XINYU HENGDELI HOLDINGS LIMITED
新宇亨得利控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 3389)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Financial highlights

Sales	increase 90.4% to RMB4,578,741,000
Gross profit	increase 83.0% to RMB1,030,060,000
Profit from operations	increase 97.2% to RMB632,994,000
Profit attributable to equity shareholders of the Company	increase 109.7% to RMB417,523,000
Basic earnings per share	increase 86.7% to RMB0.168 per share

Proposed final dividend of RMB149,070,000, representing 35.7% distribution from the profit attributable to equity shareholders of the Company for the financial year 2007.

The Board of Directors (the "Board") of Xinyu Hengdeli Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover		**4,578,741**	2,404,699
Cost of sales		**(3,548,681)**	(1,841,795)
Gross profit		**1,030,060**	562,904
Other revenue		**54,741**	31,793
Other net income		**31,672**	6,449
Distribution costs		**(312,383)**	(175,889)
Administrative expenses		**(156,261)**	(98,287)
Other operating expenses		**(14,835)**	(6,013)
Profit from operations		**632,994**	320,957
Finance costs	2(a)	**(81,582)**	(27,048)
Share of profits/(losses) of jointly controlled entities		**276**	(80)
Profit before taxation		**551,688**	293,829
Income tax	3(a)	**(109,535)**	(80,231)
Profit for the year		**442,153**	213,598
Attributable to:			
Equity shareholders of the Company		**417,523**	199,101
Minority interests		**24,630**	14,497
Profit for the year		**442,153**	213,598
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	4(a)	**149,070**	69,566
Earnings per share			
Basic	5(a)	**RMB 0.168**	RMB 0.090
Diluted	5(b)	**RMB 0.165**	RMB 0.090

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	**2007**	2006
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**288,725**	251,101
Investment property		**29,535**	–
Intangible assets		**43,444**	32,989
Goodwill		**213,165**	181,045
Interest in jointly controlled entities		**27,913**	14,720
Other investments		**250**	250
Deferred tax assets		**24,487**	24,948
		627,519	505,053
Current assets			
Inventories		**1,666,976**	1,262,382
Trade receivables, prepayments and other receivables		**560,433**	321,008
Pledged bank deposits		**83,470**	76,908
Cash and cash equivalents		**987,193**	298,275
		3,298,072	1,958,573
Current liabilities			
Trade and other payables		**476,119**	370,698
Bank loans and overdrafts		**245,346**	387,814
Current taxation		**87,644**	74,484
		809,109	832,996
Net current assets		**2,488,963**	1,125,577
Total assets less current liabilities		**3,116,482**	1,630,630
Non-current liabilities			
Bank loans		**–**	22,070
Convertible bonds		**994,558**	–
Embedded financial derivatives		**131,544**	–
Deferred tax liabilities		**8,009**	–
		1,134,111	22,070
NET ASSETS		**1,982,371**	1,608,560
CAPITAL AND RESERVES			
Share capital		**12,927**	12,927
Reserves		**1,772,571**	1,459,159
Total equity attributable to equity shareholders of the Company		**1,785,498**	1,472,086
Minority interests		**196,873**	136,474
TOTAL EQUITY		**1,982,371**	**1,608,560**

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that derivative financial instruments are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2007	2006
	RMB'000	*RMB'000*
Interest expense on bank loans and overdrafts	**26,589**	23,193
Interest on convertible bonds	**19,772**	–
Bank charges	**17,882**	3,855
Net foreign exchange loss	**13,566**	–
Others	**3,773**	–
	81,582	27,048

(b) Staff costs

	2007	2006
	RMB'000	*RMB'000*
Wages, salaries and other benefits	**125,497**	76,165
Contributions to defined contribution retirement plans	**8,744**	6,161
Equity-settled share-based payment transactions	**7,664**	–
	141,905	82,326

(c) Other items

	2007	2006
	RMB'000	*RMB'000*
Cost of inventories#	**3,557,962**	1,847,240
Auditors' remuneration – audit services	**3,685**	2,700
Depreciation – property, plant and equipment, and investment property	**29,664**	15,970
Amortisation of intangible assets	**573**	120
Operating leases charges in respect of properties		
– minimum lease payments	**41,238**	16,610
– contingent rents	**114,159**	59,693

\# Cost of inventories includes RMB**12,506** thousand (2006: RMB5,565 thousand), relating to write-down of inventories for the year ended 31 December 2007.

3. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007	2006
	RMB'000	*RMB'000*
Current tax		
Provision for Hong Kong profits tax for the year	**31,939**	5,577
Provision for PRC income tax for the year	**103,875**	84,935
Over provision in respect of prior years	**(1,690)**	(2,886)
Income tax refund	**(24,995)**	–
Sub-total	**109,129**	87,626
Deferred tax		
Origination and reversal of temporary differences	**(4,252)**	(7,395)
Effect of change in future enacted tax rate	**4,658**	–
Sub-total	**406**	(7,395)
Total	**109,535**	80,231

Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, certain subsidiaries located in jurisdictions other than the PRC, except for those mentioned below, are not subject to any income tax in these jurisdictions.

Provision for Hong Kong profits tax during the year ended 31 December 2007 is calculated at 17.5% of the estimated assessable profits of subsidiaries in Hong Kong.

The provision for PRC income tax is based on a statutory rate of 33% of the assessable profits of subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC during the year, except for the subsidiaries which are entitled to a preferential income tax rate of 15%. One subsidiary is entitled to a tax holiday of a tax-free period for two years from its first profit-making year of operations and thereafter, it is eligible for a 50% reduction of the applicable income tax rate for the following three years.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law"). According to the New Tax Law, the new enterprise income tax rate for all companies in the PRC is unified at 25% effective from 1 January 2008 when the Foreign Enterprise Income Tax ("FEIT") Law was ended. In addition, pursuant to the transitional arrangement under the New Tax Law, the preferential income tax rate applicable to certain PRC subsidiaries will only be gradually increased from the existing rate of 15% to the unified rate of 25% over a 5-year transition period. The new rates are used to measure the Group's deferred tax balances as at 31 December 2007. The PRC subsidiary which is in its tax holiday will also continue to enjoy the tax-exemption or 50% reduction on the applicable income tax rate under the New Tax Law until the expiry of the above-mentioned tax holiday previously granted under the FEIT Law, and thereafter it is subject to the unified rate of 25%.

Pursuant to the FEIT Law, the investor of a foreign investment enterprise ("FIE") established in the PRC is eligible to claim refund of enterprise income tax previously paid by a FIE should the investor reinvest the profits generated by a FIE, either through direct investment into the same FIE or establishment of another FIE. During the year ended 31 December 2007, the tax bureau in the PRC approved and paid to the Group, pursuant to the FEIT Law, a tax refund of RMB24,995 thousand (2006: nil) in respect of the Group's re-investment of profits generated by a PRC subsidiary.

Pursuant to the profits tax legislation announced by the Financial Secretary of the Hong Kong SAR Government on 27 February 2008, the new profits tax rate of Hong Kong is revised to 16.5% with effect from the fiscal year 2008-09. In accordance with the Group's accounting policy, no adjustments have been made to these financial statements as a result of this announcement.

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

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**551,688**	293,829
Computed tax using the applicable tax rate to respective companies comprising the Group	**138,515**	88,339
Non-taxable income	**(9,266)**	(6,562)
Non-deductible expenses	**1,266**	1,340
Over-provision in prior years	**(1,690)**	(2,886)
Tax effect of unused tax losses not recognised	**1,047**	–
Income tax refund	**(24,995)**	–
Effect of change in future enacted tax rate	**4,658**	–
Actual tax expense	**109,535**	80,231

4. DIVIDENDS

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

	2007	2006
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of RMB0.060 per ordinary share (2006: RMB0.028 per ordinary share)	**149,070**	69,566

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007	2006
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.028 per share (2006: RMB0.048 per share)	**69,566**	49,800

5. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB417,523 thousand (2006: RMB199,101 thousand) and the weighted average of 2,484,500,000 ordinary shares (2006: 2,219,727,398 ordinary shares) in issue during the year. The weighted average number of ordinary shares in issue for 2006 has been retrospectively adjusted for the effect of the share split on 6 February 2007.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 was based on the profit attributable to equity shareholders of the Company (diluted) of RMB418,764 thousand (2006: RMB199,101 thousand) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 2,544,072,599 (2006: 2,219,727,398), calculated as follows:

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

	2007	2006
Weighted average number of ordinary shares	**2,484,500,000**	2,219,727,398
Effect of conversion of convertible bonds	**59,572,599**	–
Weighted average number of ordinary shares (diluted) at 31 December	**2,544,072,599**	2,219,727,398

The performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. As no shares would be issuable if 31 December 2007 were the end of the contingently period, no effect of share options is included in the calculation of diluted earnings per share.

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

	2007	2006
	RMB'000	*RMB'000*
Profit attributable to equity shareholders (basic)	**417,523**	199,101
Effect of effective interest on the liability component of convertible bonds	**19,772**	–
Effect of gain recognised on the derivative component of convertible bonds	**(18,531)**	–
Profit attributable to equity shareholders (diluted) at 31 December	**418,764**	199,101

6. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises two principal business segments which are retail and wholesale respectively.

	2007	2006
	RMB'000	*RMB'000*
Turnover		
Retail	**3,048,755**	1,362,863
Wholesale	**1,439,980**	1,024,507
Unallocated	**90,006**	17,329
Total	**4,578,741**	2,404,699
Segment result		
Retail	**526,444**	215,522
Wholesale	**139,467**	130,757
Total	**665,911**	346,279
Unallocated operating income and expenses	**(32,917)**	(25,322)
Profit from operations	**632,994**	320,957
Finance costs	**(81,582)**	(27,048)
Share of profits/(losses) of jointly controlled entities	**276**	(80)
Income tax	**(109,535)**	(80,231)
Profit for the year	**442,153**	213,598
Segment assets		
Retail	**2,151,345**	1,365,958
Wholesale	**1,315,392**	642,559
Total	**3,466,737**	2,008,517
Unallocated assets	**458,854**	455,109
Total assets	**3,925,591**	2,463,626
Segment liabilities		
Retail	**395,144**	267,013
Wholesale	**86,655**	83,648
Total	**481,799**	350,661
Unallocated liabilities	**1,461,421**	504,405
Total liabilities	**1,943,220**	855,066
Capital expenditure		
Retail	**24,821**	46,029
Unallocated	**35,218**	94,422
Total	**60,039**	140,451
Depreciation and amortisation		
Retail	**21,122**	7,158
Unallocated	**9,115**	8,932
Total	**30,237**	16,090
Impairment losses for doubtful accounts		
Wholesale	**1,723**	407

Geographical segments

The Group's business is mainly managed in two principal economic environment, the PRC (other than Hong Kong) and Hong Kong.

	2007	2006
	RMB'000	*RMB'000*
Turnover		
The PRC (other than Hong Kong)	**3,101,659**	1,982,710
Hong Kong	**1,455,454**	421,989
Others	**21,628**	–
Total	**4,578,741**	2,404,699
Segment assets		
The PRC (other than Hong Kong)	**2,311,171**	1,847,415
Hong Kong	**1,512,701**	616,211
Others	**101,719**	–
Total	**3,925,591**	2,463,626
Capital expenditure		
The PRC (other than Hong Kong)	**54,741**	137,641
Hong Kong	**4,413**	2,810
Others	**885**	–
Total	**60,039**	140,451

MANAGEMENT DISCUSSION AND ANALYSIS

I MARKET OVERVIEW

The PRC economy keeps up its rapid growing pace in 2007. The total retail consumption in the community has been at a relatively high growing rate for years, whereas luxury goods consumption is in its initial stage. In terms of culture, quality and collections, the essence of watches and other high-end consumer products are constantly being furthered, which in turn provide an ideal platform for the distribution business, product line extension and customer service of the Group's high-end consumer products.

II FINANCIAL REVIEW

Sales

For the year ended 31 December 2007, the Group recorded sales of RMB4,578,741,000, representing an increase of 90.4% when compared with the corresponding period of last year. Among which, sales from retail business accounted for 66.6% and amounted to RMB3,048,755,000, representing an increase of 123.7% when compared with the corresponding period in 2006. The continuous increase in sales was mainly attributable to the Company's ability to leverage the positive economic environment of the PRC and actively manipulate various means to expand our domestic and overseas retail network exposures, extend the underlying product lines, enhance our service quality while keep abreast of the market trend to realign our brand agency and distribution structure, reinforce our operation management and enhance the sales results of single-outlet.

Sales breakdown of the Group: (for the year ended 31 December 2007)

	2007		2006	
	RMB'000	**%**	*RMB'000*	%
Retail business	**3,048,755**	**66.6**	1,362,863	56.7
Wholesale business	**1,439,980**	**31.4**	1,024,507	42.6
Customer service and ancillary business	**90,006**	**2.0**	17,329	0.7
Total	**4,578,741**	**100.0**	2,404,699	100.0

Gross profit and gross profit margin

For the year ended 31 December 2007, the Group's gross profit increased by 83.0% from the corresponding period of last year to approximately RMB1,030,060,000, whereas our gross profit margin was down 0.9 percentage points over the corresponding period of last year to approximately

22.5%. The decrease was mainly due to a generally lower gross profit margin in Hong Kong's watch market than on the Mainland China. The Group acquired Elegant Group in Hong Kong in August 2006.

Profit for the year increased by 107.0% to approximately RMB442,153,000 over the corresponding period of last year. The sustained growth in profit was mainly attributable to the sustained increase in sales and lowering of the expense ratio level.

Distribution costs

During the year under review, the Group devoted to expand its retail network with 70 new outlets being opened. As a result, the Group's distribution costs were approximately RMB312,383,000, increased by 77.6% over the corresponding period of last year and accounted for 6.8% of the Group's sales. The increase in distribution costs of the Group is in line with the growth of its retail business.

Final dividend

The Company recommends the payment of a final dividend of RMB0.060 per share for the financial year ended 31 December 2007 in return for shareholders' support, subject to approval by shareholders at the Annual General Meeting to be held on 3 June 2008. The proposed final cash dividend will be paid on or before 25 June 2008 to shareholders whose names appear on the register of members of the Company on 16 May 2008.

Current assets and current liabilities

As at 31 December 2007, the current assets of the Group amounted to approximately RMB3,298,072,000, including inventory of approximately RMB1,666,976,000, trade receivables, prepayments and other receivables of approximately RMB560,433,000, and cash and cash equivalents of approximately RMB987,193,000.

As at 31 December 2007, the current liabilities of the Group amounted to approximately RMB809,109,000, including bank loans of approximately RMB245,346,000, trade and other payables of approximately RMB476,119,000, and current tax payable of approximately RMB87,644,000.

III BUSINESS REVIEW

As at 31 December 2007, the Group demonstrated strong momentum in its result with sales and profit for the year both recorded an increase of over 90.0%, bringing fruitful return to our shareholders.

Steadily and Rapidly Growing Retail Network

The Group's development goal is to provide an extensive distribution platform with high quality to various international renowned watch brands and other high-end consumer product brands. During the Period under Review, our retail network experienced rapid expansion. As at 31 December 2007, the Group has established 166 retail outlets in Hong Kong and the PRC, representing an increase of 70 retail outlets to the same period in the previous year. The actual expansion pace of our retail network substantially exceeds our planned schedule. The Group distributes more than 50 international renowned watch brands, which includes Jaeger-LeCoultre (積家), Audemars Piguet (愛彼), TAG Heuer (豪雅), Zenith (真力時), Breguet (寶璣), IWC (萬國), FRANCK MULLER (法蘭克 — 穆勒), Glashuttle (格拉蘇蒂), Rolex (勞力士), Omega (歐米茄) etc. Moreover, the Group has endeavored to persistently enhance the quality of our retail shops so as to extend our retail network reach and expand our market share while, at the same time, strengthen the competitiveness of our existing retail outlets.

During the Period under Review, the Group realized retail sales of RMB3,048,755,000, increased by 123.7% over the corresponding period of last year and accounted for 66.6% of the Group's total sales. Retail gross profit is RMB785,895,000, increased by 109.5% over the corresponding period of last year and accounted for 76.3% of the Group's aggregate gross profit.

Collaboration with the Swatch Group to Establish Jointly-invested Retail Company

During the Period under Review, the Group and the Swatch Group establish a jointly-invested retail company in the PRC with each of them holding 50% interests thereof. The company mainly operates boutiques of watches, jewelry and other related accessories of the Swatch Group. The Group and the Swatch Group undertakes collectively to fully expand the retail network of the jointly-invested company. At present, the company has opened an Omega flagship shop in Huaihai Road, Shanghai and two Swatch boutiques in Harbin and Qingdao.

The establishment of such retail company further deepened the collaboration between the Group and the Swatch Group. Through capital investment and full utilization of resources from both parties, a holistic operation relationship in the PRC retail market is formed.

Strengthen Business through Various Acquisitions and Joint Venture

During the Period under Review, the Group set up a jointly-invested retail company in Wuhan to extend our retail reach to the central and western regions of the PRC. Located at Jianghan Champaign (江漢平原), Wuhan is at the center of the central region and acting as a hub for entering the western part of the PRC. The 10 retail outlets under the Wuhan company are located in Wuhan's high traffic shopping centers, giving the Group advantages in grasping the huge consumption potential in the region. The sales of the Wuhan company accounted for over 70% of the middle-to-high-end watch market in Wuhan district.

During the Period under Review, the Group acquired the entire interests of Beijing Century Yingdi Trading Ltd (北京世紀英迪商貿有限公司), which owns 5 middle-to-high-end watch retail outlets in the central-south and southwestern part of the PRC. Those 5 outlets are located at the prosperous areas of Kunming, Nanning, Guiyang and Chengdu respectively.

The Group also set up a retail company in Urumqi, Xinjiang during the Period under Review to acquire a renowned local retail company and its "Century Watch Shop" ("世紀名表店").

The establishment of the jointly-invested retail company in Wuhan and Xinjiang together with the acquisition of Beijing Century Yingdi (北京世紀英迪) represents the Group's initial step to penetrate into the central and western parts of the PRC. With the PRC government constantly pushing on and deepening its policy to develop the west and central regions, the Group believes that our retail expansion thereof will bring in better results, under which the Group's retail network of middle-to-high-end watch will be further strengthened and our earnings will be increased, ultimately bringing satisfactory return to our shareholders.

During the Period under Review, the Group acquired the majority interest of Suzhou Xinyu Shijia Watch Ltd (蘇州新宇世家鐘錶有限公司) which owns 15 watch retail outlets, all of which are located at the lively and prosperous districts within Suzhou and its neighboring areas, that mainly engage in the sales of imported middle-to-high-end watch such as Jaeger-LeCoultre (積家), Audemars Piguet (愛彼), Rolex (勞力士), Tudor (帝舵), Vacheron Constantin (江詩丹頓), Cartier (卡地亞), Omega (歐米茄), Zenith (真力時) and Bucherer (寶齊萊), dominating the market in Suzhou and its neighboring areas with more than 75% of the market share. With the ever growing PRC economy and the continuous increase in living standard, the consumption on luxury products in the second and third tier cities will inevitably become the point of growth with promising potential. As such, the acquisition of Suzhou company facilitates the Group to enhance and strengthen the retail network of eastern China areas while provide the Group with additional point of growth.

Xinyu Elegant

During the Period under Review, the business of Hong Kong Elegant Group recorded a more steady but rapid growth. When compared with the corresponding period of last year, the sales and profit of Hong Kong Elegant both recorded a growth of more than 40%. During the year, Elegant renovated its shop at the Ocean Centre and set up a Chopard (蕭邦) boutique shop that further enhanced its sales. High-end watch and jewelry brands like Roger Dubuis, Van Cleef Arpels and Greubel Forsey are amongst the new members that added into the portfolio of Elegant. As such, the development in Hong Kong has complemented the advantages of the Group's business in the PRC, thereby effectively safeguarding the profit of the Group.

Meanwhile, "Xinyu Elegant", being the Group's retail arm of high-end consumer products, has extended its geographical coverage into the PRC. During the Period under Review, the Group established two "Elegant" shops in the PRC, which included the Harbin Xinyu Elegant shop and the Shenyang Xinyu Elegant shop. The two shops are of over 1,000 m^2 in size and distribute a variety of high-end watch brands. During which time, the business interaction between Hong Kong and the PRC have emerged to facilitate the sales and profit growth of both market. During the Period under Review, the Group owned six “Xinyu Elegant” shops, three were located at Hong Kong while the other three were founded in the PRC.

Brand Boutiques

During the Period under Review, the Group established a number of new brand boutique shops, including Breguet, Jaeger-LeCoultre, Omega, TAG Heuer and Tissot, etc. One of the brand boutique shops for Jaeger-LeCoultre was located at Plaza 66, Shanghai, and another one for TAG Heuer was situated in Beijing International Airport, and several other boutique shops are situated in Wuhan, Tianjin and Fuzhou etc. It shows that the Group had significant improvement in retail network expansion both in terms of geographical scope and depth of business. To date, after certain adjustments, the Group owned 24 brand boutique shops. Establishment of these brand boutique shops for international high-end watches not only met the enormous demand for high-end watches in China market, but also strengthened the relationship with various brand suppliers, enabling the Group to win an even greater business opportunity.

Introduction of Additional High-end Brands

During the Period under Review, the Group had newly introduced the following high-end watches and jewelry brands: glasshutte, Jaquet Droz from the SWATCH Group, and Roger Dubuis, Van Cleef Arpels and IWC from the RICHEMONT Group. The introduction of these new brands was intended to enhance and optimize the structure of our brand distribution business in response to market demand, and also to further increase our market share in high-end consumer goods market, so as to create new sources of profit growth for the Group.

New Development in High-end Consumer Goods Segment

During the Period under Review, further cooperation between the Company and the LVMH Group had taken place through our acquisition from the LVMH Group of 90.1% interests in its Italian entity Omas. Omas is an internationally renowned company dedicating in fine writing instruments craft and sale. Over the past few years, with the aid of its expertise and skills in design and technology, product upgrade had been conducted by the LVMH Group for Omas to further enhance its brand image and sale performance in Europe and United States. With this acquisition, the Group’s business had been diversified into other luxury goods segment beyond watches. At the same time, the acquisition marked a step forward on the cooperation between the Group and the LVMH Group, and was also deemed an important move in building up the Group’s international presence.

Striving to Raise the Standard of Customer Service

The Group has always focused on the provision of premium after-sale services. In light of this, during the Period under Review, an investment was made to create a new customer service company on the basis of the 2 service centers and several repair and maintenance service stations and points. With this new company, we had established a comprehensive and multi-tier customer service platform consisting of “repair and maintenance service centres”, “repair service stations” and “repair service points”, offering a full range of service to customers in a well-regulated and scientific manner, thereby serving our customers with best assurance in service quality.

Currently, the Group is granted with authorized repair service provider status for 34 international watch and luxury good brands, and it has recruited several senior repair technicians who have received training from and are authorized to perform repair service by brand suppliers. The above facts evidenced the solid repair and customer service system and top quality repair ability of the Group which are recognized by the international brands.

Full Scale Commencement of the Ancillary Business

During the year, the Group had commenced its ancillary craft production operation in full scale. The operation served as a complementary component in support and for the strengthening of our high-end consumer goods retail and distribution business. During the Period under Review, riding on tighter internal control, technology upgrade in equipments, staff training and a successful customer relation management, our wholly-owned subsidiary, Guangzhou Artdeco Decorating and Packaging Co., Ltd., managed to record rapid development. It had signed cooperation agreements with several international brands like Omega, Rolex, Tudor, Rado and Longines, with the effect of which, the production of related ancillary products of watches had commenced in full scale. Such products included presentation boards, decoration boards, props, watch boxes and store improvements. The full year results of the operation registered substantial growth, with turnover and profit after tax surged to almost 4 times and more than 13 times respectively compared to last year.

Distribution Business and Brand Distributorship

The Group has maintained good relationships with numerous brand suppliers of internationally famous watches, which include the SWATCH Group, the LVMH Group, the RICHEMONT Group, the ROLEX Group and the DESCO Group. The Group was the wholesalers of 19 internationally renowned watch brands (included the groups whose names being mentioned above), of which 17 brands were distributed under an exclusive basis, including Jaeger-LeCoultre, Zenith, TAG Heuer, Audemars Piguet, Carl F. Bucherer, Maurice Lacroix and Christian Dior.

During the Period under Review, the Group achieved stable and healthy development in wholesale business. At present, the Group has more than 300 customers in over 40 major cities in China. The status of the exclusive distributor for many international brands and the extensive customer network it owned illustrated the trust and full support of the brands towards the Group.

The Group had acquired the international luxury goods brand OMAS. It was also the owner of such renowned Swiss watch brands like NIVADA, OLMA, NUMA JEANNIN etc.

Effective Marketing with Brand Suppliers

In line with our business development, during the Period under Review, the Group had actively pursued various kinds of marketing activities both individually and jointly with brand suppliers, included the followings:

– It collaborated with the SWATCH Group, RICHEMONT Group and the LVMH Group and produced a television series called "Ultimate Luxury-Xinyu Watch Trip to Switzerland (新宇鐘錶瑞士行"). This series introduced the culture, history and intrinsic value of over 20 high-end watches including Breguet, Audemars Piguet, Vacheron Constantin, Zenith, Blancpain, Ulysse Nardin and Omega. At the same time it showcased their good relationship with the Group and the support and trust from international top brand suppliers.

– It sponsored in the name of "Xinyu Prime Time" the exhibition of Ferrari at Beijing, which allowed its VIP customers to fully experience the glamour of Xinyu Prime Time ("新宇盛時表行") through the flashing auto sport.

– In September, the Group held a 1-month long festival of the art of watches at Hangzhou Watch Culture Festival (杭州鐘表文化節) with brands like Omega, Baume & Mercier, Zenith and TAG Hauer all participated in it.

– It also organized watch exhibitions at Yangzhou, among others; and participated in a number of new watch launchings from various brands at Beijing, Taiyuan and Nanjing.

Such activities had demonstrated the cultural and historical essence as well as the caliber of high-end consumer products. They had also helped intensify the Group's cooperating relationship with brands and customers, and were instrumental to the building up of a corporate image with high esteem.

IV. HUMAN RESOURCES AND TRAINING

During the Period under Review, the Group employed a total of 3,000 employers in China and Hong Kong, with total labour cost amounted to RMB141,905,000.

The Group has always valued tapping and topping-up human resources. We employ scientific employment system and systematically input resources in the training of management personnel, front-line sale staff and maintenance staff. The contents of training include management ability, selling technique, brand knowledge and service initiative, etc. The Group is dedicated in comprehensive upgrade of individual ability and service standard.

The Group offers competitive salary and various scientific incentive stimulation mechanism, and regularly reviews salary and the structure of the incentive stimulation mechanism to suit the development of the corporation. During the year, we had granted warrants to subscribe for shares to general management staff and associates of the Company in recognition of their past contribution and as incentives for their greater future commitment to the Group. At the same time, the Group offers various benefits to the employees, including pension contribution plan, insurance plan, housing and meals, etc.

V. FUTURE PLANS

Looking forward, under the background of a favourable economic environment, we believe the market of high-end consumer goods in China will continue to grow at a high pace. With international famous watches as the basis, component distribution of high-end consumer goods, including watches, jewellery, leather goods and writing instruments, will be the future direction for the Group.

One of our primary focuses in the coming year remains the expansion of our retail network. In 2008, the Group will continue to use various ways to expand the high-end consumer goods retail market. We expect the number of retail stores to reach no less than 220, and at the same time will continue to adjust and improve the retail management system to maintain the quality of our retail network.

We will continue to improve the retail system under the 3 concepts, namely: “Xinyu Elegant”, “Prime Time” and “High-end Temptation”, enlarge market share and commit to provide a quality and extensive distribution platform for high-end consumer good brand suppliers. In 2008, the 3 conception retail networks of the Group will be presented with new looks:

Following our acquisition of Omas, without compromising the momentum in our European and American markets, the Group will capitalize on the strong brand characteristics of Omas and the sublime Italian craftsmanship to formulate a scientific development plan so as to promote the brand to other luxury good categories such as accessories in complementing to Omas’ existing writing instrument product line. Substantial effort will also be drawn to explore the Asian market, in particular the Greater China market.

After setting up a new customer service company, the Group will implement a more scientific operation mode to further raise our market competitiveness. On one hand, we will develop maintenance businesses in various regions and operations so as to raise our profit; on the other hand, we will continue to raise the standard of value service to raise customers’ satisfaction. The Group believes that, these business aspects will help the Company to establish a good image, and will bring the Group with considerable profit returns.

An important foundation of the customer service of the Group is the establishment of a new criteria of high-end watch repair industry in compliance with international standard.

The Group will keep up the product lines expansion in high-end consumer goods, and promote the development of related ancillary business on the principle of limited diversification.

The Group will also continue to enhance our relationship with brand suppliers and collaborate to work on market maintenance and product marketing.

The Group is fully confident of its future.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Saturday, 17 May 2008 to Monday, 2 June 2008 (both days inclusive). In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 16 May 2008.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules"). The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin, Liu Xueling and Wong Kam Fai William and one non-executive Director Mr. Chuang Jian, George, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as substantial exceptional items, internal controls and financial reporting matters, which included a review on the audited annual results for the year ended 31 December 2007 and the interim report for the period ended 30 June 2007.

The audit committee held one meeting each in April 2007 and August 2007 to review the full year and half year reports respectively. All members of the committee attended the meetings.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Code on Corporate Governance Practices (the “Code”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”). In the opinion of the Board of Directors, the Company had complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules of the Stock Exchange throughout the year ended 31 December 2007 except for a derivation from the Code provision A.2.1. Given the Group existing corporate structure, the roles of chairman and chief executive officer have not been separated. Although the functions and duties of chairman and chief executive officer have been performed by the same individual, all major decisions would only be made after consultation with the Board of Directors and (where applicable) the committees of the Board of Directors. There are three independent non-executive Directors in the Board of Directors, therefore the Board considers the Company has achieved balance of power and sufficient protection for its interests.

To maintain a high level of independence and objectivity in decision making, and to exercise its power of supervising the management of the Group in a comprehensive and equitable manner, the Board of Directors comprises of three executive Directors (Messrs. Zhang Yuping, Song Jianwen and Huang Yonghua), four non-executive Directors (Messrs. Chen Sheng, Shi Zhongyang, Shen Zhiyuan and Chuang Jian, George) and three independent non-executive Directors (Messrs. Cai Jianmin, Liu Xueling and Wong Kam Fai William).

To ensure the Board operates in an independent and accountable manner, the three executive Directors have been assigned with different responsibilities within our operations. Mr. Zhang Yuping, the Chairman, is in charge of the Group’s overall management and strategic development, while Mr. Song Jianwen is in charge of finance and investments of the Group, and Mr. Huang Yonghua is in charge of the Group’s brand management.

Each of the three independent non-executive Directors has professional expertise and extensive experience in the areas of accounting, economics, computing control and management, and business administration respectively. We believe the independent non-executive Directors can adequately act for the benefits of our shareholders.

In 2007, a total of nine meetings were held by the Board of Directors. Among which, four were regular meetings; all members of the Board attended these meetings and the rate of attendance was 100%.

Members of the Board will be provided with appropriate and sufficient information in a timely manner so that they may be updated with the latest developments of the Group and supported in discharge of their duties.

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

By order of the Board
Zhang Yuping
Chairman

Hong Kong 22 April 2008

As at the date of this announcement, the Executive Directors 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, Mr. Shi Zhongyang and Mr. Chuang Jian George, the Independent Non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xueling.