Circular to the “PRC” or “Mainland China” are to the People’s Republic of China (for the purpose of this Offering Circular only shall exclude the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan), all references to the “Government” are to the government of the PRC and all references to “Hong Kong” are to the Hong Kong Special Administrative Region of the PRC.

All references to “fiscal” or “fiscal year” are to the year commencing from 1 January and ending on 31 December of the same year.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements. All statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the Company’s financial position, prospects, business strategy and the plans and objectives of the Company’s management for its future operations (including development plans and objectives relating to the Company’s operations), are forward-looking statements. These forward-looking statements have been extracted from publicly available information and have not been verified by the Issuer or the Managers. Forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things: risks associated with international global business activities; general economic and political conditions; possible disruptions to commercial activities due to nature and human induced disasters, including terrorist activities and armed conflicts; fluctuations in foreign currency exchange rates; and those other risks identified in the “Risk Factors” section of this Offering Circular.

The words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “plan” and similar expressions are intended to identify a number of these forward-looking statements. Neither the Issuer nor the Managers undertakes any obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Company’s actual results could differ materially from those anticipated in these forward-looking statements.

These forward-looking statements speak only as of the date of this Offering Circular. Each of the Issuer and each of the Managers expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

INDUSTRY AND MARKET DATA

Information regarding industry trends, market position, growth rates and other industry data pertaining to the Group's business contained in this Offering Circular consist of estimates based on data reports compiled by professional organisations and analysts, on data from other external sources and the Group's knowledge of its markets. This data is subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical survey. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organisations) to validate market-related analyses and estimates, so the Group relies on internally developed estimates. While the Group has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Group nor any of the Managers has independently verified that data and neither the Group nor any of the Managers makes any representation regarding the accuracy of such data. The Group takes responsibility for accurately reproducing such information but accepts no further responsibility in respect of such information and data.

INCORPORATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Issuer for the three years ended 31 December 2009, and the auditors' report in respect of each such financial year, which are contained in the Annual Reports of the Issuer for 2007, 2008 and 2009, respectively, are incorporated by reference in, and form part of, this Offering Circular.

The Issuer's unaudited consolidated interim financial statements as of and for the six months ended 30 June 2010 together with the corresponding figures as of 31 December 2009 and/or for the six months ended 30 June 2009 are contained in the Interim Report of the Issuer for the six months ended 30 June 2010 (which were published on 10 August 2010) and are incorporated by reference in, and form part of, this Offering Circular. The Issuer's unaudited consolidated interim financial statements as of and for the six months ended 30 June 2010 together with the corresponding figures as of 31 December 2009 and/or for the six months ended 30 June 2009 have not been audited or reviewed by the Issuer's independent auditors. Consequently, such consolidated interim financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. The Managers do not make any representation or warranty, express or implied, regarding the sufficiency of such consolidated interim financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Issuer's financial condition, results of operations and results. Such consolidated interim financial statements should not be taken as an indication of the expected financial condition, results of operations and results for the full fiscal year ended 31 December 2010.

Copies of the aforementioned Annual Reports and the Interim Report (i) may be downloaded free of charge from the website of the Hong Kong Stock Exchange at <http://www.hkex.com.hk> and (ii) will be available for inspection at the Issuer's principal place of business in Hong Kong at Room 301, 3/F, Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong during normal business hours so long as any Bond is outstanding.

PRESENTATION OF OTHER INFORMATION

Certain figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

All references to "Hong Kong dollars", "H.K. dollars", "H.K.\$" and "H.K. cents" are to the lawful currency of Hong Kong and references herein to "RMB" and "Renminbi" are to the lawful currency of the PRC. Unless the context otherwise requires, references to "2007", "2008" and "2009" are to the financial years ended 31 December 2007, 2008 and 2009, respectively. For illustration purposes, the daily H.K. dollar/Renminbi exchange rate as published by the People's Bank of China ("PBOC") on 11 October 2010 was RMB0.86029 = H.K.\$1.00.

TABLE OF CONTENTS

	Page
Summary of Business	1
Summary of the Terms of the Offering	4
Summary Financial Information of Hengdeli.	9
Use of Proceeds.	11
Capitalisation and Indebtedness	12
Risk Factors.	13
Information Concerning the Shares.	26
Business	27
Management	43
Substantial Shareholders and Directors Interests and Share Options.	46
Terms and Conditions of the Bonds	47
The Global Certificate.	81
Description of the Shares.	83
Taxation.	87
Subscription and Sale.	89
General Information	93

SUMMARY OF BUSINESS

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

OVERVIEW

The Group is a wholesaler and retailer of watches in the PRC which focuses on distributing watches of international brands. The Group has well-established business relationships with various world-famous watch brands suppliers such as the Swatch Group, the LVMH Group, the Richemont Group, the Rolex Group and the DKSH Group. As at 30 June 2010, the Group had distributed world renowned brand watches, including Cartier, Vacheron-Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant and Mido. The Group persistently stepped up efforts in bringing in and adjusting middle-to-high-end brands to enhance its portfolio of brands, which would be favourable to the long-term business development and ongoing enhancement of overall results. The Group believes that these brands are internationally renowned, and that their target customers are mainly consumers seeking luxury or fashionable brands or of middle to high income.

As at 30 June 2010, the Group operates an extensive distribution network which comprises 302 retail outlets in the PRC, Hong Kong and Taiwan. Of these outlets, 17 were Elegant shops (4 in Hong Kong, 12 in the PRC and 1 in Taiwan), 201 were Prime Time and Hengdeli shops (174 in PRC and 27 in Taiwan), 26 were TEMPTATION shops (all in the PRC) and 58 were brand boutiques (40 in the PRC, 11 in Hong Kong and 7 in Taiwan).

Throughout the three years ended 31 December 2009, the Group has also been focused on the build-up of the retail network in the Greater China region with a core focus in the PRC. It is also supplemented with the provision of comprehensive customer services, manufacture of extension products and brand distribution, etc.

The Group also provides comprehensive customer service. On top of its sizable repair and maintenance centres in Beijing and Shanghai, immediate repair and basic maintenance are also available at most retail shops. In terms of product packaging, the Group owns and operates a production plant in Guangzhou which engages in accessories production and product packaging. The plant also specialises in the design and manufacture of packing boxes for luxury watches, in-store display counters, marketing props and other decorative products for the Group's retail outlets.

HISTORY

The "Hengdeli" brand name was founded in the 1920s. In 1997, the Zhang's family invested in 北京亨得利鐘錶有限責任公司 (Beijing Hengdeli Timepieces Limited) ("Beijing Hengdeli"). Two years later, Shanghai Xinyu Watch & Clock Group, Ltd ("Shanghai Xinyu") was established in Shanghai in order to engage in the wholesale business of watches in the PRC. From 2002 to 2003, Xinyu Hengdeli Group was established with reorganisation of Beijing Hengdeli, Shanghai Xinyu, Shanghai Watch Shop and other companies of the Group. The Group underwent a series of reorganisation exercises which were completed in 2005 and the Issuer was listed on the Hong Kong Stock Exchange in September 2005. The world's largest watch manufacturer and distributor, the Swatch Group, and the global largest luxury product group, the LVMH Group, also became the Company's strategic shareholders in 2005 and 2006 respectively. In August 2006, the Group established its presence in Hong Kong by acquiring Elegant International Holdings Limited, a well-established luxurious watch retailer in Hong Kong. In 2007, the Group broadened its product range and entered into a contract with the LVMH Group. The Group's aim in diversifying into such luxury goods business is to strengthen its distribution network as well as to gain international exposure. Today, Hengdeli Holdings Limited is the largest enterprise engaged in retail and distribution sales businesses of renowned international watch brands in the PRC.

RECENT DEVELOPMENTS

“Hengdeli” is registered as a trademark by the Company and has gained its reputation among customers. In 2009, the Company changed its name from “Xinyu Hengdeli Holdings Limited 新宇亨得利控股有限公司” to “Hengdeli Holdings Limited 亨得利控股有限公司”, in an effort to enhance the awareness of the Company’s brand name among customers.

On 10 August 2010, the Group announced its unaudited financial results for the six months ended 30 June 2010. During the first half of 2010, the Group’s turnover reached RMB3,715 million, which represented an increase of approximately 37.8 per cent. as compared to the corresponding period of the previous year. Profit attributable to equity shareholders was RMB306 million, which was a 44.4 per cent. increase from that of the corresponding period of the previous year. Sales from its retail business, wholesale business and after-sales services contributed 76 per cent., 20.2 per cent. and 3.8 per cent. of the Group’s total turnover, respectively. The number of retail outlets increased from 216 as at 30 June 2009 to 302 as at 30 June 2010.

To expand the Group’s business in the Greater China Region, in 2009, the Group acquired the retail business of Taiwan Jing Guang Timepiece Holdings Ltd., which was principally engaged in retail of watches through its retail shops in Taiwan.

To ensure healthy business development, in 2010, 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. Under the strategic cooperation agreement, the Group is regarded as an important client of the China Construction Bank, whose Shenzhen branch will provide all rounded financial services and support to the Group, which will offer strong assurance to the Group’s continuous expansion and sustainable development.

BUSINESS STRATEGIES

The business strategies and future plans of the Group for the growth and expansion of its business are summarised as follows:

- Continuous expansion in its domestic and overseas retail network;
- Introduction of more high quality watch brands for wholesale and retail;
- Strengthening and enhancement of its customer service network;
- Development and expansion of ancillary facilities and luxury accessories business; and
- Expansion through acquisition of suitable companies.

BUSINESS MODEL

The Group’s business can be divided into the following parts:

- Retail business conducted through its retail network comprising 302 retail outlets in the PRC, Hong Kong and Taiwan;
- Wholesale business conducted through its wholesale network comprising more than 300 wholesale customers located in over 50 cities in the PRC;
- Provision of after-sales services through its retail network and service centres; and
- Further enhancement on development and expansion of ancillary products.

The Group is expanding its retail business as it generally generates a higher gross profit margin than its wholesale business.

The following table shows a breakdown of the Group's turnover by business segment for each of the three years ended 31 December 2009:

SALES BREAKDOWN (for the year ended 31 December)

	2007		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%
Retail Business						
(Mainland China)	1,663,780	36.4	2,324,172	42.1	2,730,187	46.3
(Hong Kong)	1,384,975	30.2	1,418,195	25.7	1,705,476	28.9
Wholesale Business	1,439,980	31.4	1,631,916	29.6	1,329,967	22.5
Customer Service and Others . .	90,006	2.0	142,213	2.6	133,792	2.3
Total	4,578,741	100.0	5,516,496	100.0	5,899,422	100.0

SUMMARY OF THE TERMS OF THE OFFERING

The following is a general summary of the terms of the offering of the Bonds. This summary is partly derived from and should be read in conjunction with, the full text of the terms and conditions of the Bonds (the "Conditions") (see "Terms and Conditions of the Bonds"), the Trust Deed and the Agency Agreement relating to the Bonds. The Conditions, the Trust Deed and the Agency Agreement will prevail to the extent of any inconsistency with the terms set out in this summary. Defined terms used in this summary that are not defined herein shall have the meanings accorded to them in the Conditions.

Bonds	The H.K.\$2,500,000,000 2.5% Convertible Bonds due 2015 (the "Bonds"), convertible into new fully-paid ordinary shares of H.K.\$0.005 each of the Issuer (the "Shares").
Clearing	The Bonds will be cleared through Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders.
Conversion Price	Initially H.K.\$4.9524 per Share, subject to adjustments. See "Conversion Price Adjustments".
Conversion Price Adjustments	The Conversion Price will be subject to adjustment for, among other things, capitalisation of profits and reserves, capital distributions, rights issues, sub-division, consolidation and re-classification of Shares, issuance of options, rights, warrants, further convertible or exchangeable bonds or Shares at a discount to current market price and certain other dilutive events.
Conversion Right and Period	Subject to and upon compliance with the conditions of the Bonds, the conversion right in respect of a Bond may be exercised, at the option of the Bondholder, at any time on or after 30 November 2010 to the close of business on the date falling ten days prior to the Maturity Date (both days inclusive) or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to and including the close of business (at the place aforesaid) on a date no later than seven days (in the place aforesaid) prior to the date fixed for redemption thereof.
Cross Default	The Bonds may be accelerated in the event of, inter alia, a default relating to the Issuer or any of its subsidiaries in respect of indebtedness which equals or exceeds U.S.\$2,000,000 or its equivalent in any other currency. For a description of certain other events that will permit acceleration of repayment of principal and premium of the Bonds, see Condition 10 (Events of Default).
Final Redemption	Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 105.413% of its principal amount together with accrued and unpaid interest thereon on Maturity Date.
Forced conversion at the option of the Company	At any time after 20 October 2013, the Issuer may at its sole discretion, having given not less than 30 nor more than 60 days' notice to Bondholders, elect to convert the Bonds in whole but not in part into Shares provided that no such conversion may be made unless the VWAP of a Share for each of the 30 consecutive Trading Days immediately prior to the date upon which such forced conversion notice is given was at least 130% of the Early Redemption Amount of a

	Bond divided by the Conversion Ratio (meaning the principal amount of each Bond divided by the Conversion Price then in effect immediately prior to the date upon which notice of such redemption is given).
Form and Denomination of the Bonds	The Convertible Bonds will be issued in registered form in the denomination of H.K.\$1,000,000 each.
Further Issues	The Issuer may, from time to time, without the consent of the Bondholders, create and issue further Bonds having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the Bonds.
Global Certificate	For as long as the Bonds are represented by the Global Certificate and the Global Certificate is held by a nominee for Euroclear and Clearstream, Luxembourg, payments of principal in respect of the Bonds represented by the Global Certificate will be made without presentation and, if no further payment falls to be made in respect of the Bonds, against surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to Bondholders for such purpose. The Bonds which are represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of the relevant Clearing System.
Governing Law	The Bonds will be governed by, and construed in accordance with, the laws of England.
Interest	The Bonds bear interest from and including 20 October 2010 at the rate of 2.5% per annum payable semi-annually in arrear in equal instalments of H.K.\$12,500 per H.K.\$1,000,000 in principal amount of the Convertible Bonds on 20 April and 20 October in each year.
ISIN/Common Code	XS0543801350/054380135.
Issue Date	20 October 2010.
Issue Price	100% of the principal amount of the Bonds.
Issuer	Hengdeli Holdings Limited.
Listing and trading of the Bonds	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. Approval in-principle for the listing and quotation of the Bonds is not to be taken as an indication of the merits of the Bonds or the Issuer. Permission for the listing will be granted when the Bonds have been admitted to the Official List of the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of H.K.\$1,200,000 for so long as the Bonds are listed on the SGX-ST.
Listing of Shares	Conditional approval for the listing of the new Shares to be issued upon conversion of the Bonds on the Hong Kong Stock Exchange has been granted by the Hong Kong Stock Exchange.
Lock-up	The Issuer has undertaken to the Managers that neither the Issuer nor any person acting on its behalf will (a) issue,

offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers (which consent shall not be unreasonably withheld or delayed) between the date of the Subscription Agreement and the date which is 90 days after the Closing Date (both dates inclusive); except for (a) the Bonds and the new Shares issued on conversion of the Bonds; (b) securities issued under the share option scheme of the Company and (c) shares issued on conversion of the RMB denominated US dollar settled senior unsecured zero coupon convertible bonds due 2012 of an initial aggregate principal amount of RMB1,150 million.

Best Growth International Limited has undertaken in favour of each of the Managers that, between the date of the Subscription Agreement and the date which is 90 days after the Closing Date (both dates inclusive), it will not, and will procure that none of its nominees, companies controlled by it and trusts associated with it (whether individually or together and whether directly or indirectly) and affiliates will (i) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares held, directly or indirectly, by it (the "Lock-up Shares") or any interests therein beneficially owned or held by it or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Lock-up Shares or interests or (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Lock-up Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Lock-up Shares or such other securities, in cash or otherwise or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above, unless with the prior written consent of the Managers (which consent shall not be unreasonably withheld or delayed).

Maturity Date 20 October 2015.

Negative Pledge	So long as any Bond remains outstanding, the Issuer will not, and will ensure that none of its subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) shall be approved by an extraordinary resolution of the Bondholders.
Principal Agent, Conversion . . . Agent, Transfer Agent and Paying Agent	The Bank of New York Mellon.
Rating of the Bonds	The Bonds are not, and are not expected to be, rated by any rating agency.
Redemption at the option of the Bondholders	The holder of each Bond will have the right to require the Issuer to redeem that Bond on 20 October 2013 at its Early Redemption Amount as at such date together with interest accrued to such date.
Redemption at the option of the Bondholders upon Delisting or Change of Control	When the Shares cease to be listed or admitted to trading or suspended for a period equal to or exceeding 30 consecutive Trading Days on the Hong Kong Stock Exchange (or if the Shares are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in) or when there is a Change of Control, the Bondholders will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Bonds at their Early Redemption Amount as at such date together with interest accrued to such date.
Redemption at the option of the Issuer	On giving not less than 30 nor more than 60 days' notice to the Trustee and the Bondholders, the Issuer shall redeem all, but not some only, of the Bonds on the date as specified in the redemption notice at their Early Redemption Amount as at such date together with interest accrued to such date at any time if, immediately prior to the date the relevant redemption notice is given, conversion rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90% or more in principal amount of the Bonds originally issued.
Redemption for taxation reasons	The Bonds may be redeemed, at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders at their Early Redemption Amount as at such date together with interest accrued to such date, if (a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional tax amounts as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 September 2010, and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

If the Issuer exercises its tax redemption right, each Bondholder shall have the right to elect that its Bonds shall not be redeemed. Upon a Bondholder electing not to have its Bonds redeemed in such circumstances, any payments due after the relevant date shall be made subject to any deduction or withholding of any tax required to be deducted or withheld.

Redemption Price	105.413% of the principal amount of the Bonds.
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Selling Restrictions.	There are restrictions on the offer, sale and transfer of the Bonds in, among others, the PRC, Hong Kong, Singapore, the Cayman Islands, Japan, the European Economic Area, the United Kingdom and the United States. For a description of the selling restrictions on offers, sales and deliveries of the Bonds, see "Subscription and Sale".
Shares.	Ordinary shares of H.K.\$0.005 each in the share capital of the Issuer.
Status of the Bonds	The Bonds shall constitute direct, unsubordinated, unconditional and (subject to Condition 4 (Negative Pledge) unsecured obligations of the Company and shall rank pari passu and without any preference or priority among themselves.
Taxation.	All payments made by the Issuer under or in respect of the Trust Deed or the Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands, Hong Kong or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, subject to Condition 8(C)(ii), the Issuer will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no deduction or withholding been required, except in circumstances specified in Condition 9 (Taxation).
Trustee	The Bank of New York Mellon.
Use of Proceeds.	The net proceeds from the issue of the Bonds, after deducting expenses including commissions, professional fees and other key ancillary expenses, are estimated to be approximately H.K.\$2,446,000,000. The Company presently intends to use the net proceeds from such issue for business expansion, including acquisitions, and general corporate purposes of the Group. See "Use of Proceeds".
Yield-to-Maturity.	3.50% per annum calculated on a semi-annual basis.

SUMMARY FINANCIAL INFORMATION OF HENGDELI

The following tables present summary financial information of the Issuer's extracted from the audited consolidated financial statements as of, and for the years ended, 31 December 2007, 2008 and 2009 and the unaudited consolidated financial statements for the six months ended 30 June 2010 (with comparative figures in the corresponding period in 2009).

The summary consolidated financial information of the Company for the three years ended 31 December 2009 and the consolidated interim financial information as of and for the six months ended 30 June 2010 set forth below is derived from the Company's published audited consolidated financial statements for the years ended 31 December 2007, 2008 and 2009 and the unaudited consolidated interim financial statements for the six months ended 30 June 2010. They should be read in conjunction with such published audited consolidated financial statements or unaudited consolidated interim financial statements (as the case may be) and the notes thereto.

The consolidated financial statements for the three years ended 31 December 2009 were audited by KPMG, Certified Public Accountants, Hong Kong and have been prepared and presented by the Issuer in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The Issuer's unaudited consolidated interim financial statements as of and for the six months ended 30 June 2010 (which were published on 10 August 2010) have not been audited or reviewed by the Issuer's independent auditors. Consequently, such consolidated interim financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. The Managers do not make any representation or warranty, express or implied, regarding the sufficiency of such consolidated interim financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Issuer's financial condition, results of operations and results. Such consolidated interim financial statements should not be taken as an indication of the expected financial condition, results of operations and results for the full fiscal year ended 31 December 2010.

The audited consolidated financial statements of the Issuer for the three years ended 31 December 2009 and the unaudited consolidated interim financial information as of and for the six months ended 30 June 2009 and 2010 are incorporated by reference in, and form part of, this Offering Circular.

RESULTS	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover.	4,578,741	5,516,496	5,899,422	2,694,978	3,714,767
Profit before taxation	551,688	618,984	513,755	284,560	425,853
Income tax	(109,535)	(130,819)	(127,662)	(59,005)	(94,897)
Profit for the year	442,153	488,165	386,093	225,555	330,956
Attributable to:					
Equity shareholders of the Company	417,523	460,087	364,809	212,198	306,411
Non-controlling interests	24,630	28,078	21,284	13,357	24,545
Profit for the year	442,153	488,165	386,093	225,555	330,956

ASSETS AND LIABILITIES	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	3,925,591	4,480,775	5,174,169	4,547,558	5,512,809
Total liabilities	1,943,220	2,148,755	2,050,092	2,128,833	2,163,439
Net assets	<u>1,982,371</u>	<u>2,332,020</u>	<u>3,124,077</u>	<u>2,418,725</u>	<u>3,349,370</u>
Equity attributable to equity shareholders of the Company	1,785,498	2,095,798	2,866,645	2,173,214	3,080,893
Non-controlling interests	<u>196,873</u>	<u>236,222</u>	<u>257,432</u>	<u>245,511</u>	<u>268,477</u>
Total shareholders' equity	<u>1,982,371</u>	<u>2,322,020</u>	<u>3,124,077</u>	<u>2,418,725</u>	<u>3,349,370</u>

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, after deducting expenses including commissions, professional fees and other key ancillary expenses, are estimated to be approximately H.K.\$2,446,000,000. The Company presently intends to use the net proceeds from such issue for business expansion, including acquisitions, and general corporate purposes of the Group.

CAPITALISATION AND INDEBTEDNESS

As at the date of this Offering Circular, the Issuer has an authorised share capital of H.K.\$50,000,000 consisting of 10,000,000,000 Shares of H.K.\$0.005 each and an issued and fully paid-up share capital of approximately H.K.\$21,879,335 consisting of 4,375,867,000 Shares of H.K.\$0.005 each.

The table below sets forth the Issuer's actual consolidated capitalisation and indebtedness as at 30 June 2010 and as adjusted to account for the issue of the Bonds. This table should be read in conjunction with the consolidated financial statements and related notes incorporated by reference in this Offering Circular.

The table contains information from the Issuer's unaudited consolidated interim financial statements as of and for the six months ended 30 June 2010 (which were published on 10 August 2010). Such information has not been audited or reviewed by the Issuer's independent auditors. Consequently, such consolidated interim financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. The Managers do not make any representation or warranty, express or implied, regarding the sufficiency of such consolidated interim financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Issuer's financial condition, results of operations and results. Such consolidated interim financial statements should not be taken as an indication of the expected financial condition, results of operations and results for the full fiscal year ended 31 December 2010.

	As at 30 June 2010	
	Actual	As adjusted
	RMB'000	RMB'000
Total borrowings-current portion		
Bank loans and overdrafts	845,002	845,002
	<u>845,002</u>	<u>845,002</u>
Total borrowings-non-current portion		
Bank loan	66,847	66,847
Convertible Bonds	185,152	185,152
The Bonds to be issued		2,181,000 ^(1&2)
	<u>251,999</u>	<u>2,432,999</u>
Equity attributable to equity holders of the Company		
Share capital	19,909	19,909
Reserve	3,060,984	3,060,984
	<u>3,080,893</u>	<u>3,080,893</u>
Total Capitalisation	<u>3,332,892</u>	<u>5,513,892</u> ⁽³⁾

Notes:

- (1) In accordance with Hong Kong Accounting Standard 32 "Financial Instruments: Disclosure and Presentation", a convertible bond might be split into an equity, liability and derivative component. For illustrative purposes only, the aggregate principal amount of the Bonds to be issued has been presented as a liability in the above table.
- (2) The issuance of H.K.\$2,500,000,000 bonds was translated from H.K.\$ to RMB at the rate of RMB0.8724: H.K.\$1.0000 as published by the People's Bank of China on 30 June 2010.
- (3) Total capitalisation is defined to be the sum of equity attributable to equity holders of the Company and non-current borrowings.

RISK FACTORS

The risks described below should be carefully considered before making an investment decision. The risks described are not the only ones relevant to the Issuer, the Group, the Bonds or the Shares. Additional risks not presently known to the Issuer or that it currently deems immaterial may also impair the Group's business operations. The Group's businesses, financial condition and/or results of operations could be materially adversely affected by any of these risks, which may, as a result, affect the Issuer's ability to repay the principal of the Bonds.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors occurring, including the considerations described below and elsewhere in this Offering Circular.

RISKS RELATING TO THE GROUP

The Group has entered into distribution agreements which are subject to renewal

The Group's established relationships with owners or distributors of various international brands have been one of the key factors in the Group's success. For all of these international brands, the Group has entered into written agreements for terms ranging from three to 20 years.

However, no assurance can be given that any of these agreements will be renewed on commercially favourable terms or at all. Should the brand-owners or distributors decide not to renew the distribution agreements upon their expiry or terminate the Group's right to wholesale for whatever reason, including but not limited to the take over of any wholesale right by the brand-owners themselves, the Group's business may be adversely affected. Any changes in the business policies of brand-owners may lead to a decline in the Group's turnover and profitability.

The Group is susceptible to changes in business policies of brand-owners on their mode of operations including changes in their pricing policies, criteria in choosing wholesalers and retailers, promotion and marketing strategies, expansion plans and developments and changes of wholesale and retail distribution networks, including the opening of retail outlets by themselves. Any changes in the business policies of the brand-owners may lead to a change in the relationship between the Group and the brand-owners which may result in a decline in the Group's turnover and profitability.

The Group relies on major suppliers for the supply of various brands

For each of the three years ended 31 December 2009, the aggregate purchases from the Group's five largest suppliers accounted for approximately 84.8 per cent., 83.5 per cent. and 91.0 per cent. of the Group's total annual purchases for each of the corresponding periods, respectively. For the three years ended 31 December 2009, purchases from the Group's largest supplier accounted for approximately 38.2 per cent., 46.9 per cent. and 57.0 per cent. of the Group's total annual purchases. All of the five largest suppliers of the Group during the three years ended 31 December 2009 were either brand-owners or their distributors.

Watches from the brand-owners and/or their distributors were supplied to the Group on an order-by-order basis upon receipt of the orders from the Group. If any of the brand-owners and/or their distributors were to reduce the quantity of the brands supplied to the Group or cease to supply its watches to the Group or were to terminate its business relationship with the Group entirely, for whatever reasons, there can be no assurance that the Group would be able to obtain supply of the same brands from other suppliers or that, the Group would be able to find other suitable alternative suppliers in a timely manner. If any of these relationships were to be so altered and the Group was unable to obtain supplies from other suppliers, the Group's business and results of operation may be adversely affected.

The Group's business depends on its ability to establish stores in prime locations, which may become more difficult or more expensive to obtain in the future.

The Group's retail business depends significantly on its ability to establish its stores in prime and convenient locations where there is a high population density and volume of pedestrian traffic. Given the scarcity of such prime locations and their relatively high rental cost, particularly in the larger metropolitan areas which the Group targets for its present and planned stores, there is no assurance that the Group will be able to secure such prime locations on commercially favourable terms or at all. Failure to successfully secure prime locations for future stores may materially and adversely affect the Group's future sales revenue and its growth strategy.

At present, the Group leases a majority of its traditional store sites. The Group therefore has considerable exposure to the PRC, Hong Kong and Taiwan retail rental markets. For the year ended 31 December 2009, the total rental costs in respect of the Group's stores amounted to approximately RMB287 million, representing approximately 4.9 per cent. of the Group's total operating revenues. The Group expects the rental in Hong Kong and certain sectors of the PRC property market to increase. As a result, the Group's profitability may be adversely affected by such increases in the rentals in the PRC, Hong Kong and Taiwan.

Leases for the Group's individual brand boutique shops and agreements for occupation of its integrated retail outlets are for relatively short-term. Most of the Group's individual brand boutique shops are occupied under lease arrangements which typically ranges from three to five years, and the majority of the agreements for occupying its integrated retail outlets within department stores are generally for a term of one to two years. The Group is therefore exposed to possible rent increases or non-renewal of leases for its individual brand boutique shops or non-renewal of the agreements by the department stores. Should the current leases for the individual brand boutique shops or agreements with department stores not be renewed upon expiry, or should the parties not be able to reach a mutually satisfactory agreement on certain commercial terms such as guaranteed profits clauses or should the landlords not observe their obligations under the leases or if the leases are otherwise terminated, the Group will have to incur extra expenses in re-allocating its shops to new sites and decorations.

Consequently, the Group's results of operations and financial condition, and the Group's business plan and image in developing and expanding its retail business may be adversely affected.

Any acquisitions or strategic investments that the Group undertakes could be difficult to integrate and this may adversely affect the Group's business.

As part of the Group's expansion strategy, the Group has in the past acquired and may in the future acquire other businesses. Acquisitions involve numerous risks, including potential difficulties in retention and assimilation of personnel, operations and cultural differences of the acquired businesses, diversion of management's attention from other business concerns, risks associated with entering into new markets or increasing activities in markets with which the Group is less experienced. In addition, acquisitions may result in the incurrence and/or inheritance of debt or other liabilities, amortisation of expenses related to goodwill and other intangible assets, as well as the potential inheritance of legal liability in respect of the acquired businesses. The Issuer's subsidiaries in the PRC must also obtain Government consent for any planned acquisitions, and the Group cannot give any assurance that potential acquisitions will receive the requisite consent in a timely manner or at all. The Group cannot give assurance that it will be successful in realising all of the anticipated benefits in the acquisitions that the Group has made or may make in the future. Failure to resolve these risks or realise these benefits may adversely affect the Group's results of operations and financial condition.

Fluctuations in the exchange rate of the Renminbi against the H.K. dollar may adversely affect the Group's financial performance

The Issuer acquired Elegant International Holdings Limited ("Elegant International") in August 2006 upon which Elegant International became a wholly-owned subsidiary of the Issuer. Elegant International is an investment holding company and is the ultimate holding company of Elegant Jewellery Holding Limited ("Elegant Jewellery"). Elegant Jewellery's subsidiaries are principally engaged in the trading and retailing of watches and jewellery in Hong Kong. Sales generated from the retail outlets operated by Elegant International in Hong Kong are denominated in H.K. dollars, while substantially all of the Group's business operations are conducted through the Group's subsidiaries in the PRC and the Group receives most of its revenue in Renminbi.

As the reporting currency of the Group's accounts is Renminbi, H.K. dollar revenues from the retail outlets in Hong Kong are exposed to exchange rate risks. In the past year, the value of the Renminbi has appreciated against the H.K. dollar and there is no assurance that the Renminbi will not be subject to further appreciation. In the event that the Renminbi further appreciates against the H.K. dollar, the Group's exchange rate loss will increase, and its profitability will be adversely affected.

The Group relies on key management personnel

The Group's success, to a certain extent, depends upon the continuing contribution of the executive directors, senior management and key personnel. Should there be any loss of service of these management personnel, in particular, Mr. Zhang Yuping, Mr. Song Jianwen and Mr. Huang Yonghua and the Group fails to recruit suitable qualified staff to replace any of them, such loss or failure could have an adverse effect on the Group's business operation and profitability.

The Group relies on the Greater China Region market

During the three years ended 31 December 2009, a majority of the Group's sales were attributable to customers in the PRC. After the acquisition of Elegant International in 2006, the Group established its presence in the Hong Kong watch retail market and in 2009, the Group has expanded to the Taiwanese market for the establishment of an international renowned watch chain. There can be no assurance that the economic and political environment in the PRC will remain favourable to the Group's business in the PRC in future. Any adverse changes in the market conditions of the PRC, Hong Kong, Taiwan or the rest of the world, including decrease in the purchasing power of consumers in the PRC, Hong Kong and Taiwan and the Group's failure to develop other new markets or take appropriate measures to respond to such changes, may adversely affect the Group's financial conditions and results of operations.

The Group's future success may depend on its ability to continue to expand its retail network

The attribution of the wholesale business to the Group's turnover decreased from approximately 31.4 per cent. for the year ended 31 December 2007 to approximately 29.6 per cent. for the year ended 31 December 2008 and approximately 22.5 per cent. for the year ended 31 December 2009, while the attribution of the retail business to the Group's turnover increased from approximately 66.6 per cent. for the year ended 31 December 2007 to approximately 67.8 per cent. for the year ended 31 December 2008 and approximately 75.2 per cent. for the year ended 31 December 2009. The decline in the turnover attributable to the wholesale business of the Group was mainly due to the Group's continual effort to reduce its reliance on the wholesale of watches in order to focus its resources on the retail business, which generally has a higher gross profit margin than the wholesale business. As at 30 June 2010, the Group's retail network comprised 302 retail outlets in the PRC, Hong Kong and Taiwan. Though it is one of the future plans of the Group to allocate resources to and focus on the expansion of its retail business, which has a higher gross profit margin as compared to the wholesale business, by developing and expanding its retail distribution network, there can be no assurance that the Group can manage growth in its retail business. Should the Group fail to manage the growth in its retail business, the Group's success in achieving its future plans may be adversely affected.

Further, as the Group continues to expand its retail network, its rental costs, renovation expenses, inventory carrying costs and financing costs will increase. There can be no assurance that the Group can expand its retail network in a timely manner and manage the expansion on a profitable basis. If this expansion is not successfully managed, such increased costs will adversely affect the Group's profitability.

The Group's name recognition and reputation are associated with the reputation and quality of the brands it distributes

The Group is a well-known distributor of watches in the PRC for internationally renowned brands whose target customers are the middle to high income groups in the PRC. The Group's name recognition and reputation therefore largely depend on the reputation and quality of the brands it distributes. The reputation of the brands distributed by the Group could be harmed if these brands become obsolete because of changes in consumer preferences and fashion trends, or the emergence of other better quality brands in the market or watches from these current brands are found defective. If the Group is associated with selling obsolete, low quality or defective watches, its name recognition and reputation could be damaged and its sales volume may fall as a result.

The Group makes provisions for slow-moving or obsolete inventory

The Group's inventory is susceptible to obsolescence as it consists of fashionable watches for which the consumer demand follows constantly changing fashion trends. During each of the three years ended 31 December 2009, the Group made provisions for slow-moving and obsolete inventories of approximately RMB12.5 million, RMB12.5 million and RMB7.7 million, respectively. Slow-moving or obsolete inventories will effectively lower the value of the Group's assets and profitability. Further, since the inventory of the Group is generally of high value, any damage to or loss of inventory could have a material adverse effect on the Group.

The Group's information systems may suffer failures

The business operations of the Group depend on the proper performance of the Group's information systems. The Group's management information systems are supported by a back-up server which can take over from the master server in the event of a system failure. There is however no assurance that such system will always operate without any interruption or problem. Any malfunction of the systems for an extended period of time may adversely affect the smooth operation of the business of the Group. This may in turn adversely affect the operations and financial results of the Group.

The Issuer's debt leverage will be significantly increased following the issue of the Bonds

As at 30 June 2010, the Company had total borrowings – non current portion of approximately RMB252.0 million and a total capital and reserves of approximately RMB3,349.4 million. Following the issue of the Bonds, the Issuer's total borrowings – non current portion is expected to increase to RMB2,433.0 million and its debt to equity ratio will increase from 0.33: 1 to approximately 0.98: 1. See "Capitalisation and Indebtedness". In addition, the Company may need to raise additional indebtedness in the future to finance its expansion plans. See "Business".

A significant amount of outstanding debt will increase the Issuer's exposure to a number of risks associated with debt financing as:

- the Issuer may be required to dedicate a portion of its cash flow towards repayment of its existing debt, which will reduce the availability of its cash flow to fund working capital, capital expenditures, acquisitions and other general corporate requirements;
- the Issuer's ability to obtain additional financing in the future at reasonable terms may be impaired; for example, certain of its lenders may increase the interest rates applicable to the Issuer's financing arrangements with such lenders in the event that the Issuer is unable to issue additional equity in the Issuer;

- there could be a material adverse effect on the Company's business, financial condition and results of operations if it is unable to service its indebtedness or otherwise comply with financial and other covenants specifies in its borrowing agreements; and
- increase in vulnerability to economic downturns, thus limiting the Company's ability to withstand competitive pressures and could reduce flexibility in responding to changing business, regulatory and economic conditions.

RISKS RELATING TO THE INDUSTRY

The Group faces fierce competition in the industry

The industry in which the Group engages in is intensely competitive. The Group faces competition from both local and overseas watch distributors. The PRC watch distribution industry is highly fragmented and there are numerous local watch distributors located in the regions where the Group has operations and retail outlets and competes with the Group.

The Group also faces competition from overseas brand-owners and/or their distributors. The Issuer believes that accession into the World Trade Organisation ("WTO") by the PRC has accelerated the expansion plan of foreign distributors in the PRC. With the relaxation of the foreign investments laws by the PRC Ministry of Commerce in 2004 to, among others, allow wholly foreign-owned enterprise to engage in the distribution services in the PRC and lower the market entry threshold such as the minimum registered capital requirement, restriction on regional operation and the simplification of application process, more foreign brand-owners and/or their distributors have directly operated the distribution services by opening up their own specialty shops and boutiques in the PRC. An increased level of competition may dilute the Group's market share and affect the Group's profitability if it is unable to maintain its competitiveness. Further, if the brand-owners and/or their distributors establish and operate their own distribution networks in the PRC, the Group's profitability may also be adversely affected.

Sales of the Group's watches may be affected by changes in the PRC economy and purchasing power of the consumers

Watches distributed by the Group are of high value and their target consumers are the middle to high income groups with relatively higher income and purchasing power. As the PRC economy continues to grow and the living standard of the PRC population continues to improve, purchases of watches of internationally renowned brands are generally regarded as a recognition of social status. Should the growth in the PRC economy slow down or even deteriorate, this will affect or reduce the income of the population and hence their consumption ability on luxury goods, such as watches distributed by the Group, and in turn the Group's sales and financial conditions.

The Group' success depends on its ability to identify and respond to changing consumer demand and fashion trends

The Group' success depends, in part, on its ability to identify and respond to changing consumer demand and fashion trends in a timely manner. Any failure by the Group to identify or react appropriately to changes in demands and trends could lead to problems such as excess inventories, which could adversely affect the sales of the Group.

The Group relies on skilled sales personnel at its retail outlets

As the Group's retail business was on the increase during the three years ended 31 December 2009, the Group's future success will depend on a significant extent on its ability to attract and retain qualified sales personnel at its retail outlets. These qualified sales personnel are equipped with comprehensive product knowledge and are trained to answer a broad range of questions regarding product styles and technical specifications as well as to provide product recommendations. The Group believes that there are a limited number of qualified sales personnel in the industry and competition for such qualified personnel is intense. Without sufficient number of sales personnel to staff its retail outlets, the Group will be hindered in pursuing its expansion strategy and its retail business may be adversely affected.

RISKS RELATING TO THE PRC

The Group's operations could be adversely affected by changes in the political, economic and regulatory environment in the PRC

Since the adoption of the "open door policy" in 1978 and the "socialist market economy" in 1993, the Government has been reforming, and is expected to continue to reform, its economic and political systems. Although the current policy of the Government seems to be one of pursuing economic reform policies to encourage foreign investment and greater economic decentralisation, there can be no assurance that the Government will not change its policy in the future.

The PRC has been one of the world's fastest growing economies as measured by GDP in recent years. However, we cannot assure you that the PRC will be able to sustain such a growth rate. Since 2008, the Chinese economy has experienced a slowdown in growth primarily as a result of the global financial crisis and economic downturn. To stimulate the growth of the Chinese economy, the PRC Government has implemented and is expected to continue to implement various monetary and other economic measures to expand investments in infrastructure, increase liquidity in the credit markets and create more employment opportunities. However, there can be no assurance that such monetary and economic measures will succeed. If the Chinese economy continues to experience a slowdown in growth or a downturn, demand for real estate may further decline and our business, financial condition and results of operations may be materially and adversely affected.

The Government is still in the process of developing a comprehensive set of laws and regulations as it transforms from a centrally planned economy to a freer market oriented economy. As the legal system in the PRC is still in the state of development, laws and regulations or their interpretation may be subject to change. Furthermore, any change in the political and economic policy of the Government may also lead to similar changes in the laws and regulations or the interpretation thereof.

The PRC legal system is a codified legal system comprising written laws, regulations, circulars, administrative directives and internal guidelines. Unlike common law jurisdictions such as the United Kingdom or Singapore, decided cases do not form part of the legal structure of the PRC and therefore have no binding effect. Experience in the implementation, interpretation and enforcement of the laws and regulations and of commercial contracts, undertakings and commitments entered into are also limited. As such, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the authorities. The outcome of dispute resolutions may not have the level of consistency or predictability as that existing in other countries with more developed legal systems. Due to such inconsistencies and unpredictability, should the Group be involved in any legal dispute in the PRC, the Group may experience difficulties in obtaining legal redress or in enforcing its legal rights.

Majority of the Group's revenue is derived from its business operations undertaken in the PRC. Furthermore, most of its material assets are located in the PRC. A contraction of, or a decline in the growth of, major changes to the political and regulatory climate that may impact the PRC economy could adversely affect the Group's results of operations. Such factors that may adversely affect the PRC economy include:

- scarcity of credit or other financing, resulting in lower demand for products provided by companies in the PRC;
- devaluation of the Renminbi;
- a prolonged period of deflation or inflation or circumstances leading to high real interest rates;
- changes in taxation policies and rates;
- political instability in countries in the region;
- war or military conflict; and
- other regulatory, political or economic developments in or affecting the PRC.

Foreign exchange control in the PRC may affect the expatriation of funds from subsidiaries of the Issuer

Subsidiaries of the Issuer are subject to the rules and regulations imposed by the Government on currency conversion. In the PRC, the State Administration for Foreign Exchange (“SAFE”) regulates the foreign exchange matters including conversion of Renminbi into foreign currencies, and vice versa. Currently, foreign investment enterprises (the “FIEs”) are required to apply to SAFE for a “Foreign Exchange Registration Certificate for Foreign Investment Enterprise”. Such registration certificates are renewable and allow FIEs to open foreign currency accounts for the payment of:

- (a) recurring items, including the distribution of dividends and profits to foreign investors of FIEs upon presentation of board resolutions which authorise the distribution of profits or dividends (“Current Account”); and
- (b) capital items, such as repatriation of capital, repayment of loans and for securities investment (“Capital Account”). Currency transactions within the scope of the “Current Account” can be effected without requiring the approval of SAFE, while the conversion of currency in the “Capital Account” still requires the approval of SAFE.

Pursuant to recent regulations issued by the SAFE, PRC residents are required to register with and receive approvals from SAFE in connection with offshore investment activities.

On 24 January 2005, SAFE issued a notice Concerning Relevant Issues on Improving Foreign Exchange Administration for Merger and Acquisitions (“Notice 11”, revoked by later Notice 75) stating that SAFE approval is required for any sale or transfer by the PRC residents of a PRC company’s assets or equity interests to foreign entities in exchange for the equity interests or assets of the foreign entities. The regulation also states that, when registering with the foreign exchange authorities, a PRC company acquired by an offshore company must clarify whether the offshore company is controlled or owned by PRC residents and whether there is any share or asset link between or among the parties to the business combination transaction.

In addition, SAFE promulgated the Notice Concerning the Relevant Issues for the Registration of Overseas Investment by Domestic Residents and Foreign Exchange Registration for Foreign Acquisition in April 2005 (“Notice 29”, revoked by later Notice 75), which further requires that the PRC residents who have injected their domestic assets or shares into overseas companies and thus hold the shares of such overseas companies directly or indirectly shall conduct supplemental foreign exchange registration with the local foreign exchange authority, even if the relevant acquisition of the domestic company had been completed prior to 24 January 2005. Without such supplemental registration, PRC residents are prohibited from conducting foreign investment and conducting other foreign exchange transactions relating to “Capital Account” items, and the foreign exchange registration for the FIE will not be completed by the local foreign exchange authority.

The most update regulation governing registration of offshore investment enacted by the SAFE is Notice 75 and Notice 106. On 21 October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicle, or Notice 75, which became effective as of 1 November 2005.

According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company, such as (a) an increase or decrease in its capital, (b) a transfer or swap of shares, (c) a merger or division, (d) a long term equity or debt investment, or (e) the creation of any security interests over the relevant assets located in the PRC.

On 29 May 2007, SAFE issued the Notice on Relevant Issues Arising from Foreign Exchange Control for Domestic Residents Raising Finance Through Offshore Special-Purpose Company And Reverse Investment, or Notice 106, which became effective as of the same day, setting out the detailed procedural formalities for foreign exchange registration administration pertaining to Notice 75.

The New Notice is relatively new and replaces the earlier promulgated rules by SAFE regarding overseas investments and its return investment of domestic individuals. There can be no assurance that SAFE will not continue to issue new rules and regulations and/or further interpretations of the New Notice that will strengthen the foreign exchange control.

As the subsidiary of the Issuer generates most of the Group's sales and that these sales are denominated mainly in Renminbi, the ability of subsidiary of the Issuer to pay dividends or to make other distributions to the Group may be restricted by PRC foreign exchange control restrictions. There can be no assurance that the relevant regulations will not be amended to the detriment of the Group.

Expected increase in competition following the PRC's accession into the WTO may have an adverse effect on the Group's business and financial performance

The PRC has gained entry into the WTO. Trade tariffs and import controls of foreign goods and services into the PRC may therefore be lowered or removed following the PRC's accession into the WTO. With the lowering of import tariffs and barriers, there will be more competition arising from the entry of new foreign competitors, which may force the Group to lower prices of its products and services. In the event that the Group is forced to lower its prices, its profit margins will be reduced, and the Group's operations, profitability and prospects will be adversely affected.

Currency conversion control policy in the PRC and exchange rate risk may affect the financial condition of the Group

Since 1994, the conversion of Renminbi into foreign currencies, including H.K. dollars, had been based on exchange rates set by the People's Bank of China. The People's Bank of China sets the exchange rates daily based on the previous day's interbank foreign exchange market rates in the PRC and the current exchange rates in the financial markets. Since then, the official exchange rate for the conversion of Renminbi to U.S. dollars had generally been stable as it was pegged against the U.S. dollar. On 21 July 2005, the PRC changed its currency policy. The PRC abandoned the peg of Renminbi against U.S. dollars in favour of a managed float of the Renminbi based on market demand and supply with reference to a basket of currencies and their weightings. From 21 July 2005 to 31 December 2009, the value of the Renminbi appreciated by approximately 21.2 per cent. against the U.S. dollar. In August 2008, China revised the PRC Foreign Exchange Administration Regulations (中華人民共和國外匯管理條例) to promote the reform of its exchange rate regime. It is expected that China may further reform its exchange rate system in the future. As the exchange rate of Renminbi is allowed to move in a less managed way, there can be no assurance that the Renminbi will not further appreciate or that other measures will not be introduced to address the concerns of China's trading partners. There is also no assurance that such exchange rate will continue to remain stable in the future. Since all amounts of the income and profit of the Group are denominated in Renminbi, any fluctuations in the value of the Renminbi may adversely affect the value of dividends, if any, payable on the Shares in H.K. dollars.

For example, a devaluation of the Renminbi may adversely affect the Group's cash flow position in the repayment of its foreign currency debt and the payment of dividends on its Shares. Conversely, an appreciation of Renminbi could lead to a reduction in the prices of imported products and negatively impact the Group's competitiveness against foreign products within the PRC, thereby lowering its profitability and adversely affect its prospects.

Under the existing foreign exchange regulations in the PRC, the Group may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from the SAFE, by producing commercial documents evidencing such transactions, provided that they are processed through designated banks licensed to engage in foreign currency transactions. However, foreign exchange transactions for capital account purposes, which may include direct

overseas investment and various international loans, require the prior approval of SAFE. If the Group is unable to obtain SAFE consent to convert Renminbi into foreign currencies for such purposes, the Group's capital expenditure plan and the remittance of the listing proceeds to the PRC, and consequently, the Group's results of operation and financial conditions could be adversely affected.

Profits from the Group's PRC operating subsidiaries available for distribution are determined under PRC GAAP

The Group derives substantially all of its profits from the business activities of its operating subsidiaries established in the PRC. The profits available for distribution by it are therefore dependent on, to a significant extent, the profits available for distribution by the PRC subsidiaries to it. In turn, profits available for distribution by companies established in the PRC are determined in accordance with generally accepted accounting principles and financial regulations in the PRC (the "PRC GAAP") and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. In addition, under the relevant PRC financial regulations, profits available for distribution are determined after transfers to statutory reserve funds.

Changes and uncertainties in PRC policies relating to the economy may affect the operation of the Group

Most of the Group's wholesale and retail operations are located in the PRC and most of the Group's turnovers were derived from sales to the PRC market. Accordingly, the Group's results and prospects are subject, to a significant degree, to the economic conditions of the PRC. The economy of the PRC differs from the economies of most developed countries in many aspects, including:

- the extent of Government involvement;
- its level of development;
- its gross domestic product growth rate; and
- its control of foreign exchange.

The Government has, since 1978, adopted an open-door policy. Its policies relating to the PRC's economy, such as currency conversion, taxation, import restrictions and the trading of imported goods, may have a significant impact on the overall economy.

Companies engaged in businesses in the PRC, such as the members of the Group, may also be affected. Many of the changes in policies are unprecedented or experimental and are expected to be refined and improved. Political, economic and social factors may also lead to further readjustments of the changes in policies. These refinements and readjustments may not always have a favourable impact on the Group's operations. If there occurs (i) any change in the PRC political, economic and social conditions; or (ii) any change in the policy of the Government such as changes in the laws and regulations or their interpretation, the Group's profitability and prospects may be adversely affected as a significant portion of the Group's business is conducted in the PRC.

The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to Bondholders

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade.

However, because these laws and regulations are relatively new, and because of the limited number of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

As an investor holding the Bonds which are convertible into Shares, upon conversion, the investor will hold an indirect interest in the Group's operations in the PRC through the Issuer. The Group's operations in the PRC are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. These regulations are less developed than those applicable to companies incorporated in Hong Kong and other developed countries or regions. Therefore, Bondholders do not enjoy those protections that are available in the more developed jurisdictions.

Effect of the PRC Labour Contract Law

On 29 June 2007, the PRC Government promulgated the Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the "New Labour Law"), which was effective on 1 January 2008. The New Labour Law imposes greater liabilities on employers and increases the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. If the Group decides to significantly change or decrease the Group's workforce in the PRC, the New Labour Law could materially and adversely affect the Group's ability to enact such changes in a manner that is most advantageous to the Group's circumstances or in a timely and cost-effective manner, thus the Group's results of operations could be materially and adversely affected. The Group may also incur additional material compliance costs in connection with the New Labour Law.

The Issuer is a holding company and the Bonds will be effectively subordinated to all of the liabilities of its subsidiaries

The Issuer is primarily a holding company that operates through subsidiaries, associated and jointly controlled companies. As a result: (i) its obligations under the Bonds will be effectively subordinated to all existing and future obligations of the existing or future subsidiaries and (ii) all claims of creditors of the existing or future subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over the Issuer's claims and those of its creditors, including the holders of Bonds. As at 30 June 2010, the Issuer's consolidated bank borrowings and overdrafts amounted to approximately RMB911.8 million, all of which were incurred by the Issuer's subsidiaries. The Group may incur significant additional secured or unsecured indebtedness and other liabilities, including off-balance sheet obligations, for other purposes in the future subject to the terms of the Bonds.

The Issuer's subsidiaries and affiliates may be restricted from paying dividends or repaying intercompany loans or advances

As a holding company, the Issuer depends upon the receipt of dividends and the repayment of intercompany loans or advances from its subsidiaries and affiliates to satisfy its obligations, including obligations under the Bonds. The ability of its subsidiaries and affiliates to pay dividends and repay intercompany loans or advances to their shareholders (including the Issuer) is subject to applicable law, relevant shareholders' agreements or constitutive documents and restrictions contained in debt instruments of such subsidiaries and affiliates.

The Issuer's subsidiaries and affiliates are separate legal entities and will have no obligation, contingent or otherwise, to pay any dividends or make any distributions to the Issuer or otherwise to pay amounts due with respect to its indebtedness, including the Bonds, or to make funds available for such payments. Accordingly, there can be no assurance that the Issuer will have sufficient cash flows from distributions by its subsidiaries and affiliates to satisfy its obligations in respect of the Bonds. Although the Group believes that it will be able to meet its obligations in respect of the Bonds, any shortfall would have to be made up from other sources of cash, such as a sale of investments or any financing available to it.

In addition, PRC regulations require payment of dividends to be made only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. The Issuer's subsidiaries in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain statutory reserve funds that are not distributable as cash dividends. PRC regulations also require approval by SAFE prior to making any shareholder loan and require such loan to be registered with SAFE. Accordingly, the Issuer may not receive sufficient cash flow from its subsidiaries in the form of dividends or repayment of intercompany loans or advances to satisfy its obligations under the Bonds.

Securities law restrictions on the resale and conversion of the Bonds and the resale of Shares issuable upon their conversion may impact Bondholders' ability to sell the Bonds

The Bonds and the Shares into which the Bonds are convertible have not been registered under the Securities Act, any state securities laws or the securities laws of any other jurisdiction. Unless and until they are registered, the Bonds and the Shares issuable upon conversion may not be offered, sold or resold except pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such laws. The Bonds are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act. The Issuer is not required to register the Bonds and the Shares into which the Bonds are convertible under the terms of the Bonds. Hence, future resales of the Bonds and the Shares into which Bonds are convertible may only be made pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such laws.

An active market for the Bonds may fail to develop, which may cause the price of the Bonds to fall

The Bonds are a new issue of securities for which there is currently no trading market. There is no existing market for the Bonds, and there can be no assurance regarding the future development of a market for the Bonds, the ability of Bondholders to sell their Bonds or the price at which Bondholders may be able to sell their Bonds. Even in the event approval in-principle is granted by the SGX-ST for the listing of the Bonds on the SGX-ST, no assurance can be given that an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders of the Bonds will be able to sell their Bonds. If an active market for the Bonds fails to develop or be sustained, the trading price of the Bonds could fall. If an active trading market were to develop, the Bonds could trade at prices that may be lower than their initial offering price. Whether or not the Bonds will trade at lower prices depends on many factors, including:

- prevailing interest rates and the markets for similar securities;
- the price of the Shares;
- general economic conditions and the condition of the watch industry; and
- the Group's financial condition, historical financial performance and future prospects.

The Issuer may not have the ability to redeem the Bonds

The Issuer may not have the ability to redeem the Bonds in cash if investors exercise the early redemption right on the dates specified in this Offering Circular, upon the occurrence of a change of control or delisting or at maturity Bondholders may require the Issuer, subject to certain conditions, to redeem for cash all or some of their Bonds on 20 October 2013 or upon an event constituting a change of control or, amongst others, delisting as described under the headings "Terms and Conditions – Redemption at the Option of the Bondholders" and "Terms and Conditions – Redemption for Delisting or Change of Control". The Issuer may not have sufficient funds or other financial resources to make the required redemption in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, the Issuer's ability to redeem the Bonds in cash may be limited by law, by the terms of other agreements relating to its senior debt and by indebtedness and agreements that the Issuer may enter into in the future which may replace, supplement or amend its existing or future indebtedness. If the exercise of the redemption right on the dates specified in the Terms and Conditions of the Bonds upon the occurrence of a change of control or delisting occurs at a time when the Issuer is prohibited from redeeming the Bonds, the Issuer could seek the consent of lenders to redeem the Bonds or could attempt to refinance the borrowings that contain this prohibition. If the Issuer is not able to obtain consent or refinance these borrowings, it could remain prohibited from redeeming the Bonds. The Issuer's failure to redeem tendered Bonds would constitute an event of default, which might constitute a default under the terms of the Issuer's other indebtedness at that time.

Holders of the Bonds may be subject to tax

Prospective investors of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of the purchase, ownership or disposition (including, in the case of convertible notes, on conversion thereof) of the Bonds or the Shares. See “Taxation” for a discussion of tax consequences in certain jurisdictions.

The trading price of the Shares has been, and may continue to be, volatile

The trading price of the Shares has been, and may continue to be, subject to large fluctuations. The price of the Shares may increase or decrease in response to a number of events and factors, including:

- changes in financial estimates and recommendations by securities analysts;
- the operating and stock price performance of other companies in the watch industry;
- developments affecting the Group, its customers or its competitors;
- changes in Government regulations;
- changes in general political, financial and economic conditions;
- changes in accounting principles; and
- other events or factors described in this Offering Circular.

This volatility may adversely affect the price of the Shares regardless of the Group’s operating performance which may in turn affect the market price of the Bonds.

The Singapore securities market is relatively small

The SGX-ST is relatively small in terms of market capitalisation and trading volume and may be more volatile than stock exchanges in the United States and certain other countries. As a result, the market price of the Bonds may fluctuate more than that of securities listed on larger global stock exchanges.

The laws of the Cayman Islands may provide less protection to Bondholders than the laws of other jurisdictions

The Issuer is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of other jurisdictions where investors may be located. As a result, the rights of Bondholders may not enjoy the same level of protection as pursuant to the laws of other jurisdictions.

Bondholders have limited anti-dilution protection

The Conversion Price will be adjusted in the event that there is a sub-division, consolidation or re-denomination, rights issue, bonus issue, reorganisation, capital distribution or other adjustment including an offer or scheme which affects Shares, but only in the circumstances and only to the extent provided in “Terms and Conditions of the Bonds – Conversion”. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

The price of the Bonds following the offering may be volatile

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Group's revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There can be no assurance that these developments will not occur in the future.

Bondholders will have no rights as holders of the Shares prior to conversion of the Bonds

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, they will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Share. Upon the conversion of the Bonds, these holders will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the date of conversion.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in a currency or currency unit specified in an issue (the "Specified Currency"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency or the Specified Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

Investors shall pay attention to any modification and waivers

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests generally. These provisions permit defined majorities to bind all Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Trustee may agree, without the consent of the Bondholders, to (a) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or the Conditions.

Investors shall be aware of the effect of change of law

The Conditions of the Bonds are based on the English Law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law after the date of this Offering Circular.

Bonds subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Bonds. During any period when the Issuer may elect to redeem Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Bonds when its cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investment available at that time.

INFORMATION CONCERNING THE SHARES

Market Price of the Shares

The table below sets forth, for the periods indicated, the high and low prices and the average daily trading volume of the Shares on the Hong Kong Stock Exchange and the highs and lows of the Hang Seng Index. The Issuer's shares have been listed on the Hong Kong Stock Exchange since September 2005.

	Share price		Avg daily traded volume	Hang Seng Index	
	Highest	Lowest	No. of shares	High	Low
	H.K.\$	H.K.\$			
2009					
October	2.720	2.120	14,061,736	22,589.730	20,375.490
November	3.160	2.500	10,346,086	22,943.980	21,134.500
December	3.100	2.730	12,571,136	22,553.870	20,948.100
2010					
January	2.970	2.480	16,663,647	22,416.670	20,033.070
February	3.000	2.750	9,544,992	20,722.080	19,550.890
March	3.850	2.990	15,559,513	21,384.490	20,575.780
April	3.570	3.210	8,094,186	22,208.500	20,778.920
May	3.530	3.020	7,855,596	20,811.360	18,985.500
June	3.500	3.130	7,089,902	20,912.180	19,378.150
July	3.730	3.290	5,900,670	21,093.820	19,842.200
August	3.910	3.540	36,675,023	21,801.590	20,536.490
September	3.570	4.040	24,058,505	20,623.830	22,378.670
October (up to 11 October 2010) . . .	3.860	4.070	17,094,883	22,618.660	23,207.310

Source: Bloomberg, based on closing prices

Dividends

Dividend has been declared by the Issuer for each of the three years ended 31 December 2009 for the amount of RMB0.060 per Share (in aggregate RMB149,070,000), RMB0.056 per Share (in aggregate RMB138,694,000) and RMB0.027 per Share (in aggregate RMB109,864,000).

The form, frequency and amount of future cash dividends on the Shares will depend on the Issuer's earnings, cash flow, financial condition, operating and capital requirements and other factors and shall be at the discretion of the directors of the Issuer (the "Directors"). The Issuer expects that interim and final dividends will be declared and/or paid from time to time in an aggregate amount of no less than 30 per cent. of profits attributable to equity holders of the parent to all the shareholders.

No larger cash dividend shall be declared by the Issuer than as recommended by the Directors. No cash dividend may be paid except out of profits of the Issuer. See "Description of the Shares – Dividends".

For information relating to taxes payable on dividends, see "Taxation".

Issued Share Capital

As at the date of this Offering Circular, the Issuer has an authorised share capital of H.K.\$50,000,000 consisting of 10,000,000,000 Shares of H.K.\$0.005 each and an issued and fully paid-up share capital of approximately H.K.\$21,879,335 consisting of 4,375,867,000 Shares of H.K.\$0.005 each.

BUSINESS

OVERVIEW

The Group is a wholesaler and retailer of watches in the PRC which focuses on distributing watches of international brands. The Group has well-established business relationships with various world-famous watch brands suppliers such as the Swatch Group, the LVMH Group, the Richemont Group, the Rolex Group and the DKSH Group. As at 30 June 2010, the Group had distributed world renowned brand watches including Cartier, Vacheron-Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant and Mido. The Group persistently stepped up efforts in bringing in and adjusting middle-to-high-end brands to enhance its portfolio of brands, which would be favourable to the long-term business development and ongoing enhancement of overall results. The Group believes that these brands are internationally renowned, and that their target customers are mainly consumers seeking luxury or fashionable brands or of middle to high income.

As at 30 June 2010, the Group operates an extensive distribution network which comprises 302 retail outlets in the PRC, Hong Kong and Taiwan. Of these outlets, 17 were Elegant shops (4 in Hong Kong, 12 in the PRC and 1 in Taiwan), 201 were Prime Time and Hengdeli shops (174 in the PRC and 27 in Taiwan), 26 were TEMPTATION shops (all in PRC) and 58 were brand boutiques (40 in the PRC, 11 in Hong Kong and 7 in Taiwan).

Throughout the three years ended 31 December 2009, the Group has also been focused on the build-up of the retail network in the Greater China region with a core focus in the PRC. It is also supplemented with the provision of comprehensive customer services, manufacture of extension products and brand distribution, etc.

The Group also provides comprehensive customer service. On top of its sizable repair and maintenance centres in Beijing and Shanghai, immediate repair and basic maintenance are also available at most retail shops. In terms of product packaging, the Group owns and operates a production plant in Guangzhou which engages in accessories production and product packaging. The plant also specialises in the design and manufacture of packing boxes for luxury watches, in-store display counters, marketing props and other decorative products for the Group's retail outlets.

HISTORY

The "Hengdeli" brand name was founded in the 1920s. In 1997, the Zhang's family invested in 北京亨得利鐘錶有限責任公司 (Beijing Hengdeli Timepieces Limited) ("Beijing Hengdeli"). Two years later, Shanghai Xinyu Watch & Clock Group, Ltd ("Shanghai Xinyu") was established in Shanghai in order to engage in the wholesale business of watches in the PRC. From 2002 to 2003, Xinyu Hengdeli Group was established with reorganisation of Beijing Hengdeli, Shanghai Xinyu, Shanghai Watch Shop and other companies of the Group. The Group underwent a series of reorganisation exercises which were completed in 2005 and the Issuer was listed on the Hong Kong Stock Exchange in September 2005. The world's largest watch manufacturer and distributor, the Swatch Group, and the global largest luxury product group, the LVMH Group, also became the Company's strategic shareholders in 2005 and 2006 respectively. In August 2006, the Group established its presence in Hong Kong by acquiring Elegant International, a well-established luxurious watch retailer in Hong Kong. In 2007, the Group broadened its product range and entered into a contract with the LVMH Group. The Group's aim in diversifying into such luxury goods business is to strengthen its distribution network as well as to gain international exposure. Today, Hengdeli Holdings Limited is the largest enterprise engaged in retail and distribution sales businesses of renowned international watch brands in the PRC.

RECENT DEVELOPMENTS

"Hengdeli" is registered as a trademark by the Company and has gained its reputation among the customers. In 2009, the Company changed its name from "Xinyu Hengdeli Holdings Limited 新宇亨得利控股有限公司" to "Hengdeli Holdings Limited 亨得利控股有限公司" in an effort to enhance the awareness of the Company's brand among customers.

On 10 August 2010, the Group announced its unaudited financial results for the six months ended 30 June 2010. During the first half of 2010, the Group's turnover reached RMB3,715 million, which represented an increase of approximately 37.8 per cent. as compared to the corresponding period of the previous year. Profit attributable to equity shareholders was RMB306 million, which was a 44.4 per cent. increase from that of the corresponding period of the previous year. Sales from its retail business, wholesale business and after-sales services contributed 76 per cent., 20.2 per cent. and 3.8 per cent. of the Group's total turnover, respectively. The number of retail outlets increased from 216 as at 30 June 2009 to 302 as at 30 June 2010.

To expand the Group's business in the Greater China Region, in 2009, the Group acquired the retail business of Taiwan Jing Guang Timepiece Holdings Ltd., which was principally engaged in retail of watches through its retail shops in Taiwan.

To ensure healthy business development, during the period under review, 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. Under the strategic cooperation agreement, the Group is regarded as an important client by the China Construction Bank, whose Shenzhen branch will provide all rounded financial services and support to the Group, which will offer strong assurance to the Group's continuous expansion and sustainable development.

GROUP STRUCTURE

The following list contains particulars of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31 December 2009, none of the Issuer's subsidiaries is listed on any stock exchange:

<u>Name of company</u>	<u>Place of incorporation and operation</u>	<u>Percentage of equity held by subsidiaries</u>	<u>Issued and fully paid-up/ registered capital</u>	<u>Principal activities</u>
		%		
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
北京新宇亨瑞鐘錶 有限責任公司 ("Beijing Hengrui")	the PRC	100%	RMB40,000,000/ RMB40,000,000	Retail of watches

<u>Name of company</u>	<u>Place of incorporation and operation</u>	<u>Percentage of equity held by subsidiaries</u>	<u>Issued and fully paid-up/ registered capital</u>	<u>Principal activities</u>
		%		
Guangzhou Yadi	the PRC	100%	HKD45,000,000/ HKD45,000,000	Decoration and packaging
深圳新宇鐘錶有限公司 ("Shenzhen Xinyu")	the PRC	100%	HKD50,000,000/ HKD50,000,000	Wholesale of watches
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

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

COMPETITION

The Group considers the major hurdles to new entrants in the industry are:

- (a) extensive capital investment to build up an extensive distribution network;
- (b) acquiring prime retail locations with high pedestrian flow in tier one and tier two cities in the Greater China Region;
- (c) establishing a good working relationship with the brands suppliers/authorised distribution agents; and
- (d) establishing a reputation in the industry.

The industry in which the Group operates is intensely competitive. The Group faces competition from both local and overseas watch distributors. The PRC watch distribution industry is highly fragmented and there are numerous local watch distributors located in regions where the Group has operations and retail outlets. The Group is not aware of any sizable watch distributors which focuses on distributing watches of a wide range of international brands in the PRC.

Before the PRC's accession into the WTO, the importation of watches into the PRC were subject to a quota system and the availability of relevant import licences. Further, the importation of watches was centralised by the Government and distribution channels were limited. Therefore, the amount of import was low in the past.

After the accession into the WTO, the quota system was abolished and import licence for watches was no longer required from January 2003 onwards. Foreign watches are free to enter into the PRC market, although the import of certain kinds of watches is still subject to the obtaining of automatic import licenses. The automatic import license system is not a quantity restriction measure and its purpose is only for the government to monitor the import data. Compared with the previous quota license, the application process for an automatic import license for watches is much easier and less time-consuming. Although the customs duties for watches differ from customs tariff, the average customs duties will be reduced year by year in accordance with PRC regulations.

With the abolishment of the quota system, the import licence requirements and the reduction in customs duty, an increasing number of international brands may enter the PRC market through the establishment of wholly-foreign owned enterprises or joint ventures. It is expected that the influx of international brands will be a direct competition to the PRC local distributors and brands in terms of price, style, models, trends and brands.

However, as the Group has established a good working relationship with its suppliers, and has built up strong distribution networks and a good reputation in the industry, the Group believes that it has established a competitive position in the watch industry in the PRC.

COMPETITIVE STRENGTHS

The Group's core competitive strengths are as follows:

Extensive wholesale and retail network in the PRC

Since its establishment, the Group has established an extensive distribution network in the PRC. As at 30 June 2010, the Group has more than 300 wholesale customers in over 50 cities throughout the PRC, which distribute a wide range of brands including the exclusive distribution of world's renowned brand watches including Jaeger-LeCoultre, TAG Heuer, Zenith, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant, Mido and Calvin Klein. As at 30 June 2010, the Group operates an extensive distribution network which comprises 302 retail outlets in the PRC, Hong Kong and Taiwan, most of which were strategically located in major coastal cities such as Beijing, Shanghai, Hangzhou, Nanjing, Harbin, Shenyang and Shenzhen. The Group believes that people living in these cities generally have higher disposable incomes and greater purchasing power and their demand for luxury products, such as international brand watches, increases over time.

Distinctive market positioning as a distributor of watches from internationally renowned brands

The Group focuses on distributing watches of internationally renowned brands. The Group believes the target customers of these brands are mainly consumers of middle to high income. Given the high demand of luxury goods in Hong Kong, and the increase in purchase power of consumers in the PRC, in particular, those of middle to high income, the Group believes the Group's current market positioning provides a solid platform for the Group's future expansion and development.

Well-established relationships with brand-owners and/or their distributors

The Group believes that having a close and stable relationship with its suppliers is crucial to the success of the Group. The Group has established business relationships with a number of international brand-owners and/or their distributors, including (i) the Swatch Group, one of the major manufacturers and distributors of watches in the world, including those of Longines, Tissot and CK; (ii) the Richemont Group, the brand-owner of Jaeger-LeCoultre, Baume & Mercier, Cartier and Vacheron Constantin; (iii) the LVMH Group, the brand-owner of TAG Heuer, Zenith, Christian Dior and Fendi; (iv) the Rolex Group, the brand-owner of Rolex and Tudor; and (v) the DKSH Group, the brand-owner of Maurice Lacroix. The Group has formalised relationships with its suppliers by entering into distribution agreements with them for terms ranging from three to 20 years.

During 2009, the Group renewed its strategic cooperation agreement with LVMH's jewelry and watch division, under which both groups undertook to strengthen their cooperation in the Greater China region and in many other places around the world. During 2009, the Group obtained an exclusive distribution right of the Swatch Group's well-known brand Mido in Mainland China, while the relationship between the Group and the Swatch Group in terms of capital connection was further consolidated and developed.

The Group believes that, through the aforesaid relationships, it will be able to maintain a long-term mutual relationship with international brand-owners and/or their distributors and therefore secure stable supplies of watches from them. On the other hand, brand owners and/or their distributors are able to sell their watches through the Group's extensive wholesale and retail network in the PRC.

Exclusive wholesale rights

The Group is the exclusive wholesaler in the PRC for watches of internationally renowned brands, including brands distributed by the Swatch Group, the Richemont Group, the LVMH Group and the DKSH Group during the three years ended 31 December 2009. The Group is a non-exclusive wholesaler for the Rolex Group. The Group believes that the exclusivity of these distribution rights significantly helps the Group reduce direct competition from other wholesalers for the same brand and thus maintain its market share in the wholesale business.

Focus on high quality customer services and after-sales services provided by the Group

In order to build up customer loyalty and reputation of the Group's retail network, the Group places emphasis on staff training, such as sales skills and product knowledge, with an aim to provide high quality and tailored services to its customers. In addition, the Group also aims to enhance its image through providing a comfortable and well-decorated shopping environment in its retail shops. In some retail outlets, there are VIP rooms where drinks are served to customers.

The Group is also committed to providing convenient and efficient after-sales services to its consumers. Currently, the Group provides the basic maintenance and after-sales services through some of its retail outlets for watches in respect of which the Group is the authorised retailer. Apart from providing after-sales services through its retail outlets, the Group also operates three customer service centres located in Beijing and Shanghai, which are staffed with experienced technicians and engineers to handle repairing works that require more sophisticated technical skills.

After the acquisition of the Elegant Group in 2006, the Group has also been committed to providing cross-border after-sales services to PRC tourists who bought watches from the Group's retail outlets in Taiwan and Hong Kong. This means that the same level of after-sales services is also available in the PRC for all watches bought in the Group's retail outlets in Taiwan and Hong Kong.

In recognition of the quality and commitment of the Group's after-sales services, the Group has been granted a number of awards/certificates, including the Certificate of Repairing Enterprise Technology Grade. See "Recognitions, Awards and Certifications" for further details.

Well-established reputation of the Group's retail outlets

Despite its relatively short operating history, the Group is able to leverage on the experience and knowledge of its management team in the industry and has established its reputation as a major watch distributor of numerous internationally renowned brands in the PRC. In addition, through the acquisition of interests in or forming joint ventures with other regional watch distributors in the PRC, the Group has also successfully established an extensive network of retail outlets in the PRC. These retail outlets bear different tradenames including “上海鐘錶商店” (Shanghai Watch Shop), “北京亨得利” (Beijing Hengdeli Swiss Watch Group), “哈爾濱北亨捷夫” (Harbin Beiheng Jiefu), “遼寧寶瑞行” (Liaoning Bao Rui Hang), “青島新宇亨得利” (Qingdao Xinyu Hengdeli), “合肥新宇亨得利” (Hefei Xinyu Hengdeli) and “深圳陽光” (Shenzhen Yangguang). Some of these retail outlets currently operated by the Group have a long history of establishment, such as “上海鐘錶商店” (Shanghai Watch Shop) and “北京亨得利” (Beijing Hengdeli Swiss Watch Shop), which were opened in 1923 and 1981, respectively. The Group believes that its retail outlets are well-reputed for quality products and services.

Extensive experience and in-depth knowledge in the PRC watch industry

The Group's management team has extensive experience and in-depth knowledge in the industry. One of its founders, Mr. Zhang, has more than 20 years of experience in the industry and Mr. Huang Yonghua, an executive Director, also has more than 10 years of experience in the industry. The Group believes that it can leverage on its management's experience in the industry and continue to develop. With the distribution experience accumulated over the years, the Group has established a team of brand development staff who have in-depth knowledge of the PRC market and an international focus regarding watch brands.

Efficient operation and resources management through the Group's Enterprise Resources Planning (“ERP”) system

In order to optimise the Group's operational efficiencies and resources utilisation, the Group operates an ORACLE-based ERP system across its retail network and offices in the PRC. The ERP system enables the management of the Group to keep track of the real-time operation data for each retail outlet of the Group, including its inventory level and customers' order information. This allows the Group to make use of the latest market information to allocate its resources and manage inventory level flows more effectively and on a real-time basis.

BUSINESS STRATEGIES

The business strategies and future plans of the Group for the growth and expansion of its business are summarised as follows:

- Continuous expansion in its domestic and overseas retail network;
- Introduction of more high quality watch brands for wholesale and retail;
- Strengthening and enhancing of its customer service network;
- Development and expansion of ancillary facilities and luxury accessories business; and
- Expansion through acquisition of suitable companies.

BUSINESS MODEL

The Group's business can be divided into the following parts:

- Retail business conducted through its retail network comprising 302 retail outlets in the PRC, Hong Kong and Taiwan;
- Wholesale business conducted through its wholesale network comprising more than 300 wholesale customers located in over 50 cities in the PRC;

- Provision of after-sales services through its retail network and service centres; and
- Further enhancement on development and expansion of ancillary products.

The Group is expanding its retail business as it generally generates a higher gross profit margin than its wholesale business.

The following table shows a breakdown of the Group's turnover by business segment for each of the three years ended 31 December 2009:

Sales breakdown (for the year ended 31 December)

	2007		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%
Retail Business						
(Mainland China)	1,663,780	36.4	2,324,172	42.1	2,730,187	46.3
(Hong Kong)	1,384,975	30.2	1,418,195	25.7	1,705,476	28.9
Wholesale Business	1,439,980	31.4	1,631,916	29.6	1,329,967	22.5
Customer Service and Others . .	90,006	2.0	142,213	2.6	133,792	2.3
Total	<u>4,578,741</u>	<u>100.0</u>	<u>5,516,496</u>	<u>100.0</u>	<u>5,899,422</u>	<u>100.0</u>

PRODUCTS AND SERVICES

Watches of international brands

The Group has been focusing on distributing watches of international brands in the PRC since its establishment. These watches are key products that the Group distributes in the PRC and are all imported from overseas. The Group considers these watches to be generally of a higher price range targeted at middle to high income consumers. For each of the three years ended 31 December 2009, turnover attributable to the Group's wholesale business of watches amounted to approximately RMB1,440 million, RMB1,631.9 million and RMB1,330 million, respectively, representing approximately 31.4 per cent., 29.6 per cent. and 22.5 per cent. of the Group's turnover for each of the corresponding periods, respectively. During the same period, turnover attributable to the Group's retail business of watches amounted to approximately RMB3,048.8 million, RMB3,742.4 million and RMB4,435.7 million, respectively, representing approximately 66.6 per cent., 67.8 per cent. and 75.2 per cent. of the Group's turnover for each of the corresponding periods, respectively. Sales in Hong Kong contributed to 28.9 per cent. of the Group's turnover for the year ended 31 December 2009, while the remaining 46.3 per cent. was attributable to sales in the PRC.

As at 30 June 2010, the Group had distributed world's renowned brand watches, including Cartier, Vacheron-Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant and Mido.

After-sales services

One of the Group's objectives is to provide quality services to its customers including both sales and after-sales services. The Group believes that the provision of quality after-sales services is crucial to the Group to build customer loyalty. As a result, the Group provides the after-sales services through some of its retail outlets, and three customer service centres located in Beijing and Shanghai.

The Group has been appointed by several brand-owners or their respective distributors to provide after-sales services in the PRC for watches in respect of which the Group is the authorised retailer. Watches purchased from the Group's retail outlets in Hong Kong are also eligible for after-sales service in the PRC. For each of the three years ended 31 December 2009, the Group's turnover attributable to the provision of after-sales services was negligible.

Ancillary extension products

The production operations of the Group's ancillary business were further enhanced. During 2010, the Group continued to strengthen establishment of research and development centres, enhance technological know how, and strengthen internal management, with an aim of serving more brands and to expand the scope of business. In addition to existing business with brands such as Omega, Rolex, Tudor, Rado, Longines, Tissot, Ernest Borel, Mido, Certina and Fendi, in 2010 it further partnered with brands including Sarcar and ILIONNO. Its quality products and stringent delivery time has been widely acclaimed by customers, which firmly support the continued development of the Group's principal businesses including its retail business.

SALES AND CUSTOMERS

Wholesale business

For each of the three years ended 31 December 2009, turnover attributable to the Group's wholesale business of watches amounted to approximately RMB1,440 million, RMB1,631.9 million and RMB1,330 million, respectively, representing approximately 31.4 per cent., 29.6 per cent. and 22.5 per cent. of the Group's total turnover for each of the corresponding periods, respectively.

Pricing

Brand-owners normally determine the wholesale price range of the watches within which the wholesalers sell to the retailers. The Group as a wholesaler may not modify the wholesale price range without prior consent from the brand-owners. The wholesale price is normally quoted as a certain percentage of the suggested retail price of the watch.

Customers

The Group's wholesale customers are usually PRC retailers designated or authorised by the respective brand-owners or their distributors for retail sales of watches of their brands. The Group reports sales to these customers as turnover attributable to wholesale business. Prior to each sales transaction with its wholesale customer, the Group will verify whether the customer is a designated or authorised retailer by checking to the list of designated or authorised retailers provided by the brand-owners or their distributors. The Group will also confirm with the customers in its agreement with and/or authorisation granted by the relevant brand-owners.

For most of its customers, the Group enters into a sale and purchase agreement which usually lasts from one to two years. Under the agreements, the brands and their corresponding wholesale price will normally be specified. The wholesale customers are required to sell these watches at the suggested retail price and they are not allowed to change them without prior consent. Some of the agreements would also set out the quantity of watches to be purchased by the wholesale customers while others would not. It is the Group's policy to renegotiate with its wholesale customers annually or bi-annually by entering into new sale and purchase agreements at the beginning of each relevant year.

Purchases made by the Group's wholesale customers are usually settled by credit sales, telegraphic transfer or other means of settlement as agreed between the parties with credit terms ranging from 0 to 70 days.

The Group's five largest customers during the three years ended 31 December 2009 were mostly wholesale customers of the Group. For the three years ended 31 December 2009, the Group's largest customer accounted for approximately 7.2 per cent., 7.6 per cent. and 4 per cent. of the Group's total turnover, respectively while the Group's five largest customers in aggregate accounted for approximately 16.8 per cent., 18 per cent. and 11 per cent. of the Group's total turnover for each of the corresponding periods. None of the Directors or shareholders to the knowledge of the Directors, owns more than 5 per cent. of the share capital of the Issuer nor any of their respective associates has any interest in any of the five largest customers of the Group during the three years ended 31 December 2009.

Retail business

For each of the three years ended 31 December 2009, turnover attributable to the Group's retail business amounted to approximately RMB3,048.8 million, RMB3,742.4 million and RMB4,435.7 million, respectively, representing approximately 66.6 per cent., 67.8 per cent. and 75.2 per cent. of the Group's total turnover for each of the corresponding periods.

Pricing

The retail prices of the branded watches are usually determined by the brand-owners. The Group, as a retailer, is not allowed to change the retail prices at its discretion or deviate from the retail pricing policy imposed by the brand-owners or their distributors.

Customers

The retail customers of the Group are usually members of the public in the PRC, Taiwan and Hong Kong. The Group reports sales to these customers as turnover attributable to retail business. Given the focus of the Group's business is in selling watches of international brands, the Group believes that most of its retail customers come from the middle to high income group in the PRC, Taiwan and Hong Kong. The Group's retail customers usually settle their payments with cash or by credit cards. However, most of the Group's retail sales are generated by the Group's integrated retail outlets and the proceeds from such sales are first collected by the department stores in which these integrated retail outlets operate in and the department stores would then settle with the Group afterwards.

RETAIL NETWORK

Adhering to its business development strategy, the Group devotes efforts in maintaining and developing its leading position as the world's largest retail group in high-end watches. During the first six months in 2010, 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, optimising its inventory composition and enhancing the quality of retail outlets, a steady growth in the Group's business results was achieved. Accounting for 76 per cent. of the Group's total sales, the retail sales for the six months ended 30 June 2010 amounted to RMB2,819,968,000, representing an increase of 44.4 per cent. over the corresponding period in 2009, of which retail sales for the six months ended 30 June 2010 in the PRC and Hong Kong amounted to RMB1,774,053,000 and RMB1,045,915,000 respectively, representing a growth of 39.7 per cent. and 53.4 per cent. respectively over the corresponding period in 2009. Gross profit of retail business was RMB770,646,000, an increase of 37.2 per cent. over the corresponding period in 2009, accounting for 84.3 per cent. of the Group's total gross profit. The substantial growth in the results of retail business was mainly attributable to the robust growth in same store sales. The average growth rate of same store sales was 37.6 per cent. as compared to the corresponding period, of which the growth rate of same store sales in the PRC and Hong Kong were 34.1 per cent. and 44.8 per cent. respectively.

The Group's retail network spans across the Greater China Region where retail stores are mainly Elegant, Prime Time/Hengdeli, TEMPTATION and single-brand boutiques. Elegant mainly sells top grade internationally renowned brand watches; Prime Time/Hengdeli mainly sells middle-to-high-end internationally renowned brand watches, while TEMPTATION mainly sells middle-to-high-end internationally fashionable watches. During 2010, 32 new retail outlets were opened. After adjustment and integration, as at 30 June 2010, the Group operated a total of 302 retail outlets in the PRC, Hong Kong and Taiwan, representing an increase of 86 outlets over the corresponding period in 2009. Of these stores, 17 were Elegant shops (4 in Hong Kong, 12 in the PRC and 1 in Taiwan), 201 were Prime Time and Hengdeli shops (174 in the PRC and 27 in Taiwan), 26 were TEMPTATION shops (all in the PRC) and 58 were brand boutiques (40 in the PRC, 11 in Hong Kong and 7 in Taiwan).

The Group has been maintaining a sound partnership with many world renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and DKSH Group. For the six months ended 30 June 2010, the Group had distributed approximately 50 internationally renowned brands from the five major brand suppliers, including Cartier, Vacheron-Constantin, Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Rolex, Omega, Carl F. Bucherer, Maurice Lacroix, Tissot, Frederique Constant and Mido. The Group persistently stepped up efforts in bringing in and adjusting middle-to-high-end brands to enhance sales portfolio of the brands, which would be favourable to the long-term business development and ongoing enhancement of overall results.

THE PRC

The Group had a comprehensive distribution network of watch retail outlets covering most of the provinces and cities in the PRC, with a multiple-point footprint in major areas such as Shanghai, Beijing, Northeast, Zhejiang, Jiangsu, Henan and Shanxi, thus consolidating its market share.

As at 30 June 2010, the Group operated a total of 252 retail outlets in the PRC. During the first six months in 2010, the Group committed tremendous efforts to improve the re-positioning and sales of middle-to-high-end brands and continued to consolidate and expand its retail network in the second, third and fourth tier cities through a number of approaches. During the first six months in 2010, the Group acquired a number of retail outlets from retailers including Guangzhou Longyue Watch Company Limited. Such outlets were mainly located across regions including Hubei, Hunan, Tianjin and Shenyang, selling middle-to-high-end watch brands including Tudor, TAG Heuer, Hamilton, Longines, Rado and Tissot. Such acquisitions substantially expanded and strengthened the Group's retail network in Central and Northern China, thus increasing the Group's market share in such regions.

As the consumption demand for high-end watches remains in its early stages in the PRC, and in order to complement the Group's high-end watch retail business in Hong Kong, more than 75 per cent. of the Group's retail outlets in the PRC are Prime Time shops, which are positioned to sell middle-to-high-end watches. During the period under review, Prime Time contributed approximately 80 per cent. of the Group's total retail sales in the PRC. It will remain the Group's leading retail brand in the PRC in the foreseeable future.

Engaging in the sale of high-end watches by the Group, the Elegant shop concept has relatively small coverage in the PRC. As at 30 June 2010, there were 12 Elegant shops mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang.

During the past year, same store retail sales in the PRC recorded a strong growth, with an increase of 34.1 per cent. for the six months ended 2010 over the corresponding period in 2009. On one hand, it was attributable to the rapid growth in consumption in the middle-to-high-end consumables market as a result of the rapidly expanding middle class and affluent class population. On the other hand, it benefitted directly from the Group's rational and forward-looking outlet positioning. As the retail business of middle-to-high-end watches is affected to a great extent by the flow of people in the business districts where retail outlets are located, as well as by the period of establishment and local consumption level, these outlets require more time to mature as compared with other retail outlets that sell general consumables. A watch retail outlet will generally takes more than three years to reach maturity. The average age of the Group's outlet portfolio of the Group in the PRC is at a fledgling period. As the retail outlets further develop, there is a greater potential for organic growth to be realised.

HONG KONG

As at 30 June 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 currently mainly located in first-tier business districts including Tsimshatsui, Central and Causeway Bay, and will progressively extend to other major business districts. Elegant under the Group has a long history in Hong Kong's watch retail industry.

Opened in 1970, the Ocean Terminal Elegant Flagship Shop located in Tsimshatsui has an area of approximately 1,700 square feet and presently has held the highest sales record as a single shop in the Group.

In 2010, the Group launched one Elegant shop. Located in the premium business district in Central, adjacent to other internationally renowned brands. With unique decoration in style, it also has a dedicated VIP area which offers highly professional and tailored services. The Central Elegant shop, with an area of 3,313 square feet, features an array of top-grade internationally renowned brands including Breguet, Chopard, Girard-Perregaux, Panerai, Van Cleef & Arpels and Zenith. In addition, in 2010 the Group also opened a Panerai brand boutique in Times Square, Causeway Bay, which strengthened the positioning of brand boutiques in Hong Kong.

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 and Frank Muller as well as Scatola del Tempo, Vincent Berard, Christophe Claret and Heuge from independent watchmakers. These brands fully complement our retail business in the PRC and Taiwan, creating tremendous synergies.

Hong Kong presents an attractive market for watch retailing given its mature business districts and centralised wealth. Consumption of high-end watches improved during the first half of 2010 given the upturn in consumer confidence and tourism industry as a result of the improving economy. By leveraging the synergies between outlets in the PRC and Hong Kong, the Group is able to provide all-round services and after-sale guarantee for domestic tourists shopping in Hong Kong. This has fostered a broad clientele base. For the six months ended 30 June 2010, the Group recorded retail sales growth in Hong Kong in excess of 44.8 per cent. over the corresponding period last year.

TAIWAN

To put its strategy of consolidating its leadership in the Greater China Region into practice, it is the Group's target to build up a retail network in Taiwan steadily. In 2010, the Group opened the first Taiwan Elegant Flagship Shop in Taipei. The shop is located on Zhongxiao E. Road, a business district in Taipei, with two storeys and a total area of 1,230 square metres, selling the top 10 first-class fine watch brands including Blancpain, Breguet, Cartier, Girard-Perregaux, Glashuette Original, Jaeger-LeCoultre, Jaquet Droz, Omega, Tiffany and Zenith. The introduction of the Group's Elegant shop provided a new retail experience of high-end watches in Taiwan. As at 30 June 2010, the Group operated a total of 35 retail outlets in major areas in Taiwan, including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Apart from selling top-grade watches through Elegant, other retail outlets mainly sell middle-to-high-end brands including Rado, TAG Heuer, Carl F. Bucherer and Longines, and are operated under the name of Hengdeli. In 2010, the Group's retail sales in Taiwan recorded a substantial year-on-year increase. Following the signing of the Economic Cooperation Framework Agreement (ECFA), the strengthened economic and trade relationship between the PRC and Taiwan as well as the further integration of the economies of the PRC, Taiwan and Hong Kong, the number of domestic tourists to Taiwan will likely increase, bringing greater opportunities to the retail industry in Taiwan.

CUSTOMER SERVICE AND MAINTENANCE

The premium customer service and maintenance the Group provides assurance to the Group's customers and brand suppliers. The Group established three major service centres in Beijing and Shanghai, with maintenance service offered in each retail outlet, delivering all-round services to customers through an interactive customer service network consisting of "repair and maintenance service centres", "repair service stations" and "repair service points", and providing a convenient and tailored service to customers by way of warranty in the Greater China region including the PRC, Hong Kong and Taiwan. In addition, the Group offers its customers a centralised service hotline, offering customers timely and prompt advice.

With a number of senior maintenance technicians certified by brand suppliers to provide strong technical guarantee, the Group's customer service has been widely recognised and supported by brand suppliers. In 2010, the Group acquired the exclusive watch maintenance rights of Chaumet from the LVMH Group.

PURCHASES

The Group purchases from brand-owners and/or their distributors located in the local market. In these cases, delivery and settlement of the watches between the Group and such brand-owners and/or their distributors are made in the PRC.

SUPPLIERS

Wholesale business

The Group sources watches for its wholesale business from brand-owners (or their subsidiaries) as well as the distributors appointed by them.

For each of the three years ended 31 December 2009, the aggregate purchases from the Group's five largest suppliers accounted for approximately 84.8 per cent., 83.5 per cent. and 91.0 per cent. of the Group's total annual purchases for each of the corresponding periods, respectively. For the three years ended 31 December 2009, purchases from the Group's largest supplier accounted for approximately 38.2 per cent., 46.9 per cent. and 57.0 per cent. of the Group's total annual purchases. All of the Group's five largest suppliers during the three years ended 31 December 2009 were brand-owners and/or their distributors. The Swatch Group and the LVMH Group, through their respective subsidiaries, constituted two of the Group's major suppliers. Save as disclosed above, none of the Directors or any shareholders who own more than 5 per cent. of the share capital of the Issuer nor any of their respective associates has any interest in any of the five largest suppliers of the Group for each year of the three years ended 31 December 2009. Furthermore, the Group had not experienced any material disruption of supplies from its suppliers since its inception.

Retail business

A retailer is required to be designated or authorised by the relevant brand-owner or distributor before it can sell the brand owned by the brand-owner or distributor. The Group has been designated/authorised by various brand-owners or distributors as their retailer for selling certain brands owned by them. Notwithstanding that, the Group may have to seek prior approval from the brand-owners or their distributors for selling their respective watches for each of its retail outlets. Depending on the practice of the brand-owners or distributors and the length and proximity of business relationship between the Group and the brand-owners or distributors, appointment of the Group as a designated or authorised retailer may typically take the form of a dealership agreement between the Group and the brand owner or distributor, the term of which is generally for one year, or a simple authorisation letter or written confirmation issued by the brand-owner or distributor where no specific term of appointment is stated.

The Group, as a designated or authorised retailer, purchases watches of the relevant brands from the brand-owners or their distributors or other sources as designated or approved by the brand-owners and has the right to purchase spare parts from the brand-owners and/or their distributors for provision of after-sales services. The Group could also enjoy various benefits offered by the brand-owners and/or their distributors e.g. providing training to the Group's staff on marketing skills and product knowledge. Also, the brand-owners and/or their distributors may provide decoration materials, parts and furniture to the Group's retail outlets.

Distribution agreements and authorisation

In order to formalise arrangements with suppliers and to secure a more stable relationship with its suppliers, the Group has started to enter into agreements with suppliers of its key products since April 2003.

As at 30 June 2010, the Group had entered into distribution agreements ranging from three to 20 years. Pursuant to these distribution agreements, the Group is appointed as the wholesaler as well as the authorised retailer in the PRC for these brands. In most cases, the Group is also authorised to provide after-sales services for customers of the relevant watches in the PRC.

The Group is required to meet certain minimum purchase requirements under some of the agreements and if the Group is unable to meet the minimum purchase amount, the relevant suppliers have the right to terminate the distribution agreements. Some of these agreements include terms that would allow automatic renewal upon their expiry and the granting of a first right of refusal for renewal. Pursuant to the terms of these agreements, the brand-owners or distributors agreed to provide support and assistance to the Group from time to time during the term of the agreements, including the supply of spare parts of the watches, promotional materials, brochures, pamphlets and display materials.

MANAGEMENT AND INFORMATION SYSTEM

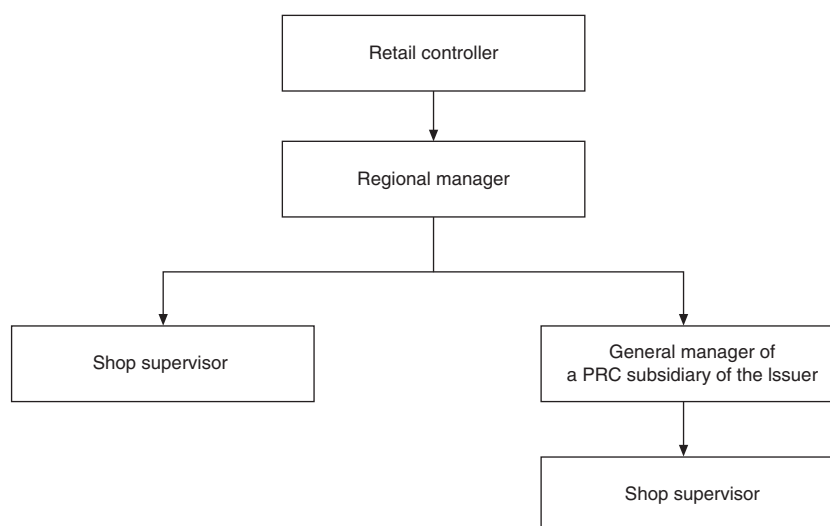
In relation to its PRC business, the Group has adopted a centralised system in managing its relationship with brand-owners and/or their distributors as well as the supply and logistics of watches within the Group. Negotiations for the terms and conditions of distributions with the brand-owners and/or their distributors are all handled by the Group which will place purchase orders with the suppliers and settle the payments for the purchases made. The Group also centralises all the logistics of the Group’s inventory in the PRC and allocates the watches to its retail outlets for retail sale to customers. The allocations are often based on the size of the retail outlets, the location, inventory utilisation pattern and the development policy of the Group. Each retail outlet in the PRC is equipped with a computer system that links to the Group’s centralised ERP system.

The Group has installed an ORACLE-based ERP system across its retail network and offices in the PRC. The ERP system enables the management of the Group to keep track of real time operation data for each retail outlet of the Group, including inventory levels and customers’ order information.

STORE OPERATION

Management Structure

The Group has established an operation structure within each retail outlet. The following chart sets out the store management structure of the Group:



The retail controller is a senior manager of the Group and is responsible for overseeing the overall retail operation of the Group and the supervision and co-ordination of the operation of the retail outlets within six regions, namely Northeastern China, Northern China, Eastern China, Central and Southern China, South-western China and Hong Kong, in which the Group’s retail outlets are grouped under. The regional manager is responsible for overseeing the overall retail operation of the Group’s subsidiaries in the PRC and in some cases, retail outlets in the region for which he is responsible. The general manager of each PRC subsidiary of the Group is responsible for overseeing the sales performance and overall operations of retail outlets operated by that subsidiary. In each retail outlet, there is a shop supervisor who oversees the daily operations and supervises other general sales staff of the retail outlet. The number of staff to be allocated to each retail outlet depends on factors including its size and sales volume.

For the purpose of providing quality services to its customers, the Group provides regular training to its retail staff, which include store operation skills, marketing skills and product knowledge.

Cash control and management policies

Most of the retail sales are settled in cash. The Group has set out specific procedures in respect of cash handling and custody. Only designated persons in each retail outlet are empowered to handle cash. Cash received in each retail outlet is required to be deposited into a designated bank account of the Group on a daily basis.

INVENTORY CONTROL

With the ERP system linked to the computer system in each retail outlet, the Group can easily and efficiently trace the overall inventory level of the Group and the inventory level of each retail outlet with respect to each brand and type of watch. The inventory management is performed (i) on a real time basis through the use of its ERP system such that the inventory level is updated when the stocks are in and/or out; and (ii) on a monthly basis. The ERP system facilitates an optimum level of purchase and stock level for the best selling watches. The Group is of the view that an up-to-date inventory record would enable the Group to gather information, such as market trends, product demand and store performance.

The watches distributed by the Group are mostly of high value and the Group has adopted a very strict inventory security policy. The keys to the inventory warehouse and the password for accessing the safe are kept by two separate staff. It requires both of the staff to be present at the same time in order to open the door of the Group's inventory warehouse. The Group's inventory warehouse is also equipped with fire-protection facilities. In addition, the Group has subscribed for insurance policies to cover any potential losses in the Group's inventories up to an amount equal to the value of inventory at the time of subscription. The Group believes that the Group's insurance coverage for inventory is adequate and the Group has not encountered any material insurance claim in the past.

MARKETING AND PROMOTION

The Group carries out marketing and promotional activities for different brands for which the Group is wholesaler and/or retailer depending on the requests of the respective brand-owners. The Group manages its marketing and promotional activities on a brand by brand basis with different departments responsible for managing the relationship for different brands. The Group's marketing and promotional activities are conducted in two ways.

The first type of promotional and marketing activities is mainly initiated, organised and driven by and at the costs of the brand-owners. Promotional materials and catalogues supplied by the brand-owners and/or their distributors are often distributed at the Group's retail outlets. The Group plays a supporting role in promoting the brands by providing them exhibition venues, promotional sales strategies and window display. Promotional activities of the brands conducted during the three years ended 31 December 2009 included magazine advertisements, advertisements on television and marketing campaigns such as hosting shows, exhibitions and signature conferences by the image embossers of the brand. The Group believes that through participating in and supporting the promotional and marketing activities initiated, organised and driven by the brand-owners, the corporate brand image and reputation of the Group is enhanced.

The second type of promotional and marketing activities is carried out and driven by the Group itself at its own costs. In some cases, the brand-owners will request the Group to invest certain percentage of the sales value of the watches under their brands in advertising and promoting activities of the relevant brands. As at the date of this Offering Circular, the Group is required to conduct marketing and promotional activities for certain brands pursuant to distribution agreements.

EMPLOYMENT

As at 30 June 2010, the Group employed a total of 4,580 employees in the PRC, Hong Kong and Taiwan.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Group believes that it has a good working relationship with its employees. The Group has also complied with all the relevant requirements of fair labour standards, working environment and code of conduct for its employees or workers and has never been penalised in this regard during the three years ended 31 December 2009.

Benefit schemes

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the combined income statement incurred. The contribution paid for each of the three years ended 31 December 2009 were approximately RMB8.7 million, RMB17.5 million and RMB34.8 million, respectively. The Group has made adequate provision in the financial statements in respect of the benefit schemes. The Group also provides housing allowances and meal allowances to its staff.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5.0 per cent. of their respective monthly wage (up to a maximum contribution of H.K.\$1,000 by each of the employee and the Group) on a monthly basis to the fund.

The Group confirms that the Issuer has complied with all the relevant regulations to staff benefit schemes.

LICENCES AND APPROVALS

Shanghai Xinyu, the major operating subsidiary of the Issuer, is a sino-foreign equity joint venture enterprise approved by the Ministry of Commerce of the PRC to engage in the wholesale and retail of commodities in the PRC. No special licence, permit, certificate or registration requirements is required for the conduct of the Group's wholesale and retail of watches businesses in the PRC. However, if import of watches into the PRC is involved, the importing entity must possess the relevant import rights.

RELEVANT REGULATIONS OF WHOLESALE AND RETAIL BUSINESS IN THE PRC

Currently, the rules and regulations for commercial investment made for foreign investors within the PRC are based on the Management Measures on Commercial Investment by Foreign Investors promulgated on 16 April 2004 by the Ministry of Commerce. Accordingly, FIEs are subject to the following conditions: (1) the minimum registered capital are subject to the relevant requirements of the PRC Company Laws, which was amended on 27 October 2005 and effective as of 1 January 2006. The current PRC Company Laws require that the minimum registered capital for a limited liability company shall be RMB30,000, except as otherwise provided by laws and regulations. For one-person companies (such as a wholly owned foreign enterprise owned by one shareholder), the minimum registered capital shall be RMB100,000; (2) meet the relevant requirements of registered capital and aggregate investment for a FIE, where the total amount of investment of the FIE is over U.S.\$30,000,000, the registered capital shall account for at least one third of the total amount of investment. However, if the total amount of investment is less than U.S.\$36,000,000, the registered capital shall be not less than U.S.\$12,000,000; (3) the operating term in general shall not exceed 30 years and 40 years for operating in the central-western region. In addition, the FIEs which open shops are subject to the following conditions: (1) the application for the opening of shops shall be submitted at the same time with the application for setting up commercial enterprises, and shall meet the relevant requirements for the city development and the commercial development of the city; (2) FIEs which have already been approved to set up shops but intend to open additional shops shall, apart from meeting the requirements of (1) meet the following requirements: 1. to participate in the annual joint examination for the FIEs on time and pass the examination; 2. to fully pay the registered capital of an enterprise. The Issuer believes that the setting-up procedures and conditions and the operation modes of the retail shops of Shanghai Xinyu (being a sino-foreign equity joint venture enterprise approved by the Ministry of Commerce of the PRC to engage in the wholesale and retail of commodities in the PRC), have

not breached the relevant requirements of the Management Measures on Commercial Investment by Foreign Investors implemented in June 2004. The current business activities of Shanghai Xinyu do not fall in the scope of the wholesaling and retailing activities foreign investors are not allowed to engage in as stipulated in the Management Measures on Commercial Investment by Foreign Investors. The registered capital, aggregate investment and operation term of Shanghai Xinyu comply with the relevant requirements of the PRC Company Laws and the Sino-Foreign Equity Joint Venture Law, as amended.

INSURANCE

The Group has insurance coverage with various insurance providers to cover risks incurred in the ordinary course of business including damage to property and inventory.

The Group has also taken out the following types of insurance for employees, including unemployment compensation insurance, medical insurance, pension insurance and personal accident insurance. The Group believes that the Group's insurance coverage for the business is adequate and sufficient for its operation and the Group did not have any material insurance claim during the three years ended 31 December 2009.

LEGAL MATTERS

Neither the Issuer nor any of its subsidiaries is engaged in any legal or arbitration proceedings either as plaintiff or defendant in respect of any claims or amounts which may have or have had during the previous 12 months a significant effect on the Group's financial position. The Issuer has no knowledge and are not aware of any proceedings, litigation or claim of material importance which are pending or threatened against the Issuer or any of its subsidiaries or of any facts likely to give rise to any such litigation, arbitration or claim.

The Issuer is also not aware of any legal or arbitration proceedings involving third parties which may have or have had in the past 12 months any material adverse effects on the financial position or profitability of the Group.

CAPITAL EXPENDITURE

Over the next five years, the Group plans to undertake numerous capital expenditure investments to expand the retail network in the Greater China Region including mergers and acquisitions, opening of retail stores and co-operate with other brands owners in opening brand boutiques. One of the Group's primary areas of focus will be the purchasing of office space and retail outlets in prime locations in Hong Kong and the PRC.

Capital expenditure for the three years ended 31 December 2009 and six months ended 30 June 2010 was RMB60.0 million, RMB274.2 million, RMB110.5 million and RMB63.3 million, respectively.

MANAGEMENT

DIRECTORS

The board of directors of the Issuer (the “Board”) is entrusted with the responsibility for the overall management of the Group.

None of the Directors are related to any of the senior management or to the substantial shareholders. To the best of the Issuer’s knowledge and belief, there are no arrangements or undertakings with any substantial shareholders, customers, suppliers or others, pursuant to which any of the Directors was appointed.

Information on the business and working experience of the Directors is set out below:

EXECUTIVE DIRECTORS

Mr. Zhang Yuping (alia, Cheung Yu Ping) (張瑜平), aged 49, 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 57, 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 over 10 years of experience in finance and accounting.

Mr. Huang Yonghua (黃永華), aged 39, 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 45, is a non-executive Director. He graduated from Fudan University with a master’s degree in business administration. He joined the Company in 2007 and is responsible for investment of the Group.

Mr. Shen Zhiyuan (沈致遠), aged 67, 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. 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). He joined the Group in 2004.

Mr. Shi Zhongyang (史仲陽), aged 35, 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 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 66, 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)). He joined the Group in 2005.

Mr. Wong Kam Fai, William (黃錦輝), aged 50, 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, a professional member of the Association of Computing Machinery. He joined the Group in 2005.

Mr. Liu Xueling (劉學靈), aged 52, 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

Mr. Zhuang Liming (莊立明), aged 56, 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 60, 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 45, 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 50, is the deputy president of Hengdeli Group. He joined the Group in 2007 and is responsible for retail business in Mainland. He obtained a Bachelor of Arts degree 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 65, is the chairman of a customer services company under the Group. 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. Ng Man Wai, Peter (吳文偉), aged 39, 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.

Ms. Tan Li (談麗), aged 45, is the secretary to the Board and the assistant to the Chairman of the Company. Ms. Tan graduated from Nanjing Normal University (南京師範大學) with a Master of Arts degree. 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.

CORPORATE GOVERNANCE

Audit Committee

The Company has established an audit committee in compliance which comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin (Chairman), Wong Kam Fai, William and Liu Xueling. The primary duties of the audit committee are to review the Issuer's annual reports and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will also consider any significant and unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Issuer's qualified accountant, compliance officer and auditors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and the Group's internal control system.

Remuneration Committee

The Company has established a remuneration committee in compliance which 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.

Nomination Committee

The Company has established a nomination committee which 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.

Board Practices

The articles of association of the Issuer provide that the Board shall consist of not less than two Directors. Each Director shall retire from office at least once every three years. A retiring Director shall be eligible for re-election.

Share Option Scheme

In August 2005, the Issuer's shareholders approved a share option scheme ("Share Option Scheme") which was subsequently amended by a committee of the Board in September 2005. Executive and non-executive Directors (including independent non-executive Directors) and employees of the Group are eligible to participate in the Share Option Scheme. The exercise price of the options granted under the Share Option Scheme is determined by the Board at its absolute discretion. The aggregate number of the Shares over which options may be granted pursuant to the Share Option Scheme is 10 per cent. of the total issued share capital of the Issuer from time to time (after taking into account all Shares issued and issuable under the Share Option Scheme). Shares allotted and issued on the exercise of an option shall be subject to the memorandum and articles of association of the Issuer and will rank equally with the fully paid Shares then in issue (including Shares issued upon conversion of the Bonds).

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 shares during 2009, the exercise price was changed to H.K.\$3.22 per share accordingly. On 1 January 2010, the total number of shares that might be subscribed for was 53,670,000 shares. Due to the retirement of certain employees, 750,000 share options lapsed during the period under review. As of 30 June 2010, the total number of outstanding share options of the Company was changed to 52,920,000 shares.

SUBSTANTIAL SHAREHOLDERS AND DIRECTORS INTERESTS AND SHARE OPTIONS

The following table sets forth the substantial shareholders of the Issuer as at the date of this Offering Circular as shown in the Issuer's register of interest maintained by the Issuer pursuant to section 336 of the Securities and Futures Ordinance ("HKSF"), Chapter 571 of the laws of Hong Kong:

Name	Number of Shares	Percentage (%)
Best Growth International Limited (Note i)	1,522,524,000	34.79
Zhang Yuping (Note i)	1,550,040,000	35.42
The Swatch Group (Hong Kong) Limited	398,000,000	9.06
The Swatch Group Limited	398,000,000	9.06
FMR LLC	469,634,000	10.73
Standard Chartered Bank	253,402,875	5.79
	(long position)	
	1,500,000	0.03
	(short position)	
Standard Chartered Holdings Limited	253,402,875	5.79
	(long position)	
	1,500,000	0.03
	(short position)	
Standard Chartered PLC.	253,402,875	5.79
	(long position)	
	1,500,000	0.03
	(short position)	
LVMH Watches & Jewelry Hong Kong Limited (Note ii)	18,504,000	0.42
TAG Heuer SA (Note ii)	18,504,000	0.42
TAG Heuer International SA (Note ii)	18,504,000	0.42
LVMH Asia Pacific Limited (Note ii)	259,620,000	5.93
Sofidiv SAS (Note ii)	278,124,000	6.36
LVMH SA (Note ii)	278,124,000	6.36

Notes:

(i) Best Growth International Limited was 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%
 Ms. Zhang Yuwen (younger brother of Mr. Zhang) 2.4%

Mr. Zhang Yuping holds 27,516,000 Shares under his name. Accordingly, Mr. Zhang Yuping holds 35.43% of the issued share capital of the Company in aggregate.

(ii) Among these 278,124,000 Shares, 18,504,000 Shares are held in the name of and registered in the capacity of LVMH Watches & Jewelry 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 & Jewelry 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.

Directors' Shareholdings

The following table sets forth the Directors of the Issuer as at the date of this Offering Circular as shown in the Issuer's register of directors' interests in the Shares maintained by the Issuer pursuant to section 352 of the HKSF:

Name	Number of shares	Percentage (%)
Zhang Yuping	1,550,040,000	35.42
Chen Sheng	26,700,000	0.61
Song Jianwen	20,032,000	0.46
Huang Yonghua	2,400,000	0.05

As at the date of this Offering Circular and save as disclosed above, no director held any Shares or securities of the Issuer convertible into or exchangeable for Shares.

TERMS AND CONDITIONS OF THE BONDS

The following other than the words in italics is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the H.K.\$2,500,000,000 aggregate principal amount of 2.50 per cent. Convertible Bonds due 2015 (the “**Bonds**”, which term shall include, unless the context requires otherwise, any additional Bonds issued pursuant to the option to increase the principal amount of the Bonds (the “**Optional Bonds**”) and any further bonds issued in accordance with Condition 17 and consolidated and forming a single series therewith) of Hengdeli Holdings Limited (the “**Issuer**”) and the right of conversion into Shares (as defined in Condition 6(A)(iv)) was authorised by board of directors of the Issuer on 20 September 2010. The Bonds are constituted by the trust deed ((as amended or supplemented from time to time) the “**Trust Deed**”) dated 20 October 2010 (the “**Issue Date**”) between the Issuer and The Bank of New York Mellon (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the agency agreement dated 20 October 2010 (the “**Agency Agreement**”) relating to the Bonds between the Issuer, the Trustee, The Bank of New York Mellon, as principal paying, conversion and transfer agent (the “**Principal Agent**”), The Bank of New York Mellon (Luxembourg) S.A., as registrar (the “**Registrar**”) and the other paying, conversion and transfer agents appointed under it (each a “**Paying Agent**”, “**Conversion Agent**”, “**Transfer Agent**” and together with the Registrar and the Principal Agent, the “**Agents**” and which shall, where applicable, include the Singapore Agent (as defined in Condition 7)) relating to the Bonds. References to the “**Principal Agent**”, “**Registrar**” and “**Agents**” below are references to the principal agent, registrar and agents for the time being for the Bonds.

Copies of the Trust Deed and of the Agency Agreement are available for inspection during usual business hours at the principal office for the time being of the Trustee (presently at One Canada Square, 40th Floor, London E14 5AL, United Kingdom) and at the specified offices for the time being of each of the Agents.

Unless otherwise defined, terms used in these Conditions have the meanings specified in the Trust Deed. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” mean the person in whose name a Bond is registered.

1 FORM, DENOMINATION AND TITLE

(A) Form and Denomination

The Bonds are in registered form in the denomination of H.K.\$1,000,000 each (an “**Authorised Denomination**”). A bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the “**Register**”) which the Issuer will procure to be kept by the Registrar.

Upon issue, the Bonds will be represented by a Global Certificate deposited with a common depository for, and representing Bonds registered in the name of a nominee of, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme. The Conditions are modified by certain provisions contained in the Global Certificate. See “The Global Certificate”.

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

(B) Title

Title to the Bonds will pass only by transfer and registration in the Register as described in Condition 3. The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

2 STATUS

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable legislation and subject to Condition 4, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

3 TRANSFERS OF BONDS; ISSUE OF CERTIFICATES

(A) Register

The Issuer will cause the Register to be kept at the specified office of the Registrar outside Hong Kong and the United Kingdom and in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

(B) Transfer

Bonds may, subject to Condition 3(E) and the terms of the Agency Agreement, be transferred in whole or in part in an Authorised Denomination by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Agents. No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number). All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(C) Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within five business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the original Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Issuer's expense) to the address specified in the form of transfer.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

Where only some of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, converted, redeemed or repurchased, a new Certificate in respect of the Bonds not so transferred, converted, redeemed or repurchased will, within five business days of delivery of the original Certificate to the Registrar or, as the case may be, any other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted, redeemed or repurchased (but free of charge to the holder and at the Issuer's expense) to the address of such holder appearing on the Register.

For the purposes of this Condition 3 and Condition 6, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in the city in which the specified office of the Registrar or the Agent, with whom a Certificate is deposited in connection with a transfer or conversion, is located.

(D) Formalities Free of Charge

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge subject to (a) the person making such application for transfer paying or procuring the payment (or the giving of such indemnity as the Registrar may require) of any taxes, duties and other governmental charges in connection therewith, (b) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (c) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee (and as initially set out in the Agency Agreement).

(E) Restricted Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (a) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to the Conditions; (b) after a Conversion Notice (as defined in Condition 6(B)(i)) or a Forced Conversion Notice (as defined in Condition 8(C)) has been delivered with respect to a Bond; (c) after a Relevant Event Put Exercise Notice (as defined in Condition 8(E)) has been deposited in respect of such Bond pursuant to Condition 8(D); (e) after a Optional Put Exercise Notice (as defined in Condition 8(F)) has been deposited in respect of such Bond pursuant to Condition 8(F); or (f) during the period of seven days ending on (and including) any Interest Record Date (as defined in Condition 7(A)). Each such period is a "**Restricted Transfer Period**".

4 NEGATIVE PLEDGE

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity as either (x) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (y) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

In these Conditions

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market (whether or not initially distributed by way of private placement), which for the avoidance of doubt, excludes any bank loans or facilities incurred by the Issuer in its ordinary course of business (excluding loan stock); and

A “**Subsidiary**” of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, from time to time, under the law or regulations of the jurisdiction of incorporation of such person or generally accepted accounting principles properly adopted by such person, should have its accounts consolidated with those of that person.

5 INTEREST

The Bonds bear interest from and including 20 October 2010 at the rate of 2.50 per cent. per annum payable semi annually in arrear in equal instalments of H.K.\$12,500 per Calculation Amount (as defined below) on 20 April and 20 October in each year (each an “**Interest Payment Date**”). If any Interest Payment Date would otherwise fall on a day which is not a Payment Business Day (as defined in Condition 7(F)) it shall be postponed to the next day which is a Payment Business Day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding Payment Business Day. Each Bond will cease to bear interest (a) (subject to Condition 6(B)(iv)) where the Conversion Right attached to it shall have been exercised by a Bondholder, from and including the Interest Payment Date immediately preceding the relevant Conversion Date (as defined below), or if none, the Issue Date (subject in any case as provided in Condition 6(B)(iv)), or (b) where such Bond is redeemed or repaid pursuant to Condition 8 or Condition 10, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, it will continue to bear default interest at 3 per cent. per annum above the rate aforesaid (both before and after judgement) until seven business days after the day on which all sums due in respect of such Bond up to that day are paid by the Issuer to the relevant holder, the Trustee or the Principal Agent (as the case may be), in accordance with these Conditions and the Trust Deed and/or the Agency Agreement. If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Bond shall be calculated per H.K.\$1,000,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of 2.50 per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 CONVERSION

(A) Conversion Right

- (i) *Conversion Period*: Subject as provided in these Conditions, each Bond shall entitle the holder to convert such Bond into Shares (as defined in Condition 6(A)(iv)) credited as fully paid at any time during the Conversion Period referred to below (the “**Conversion Right**”).

Subject to and upon compliance with the Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) on or after 30 November 2010 to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date falling 10 days prior to the Maturity Date (as defined in Condition 8) (both days inclusive) (but, except as provided in Condition 6(A)(iii), in no event thereafter) or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to and including the close of business (at the place aforesaid) on a date no later than seven days (in the place aforesaid) prior to the date fixed for redemption thereof (the “**Conversion Period**”).

A Conversion Right may not be exercised (a) in respect of a Bond where the holder shall have exercised its right to require the Issuer to redeem such Bond pursuant to Condition 8(E) or 8(F) or (b) except as provided in Condition 6(A)(iii) following the giving of notice by the Trustee pursuant to Condition 10.

The price at which Shares will be issued upon exercise of a Conversion Right (the “**Conversion Price**”) will initially be H.K.\$4.9524 per Share, but will be subject to adjustment in the circumstances described in Conditions 6(C).

The number of Shares to be issued on exercise of a Conversion Right shall be determined by dividing the principal amount of the Bonds to be converted by the Conversion Price in effect on the relevant Conversion Date (as defined below). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

- (ii) *Fractions of Shares*: Fractions of Shares will not be issued on exercise of a Conversion Rights and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 20 September 2010 which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash in Hong Kong dollars a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(A)(i), as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid, provided that such sum exceeds H.K.\$100. Any such sum shall be paid not later than five Stock Exchange Business Days (as defined in Condition 6(B)(i) after the relevant Conversion Date by a Hong Kong dollar cheque drawn on, or by transfer to a Hong Kong dollar account maintained by the payee with, a bank in Hong Kong, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

- (iii) *Revival and/or survival after Default*: Notwithstanding the provisions of Condition 6(A)(i), if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof; (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10; or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) which is seven business days after the full amount of the moneys payable in respect of such Bond has been paid by the Issuer to the relevant holder, the Principal Agent or the Trustee (as the case may be), in accordance with these Conditions and the Trust Deed and/or the Agency Agreement, notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice (as defined below) are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined below), notwithstanding that the Conversion Period may have expired before such Conversion Date.
- (iv) *Meaning of "Shares"*: As used in these Conditions, the expression "**Shares**" means ordinary shares of par value H.K.\$0.005 each of the Issuer or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Issuer.

(B) Conversion Procedure

- (i) *Conversion Notice*: Conversion Rights may be exercised by a Bondholder during the Conversion Period by delivering at his own expense the relevant Certificate to the specified office of any Conversion Agent from 9:00 a.m. to 3:00 p.m. on any business day accompanied by a duly completed and signed notice of conversion (a "**Conversion Notice**") in the form (for the time being current) obtainable from any Agent, together with the relevant Certificate. In order to avoid the delivery of Shares to an agent of the Trustee in the case of a forced conversion under Condition 8(C), the holder of any Bond subject to a Forced Conversion Notice (as defined in Condition 8(C)) shall deliver a Conversion Notice relating to such Bond and deposit it, together with the relevant Certificate, no later than the business day before the end of the Forced Conversion Notice Period (as defined in Condition 8(C)). Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If such delivery is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the relevant Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Trustee, the Conversion Agents and the relevant Bondholder.

Conversion Rights may only be exercised in respect of an Authorised Denomination. A Conversion Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents in writing to such withdrawal).

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any such abovementioned certification or any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right provided that, in the case of a forced conversion pursuant to Condition 8(C), “**Conversion Date**” shall have the meaning set forth therein. “**Stock Exchange Business Day**” means any day (other than a Saturday or Sunday) on which Relevant Stock Exchange (as defined in Condition 6(F) below), as the case may be, is open for the business of dealing in securities.

- (ii) *Stamp Duty etc:* A Bondholder exercising Conversion Rights must pay directly to the relevant authorities any taxes or capital, stamp, issue and registration and transfer taxes and duties (“**Duties**”) arising on such exercise (other than any Duties payable in the Cayman Islands and Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Issuer in respect of the allotment and issue of Shares and listing of the Shares on the Relevant Stock Exchange on conversion) (the “**Taxes**”). The Issuer will pay all other expenses arising on the issue of Shares on conversion of Bonds and all charges of the Agents and the share transfer agent for the Shares (the “**Share Transfer Agent**”). The Bondholder (and, if different, the person to whom the Shares are to be issued) must declare in the relevant Conversion Notice that any amounts payable to the relevant tax authorities in settlement of Taxes payable pursuant to this Condition 6(B)(ii) have been, or will be, paid.

If the Issuer shall fail to pay any Duties payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

Such Bondholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with the exercise of Conversion Rights by it.

Neither the Trustee nor Agents shall be responsible for determining whether such Duties are payable or the amount thereof and shall not be responsible or liable for any failure by the Issuer or any Bondholder to pay such Duties.

- (iii) *Registration:* Upon exercise by a Bondholder of its Conversion Right and compliance with Conditions 6(B)(i) and 6(B)(ii) the Issuer will, as soon as practicable, and in any event not later than five Stock Exchange Business Days after the Conversion Date, register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Issuer’s branch share register in Hong Kong and will, if the Bondholder has also requested in the Conversion Notice and to the extent permitted under the rules and procedures of the Central Clearing and Settlement System of Hong Kong (“**CCASS**”) effective from time to time, take all necessary action to procure that Shares are delivered through CCASS and credited to the relevant securities account of the converting Bondholder for so long as the Shares are listed on the HKSE; or will make such certificate or certificates available for collection at the office of the Issuer’s branch share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited) notified to Bondholders in accordance with Condition 11 or, if so requested in the relevant Conversion Notice, will cause its branch share registrar in Hong Kong to mail (at the risk, and, if sent

at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single share certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

Satisfaction of the abovementioned requirements of this Condition 6(B) by the Issuer will be deemed to satisfy the Issuer's obligation to pay the principal and premium (if any) on such converted Bonds.

In the case of Bonds forced to be converted in accordance with Condition 8(C) in respect of which Conversion Notices have not been received by a Conversion Agent or the Principal Agent on the business day immediately following the expiry of the Forced Conversion Notice Period, the Issuer will, as soon as reasonably practicable thereafter, register, or procure the registration of, an agent of the Trustee located in Hong Kong in accordance with Condition 8(C) as holder of the relevant number of Shares in the Issuer's branch share register in Hong Kong and will make a certificate or certificates for the relevant Shares available for collection at the office of the Issuer's branch share registrar in Hong Kong, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof.

If the Conversion Date in relation to the conversion of any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6(C), but before the relevant adjustment becomes effective under the relevant Condition (a "**Retroactive Adjustment**"), upon the relevant adjustment becoming effective the Issuer shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares ("**Additional Shares**") as is, together with Shares to be issued on conversion of the Bond(s), equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date and in such event and in respect of such Additional Shares references in this Condition 6(B)(iii) to the Conversion Date shall be deemed to refer to the date upon which the Retroactive Adjustment becomes effective (notwithstanding that the date upon which it becomes effective falls after the end of the Conversion Period).

The person or persons specified for that purpose in the Conversion Notice (or the person or persons designated in Condition 8(C) in the case of a forced conversion) will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Issuer's branch share register in Hong Kong (the "**Registration Date**").

The Shares issued upon exercise of Conversion Rights will be fully paid and will in all respects rank pari passu with the fully paid Shares in issue on the relevant Registration Date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any Retroactive Adjustment of the Conversion Price referred to in this sub-paragraph (iii) prior to the time such Retroactive Adjustment shall have become effective), the Issuer will calculate and pay to the converting Bondholder or his designee an amount in Hong Kong dollars (the “**Equivalent Amount**”) equal to the Fair Market Value (as defined below) of such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by a Hong Kong dollar cheque drawn on, or by transfer to a Hong Kong dollar account maintained by the payee with, a bank in Hong Kong, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

- (iv) *Interest Accrual*: If any notice requiring the redemption of any Bonds is given pursuant to Condition 8(B) or Condition 8(D) on or after the fifteenth Hong Kong business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Issue Date) in respect of any dividend or distribution payable in respect of the Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall (subject as hereinafter provided) accrue on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from, and including, the Issue Date) to, but excluding, such Conversion Date; provided that no such interest shall accrue on any Bond in the event that the Shares issued on conversion thereof shall carry an entitlement to receive such dividend or distribution or in the event the Bond carries an entitlement to receive an Equivalent Amount. Any such interest shall be paid not later than 14 days after the relevant Conversion Date by a Hong Kong dollar cheque drawn on, or by transfer to a Hong Kong dollar account maintained by the payee with, a bank in Hong Kong, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

(C) Adjustments to Conversion Price

The Conversion Price will be subject to adjustment as follows:

- (1) *Consolidation, Subdivision or Reclassification*: If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

Where:

A is the nominal amount of one Share immediately after such alteration;
and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(2) *Capitalisation of Profits or Reserves:*

- (i) If and whenever the Issuer shall issue any Shares credited as fully paid to the holders of Shares (“**Shareholders**”) by way of capitalisation of profits or reserves including, Shares paid up out of distributable profits or reserves and/or share premium account (except any Scrip Dividend) and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

Where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefore, immediately after such record date.

- (ii) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price on the date of announcement of the terms of such issue of Shares multiplied by the number of Shares issued exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue;
- B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is such Current Market Price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and
- C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an Independent Investment Bank shall certify to the Trustee is fair and reasonable.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) *Distributions:*

- (i) Except where the Conversion Price falls to be adjusted under Condition 6(C)(3)(ii), if and whenever the Issuer shall pay or make any Distribution to the Shareholders (except to the extent that the Conversion Price falls to be adjusted under Condition 6(C)(2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the Current Market Price of one Share on the date on which the Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

- (ii) If and whenever the Issuer shall pay or make any Distribution in cash only to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the Current Market Price of one Share on the date on which such Distribution in cash is publicly announced; and

B is the amount of cash so distributed attributable to one Share.

Such adjustment shall become effective on the date that such Distribution in cash is actually made or if a record date is fixed therefore, immediately after such record date.

For the avoidance of doubt, when the Distribution is by means of distribution of excess dividend as referred to in proviso to the definition of “**Distribution**” in Condition 6(F), only such portion of cash dividend or distribution on a per Share basis which exceeds the threshold as referred to therein shall be regarded as a Distribution (the “**Excess Portion**”) and only the Excess Portion should be taken into account in determining the amount of cash or Fair Market Value (as the case may be) attributable to one Share under Conditions 6(C)(3)(i) and 6(C)(3)(ii).

- (4) *Rights Issues of Shares or Options over Shares*: If and whenever the Issuer shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than the Current Market Price per Share on the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

- (5) *Rights Issues of Other Securities*: If and whenever the Issuer shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or the issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

- (6) *Issues at less than Current Market Price:* If and whenever the Issuer shall issue (otherwise than as mentioned in Condition 6(C)(4) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise than as mentioned in Condition 6(C)(4) above) options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares in each case at a price per Share which is less than 95 per cent. of the Current Market Price on the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

Where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Issuer of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

- (7) *Other Issues at less than Current Market Price:* Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 6(C)(7), if and whenever the Issuer or any of its Subsidiaries (otherwise than as mentioned in Condition 6(C)(4), 6(C)(5) or 6(C)(6)), or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any other company, person or entity shall issue any securities (other than the Bonds, which includes for these purposes any Optional Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Issuer upon conversion, exchange or subscription at a consideration per Share which is less than 95 per cent. of the Current Market Price on the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

- (8) *Modification of Rights of Conversion etc.:* If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6(C)(7) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95 per cent. of the Current Market Price on the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Investment Bank, consider appropriate (if at all) for any previous adjustment under this Condition 6(C)(8) or Condition 6(C)(7).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

- (9) *Other Offers to Shareholders:* If and whenever the Issuer or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Condition 6(C)(4), Condition 6(C)(5), Condition 6(C)(6) or Condition 6(C)(7)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the date on which such issue is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or delivery of the securities.

- (10) *Other Events:* If the Issuer determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 6, the Issuer shall, at its own expense, consult an Independent Investment Bank to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the Independent Investment Bank such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to this Condition 6 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6 as may be advised by the Independent Investment Bank to be in its opinion appropriate to give the intended result.

(D) Undertakings

The Issuer has undertaken in the Trust Deed, inter alia, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of Bondholders to give such approval:

- (i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the HKSE (as defined in Condition 6(F)), and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights on the HKSE, and (c) if the Issuer is unable to obtain or maintain such listing, to use its best endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as the Issuer may from time to time determine (with the prior written consent of the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Shares (as a class) by any of such stock exchange;
- (ii) it will use its best endeavours to maintain the listing of the Bonds on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) and if the Issuer is unable to maintain such listing or such listing is unduly onerous, to use its best endeavours to obtain and maintain a listing on another internationally recognised stock exchange as the Issuer may from time to time determine (with the prior written consent of the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Bonds by any such stock exchange;
- (iii) it will pay the expenses of the issue of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds;
- (iv) it will not make any reduction of its ordinary share capital or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund except, in each case, where the reduction is permitted by applicable law and results in (or would, but for the provision of these Conditions relating to rounding or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made;

In the Trust Deed, the Issuer has also undertaken with the Trustee that so long as any Bond remains outstanding:

- (i) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid; and
- (ii) it will not make any offer, issue, grant or distribute or take any action the effect of which would be to reduce the Conversion Price below the par value of the Shares of the Issuer, provided always that the Issuer shall not be prohibited from purchasing its Shares to the extent permitted by law.

The Issuer has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

(E) Provisions Relating to Changes in Conversion Price

- (i) *Minor adjustments*: On any adjustment, the resultant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price if such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made. Notice of any adjustment shall be given by the Issuer to Bondholders in accordance with Condition 11 and to the Trustee promptly after the determination thereof.
- (ii) *Decision of an Independent Investment Bank*: If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Issuer and an Independent Investment Bank, a written opinion of such Independent Investment Bank in respect thereof shall be conclusive and binding on the Issuer, the Bondholders and the Trustee, save in the case of manifest error.
- (iii) *Minimum Conversion Price*: Notwithstanding the provisions of this Condition 6, the Issuer undertakes that: (a) the Conversion Price shall not in any event be reduced to below the nominal or par value of the Shares as a result of any adjustment hereunder unless under applicable law then in effect the Bonds may be converted at such reduced Conversion Price into legally issued, fully paid and non assessable Shares; and (b) it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below such nominal or par value or any minimum level permitted by applicable laws or regulations.
- (iv) *Reference to "fixed"*: Any references herein to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in its opinion appropriate in order to give such intended result.

- (v) *Upward/downward adjustment*: No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation or re-classification of the Shares as referred to in Condition 6(C)(1) above. The Issuer may at any time and for a specified period of time only, following notice being given to the Trustee and the Bondholders in accordance with Condition 11, reduce the Conversion Price, subject to Condition 6(E)(iii).
- (vi) *Trustee not obliged to Monitor*: The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or any calculation (or verification thereof) in connection with the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so or for any delay by the Issuer in making a determination or any erroneous determination in connection with the Conversion Price.

- (vii) *Notice of Change in Conversion Price*: The Issuer shall give notice to the Bondholders in accordance with Condition 11 and, for so long as the Bonds are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, the Issuer shall also give notice to the Singapore Stock Exchange, of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.
- (viii) *Share Option Schemes*: No adjustment will be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees (including directors) of the Issuer or any of its Subsidiaries pursuant to any share option scheme or plan (and which share option scheme or plan is in compliance with the listing rules of the Relevant Stock Exchange) (“**Share Scheme Options**”) unless any issue or grant of Share Scheme Options (which, but for this provision, would have required adjustment pursuant to Condition 6) would result in the total number of Shares which may be issued upon exercise of all Share Scheme Options granted during the 12-month period up to and including the date of such grant representing, in aggregate, over 3 per cent. of the average of the issued and outstanding Shares during such 12-month period.

(F) Definitions

For the purposes of these Conditions:

“**Alternative Stock Exchange**” means at any time, in the case of the Shares, if they are not at that time listed and traded on the Relevant Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in;

“**Current Market Price**” means, in respect of a Share on a particular date, the average of the daily Volume Weighted Average Price of one Share on each of the five consecutive Trading Days ending on and including the Trading Day immediately preceding such date; provided that if at any time during such five Trading Day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement) then:

- (a) if the Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share; or
- (b) if the Shares to be issued or transferred and delivered rank for the Dividend or entitlement in question, the Volume Weighted Average Price on the dates on which the Shares shall have been based on a price ex Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by the Fair Market Value of any such Dividend or entitlement per Share;

and provided that if on each of the said five Trading Days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement), the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share;

“Distribution” means, on a per Share basis, any dividend or distribution (whether of cash or assets in specie) by the Issuer for any financial period (whenever paid or made and however described) (and for these purposes a distribution of assets in specie includes without limitation an issue of shares or other securities credited as fully or partly paid (other than Shares credited as fully paid to the extent an adjustment to the Conversion Price is made in respect thereof under Condition 6(C)(2)(i)) by way of capitalisation of reserves and including any Scrip Dividend to the extent of the Relevant Cash Dividend) unless (and only to the extent that) in the case of a cash dividend it does not, when taken together with any other cash dividend previously made or paid in respect of the same fiscal year, exceed 35 per cent. of the Issuer’s most recently published annual or interim consolidated net profits attributable to Shareholders after deducting minority interest and tax (expressed on a per Share basis, based on the number of Shares entitled to receive such cash dividend) for that fiscal year in relation to which such cash dividend is announced;

“Fair Market Value” means, with respect to any asset, security, option, warrant or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such Independent Investment Bank) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded;

“HKSE” means The Stock Exchange of Hong Kong Limited;

“Independent Investment Bank” means an independent investment bank of international repute (other than JPMorgan Chase & Co. and Standard Chartered Bank and their respective affiliates) (acting as an expert) selected by the Issuer and approved in writing by the Trustee. If the Company fails to select an Independent Investment Bank when required by the Conditions, the Trustee may (at its absolute discretion) select the Independent Investment Bank;

“Relevant Cash Dividend” means any cash dividend specifically declared by the Issuer;

“Relevant Stock Exchange” means at any time, in respect of the Shares, the HKSE or the Alternative Stock Exchange;

“Scrip Dividend” means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Distribution (and for the avoidance of doubt to the extent that no adjustment is to be made under Condition 6(C)(3) in respect of the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or part thereof);

“Trading Day” means a day when the Hong Kong Stock Exchange or, as the case may be an Alternative Stock Exchange, is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have been dealing days when ascertaining any period of dealing days.

“Volume Weighted Average Price” means, in respect of a Share on any Trading Day, the order book volume-weighted average price of a Share published by or derived from Bloomberg (or any successor service) page HK Equity VAP or such other source as shall be determined to be appropriate by an Independent Investment Bank on such Trading Day, provided that on any such Trading Day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such Trading Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined.

References to any issue or offer or grant to Shareholders “**as a class**” or “**by way of rights**” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any such calculation pursuant to this Condition 6(C), such adjustments (if any) shall be made as an Independent Investment Bank may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event, (c) the modification of any rights to dividends of Shares or (d) any change in the fiscal year of the Issuer.

(G) The Trustee and the Agents shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or any calculation in connection with the Conversion Price and will not be responsible to Bondholders or any other person for any loss arising from any failure by it to do so or any adjustment or lack of adjustment of the Conversion Price.

7 PAYMENTS

(A) Method of Payment

Payment of principal, premium (if any) and interest due other than on an Interest Payment Date will be made by transfer to the registered account of the Bondholder (having the meaning ascribed to it under Condition 7(B)) or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder if it does not have a registered account. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

Interest on Bonds due on an Interest Payment Date will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifteenth day before the due date for the payment of interest (the “**Interest Record Date**”). Payments of interest on each Bond will be made by transfer to the registered account of the Bondholder or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder if it does not have a registered account.

References in these Conditions (other than in Condition 6(A)(i)), the Trust Deed and the Agency Agreement to principal in respect of any Bond shall, where the context so permits, be deemed to include a reference to any premium payable thereon.

If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

When making payments to the Bondholders, fractions of one Hong Kong cent will be rounded down to the nearest Hong Kong cent and the Issuer shall not be liable for payment of any fractions.

(B) Registered Accounts

For the purposes of this Condition, a Bondholder’s registered account means the Hong Kong dollar account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the Register at the close of business on the second Payment Business Day (as defined below) before the due date for payment, and a Bondholder’s registered address means its address appearing on the Register at that time.

(C) Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(D) Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day (as defined below), for value on the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a Payment Business Day, the immediately following Payment Business Day) or, in the case of a payment of principal, premium (if any) and interest due other than on an Interest Payment Date, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(E) Delay In Payment

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(F) Payment Business Day

In this Condition, “**Payment Business Day**” means a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

(G) Agents

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and appoint additional or replacement Agents provided that it will maintain (i) a Principal Agent, (ii) an Agent having a specified office in Singapore where the Bonds may be presented or surrendered for payment or redemption, so long as the Bonds are listed on the SGX-T and the rules of that exchange so require (and such agent in Singapore shall be a Paying, Transfer and Conversion Agent and shall be referred to in these terms and conditions as the “**Singapore Agent**”) and (iii) if requested by the Trustee, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000, and (iv) a Registrar with a specified office outside Hong Kong and the United Kingdom. Notice of any changes in any Agent or their specified offices will promptly be given to the Bondholders.

So long as the Bonds are listed on the Singapore Stock Exchange and the rules of that exchange so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, announcement of such exchange shall be made through the Singapore Stock Exchange and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the Singapore agent.

8 REDEMPTION, PURCHASE AND CANCELLATION

(A) Maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 105.413 per cent. of its principal amount together with accrued and unpaid interest thereon on 20 October 2015 (the "**Maturity Date**"). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8(B) or 8(D) (but without prejudice to Condition 10).

(B) Redemption for Taxation Reasons

The Bonds may be redeemed, at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders in accordance with Condition 11 (which notice shall be irrevocable), on the date specified in the Tax Redemption Notice for redemption (the "**Tax Redemption Date**") at their Early Redemption Amount (as defined in Condition 8(I)) as at such date together with interest accrued to such date, if (a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 September 2010, and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the publication of any Tax Redemption Notice pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the obligation referred to in (a) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (b) above, in which event it shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date, the Issuer (subject to the following paragraph) shall redeem the Bonds at their Early Redemption Amount as at such date, together with interest accrued to the Tax Redemption Date.

If the Issuer issues a Tax Redemption Notice, each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date, whereupon no Additional Tax Amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction of withholding of any taxation required to be withheld or deducted. To exercise such a right, the relevant Bondholder must complete, sign and deposit at the specified office of any Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Agent together with the Certificate evidencing the Bonds to be redeemed, on or before the day falling 10 days prior to the Tax Redemption Date.

(C) Forced Conversion at the Option of the Issuer

- (i) At any time after 20 October 2013, the Issuer may at its sole discretion in accordance with this Condition 8(C) and having given not less than 30 nor more than 60 days' notice to Bondholders (such notice shall be referred to as the "**Forced Conversion Notice**" and such period the "**Forced Conversion Notice Period**"), elect to convert the Bonds in whole but not in part into Shares in accordance with this Conversion 8(C) provided that no such conversion may be made unless the Volume Weighted Average Price of a Share for each of the 30 consecutive Trading Days immediately prior to the date upon which the Forced Conversion Notice is given was at least 130 per cent. of the Early Redemption Amount of a Bond divided by the Conversion Ratio (as defined below). If there shall occur an event giving rise to a change in the Conversion Price during any such 30 consecutive Trading Day period or during the Forced Conversion Notice Period, appropriate adjustments for the relevant days approved by an Independent Investment Bank shall be made for the purpose of calculating the closing price for such days.
- (ii) The Issuer's right to forced conversion under this Condition 8(C) does not affect a Bondholder's right to exercise its Conversion Right hereunder (which shall remain in full force and effect during the Forced Conversion Notice Period) provided that (a) in no event shall the Conversion Date fall after the date for forced conversion hereunder and (b) Condition 5 in relation to the Bonds ceasing to bear interest following exercise of Conversion Right shall not apply to such conversion following the delivery of a Forced Conversion Notice by the Issuer pursuant to Condition 8(C).
- (iii) Upon the expiry of the Forced Conversion Notice Period, the Issuer will be bound (subject to and in accordance with Condition 6) to convert the Bonds to which such Forced Conversion Notice relates into Shares and the date of expiry of such period shall be deemed to be the Conversion Date. The holders of the Bonds to be so converted shall be deemed to have exercised their Conversion Rights and the provisions of Condition 6 shall apply *mutatis mutandis*, provided that Condition 5 in relation to the Bonds ceasing to confer the right to receive interest following the exercise of Conversion Right shall not apply.
- (iv) If on the business day immediately following the expiry of the Forced Conversion Notice Period, Conversion Notices have not been received by a Conversion Agent or the Principal Agent in respect of any Bonds outstanding ("**Relevant Bonds**"), the Relevant Bonds shall be converted into Shares in accordance with these Conditions at the applicable Conversion Price and such Shares shall be delivered to an agent of the Trustee located in Hong Kong together with all accrued but unpaid interest in respect of such Relevant Bonds. Certificates for such Shares will be issued by the Issuer in the name of an agent of the Trustee located in Hong Kong and deposited at the office of such an agent of the Trustee located in Hong Kong and the Issuer will be responsible for all fees and charges for the issue of such Certificate or Certificates. All of the Shares delivered, or to be delivered, on such conversion shall be sold by, or on behalf of, the Trustee as soon as practicable, and (subject to any necessary consents being obtained, and to the deduction by the Trustee of any amount which it determines to be payable in respect of its liability to taxation and the payment of any capital, stamp, transfer, issue or registration duties (if any) and any costs incurred by the Trustee in connection with the transfer, delivery and sale thereof) the net proceeds of sale together with all accrued interest payable under Condition 5, and any cash in lieu of fractions and any other amount payable by the Issuer in respect of the relevant exercise in respect of the Relevant Bonds shall be held by the Trustee and distributed rateably to the holders of such Relevant Bonds.

(v) The Trustee and the Issuer shall have no responsibility to any person for the manner in which such sale is effected or if the aggregate sale proceeds fall short of the principal amount and any other amount due in respect of the Relevant Bonds. The Trustee shall have no liability in respect of the exercise or non-exercise of its discretion pursuant to this Condition 8(C) or the timing of such exercise or in respect of any such sale of Shares whether for the timing of any such sale or the price at which any such Shares are sold, or the inability to sell any such Shares or otherwise.

(vi) For the purposes of this Condition 8(C):

“**Conversion Ratio**” means the principal amount of each Bond divided by the Conversion Price then in effect immediately prior to the date upon which notice of such redemption is given.

(D) Redemption at the Option of the Issuer

On giving not less than 30 nor more than 60 days’ notice (an “**Optional Redemption Notice**”) to the Trustee and the Bondholders in accordance with Condition 11, the Issuer shall redeem all, but not some only, of the Bonds on the date (the “**Option Redemption Date**”) specified in the Option Redemption Notice at their Early Redemption Amount as at such date together with interest accrued to such date at any time if, immediately prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any Optional Bonds).

(E) Redemption for Delisting or Change of Control

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder’s option, to require the Issuer to redeem all or some only of such holder’s Bonds on the Relevant Event Redemption Date at their Early Redemption Amount as at such date together with interest accrued to such date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a “**Relevant Event Put Exercise Notice**”), together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 11. The “**Relevant Event Put Date**” shall be the fourteenth day after the expiry of such period of 60 days as referred to above.

A Relevant Event Put Exercise Notice, once delivered, shall be irrevocable and may not be withdrawn without the Issuer’s written consent. The Issuer shall redeem the Bonds the subject of the Relevant Event Put Exercise Notice (subject to delivery of the relevant Certificate as aforesaid) on the Relevant Event Put Date.

Within 14 days of the occurrence of a Relevant Event, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 11. The notice regarding the Relevant Event shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to this Condition. Such Notice shall also specify: (a) the date of such Relevant Event and, all information material to Bondholders concerning the Relevant Event; (b) the Relevant Event Put Date; (c) the last date by which a Relevant Event Put Exercise Notice must be given; (d) the adjusted Conversion Price pursuant to Condition 8(E) if applicable; (e) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Relevant Event Put Right or Conversion Right; and (f) the information required by Condition 8(G).

Neither the Agents nor the Trustee shall be required to monitor or to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur.

For the purposes of this Condition 8(E):

“**Relevant Event**” occurs:

- (i) when the Shares cease to be listed or admitted to trading or suspended for a period equal to or exceeding 30 consecutive Trading Days on the Relevant Stock Exchange; or
- (ii) when there is a Change of Control.

“**control**” means (a) the acquisition or holding or legal or beneficial ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of the Issuer, or (b) the right to appoint and/or remove all or the majority of the members of the Issuer’s Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise;

a “**Change of Control**” occurs when:

- (i) Other than Mr. Zhang Yuping, any person or persons, acting together, acquires control, directly or indirectly, of the Issuer provided that such person or persons does not or do not have, and would not be deemed to have, Control of the Issuer on the Issue Date; or
- (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the assets of the Issuer to any other person or persons, acting together;

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer’s board of directors or any other governing board and does not include the Issuer’s wholly-owned direct or indirect Subsidiaries; and

“**Voting Rights**” means the right generally to vote at a general meeting of shareholders of the Issuer (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

(F) Redemption at the Option of the Bondholders

The holder of each Bond will have the right to require the Issuer to redeem that Bond on 20 October 2013 (the “**Optional Put Date**”) at its Early Redemption Amount as at such date together with interest accrued to such date. To exercise such right, the holder of the relevant Bond must deliver the Certificate representing such Bond to the specified office of any Paying Agent, together with a duly completed and signed notice of exercise in the form for the time being current, obtainable from the specified office of any Agent (the “**Optional Put Exercise Notice**”), not more than 60 days and not less than 30 days prior to the Optional Put Date.

An Optional Put Exercise Notice, once delivered, shall be irrevocable and the Issuer (and may not be withdrawn unless the Issuer consents in writing to such withdrawal) shall redeem all Bonds the subject of Optional Put Exercise Notice as aforesaid on the Optional Put Date.

(G) Purchase

The Issuer or any of its Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase Bonds at any price in the open market or otherwise.

(H) Cancellation

All Bonds which are redeemed, converted or purchased by the Issuer or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

(I) Redemption Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition 8 will be irrevocable and will be given in accordance with Condition 11 specifying: (a) the Conversion Price as at the date of the relevant notice; (b) the last day on which Conversion Rights may be exercised; (c) the Volume Weighted Average Price of the Shares on the latest practicable date prior to the publication of the notice; (d) the applicable redemption amount and accrued interest payable (if any); (e) the date for redemption; (f) the manner in which redemption will be effected; (g) the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice; and (h) such other information as the Trustee may require.

No notice of redemption given under Condition 8(B) or Condition 8(D) shall be effective if it specifies a date for redemption which falls during a Restricted Transfer Period or within 15 days following the last day of a Restricted Transfer Period.

If more than one notice of redemption is given (being a notice given by either the Issuer or a Bondholder pursuant to this Condition), the first in time shall prevail. Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under these Conditions.

(J) Early Redemption Amount

“Early Redemption Amount” means an amount in respect of each H.K.\$1,000,000 principal amount of the Bonds determined so that it represents (a) in the case of a redemption on the Maturity Date, at 105.413 per cent. of its principal amount together with unpaid accrued interest from and including the immediately preceding Interest Payment Date, or (b) in the case of a redemption of the Bonds otherwise pursuant to Condition 8 or if the Bonds become due and payable pursuant to Condition 10, the amount which is determined by the Issuer to be the amount which, together with unpaid accrued interest from and including the immediately preceding Interest Payment Date or, if none, the Issue Date, and after taking into account any interest paid in respect of such Bonds in preceding periods, represents for the Bondholder on the relevant date for determination of the Early Redemption Amount (the **“Determination Date”**) for the Bondholder a gross yield of 3.50 per cent. per annum calculated on a semi-annual basis. The applicable Early Redemption Amount for each H.K.\$1,000,000 principal amount of Bonds is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the relevant Determination Date is an Interest Payment Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Interest Payment Date):

$$\text{Early Redemption Amount} = (\text{Previous Redemption Amount} \times (1+r/2)^{d/p}) - AI$$

Where:

Previous Redemption Amount = the Early Redemption Amount for each H.K.\$1,000,000 principal amount on the Interest Payment Date immediately preceding the relevant Determination Date (or if the Bonds are to be redeemed prior to 20 April 2011, H.K.\$1,000,000):

<u>Interest Payment Date</u>	<u>Early Redemption Amount</u>
	(H.K.\$)
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

r = 3.50 per cent. expressed as a fraction.

d = number of days from and including the immediately preceding Interest Payment Date (or if the Determination Date is before the first Interest Payment Date, from and including the Issue Date) to, but excluding, the Determination Date calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

p = 180.

AI = means the accrued interest on the principal amount of the Bonds from and including the immediately preceding Interest Payment Date (or if the Determination Date is before the first Interest Payment Date, from and including the Issue Date) to, but excluding, the Determination Date, calculated on the basis described in Condition 5.

If the Early Redemption Amount payable in respect of any Bond upon its redemption pursuant to Condition 8 or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Bonds shall be the Early Redemption Amount of such Bonds as described above, as though references to the Determination Date had been replaced by references to the Relevant Date (as defined in Condition 9), and interest shall accrue at the rate provided for in Condition 5 on the principal amount of such Bonds to the Relevant Date. The calculation of the Early Redemption Amount in accordance with this Condition will continue to be made (as well after as before judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be 105.413 per cent. of the principal amount of the Bonds together with default interest thereon at the rate provided for in Condition 5 from and including the Maturity Date to but excluding the Relevant Date.

9 TAXATION

All payments made by or on behalf of the Issuer in respect of the Bonds shall be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied collected, withheld or assessed by or on behalf of the Cayman Islands or Hong Kong or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in the receipt by the Bondholders of such amounts as would have been received by them had no such deduction or withholding been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

- (i) *Other connection*: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Cayman Islands or Hong Kong other than the mere holding of the Bond or by the receipt of amounts in respect of the Bond;
- (ii) *Presentation more than 30 days after the relevant date*: (in the case of a payment of principal or premium (if any)) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the relevant Certificate for payment on the last day of such period of 30 days;
- (iii) *Payment to individuals*: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Union Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or
- (iv) *Payment by another Paying and Conversion Agent*: presented for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

"**Relevant Date**" means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

References in these Conditions to principal, premium (if any) and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

The provisions of this Condition 9 shall not apply in respect of any payments of interest which fall due after the relevant Tax Redemption Date in respect of any Bonds which are the subject of a Bondholder election pursuant to Condition 8(B).

10 EVENTS OF DEFAULT

The Trustee and the Agents need not do anything to ascertain whether any Events of Default or Potential Event of Default has occurred or is continuing and will not be responsible to Bondholders or any other person for any loss arising from any failure by it to do so. Unless and until the Trustee or the Agents otherwise has notice in writing to the contrary, the Trustee or the Agents may assume that no such event has occurred and that the Issuer is performing all its obligations under the Trust Deed and the Bonds.

If any of the following events (each an “**Event of Default**”) occurs the Trustee at its discretion may, and if so requested in writing by the holders of not less than 20 per cent. in principal amount of the Bonds then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in either case to being indemnified and/or secured by the holders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become due and repayable at their Early Redemption Amount as at such date together with accrued interest (if any) to the date of payment (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

- (i) *Non-Payment*: the Issuer fails to pay the principal of or any premium (including any Early Redemption Amount) or interest on any of the Bonds when due; or
- (ii) *Failure to deliver Shares*: any failure by the Issuer to deliver any Shares as and when the Shares are required to be delivered following conversion of Bonds; or
- (iii) *Breach of Other Obligations*: the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Issuer by the Trustee; or
- (iv) *Cross-Default*: (a) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(iv) have occurred equals or exceeds U.S.\$2,000,000 or its equivalent (as reasonably determined on the basis of the middle spot rate for the relevant currency against the Hong Kong dollar as quoted by any leading bank selected by the Trustee on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity); or
- (v) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against, in the opinion of the Trustee, any material part of the property, assets or revenues of the Issuer or any of its Subsidiaries of an individual or aggregate value of U.S.\$2,000,000 and is not discharged or stayed within 30 days; or
- (vi) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or
- (vii) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer or any of its Principal Subsidiaries (except for a members’ voluntary solvent winding up of a Principal Subsidiary), or the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or, in the opinion of the Trustee, substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation,

reorganisation, merger or consolidation (a) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

- (viii) *Insolvency*: the Issuer or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or, in the opinion of the Trustee, a substantial part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Principal Subsidiaries; an administrator or liquidator of the Issuer or any of its Principal Subsidiaries or the whole or, in the opinion of the Trustee, any substantial part of the assets and turnover of the Issuer or any of its Principal Subsidiaries is appointed (or application for any such appointment is made); or
- (ix) *Nationalisation*: (a) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries or (b) the Issuer, or any of its Principal Subsidiaries is prevented from exercising normal control over all or, in the opinion of the Trustee, a substantial part of its property, assets and turnover; or
- (x) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Bonds and the Trust Deed admissible in evidence in the courts of the Cayman Islands or Hong Kong is not taken, fulfilled or done; or
- (xi) *Illegality*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (xii) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that, in the case of Conditions 10(iii), 10(v), 10(vi), 10(ix), 10(x), 10(xi) and 10(xii), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of Bondholders.

In this Condition 10, a “**Principal Subsidiary**” means at any time a Subsidiary of the Issuer:

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries), whose net profits (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 5 per cent. of the consolidated gross revenues, consolidated net profits or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that, in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries

relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;

- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall become a Principal Subsidiary pursuant to this subparagraph (a) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transfer or Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, generate gross revenues equal to) not less than 5 per cent. of the consolidated gross revenues of the Issuer and its Subsidiaries taken as a whole, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, generate net profits equal to) not less than 5 per cent. of the consolidated net profits of the Issuer and its Subsidiaries taken as a whole, or represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues or, as the case may be, net profits equal to) not less than 5 per cent. of the consolidated gross revenues or consolidated net profits of the Issuer and its Subsidiaries taken as a whole, or its assets represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall become a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

11 NOTICES

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Register or published in a leading newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal) and so long as the Bonds are listed on the SGX-ST and if the rules of the SGX-ST so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Business Times*). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Bondholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

12 PRESCRIPTION

Claims in respect of amounts due in respect of the Bonds shall be prescribed and become void unless made as required by Condition 7 within ten years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date.

13 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or any Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(A) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (a) to modify the maturity of the Bonds, the Option Redemption Date or the dates on which interest is payable in respect of the Bonds, (b) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem the Bonds pursuant to Condition 8(B), (D), (E) or 8(F) or in which the Issuer is entitled to exercise forced conversion pursuant to Condition 8(C), (c) to reduce or cancel the principal amount of, any premium (including any Early Redemption Amount) payable in respect of the Bonds or interest, Equivalent Amount payable in respect of the Bonds or changing the method of calculation of interest or the Early Redemption Amount, (d) to change the currency of denomination or payment of the Bonds, (e) to modify (except by a unilateral and unconditional reduction in the Conversion Price) or cancel the Conversion Rights, or (f) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent., or at any adjourned meeting not less than 33 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed). For the avoidance of doubt, all modifications or amendments to the Trust Deed or the Conditions shall require the consent of the parties to the Trust Deed.

The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(B) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (a) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (together the “**Documentation**”) which in the Trustee’s opinion is of a formal, minor or technical nature, or is made to correct a manifest error, or to comply with mandatory provisions of law, and (b) any other modification to the Documentation (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Documentation which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. Notwithstanding the foregoing, the Issuer shall be entitled to direct the Trustee to effect any modification (except as mentioned in Condition 14(A) above) to, or any waiver of, the Bonds, these Conditions, the Trust Deeds any trust deed supplemental to the Trust Deed, the Agency Agreement or any agreement supplemental to the Agency Agreement, if to do so could not reasonably be expected to be materially prejudicial to the interests of the Bondholders. The Issuer shall provide written notice to the Trustee setting out the proposed modification or waiver and an explanation of the rationale in reasonable detail and accompanied by (a) a certificate signed by two directors of the Issuer and (b) if required by the Trustee, an opinion of an Independent Investment Bank or independent legal advisers of recognised standing certifying that such modification or waiver could not reasonably be expected to be prejudicial to the interests of the Bondholders. Upon the receipt of such written notice and accompanying documents, the Trustee is authorised to, without the consent of any Bondholder, enter into a supplement trust deed and/or supplemental agency agreement to give effect to the modification or waiver without any liabilities to the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders promptly in accordance with Condition 11.

(C) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

In the event of the passing of an Extraordinary Resolution in accordance with Condition 14(A), a modification, waiver or authorisation in accordance with Condition 14(B), the Issuer will procure that the Bondholders be notified in accordance with Condition 11.

15 ENFORCEMENT

The Trustee may, at any time, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it needs not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or shall have been so requested in writing by the holders of not less than 20 per cent. in principal amount of the Bonds then outstanding and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

16 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including from taking proceedings unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

17 FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

(A) Governing Law

The Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(B) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of such courts.

(C) Agent for Service of Process

Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Bonds.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions of the Bonds set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

MEETINGS

The registered holder (as defined in the Conditions) (and any proxy or representative appointed by it) of this Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each H.K.\$1,000,000 in principal amount of Bonds for which this Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which this Global Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders on appropriate proof of his identity and interest.

CANCELLATION

Cancellation of any Bond by the Company following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

TRUSTEE'S POWERS

In considering the interests of Bondholders while this Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obligated to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which this Global Certificate is issued.

CONVERSION

Subject to the requirements of Euroclear and Clearstream (or any Alternative Clearing System), the Conversion Rights attaching to the Bonds in respect of which this Global Certificate is issued may be exercised by the presentation thereof to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of this Global Certificate with the Principal Agent together with the relevant Conversion Notice(s) shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of this Global Certificate.

PAYMENT

Payments of principal and interest in respect of Bonds represented by this Global Certificate will be made without presentation or if no further payment falls to be made in respect of the Bonds, against presentation and surrender of this Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Such payment will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

NOTICES

So long as the Bonds are represented by this Global Certificate and this Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

BONDHOLDER'S REDEMPTION

The Bondholder's redemption options in Conditions 8(E) and 8(F) may be exercised by the holder of this Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting this Global Certificate for endorsement or exercise (if required) within the time limits specified in the Conditions.

REDEMPTION OR FORCED CONVERSION AT THE OPTION OF THE COMPANY

The options of the Company provided for in Conditions 8(B), 8(C) and 8(D) shall be exercised by the Company giving notice to the Bondholders within the time limits set out in and containing the information required by such Conditions and Condition 8(I) except that the notice shall not be required to contain the serial numbers of Bonds drawn for redemption in the case of a partial redemption of Bonds and accordingly no drawing of Bonds for redemption shall be required. Partial redemptions will be conducted in accordance with the rules of the relevant clearing system.

BONDHOLDER'S TAX OPTION

The option of Bondholders not to have the Bonds redeemed as provided in Condition 8(F) shall be exercised by the presentation to any Paying Agent, or to the order of such Paying Agent, of a duly completed current notice within the time limits set out in and containing the information required by Condition 8(F).

REGISTRATION OF TITLE

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which this Global Certificate is issued, except if either Euroclear or Clearstream (or any Alternative Clearing System) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

TRANSFERS

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

ENFORCEMENT

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, only the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trust set out in the Trust Deed, to the extent of the principal amount of their interest in the Bonds set out in the certificate of the clearing system, as if they were themselves the holders of the Bonds in such principal amounts.

DESCRIPTION OF THE SHARES

The following statements are brief summaries of the more important rights and privileges of Shareholders conferred by the laws of the Cayman Islands and the Memorandum and Articles of Association. These statements are only a summary and are qualified in their entirety by reference to the Memorandum and Articles of Association of the Issuer and the Companies Law, (2009 Revision) of the Cayman Islands (the "Cayman Companies Law").

SHARE CAPITAL/SHARES/ISSUE OF SHARES

The Issuer's authorised share capital is H.K.\$50,000,000 divided into 10,000,000,000 shares of H.K.\$0.005 each. Under the Cayman Companies Law, certain changes in the capital of the Issuer such as an increase, consolidation or sub-division are permitted if authorised by the Articles of Association of the Issuer (the "Articles"). The Articles provide that an ordinary resolution is required for an increase to, consolidation or sub-division of, the Issuer's share capital. With regard to a reduction of share capital, following the requirement of the Cayman Companies Law, the Articles require a special resolution to be passed. The Articles define an ordinary resolution as one passed by a simple majority of votes cast by members at general meetings, and a special resolution as a resolution requiring a 75 per cent. (75%) majority vote of members at general meetings of which not less than 21 days' notice has been given.

As of the date of this Offering Circular, the Issuer has 4,375,867,000 Shares in issue which are fully paid-up. All of the Shares of the Issuer are in registered form. The Shares of the Issuer, which have identical rights in all respects, rank equally with one another. Subject to the Cayman Companies Law, no shares may be issued by the Board without the prior approval of the Issuer in general meeting but subject thereto and to the Articles and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Issuer shall be at the disposal of the Board which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may in its absolute discretion determine but so that no Shares shall be issued at a discount, provided always that (a) no Shares shall be issued to transfer a controlling interest in the Issuer without the prior approval of the Issuer's members in general meeting, (b) subject to any direction to the contrary that may be given by the Issuer in general meeting, any issue of Shares for cash to the members holding shares of any class shall be offered to such members in proportion as nearly as may be to the number of shares of such class then held by them and the provisions of the Articles shall apply with such adaptations as are necessary shall apply; and (c) any other issue of shares, the aggregate of which would exceed the limits referred to in the Articles, shall be subject to the approval of the Issuer in general meeting.

In the event of the issuance of preference shares, the total nominal value of such preference shares may not exceed the total nominal value of the issued ordinary shares.

The Articles provide that the Issuer in general meeting may give to the Directors a general authority to issue Shares and convertible instruments where the aggregate number of Shares to be issued pursuant to such authority does not exceed 50.0 per cent. (or such other limit as may be prescribed by the Hong Kong Stock Exchange) of the issued share capital of the Issuer at the time of the passing of the resolution, of which the aggregate number of Shares to be issued other than on a pro rata basis to the Shareholders of the Issuer does not exceed 20.0 per cent. (or such other limit as may be prescribed by the Hong Kong Stock Exchange) of the issued share capital of the Issuer at the time of the passing of the resolution.

The Issuer may, subject to the Cayman Companies Law and the Articles, purchase its own Shares.

The Issuer will replace lost or destroyed certificates for Shares provided that the applicant pays such fees as the Hong Kong Stock Exchange may determine to be the maximum fee payable or such lesser sum as the Board may determine, together with the amount of stamp duty payable, if any, and furnishes such evidence and a letter of indemnity as the Board may require.

TRANSFER OF SHARES

Subject to the Articles, any member may transfer all or any of his Shares by a duly signed instrument of transfer in the form acceptable to the Board provided always that the Issuer shall accept for registration an instrument of transfer in a form approved by the Hong Kong Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that an instrument of transfer in respect of which the transferee is the Depository shall be effective although not signed or witnessed by or on behalf of the Depository. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof.

The Board may, in its absolute discretion and without giving any reason therefor, refuse to register a transfer of any share (not being a fully paid up share) to a person whom it does not approve of, and it may also refuse to register a transfer of any share (not being a fully paid up share) on which the Issuer has a lien or, except in the case of a transfer to executors, administrators or trustees of the estate of a deceased member, a transfer of any share to more than three joint holders.

The registration of transfers of shares may, after notice has been given by advertisement in an appointed newspaper or any other newspaper or by any electronic means in accordance with the requirements of the Hong Kong Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole 30 days in any year) as the Board may determine.

GENERAL MEETINGS AND VOTING RIGHTS

Under the Cayman Companies Law, there is no distinction between annual general meetings and other general meetings. Under the Articles, the annual general meeting is required to be convened at least once in every calendar year whilst the Directors may, whenever they think fit, convene an extraordinary general meeting.

The Articles provide that an annual general meeting of the Issuer shall be held each year (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules or regulations of the Hong Kong Stock Exchange, if any). In addition, for so long as the shares of the Issuer are listed on the Hong Kong Stock Exchange, the interval between the close of the Issuer's financial year and the date of the Issuer's annual general meeting shall not exceed four months or such period as may be prescribed or permitted by the Hong Kong Stock Exchange.

Subject to the Cayman Companies Law, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Issuer carrying the right of voting at general meetings of the Issuer shall at all times have the right, by written requisition to the Board or the Secretary of the Issuer, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Issuer.

At least 14 days' notice of a general meeting shall be given to each member entitled to attend and vote thereat. A general meeting at which the passing of a special resolution is to be considered shall be called by not less than 21 days' notice. For so long as the shares of the Issuer are listed on the Hong Kong Stock Exchange, at least 14 days' notice of any general meeting shall be given by advertisement in an English daily newspaper in circulation in Hong Kong and in writing to the Hong Kong Stock Exchange.

Under the Cayman Companies Law, only persons who agree to become members of a company and whose names are entered on the register of members of such company are considered members, with rights to attend and vote at general meetings. Accordingly, Depositors ("Depositors") holding Shares through the Depository would not be recognised as members of the Issuer, and

would not have a right to attend and to vote at general meetings of the Issuer. In the event that Depositors wish to attend and vote at general meetings of the Issuer, the Depository will have to appoint them as proxies, pursuant to the Articles and the Cayman Companies Law. Unless the Depository specifies otherwise in a written notice to the Issuer, the Depository shall be deemed to have appointed as the Depository's proxies each of the Depositors who are individuals and whose names are shown in the records of the Depository, as at a time not earlier than forty-eight (48) hours prior to the time of the relevant general meeting, supplied by the Depository to the Issuer. Therefore, Depositors who are individuals can attend and vote at the general meetings of the Issuer without the lodgement of any proxy form.

Depositors who cannot attend a meeting personally may enable their nominees to attend as the Depository's proxies. Depositors who are not individuals can only be represented at a general meeting of the Issuer if their nominees are appointed by the Depository as the Depository's proxies. Proxy forms appointing nominees of Depositors as proxies of the Depository would need to be executed by the Depository as member and must be deposited at the specified place and within the specified time frame to enable the nominees to attend and vote at the relevant general meeting of the Issuer.

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting (i) on a show of hands every member present in person (or being a corporation, is present by a representative duly authorised under the Articles) or by proxy shall have one vote and the chairman of the meeting shall determine which proxy shall be entitled to vote where a member (other than the Depository) is represented by two proxies, and (ii) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder or which he represents and in respect of which all calls due to the Issuer have been paid, but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. If the member is the Depository, the Depository may appoint more than two proxies to attend and vote at the same general meeting and each proxy shall be entitled to exercise the same powers on behalf of the Depository as the Depository could exercise, including the right to vote individually on a show of hands.

PURCHASE BY THE ISSUER OF ITS OWN SHARES

Under the laws of the Cayman Islands, a company may, if authorised by its articles of association, purchase its own shares. The Issuer has such power to purchase its own Shares under the Articles. Such power of the Issuer to purchase its own Shares shall, subject to the Cayman Companies Law and the Articles (and if applicable, the rules and regulations of the Hong Kong Stock Exchange and other regulatory authorities), be exercisable by the Directors upon such terms and subject to such conditions as they think fit.

Shares purchased by the Issuer will be treated as cancelled and the Issuer's issued, but to the authorised, capital will be diminished accordingly.

DIVIDENDS

Subject to the Cayman Companies Law, the Issuer in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board. Dividends may be declared and paid out of the profits of the Issuer, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of the share premium account or any other fund or account which may be authorised for this purpose in accordance with the Cayman Companies Law, provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Issuer shall be able to pay its debts as they fall due in the ordinary course of business.

Whenever the Board or the Issuer in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of the Issuer or any other company, or in any one or more of such ways.

BONUS AND RIGHTS ISSUES

Upon the recommendation of the Board, the Issuer in general meeting may resolve to capitalise any reserves and distribute the same amongst the members who would be entitled thereto if it were distributed by way of dividend and in the same proportions, on the footing that the same is not paid in cash but is applied either in or towards paying up the amounts for the time being unpaid on any shares in the Issuer held by such members respectively or in paying up in full unissued shares, debentures or other obligations of the Issuer, to be allotted and distributed credited as fully paid up among such members, or partly in one way and partly in the other, subject always to the provisions of the Cayman Companies Law.

TAKEOVERS

The Issuer is subject to the applicable rules of the SGX-ST and the Listing Rules and the Hong Kong Code on Take-overs and Mergers notwithstanding that the Issuer is a corporation incorporated in the Cayman Islands.

INDEMNITY

The Articles provide that the Board and officers shall be indemnified from and against all liability which they incur in execution of their duty in their respective offices, except in respect of fraud and dishonesty which such director or officer may be guilty.

LIMITATIONS ON RIGHTS TO HOLD OR VOTE SHARES

There are no limitations, either under Cayman Islands law or the Articles, on the rights of non-Caymanian owners of the Issuer's Shares to hold or vote their Shares.

MINORITY RIGHTS

The Cayman Islands courts would ordinarily be expected to follow English case law precedents which permit a minority Shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal; (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

LIQUIDATION

A resolution that the Issuer be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Issuer shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Law, divide among the Members in specie or kind the whole or any part of the assets of the Issuer and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the Members as the liquidator with the like authority shall think fit, and the liquidation of the Issuer may be closed and the Issuer dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

TAXATION

The following is a general description of certain tax considerations relating to the Bonds and is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Bonds. Prospective holders of Bonds who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

CAYMAN ISLANDS TAXATION

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

Pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Issuer has obtained an undertaking from the Governor-in-Council that: (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Issuer or its operations; and (b) the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Issuer.

The undertaking is for a period of twenty years from 20 July 2004.

The Cayman Islands is not party to any double tax treaties.

HONG KONG

The following summary of certain Hong Kong tax consequences of the purchase, ownership and disposition of the Bonds is based upon laws, regulations, decisions and practice now in effect, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the application of Hong Kong tax laws to their particular situation as well as any consequences of the purchase, ownership and disposition of the Bonds arising under the laws of any other taxing jurisdiction.

WITHHOLDING TAX

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

PROFITS TAX

Under the Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong), Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). Sums derived from the sale, disposal, conversion or redemption of Bonds are subject to Hong Kong profits tax when they are received by or when they are accrued to a person on such occasions when such sale, disposal, conversion or redemption is or forms part of such trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of Shares or the Bonds where such sale or disposal are or form part of a trade, profession or business carried on in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be

determined by having regard to the manner in which the Bonds are acquired and disposed. Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to profits tax.

STAMP DUTY

No Hong Kong stamp duty will be chargeable upon the issue or subsequent transfer of a Bond.

No Hong Kong stamp duty will be chargeable upon the issue of the Shares. Hong Kong stamp duty is however payable on any purchase or sale of Shares if the relevant transfer is required to be registered in Hong Kong. The duty is charged on each of the purchaser and the seller at an ad valorem rate of 0.1 per cent. of the higher of the consideration for or the value of the Shares bought and sold. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of H.K.\$5 on each instrument of transfer executed in relation to any transfer of the Shares if the relevant transfer is required to be registered in Hong Kong.

ESTATE DUTY

The Revenue (Abolition of Estate Duty) Ordinance 2005 commenced operation on 11 February 2006. Estates of the deceased persons are not subject to Hong Kong estate duty if the deceased person passes away on or after the aforesaid commencement date of that ordinance.

EU SAVINGS DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

SUBSCRIPTION AND SALE

The Managers have severally, and not jointly, pursuant to a subscription agreement dated 20 September 2010 (the "Subscription Agreement"), agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for or procure subscribers to subscribe and pay for H.K.\$2,500 million in principal amount of the Bonds (the "Bonds") on the Closing Date at a subscription price of 100 per cent. Of their principal amount of the Bonds, subject to deduction therefrom of commissions and expenses as provided for in the Subscription Agreement.

The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer has undertaken to the Managers that neither the Issuer nor any person acting on its behalf will (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers (which consent shall not be unreasonably withheld or delayed) between the date of the Subscription Agreement and the date which is 90 days after the Closing Date (both dates inclusive); except for (a) the Bonds and the new Shares issued on conversion of the Bonds; (b) securities issued under the share option scheme of the Company and (c) shares issued on conversion of the RMB denominated US dollar settled senior unsecured zero coupon convertible bonds due 2012 of an initial aggregate principal amount of RMB1,150 million.

Best Growth International Limited has undertaken in favour of each of the Managers that, between the date of the Subscription Agreement and the date which is 90 days after the Closing Date (both dates inclusive), it will not, and will procure that none of its nominees, companies controlled by it and trusts associated with it (whether individually or together and whether directly or indirectly) and affiliates will (i) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares held, directly or indirectly, by it (the "Lock-up Shares") or any interests therein beneficially owned or held by it or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Lock-up Shares or interests or (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Lock-up Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Lock-up Shares or such other securities, in cash or otherwise or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above, unless with the prior written consent of the Managers (which consent shall not be unreasonably withheld or delayed).

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Subscription Agreement provides that the obligations of the Manager are subject to certain conditions precedent, and entitles the Manager to terminate it in certain circumstances prior to payment being made to us. We have agreed to indemnify the Manager against certain liabilities in connection with the offer and sale of the Bonds.

The Manager or its affiliates may purchase the Bonds for its or their own account and enter into transactions, including (i) credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Bonds and/or our securities or (ii) equity derivatives and stock loan transactions relating to the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. The Manager and certain of its subsidiaries or affiliates have performed, and may perform, certain commercial banking, investment banking and advisory services for us and/or our subsidiaries from time to time for which they have received, and may receive, customary fees and expenses. In addition to the transactions noted above, the Manager may, from time to time, engage in other transactions with and perform services for us and/or our subsidiaries and affiliates in the ordinary course of our business. In addition the Manager and certain of their subsidiaries and affiliates hold and may hold Shares as beneficial owners, on behalf of clients or in the capacity of investment advisors or otherwise.

Each of the Managers has severally and not jointly represented, warranted and agreed that it has complied and will comply with the following terms:

- 1 United States:** The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented and warranted that it has not offered or sold, and agreed that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S or other exemptions therefrom. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds or the Shares to be issued upon conversion of the Bonds. Terms used in this paragraph have the meaning given to them by Regulation S.

Each Manager has represented and warranted that it has not entered and agreed that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Bonds, except with its affiliates or with the prior written consent of the Issuer.

- 2 Public Offer Selling Restriction under the Prospectus Directive:** in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Manager has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by the Offering Circular to the public in that Relevant Member State other than:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

3 United Kingdom: Each of the Managers has represented, warranted and agreed that:

- 3.1 it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- 3.2 it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

4 Hong Kong: Each Manager has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

5 Singapore: Each Manager has acknowledged that the Offering Circular will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Each Manager has further represented and agreed to notify each of the following relevant persons specified in Section 275 of the SFA which has subscribed or purchased the Bonds from or through it, namely a person which is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Bonds under Section 275 except:

- (1) to an institutional investor or to a relevant person, or to any person pursuant to an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;
- (2) where no consideration is given for the transfer;
- (3) by operation of law; or
- (4) as specified in section 276(7) of the SFA.

6 Japan: The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "Financial Instruments and Exchange Act"). Accordingly, each Manager represents, warrants and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

7 Cayman Islands: No offer of the Bonds will be made directly or indirectly to the public in the Cayman Islands.

8 The People's Republic of China: Each Manager represents, warrants and agrees that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

GENERAL INFORMATION

- (1) The Issuer is incorporated in the Cayman Islands as an exempted company with limited liability on 9 July 2004 under the Cayman Companies Law and its registration number is CT-137741. The registered office of the Issuer is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business in Hong Kong of the Issuer is Room 301, 3/F, Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Hong Kong.
- (2) The terms of the Offering and the issue of the Bonds were approved by resolutions of the Board of Directors of the Issuer passed on 20 September 2010.
- (3) Approval in-principle has been received for the listing of the Bonds on the SGX-ST. Approval in-principle for the listing and quotation of the Bonds is not to be taken as an indication of the merits of the Bonds or the Issuer. Permission will be granted when the Bonds have been admitted to Official List of the SGX-ST. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for definitive Certificates. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement shall include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.
- (4) Conditional approval for the listing of the Shares to be issued on conversion of the Bonds to be listed on the Hong Kong Stock Exchange has been granted by the Hong Kong Stock Exchange.
- (5) Copies of the Memorandum and Articles of Association of the Issuer and copies of the Trust Deed and the Agency Agreement will be available for inspection during usual business hours on any weekday (except public holidays) at the registered office of the Trustee and Principal Paying and Conversion Agent being at the date hereof at Room 301, 3/F, Lippo Sun Plaza, 28 Canton Road, Tsimshatsui, Kowloon, Hong Kong, so long as any of the Bonds is outstanding. Copies of the published financial statements of the Issuer will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Bonds is outstanding.
- (6) The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 054380135. The International Securities Identification Number for the Bonds is XS0543801350.
- (7) Except as disclosed in this Offering Circular, there has been no material adverse change in the consolidated financial position or prospects of the Issuer and its subsidiaries since 31 December 2009.
- (8) Neither the Issuer nor any of its subsidiaries is involved in any litigation or arbitration proceedings or any regulatory investigations relating to claims or amounts which are material in the context of the issue of the Bonds nor, so far as the Issuer is aware, is any such litigation or arbitration pending or threatened.
- (9) The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on certificates prepared by the directors of the Company and accompanied by a certificate or report prepared by an internationally recognised firm of accountants or other expert to the Company whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognised firm of accountants or other expert to the Company and whether by reference to a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under the Terms and Conditions or the Trust Deed. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.
- (10) KPMG has audited and rendered an unqualified audit report on the Issuer's consolidated financial statements for each of the years ended 31 December 2007, 2008 and 2009.



HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)