(Stock Code : 3389)

XINYU
HENGDELI
新宇亨得利

Annual Report 2007

Xinyu Hengdeli Holdings Limited

新 宇 亨 得 利 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

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Corporate Profile

Xinyu Hengdeli Holdings Limited ("the Company" or "Xinyu Hengdeli") and its subsidiaries, (collectively as "the Group") is the largest watch retailer and wholesaler of internationally renowned brands in the PRC. Its shareholders include the Zhang family, The Swatch Group Limited, the world's largest watch manufacturer and distributor; the LVMH Group, the world's largest luxury goods conglomerate; and Temasek, the investment arm controlled by the Singapore Government.

The Group's strategic development direction is based on watches with internationally renowned brand name with the use of group distribution of high-end consumables.

The Group owns an extensive sales network. The categories includes: XINYU ELEGANT (the top grade internationally renowned brand of watches), XINYU PRIME TIME (the middle- to high-end internationally renowned brand of watches) and XINYU TEMPTATION (high-end fashionable watches). As at the end of the reporting period, the Group owns 166 retail shops which sell over 50 internationally renowned brands of watches in Mainland China and Hong Kong. The Group has approximately 300 wholesale customers in over 40 major cities in the PRC.

The Group has a customer service company and a decoration and packaging company, providing excellent after-sale services for customers and developing the related products effectively.

The Group maintains good business relationship with various world-famous watch brands suppliers such as the Swatch Group, the LVMH Group, the Richemont Group, the Rolex Group and the Desco Group etc., distributing 19 world-renowned watch brands from the above mentioned groups.

The Group owns OMAS, the international luxury brand and other famous Swiss brands of watches like NIVADA, OLMA, NUMA JEANNIN.

Xinyu Hengdeli was listed on the Main Board of the Hong Kong Stock Exchange in September 2005. Stock code: 3389. Stock short name: Xinyu Hengdeli.

Brands distributed by and sold at Xingu Hengdeli Group

Swatch Group

Tissot
Calvin Klein
Certina
Hamilton
Breguet
Longines
Omega
Rado
Blancpain
Glashutte
Jaquet Droz

Rolex Group

Rolex
Tudor

LVMH Group

TAG Heuer
Zenith
Christian Dior
Fendi

Independent Brands

Audemars Piguet
Carl F. Bucherer
EDOX
Enicar
Carven
Cyma
Claude Bernard
Ball
Gucci
Maurice Lacroix
Oris
Raymond Weil
Titoni
Bedat & Co.
Bell & Ross
Bvlgari
Breitling
Franck Muller
British Master
Hermes
Hublot
Girard Perregaux
Grand Seiko
JeanRichard
Locman
Montblanc
Parmigiani
Ulysse Nardin

Richemont Group

Jaeger-LeCoultre
Baume & Mercier
Alfred Dunhill
Panerai
Cartier
Vacheron Constantin
IWC

Chairman's Statement

Bright and Scintillating

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report for the year ended 31 December 2007 (hereinafter referred to as the "Year") of Xinyu Hengdeli Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for your review.

China's economy continued to show strong momentum in the year of 2007, and the Group had taken full advantage of the business opportunities presented by pushing forward its strategy of a retail-driven business model, with customer service, ancillary business and brand distribution as supporting operations. The Group achieved exceptional results in each of its operating segments and surpassed all the pre-set targets.

For the year ended 31 December 2007, the Group recorded sales of RMB4,578,741,000, representing a growth of 90.4% as compared to previous year. Profit for the year grew 107.0% from previous year to RMB442,153,000.

Zhang Yuping
Chairman

During the Year, the Group had continued to consolidate and rationalize its existing network. At the same time, it kept up its expansion effort by establishing new retail outlets through various means, which mainly included: formation of joint venture with brand suppliers to jointly explore the timepiece retail market in China; penetration of the retail network deep into the central and western parts of China through acquisitions and equity joint ventures; opening of highly characterized, integrated stores and boutiques. Such measures brought notable progress to the expansion of the Group's retail network in terms of its depth and breadth. Without compromising the quality of our retail network, the number of our retail outlets had increased from 96 last year to 166 this year, surpassing our pre-set goal.

During the Year, the Group acquired from LVMH Group a part of its shareholding interests in the Italian corporation Omas. The share acquisition not only had helped diversify our business into other luxury items in addition to watch, but also had further cemented the Group's cooperation with LVMH Group, and was deemed an important move of the Group in building up its international presence.

In order to win confidence of our customers, during the Year, the Group had further strengthened its customer service operation by the incorporation of a separate company directly under the Group. This company was established

to specifically handle after-sale and watch repair service, so as to fulfill the Group's commitment in providing service of the highest quality to its customers.

The Group's ancillary business had progressed well during the year, and had served as a strong backing to our principal business development.

During the Year, our relationship with brand suppliers had also been further solidified. The distribution business had developed further down to a new depth. Brand suppliers' investment in the Company had also been increased. Through multi-year collaboration with excellent effect, the Group and the Swatch Group had essentially shaped a holistic operation relationship in China's watch retail market cooperation on the basis of capital investment and full utilization of resources from both parties.

While our business kept making progress, the Group had also committed to improving its corporate governance and enhancement of remuneration and incentive systems so as to ensure the corporation to move forward healthily and firmly, and bring greatest benefit to shareholders and the community.

With international brand name watches forming the basis, the Group will set its direction of future development on distribution of multiple luxury consumer products. Under a favorable macro-economic environment, the Group will leverage to the fullest extent on its strengths to expand aggressively the domestic and overseas retail networks. We will also strive to consolidate and optimize the retail management system, to expand our luxury consumer goods-related product lines on the principle of limited diversification. The Group will hold control of retail channels and at the same time to provide service with excellent value to our customers. More effort will be spent in building and maintaining long-term and deep cooperating relationship with the Group's brand owners, in facilitating the development of service and governance standard to international level, and providing our shareholders and the society with the greatest reward.

On behalf of the Board of Directors, I would like to express our sincere gratitude to our shareholders, suppliers, customers and our other business partners for their care, concern and support, as well as to our dedicating staff for their continued commitment and contribution to the Group during the past year.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 22 April 2008

Management Discussion and Analysis

Royal and Elegant

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.

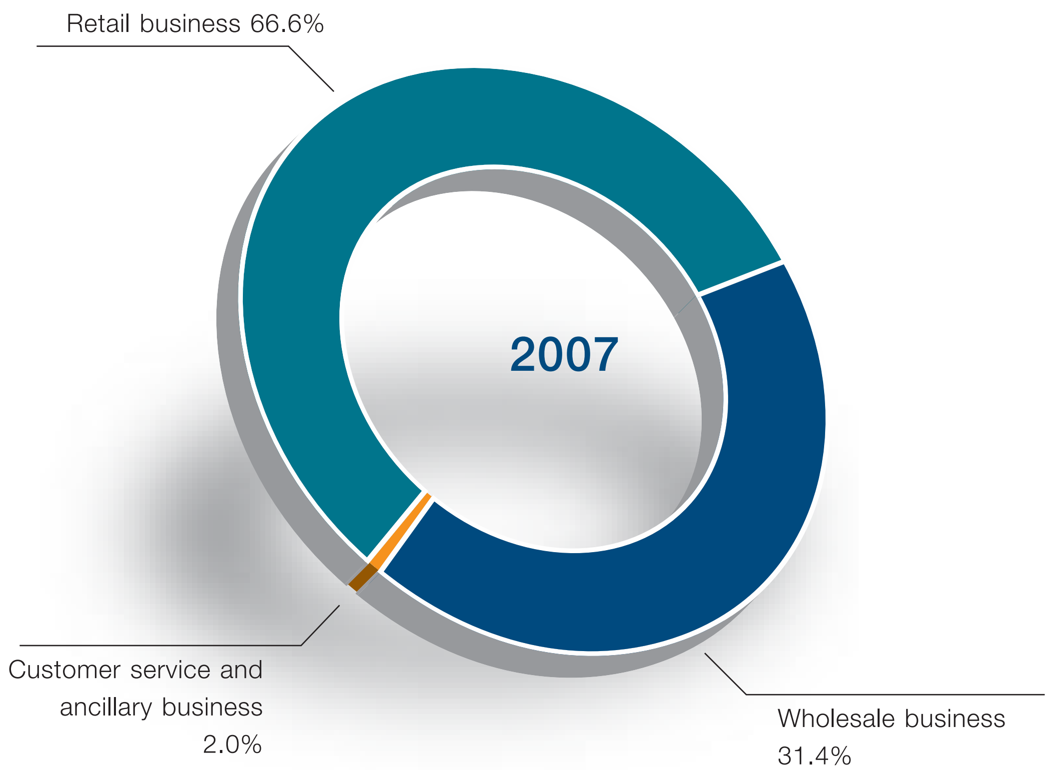
II Financial Review

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 in 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 was devoted to expanding 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 Year, 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), Glashutte (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 Year, 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 Year, 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 undertake 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

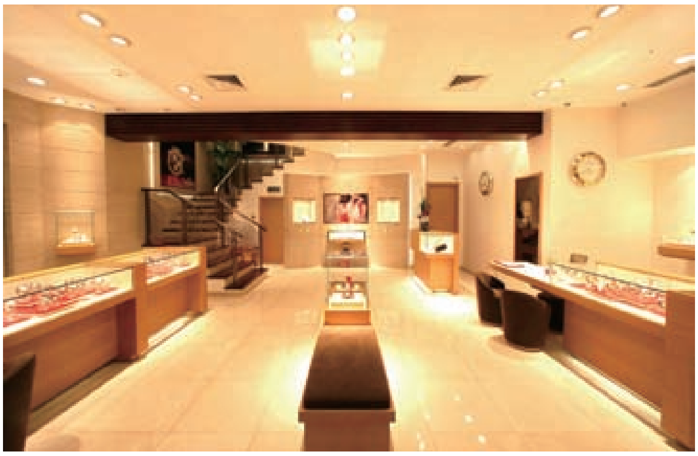
During the Year, the Group set up a jointly-invested retail company in Wuhan to extend our retail reach to the central and western regions of the PRC. Located at Jianghan Champaign (江漢平原), Wuhan is at the center of the central region and acting as a hub for entering the western part of the PRC. The 10 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 Year, 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 parts 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 year which was intended for the proposed acquistion of a renowned local retail company and its "Century Watch Shop" ("世紀名錶店").

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 Year, 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 Carl F. 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 Year, 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 Year, the Group established two "Elegant" shops in the PRC, which included the Harbin Xinyu Elegant shop and the Shenyang Xinyu Elegant shop. The area of two shops are over 1,000 m^2 and distribute a variety of high-end watch brands. At the same time, the business interaction between Hong Kong and the PRC have emerged to facilitate the sales and profit growth of both market. During the Year, 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 Year, 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 Year, the Group had newly introduced the following high-end watches and jewelry brands: Glashutte, Jaquet Droz, Roger Dubuis, Van Cleef Arpels and IWC from the SWATCH Group, and 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 Year, 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 year, 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 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 Year, 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 (including 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, etc.

During the Year, 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 year, 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 Year, the Group employed a total of 3,000 employees in Mainland 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 invest 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 remuneration incentive mechanism, and regularly reviews salary and the structure of the remuneration mechanism to suit the development of the corporation. During the

Year, we had granted options 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 "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:

ELEGANT 三寶名表
新宇亨得利

PRIME TIME 盛时表行
新宇亨得利

Temptation
新宇亨得利

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.

Corporate Governance Report

A Status of Classic

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") 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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Board considers that all current independent non-executive Directors have met the requirements of the guidelines set out in Rule 3.13 of the Listing Rules, and remain independent.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made with all Directors, the Company has confirmed that all Directors had complied with the required rules and regulations mentioned above.

ACCOUNTABILITY AND AUDIT

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

The statement of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report from page 42 to page 43.

AUDITORS' REMUNERATION

The audit fee, to be received by the auditors of the Company, for the year ended 31 December 2007 will be approximately RMB 3.7 million.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin, 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. The members attending the 10 April 2007 meeting included: Messrs. Cai Jianmin, Wong Kam Fai, William, Liu Huangsong (approved on 1 June 2007 to resign from independent non-executive director) and Chuang Jian, George; the members attending the 27 August 2007 meeting included: Messrs. Cai Jianmin, Wong Kam Fai, William, Liu Xueling (appointed as independent non-executive director on 1 June 2007) and Mr. Chuang Jian, George.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the Listing Rules. The remuneration committee comprises three Directors including Messrs. Zhang Yuping (chairman), Cai Jianmin and Liu Xueling. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management.

The remuneration committee held one meeting during the year to review the independent non-executive Director Liu Xueling's remuneration matters. All members of the committee attended the meeting.

NOMINATION COMMITTEE

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

One meeting had been held during the year to review the proposed appointment of Mr. Liu Xueling as an independent non-executive Director of the Company. All members of the committee attended the meeting.

INVESTOR RELATIONS

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

During the Year, the Group's management held nearly 300 seminars with different analysts and investors, including the marketing campaign on investor relations in the major investing center in Beijing, Shanghai and Shenzhen, etc. Besides, the Group also held roadshows in the USA, Britain, Singapore and Japan, etc. so as to help the investors to have a deep understanding of the Group.

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

The Directors of the Company hereby present this annual report together with the audited accounts of the Company for the year ended 31 December 2007.

THE COMPANY

The Group is engaged in the retail and distribution of internationally branded watches, and the related after-sale services and other extended goods.

The principal activities of the subsidiaries of the Company which principally affected the results, assets and liabilities of the Group are set out in Note 18 to the financial statements.

DISTRIBUTABLE RESERVE

As at 31 December 2007, the aggregate amount of distributable reserves of the Company was RMB1,170,340,000 (2006: RMB1,189,446,000), which is set out in Note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FINANCIAL SUMMARY

The summary of the results and assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 123 of this annual report.

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.

SHARE OPTION SCHEME

The Company adopted the share option scheme to grant share options to selected participants as incentives or rewards for their contributions to the Group.

During the Year under review, the Company granted share options to the general management of the Group on 28 August 2007, which could subscribe a total of 39,380,000 shares during the period from 1 August 2010 to 31 July 2012. During the reporting period, no share options were exercised.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with each of the executive Directors for a term of three years.

DIRECTORS' INTERESTS IN CONTRACTS

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

REMUNERATION OF THE FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

Details of remuneration of the Directors made in accordance with specific basis during the Year under review are set out in Note 8 to the financial statements.

Details of remuneration of the five highest paid individuals during the Year under review are set out in Note 9 to the financial statements.

EMPLOYEE RETIREMENT BENEFIT SCHEME

Details of the Group's employee retirement benefit scheme are set out in Note 28 to the financial statements.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Details of the Directors and senior management's biographies are set out on pages 39 to 41 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATION

As at 31 December, 2007, the interests or short positions of each of the Directors and chief executives in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required pursuant to Section 352 of the SFO to be entered in the register required to be kept by the Company; or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO); and were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate Percentage
Mr. Zhang Yuping (alia, Cheung Yu Ping) ("Mr. Zhang")	Controlled Corporation *(Note1)*	1,340,648,000(L)	53.96%
Mr. Song Jianwen	Controlled Corporation *(Note 2)*	18,100,000(L)	0.73%

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

Note 1: Mr. Zhang Yuping owned 77.7% of the issued share capital of Best Growth International Limited ("Best Growth"), which in turn owned 53.96% of the issued share capital of the Company.

Note 2: Mr. Song Jianwen owned the entire share capital of Artnew Developments Limited, which in turn owned 0.73% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As the Directors were aware, as at 31 December 2007, the interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares or underlying shares or debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Number of Shares held	Approximate percentage of issued share capital of the Company
Best Growth *(Note 1)*	1,340,648,000(L)	53.96%
Mr. Zhang Yuping *(Note 1)*	1,340,648,000(L)	53.96%
The Swatch Group Hong Kong Limited *(Note 2)*	201,000,000(L)	8.09%
The Swatch Group Limited *(Note 2)*	201,000,000(L)	8.09%
Hayek Nicolas Georges *(Note 2)*	201,000,000(L)	8.09%
LVMH Watches & Jewelry Hong Kong Limited *(Note 3)*	12,336,000(L)	0.50%
TAG Heuer SA *(Note 3)*	12,336,000(L)	0.50%
TAG Heuer International SA *(Note 3)*	12,336,000(L)	0.50%
LVMH Asia Pacific Limited *(Note 3)*	173,080,000(L)	6.96%
Sofidiv SAS *(Note 3)*	185,416,000(L)	7.46%
LVMH SA *(Note 3)*	185,416,000(L)	7.46%
Dunearn Investments (Mauritius) Pte Ltd *(Note 4)*	157,000,000(L)	6.32%
Seletar Investments Pte Ltd *(Note 4)*	157,000,000(L)	6.32%
Temasek Capital (Private) Limited *(Note 4)*	157,000,000(L)	6.32%
Temasek Holdings (Private) Limited *(Note 4)*	157,000,000(L)	6.32%

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

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

Mr. Zhang Yuping	77.7%
Ms. Zhang Yuhong, younger sister of Mr. Zhang	14.7%
Mr. Zhang Yuwen, younger brother of Mr. Zhang	2.4%
Ms. Zhang Huiling, younger sister of Mr. Zhang	5.2%

Note 2: These 201,000,000 Shares are held in the name of and registered in the capacity of The Swatch Group Hong Kong Limited as a beneficial owner. The entire issued share capital of The Swatch Group Hong Kong Limited is beneficially owned by The Swatch Group Limited, a 38.02% interest of which is in turn beneficially owned by Mr. Hayek Nicolas Georges. Pursuant to the SFO, both of The Swatch Group Limited and Mr. Hayek Nicolas Georges were deemed to be interested in all the shares held by The Swatch Group Hong Kong Limited.

Note 3: Out of these 185,416,000 Shares, 12,336,000 Shares are held in the name of and registered in the capacity of LVMH Watches & Jewelry Hong Kong Limited, while 173,080,000 Shares are held in the name of and registered in the capacity of LVMH Asia Pacific Limited. LVMH Watches & Jewelry Hong Kong Limited is 100% owned by TAG Heuer SA, which is in turn beneficially wholly owned by TAG Heuer International SA. TAG Heuer International SA and LVMH Asia Pacific Limited are 100% owned by Sofidiv SAS, which is in turn wholly owned by LVMH SA.

Note 4: These 157,000,000 Shares are held in the name of and registered in the capacity of Dunearn Investments (Mauritius) Pte Ltd as a beneficial owner. Dunearn Investments (Mauritius) Pte Ltd is 100% owned by Seletar Investments Pte Ltd, which is in turn beneficially wholly owned by Temasek Capital (Private) Limited. Temasek Capital (Private) Limited is wholly owned by Temasek Holdings (Private) Limited.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the 12 months ended 31 December 2007 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their respective spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debenture of the Company or any other body corporate.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	38.2%
– five largest suppliers combined	84.8%
Sales	
– the largest customer	7.2%
– five largest customers combined	16.8%

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

CONNECTED TRANSACTIONS

During the Year under review, the following continuing connected transactions (the "Transactions") have been entered into by the Group to which the Stock Exchange has granted waivers (subject to certain conditions ("Conditions")) to the Company from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

(1) THE LEASE AGREEMENT ENTERED INTO BETWEEN BEIJING HENGDELI SWISS TIMEPIECES LIMITED LIABILITY COMPANY ("BEIJING HENGDELI") AND BEIJING TIMEPIECES AND GLASSES COMPANY ("BEIJING TIMEPIECES")

Pursuant to a lease agreement dated 18 September 2002 as amended and supplemented by a supplemental agreement dated 25 August 2005 (the "Lease"), Beijing Hengdeli, a subsidiary of the Company, has been leasing a retail shop with a gross floor area of approximately 519 sq.m. situated at Nos. 271-273, Wangfujing Street, Dongcheng District, Beijing City from Beijing Timepieces for a term commencing from 1 January 2002 to 31 December 2007 at a monthly rent of RMB150,000 (approximately HK$154,544), representing an annual rent of RMB1,800,000 (approximately HK$1,854,523).

Beijing Timepieces is a state-owned enterprise under the supervision and management of Beijing Yi Shang Group which holds 45% interests in Beijing Hengdeli and is thus regarded as a connected person of the Company.

The monthly rent payable by Beijing Hengdeli is based on an arm's length negotiation between the parties thereto. The leased shop is located at a famous commercial street – Beijing Wangfujing Street, a prime commercial location in Beijing, and is the flagship shop of the Group in Beijing. The shop has a gross floor area of approximately 519 sq.m.. The Directors believe that securing such a prime commercial location for the Group's flagship shop in Beijing is crucial to the Group's retail business.

It is expected that the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules and calculated with reference to the annual rent payable by Beijing Hengdeli to Beijing Timepieces under the Lease each year will exceed 0.1% but less than 2.5%. As such, the Lease constitutes a continuing connected transaction subject to annual review requirement, the reporting requirements and the announcement requirements under Rules 14A.37 to 14A.41, and 14A.45 to 14A.46 and 14A.47 of the Listing Rules but exempted from the independent shareholder's approval requirement.

The Stock Exchange has granted to the Company a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement requirements under the Listing Rules upon the listing of the Shares on the Stock Exchange in respect of the Lease between Beijing Hengdeli and Beijing Timepieces, subject to the maximum annual rent payable thereunder and the terms thereof, for the three financial years ended 31 December 2007.

The independent non-executive Directors has reviewed the above Transaction and confirmed that the Transaction have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms, or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, or terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirm that the disclosure requirement in accordance with Chapter 14A of the Listing Rules has been complied with by the Company.

The related party transactions have been disclosed in Note 34 to the financial statements.

(2) THE LEASE AGREEMENT ENTERED INTO BETWEEN HENGDELI INTERNATIONAL COMPANY LIMITED ("HENGDELI INTERNATIONAL") AND WAI LUNG INTERNATIONAL COMPANY LIMITED ("WAI LUNG")

On 29 April 2005 and 22 June 2006, Hengdeli International entered into two tenancy agreements (the "Tenancy Agreements") with Wai Lung whereby Wai Lung agreed to lease to Hengdeli International two office premises at Units 301 and 314, 3rd Floor, Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong at a monthly rental of HK$58,000 and HK$75,000 respectively (exclusive of management fee, rates and utilities) for a term of three years commencing from 1 April 2005 and 1 June 2006 respectively, with an option to renew for a further term of three years. Wai Lung also agreed to the use of the said premises by the Company as its principal place of business in Hong Kong and Sunshine Peninsula Limited as its registered office.

Mr. Zhang Yuping holds a 50% interest in the issued share capital of Wai Lung, through Eastwealth International Limited, a company wholly owned by Mr. Zhang Yuping. Accordingly, Wai Lung is a connected person of the Company. The Tenancy Agreements constitute a continuing connected transaction under Chapter 14A of the Listing Rules. However, since each of the applicable percentage ratios as defined in Rule14A.10 of the Listing Rules and calculated with reference to the annual rent payable under the Tenancy Agreements is less than 0.1%, the transaction is exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3)(a) of the Listing Rules.

On 27 February 2008, Hengdeli International entered into an agreement with Wai Lung to acquire the said premises at a consideration of HK$52,000,000. The acquisition would not have been completed until Wai Lung had proved good title of the said premises and achieved conditions satisfied by Hengdeli International. The purchase and sale of the said premises has been completed on 27 March 2008.

(3) THE LEASE AGREEMENT ENTERED INTO BETWEEN HENGDELI INTERNATIONAL COMPANY LIMITED ("HENGDELI INTERNATIONAL") AND MAY CREATION LIMITED ("MAY CREATION")

On 22 June 2006, Hengdeli International entered into a tenancy agreement (the "Tenancy Agreement") with May Creation whereby May Creation agreed to lease to Hengdeli International a residential premise at Room F, 38/F, The Waterfront Tower III, 1 Austin Road West, Kowloon, Hong Kong at a monthly rental of HK$32,000 (exclusive of management fee, rates and utilities) for a term of three years commencing from 1 June 2006 with an option to renew for a further term of three years.

Mr. Zhang Yuping holds a 100% interest in the issued share capital of May Creation, through Eastwealth International Limited, a company wholly owned by Mr. Zhang Yuping. Accordingly, May Creation is a connected person of the Company. The Tenancy Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. However, since each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules and calculated with reference to the annual rent payable under the Tenancy Agreement is less than 0.1%, the transaction is exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3)(a) of the Listing Rules.

PUBLIC FLOAT

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

AUDITORS

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

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

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.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE COMPANY AND THE STOCK EXCHANGE

An annual report for the year ended 31 December 2007 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Company and the Stock Exchange in due course.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

GENERAL INFORMATION

As at the date of this annual report, the Executive Directors of the Company are Mr. Zhang Yuping (Chairman), Mr. Song Jianwen and Mr. Huang Yonghua, the Non-executive Directors are Mr. Chen Sheng, Mr. Chuang Jian, George, Mr. Shen Zhiyuan and Mr. Shi Zhongyang, and the Independent Non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.

On behalf of the Board
Zhang Yuping
Chairman

Hong Kong, 22 April 2008

Executive Directors

Mr. Zhang Yuping (alia, Cheung Yu Ping) (張瑜平), aged 47, is the chairman and executive Director of the Company and the founder of the Group. He founded the Group in September 2001. He is in charge of the Group's overall management and strategic development. He has more than 20 years of experience in the high-end consumables distribution industry for the PRC market.

Mr. Song Jianwen (宋建文), aged 55, is an executive Director. He is in charge of finance and investments of the Group. Mr. Song graduated from Zhongnan Finance Economics University （中南財經政法大學） with a master degree in economics. Mr. Song has over 10 years of experience in finance and accounting.

Mr. Huang Yonghua (黃永華), aged 37, is an executive Director. He is in charge of the Group's brand management. He 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 43, is a non-executive Director. Mr. Chen graduated from Fudan University with a master degree in business administration. Mr. Chen joined the Company in December 2007 and is responsible for investment of the Group.

Mr. Shen Zhiyuan (沈致遠), aged 65, is a non-executive Director. He graduated from Beijing Commerce College（北京商學院）. He was the general manager of Beijing Yi Shang Group. He is currently the vice-chairman of Association of PRC Enterprises (中國商業企業協會) and a standing committee member of Chinese People's Political Consultative Conference Beijing Committee (中國人民政治協商會議北京市第十屆委員會).

Mr. Shi Zhongyang (史仲陽), aged 33, is a non-executive Director. Mr. Shi graduated from Nanjing University in the PRC and University of Goetting in Germany with master degree in law. Mr. Shi joined The Swatch Group Limited in 2000. He is currently a legal counsel of the legal department of The Swatch Group Limited.

Mr. Chuang Jian, George（**莊建**）, aged 37, is a non-executive Director. Mr. Chuang graduated from Harvard University in 1995 with a Master Degree in Law. He has been the managing director of Temasek Holdings (HK) Limited (淡馬錫控股（香港）有限公司) and served as an executive director of Goldman Sachs (Asia) LLC. Mr. Chuang was a solicitor of Sullivan & Cromwell (New York and Hong Kong). Currently, Mr. Chuang is a partner of FountainVest Partners (Asia) Limited.

Independent Non-executive Directors

Mr. Cai Jianmin (蔡建民), aged 64, is an independent non-executive Director. He graduated from Shanghai Finance College (上海財經學院) in industrial accounting faculty (工業會計系). Mr. Cai holds a certificate for professional accountants (會計從業資格證書) in the PRC. He had held senior financial posts for several companies including Shanghai Hualian (Group) (上海華聯(集團)).

Mr. Wong Kam Fai, William (黃錦輝), aged 48, is an independent non-executive Director. He graduated from University of Edinburgh, Scotland with a bachelor 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.

Mr. Liu Xueling (劉學靈), aged 50, is an independent non-executive Director. He graduated from East China Normal University, China with a doctorate degree in history. He was the independent Director at Shanghai Yimin Department Stores Company Limited. At present, Mr. Liu is a senior lawyer in Shanghai Zhongxin Law Firm.

SENIOR MANAGEMENT

(Shanghai Xinyu as mentioned below represents our major holding subsidiary in the PRC – Shanghai Xinyu Watch & Clock Group, Ltd.)

Mr. Zhuang Liming (莊立明), aged 54, is the vice chairman of Shanghai Xinyu. Mr. Zhuang graduated in Beijing Foreign Trade College (北京外貿學院). Before joining the Group, 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 58, is the director and chief operating officer of Shanghai Xinyu. Before joining the Group, Ms. Wang was the deputy general manager of Beijing Yishang Group (北京一商集團).

Mr. Zhang Xingen (張新根), aged 63, is the director and retail joint venture controller of Shanghai Xinyu. Before joining the Group, Mr. Zhang was the general manager of Shanghai Watch Shop and a director of Yi Min Department Store.

Mr. Chen Hua (陳華), aged 52, is the director of Shanghai Xinyu. Before joining the Group, Mr. Chen worked in a number of companies which are engaged in watch operations including Guangzhou Haizhu District Watches Processing Factory (廣州市海珠區手錶裝配廠).

Mr. Ng Man Wai, Peter (吳文偉), aged 37, is the company secretary to the Company, qualified accountant and financial controller of the Group. Mr. Ng graduated from the University of Toronto with a bachelor's degree in commerce. 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.

Mr. Lee Wing On, Samuel (李永安), aged 43, is the Chief Executive Officer of Elegant International Holdings Limited. Mr. Lee joined the Group in 2006 and he has over 20 years of experience in the Hong Kong watch retail industry and management for the Hong Kong market.

Mr. Stan Lee (李樹忠), aged 48, is the retail controller of Shanghai Xinyu. He joined the Group in 2007. He obtained a Bachelor of Arts degree in universities, and has participated advanced learning in Business Administration. He has over 20 years of experience in watches manufacturing and distribution.

Ms. Tan Li (談麗), aged 43, is the assistant to the Chairman of the Company and the secretary to the board of Shanghai Xinyu. Ms. Tan graduated from Nanjing Normal University (南京師範大學) with a master's degree in Chinese literature.

Ms. Wang Xihao (王希浩), aged 52, is the financial controller of Shanghai Xinyu. Ms. Wang holds a certificate for professional accountants (會計從業資格證書) in the PRC.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Ng Man Wai, Peter (吳文偉), aged 37, is the company secretary, qualified accountant and financial controller of the Group. Mr. Ng graduated from the University of Toronto with a bachelor's degree in commerce. 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.

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

We have audited the consolidated financial statements of Xinyu Hengdeli Holdings Limited (the "Company") set out on pages 44 to 122, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

22 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover	*3*	**4,578,741**	2,404,699
Cost of sales		**(3,548,681)**	(1,841,795)
Gross profit		**1,030,060**	562,904
Other revenue	*4*	**54,741**	31,793
Other net income	*4*	**31,672**	6,449
Distribution costs		**(312,383)**	(175,889)
Administrative expenses		**(156,261)**	(98,287)
Other operating expenses	*5*	**(14,835)**	(6,013)
Profit from operations		**632,994**	320,957
Finance costs	*6(a)*	**(81,582)**	(27,048)
Share of profits/(losses) of jointly controlled entities	*19*	**276**	(80)
Profit before taxation	*6*	**551,688**	293,829
Income tax	*7(a)*	**(109,535)**	(80,231)
Profit for the year		**442,153**	213,598
Attributable to:			
Equity shareholders of the Company	*10*	**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	*11(a)*	**149,070**	69,566
Earnings per share	*12*		
Basic		**RMB0.168**	RMB0.090
Diluted		**RMB0.165**	RMB0.090

The notes on pages 51 to 122 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	*14*	**288,725**	251,101
Investment property	*15*	**29,535**	–
Intangible assets	*16*	**43,444**	32,989
Goodwill	*17*	**213,165**	181,045
Interest in jointly controlled entities	*19*	**27,913**	14,720
Other investments	*20*	**250**	250
Deferred tax assets	*30(b)(i)*	**24,487**	24,948
		627,519	505,053
Current assets			
Inventories	*21*	**1,666,976**	1,262,382
Trade receivables, prepayments and other receivables	*22*	**560,433**	321,008
Pledged bank deposits	*23*	**83,470**	76,908
Cash and cash equivalents	*24*	**987,193**	298,275
		3,298,072	1,958,573
Current liabilities			
Trade and other payables	*25*	**476,119**	370,698
Bank loans and overdrafts	*26*	**245,346**	387,814
Current taxation	*30(a)*	**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 loan	*26*	**–**	22,070
Convertible bonds	*27*	**994,558**	–
Embedded financial derivatives	*27*	**131,544**	–
Deferred tax liabilities	*30(b)(ii)*	**8,009**	–
		1,134,111	22,070
NET ASSETS		**1,982,371**	1,608,560

The notes on pages 51 to 122 form part of these financial statements.

Consolidated Balance Sheet (Continued)

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
CAPITAL AND RESERVES			
Share capital	*31(c)*	**12,927**	12,927
Reserves	*31(d)*	**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

Approved and authorised for issue by the board of directors on 22 April 2008.

Zhang Yuping
Executive Director

Song Jianwen
Executive Director

The notes on pages 51 to 122 form part of these financial statements.

Balance Sheet

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Investments in subsidiaries	*18*	**515,006**	568,352
Current assets			
Trade receivables, prepayments and other receivables	*22*	**978,667**	505,018
Pledged bank deposits	*23*	**51,881**	53,388
Cash and cash equivalents	*24*	**653,482**	66,495
		1,684,030	624,901
Current liabilities			
Trade and other payables	*25*	**7,393**	7,831
		7,393	7,831
Net current assets		**1,676,637**	617,070
Total assets less current liabilities		**2,191,643**	1,185,422
Non-current liabilities			
Convertible bonds	*27*	**994,558**	–
Embedded financial derivatives	*27*	**131,544**	–
		1,126,102	–
NET ASSETS		**1,065,541**	1,185,422
CAPITAL AND RESERVES			
Share capital	*31(c)*	**12,927**	12,927
Reserves	*31(d)*	**1,052,614**	1,172,495
TOTAL EQUITY		**1,065,541**	1,185,422

Approved and authorised for issue by the board of directors on 22 April 2008.

Zhang Yuping	**Song Jianwen**
Executive Director	*Executive Director*

The notes on pages 51 to 122 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Equity attributable to equity shareholders of the Company			
Balance at 1 January		**1,472,086**	694,640
Issuance of new shares		**–**	656,359
Equity settled share-based payment transactions	*29*	**7,664**	–
Share issuance expenses		**–**	(17,253)
Profit for the year		**417,523**	199,101
Dividend declared	*11(b)*	**(69,566)**	(49,800)
Exchange differences on translation into presentation currency		**(42,209)**	(10,961)
Balance at 31 December		**1,785,498**	1,472,086
Minority interests:			
Balance at 1 January		**136,474**	99,511
Capital contribution		**38,500**	27,435
Acquisition of subsidiaries	*33*	**5,220**	1,416
Share of profit for the year		**24,630**	14,497
Dividend declared		**(7,951)**	(6,385)
Balance at 31 December		**196,873**	136,474
Total equity:	*31(a)*	**1,982,371**	1,608,560

The notes on pages 51 to 122 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before taxation	**551,688**	293,829
Adjustments for:		
Depreciation	**29,664**	15,970
Amortisation of intangible assets	**573**	120
Interest income	**(21,655)**	(6,171)
Finance costs	**68,016**	27,048
Changes in fair value of embedded financial derivatives	**(18,531)**	–
Share of (profits)/losses of jointly controlled entities	**(276)**	80
Loss on disposal of property, plant and equipment	**606**	41
Income from disposal of trading securities	**–**	(6,449)
Investment income	**(11,130)**	(10,024)
Equity-settled share-based payment expenses	**7,664**	–
Gain on acquisition of a subsidiary	**(13,141)**	–
Operating profit before changes in working capital	**593,478**	314,444
Increase in inventories	**(353,105)**	(251,800)
Increase in trade receivables, prepayments and other receivables	**(259,543)**	(86,719)
Increase in trade and other payables	**35,276**	71,657
Cash generated from operations	**16,106**	47,582
Income tax refunded	**24,995**	–
Income tax paid	**(120,964)**	(68,184)
Net cash used in operating activities	**(79,863)**	(20,602)

The notes on pages 51 to 122 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Investing activities		
Payment for purchase of property, plant and equipment	**(60,039)**	(140,451)
Proceeds from disposal of property, plant and equipment	**145**	111
Net cash out flow on acquisition of subsidiaries *(note 33)*	**(56,472)**	(172,037)
Interest received	**21,655**	6,171
Payment for investment in jointly controlled entities	**(15,000)**	–
(Increase)/decrease in pledged bank deposits	**(6,562)**	53,117
Proceeds from sale of trading securities	**–**	49,241
Dividend received	**11,130**	10,024
Net cash used in investing activities	**(105,143)**	(193,824)
Financing activities		
Net proceeds from issue of new shares	**–**	454,606
Capital contribution from minority shareholders	**38,500**	27,435
Proceeds from bank loans	**458,755**	592,282
Repayment of bank loans	**(619,691)**	(623,818)
Finance costs paid	**(44,742)**	(27,048)
Dividend paid to shareholders	**(69,566)**	(49,800)
Dividend paid to minority shareholders	**(6,818)**	(3,028)
Proceeds from issue of convertible bonds	**1,150,000**	–
Payment of transaction costs on issue of convertible bonds	**(28,912)**	–
Net cash generated from financing activities	**877,526**	370,629
Net increase in cash and cash equivalents	**692,520**	156,203
Cash and cash equivalents at 1 January	**294,673**	142,502
Effect of foreign exchange rate changes	**–**	(4,032)
Cash and cash equivalents at 31 December	**987,193**	294,673

The notes on pages 51 to 122 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Xinyu Hengdeli Holdings Limited ("the Company") is a company incorporated in the Cayman Islands as an exempted company with limited liability on 9 July 2004 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The consolidated financial statements of the Company for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group"). The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 September 2005.

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 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 as explained in the accounting policy 1(q).

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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 38.

(c) Subsidiaries and minority interests

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Jointly controlled entities

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

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year (see notes 1(e) and 1(k)).

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

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

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a jointly controlled entity is recognised immediately in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

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

(f) Other investments in debt and equity securities

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment property

Investment properties are buildings which are owned or held under a leasehold interest (see note 1(j)) either to earn rental income and/or for capital appreciation.

Investment properties are measured at cost less accumulated depreciation and impairment losses (see note 1(k)). Rental income from investment properties is accounted for as described in note 1(u)(ii).

(h) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)).

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

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

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

Buildings	20-25 years
Leasehold improvements	1-3 years
Motor vehicles	8 years
Office equipment and other fixed assets	4-5 years

The Group's land located in Italy has an unlimited useful life and therefore is not depreciated.

No depreciation is provided for construction in progress.

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(i) Intangible assets (other than goodwill)

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

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

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

Both the period and method of amortisation are reviewed annually.

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

The fair value of intangible assets acquired in a business combination is determined based on the discounted cash flow forecast on the projection of profit streams from trademarks held by subsidiaries at the date of acquisition.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Operating lease charges

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

(k) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– investment property;

– intangible assets;

– investments in subsidiaries and jointly controlled entities; and

– goodwill.

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

– Calculation of recoverable amount

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(l) Inventories

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)).

(n) Cash and cash equivalents

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

(o) Trade and other payables

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

(p) Interest-bearing borrowings

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

(q) Convertible bonds

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Convertible bonds *(Continued)*

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

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

(r) Employee benefits

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

(ii) Contributions to local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC and Italy and the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

(iii) Share-based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits). Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiary in the Company's balance sheet which is eliminated on consolidation.

(s) Income tax

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

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

  – the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

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

ii) Rental income from operating leases

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue recognition *(Continued)*

iii) Dividends

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

iv) Interest income

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

v) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the assets.

(v) Translation of foreign currencies

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

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

The results of group companies which have a functional currency other than Renminbi ("RMB") are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Borrowing costs

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

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

(x) Related parties

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

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

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

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital Disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 35.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 31.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 39).

3. TURNOVER

The principal activities of the Group are retail and wholesale of watches and jewellery.

Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales discounts and returns.

4. OTHER REVENUE AND NET INCOME

	2007 RMB'000	2006 RMB'000
Other revenue		
Interest income	**21,655**	6,171
Government grants	**13,758**	9,860
Investment income	**11,130**	10,024
Rental income *(note 15)*	**1,840**	–
Others	**6,358**	5,738
	54,741	31,793

One of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group., Ltd. ("Shanghai Xinyu"), received unconditional grants totalling RMB9,860 thousand and RMB13,758 thousand for the years ended 31 December 2006 and 2007, respectively, from the local government in Shanghai, in support of Shanghai Xinyu's development.

	2007 RMB'000	2006 RMB'000
Other net income		
Changes in fair value of embedded financial derivatives *(note 27)*	**18,531**	–
Gain on acquisition of a subsidiary *(note 33)*	**13,141**	–
Income from sales of trading securities	**–**	6,449
	31,672	6,449

5. OTHER OPERATING EXPENSES

	2007 RMB'000	2006 RMB'000
Write-down of inventories	**12,506**	5,565
Impairment losses for doubtful accounts receivable	**1,723**	407
Loss on disposal of property, plant and equipment	**606**	41
	14,835	6,013

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

	2007 RMB'000	2006 RMB'000
(b) Staff costs		
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 *(note 29)*	**7,664**	–
	141,905	82,326

6. PROFIT BEFORE TAXATION *(Continued)*

	2007 **RMB'000**	2006 RMB'000
(c) Other items		
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 RMB12,506 thousand (2006: RMB5,565 thousand), relating to write-down of inventories for the year ended 31 December 2007, which amount is also disclosed separately in note 5.*

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007 **RMB'000**	2006 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

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

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 those subsidiaries which are entitled to a preferential income tax rate of 15%. A 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 arrangements 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 have been 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 will be 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 the 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 set out in note 1(s), no adjustments have been made to these financial statements as a result of this announcement.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(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

8. DIRECTORS' REMUNERATION

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

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 28)*	Bonus RMB'000	Total RMB'000
Year ended 31 December 2006					
Executive Directors					
Mr. Zhang Yuping	–	1,560	–	–	1,560
Mr. Song Jianwen	–	600	32	–	632
Mr. Huang Yonghua	–	660	–	–	660
Non-executive Directors					
Mr. Li Jialin (resigned on 15 February 2006)	13	–	–	–	13
Mr. Chen Sheng	50	–	–	–	50
Mr. Shen Zhiyuan	50	–	–	–	50
Mr. Shi Zhongyang (appointed on 15 February 2006)	88	–	–	–	88
Mr. Chuang Jian, George (appointed on 23 October 2006)	–	–	–	–	–
Independent Non-executive Directors					
Mr. Liu Huangsong	50	–	–	–	50
Mr. Cai Jianmin	50	–	–	–	50
Mr. Wong Kam Fai, William	100	–	–	–	100
Total	401	2,820	32	–	3,253

8. DIRECTORS' REMUNERATION *(Continued)*

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 28)*	Bonus RMB'000	Total RMB'000
Year ended 31 December 2007					
Executive Directors					
Mr. Zhang Yuping	–	1,594	–	–	1,594
Mr. Song Jianwen	–	793	32	–	825
Mr. Huang Yonghua	–	681	–	–	681
Non-executive Directors					
Mr. Chen Sheng	47	–	–	–	47
Mr. Shen Zhiyuan	47	–	–	–	47
Mr. Shi Zhongyang	93	–	–	–	93
Mr. Chuang Jian, George	93	–	–	–	93
Independent Non-executive Directors					
Mr. Liu Huangsong (resigned on 1 June 2007)	20	–	–	–	20
Mr. Cai Jianmin	47	–	–	–	47
Mr. Wong Kam Fai, William	93	–	–	–	93
Mr. Liu Xueling (appointed on 1 June 2007)	27	–	–	–	27
Total	467	3,068	32	–	3,567

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group during the two years ended 31 December 2006 and 2007. There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 December 2006 and 2007.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year ended 31 December 2007 include one (2006: three) directors of the Group, whose emoluments are reflected in note 8. Details of emoluments paid to the remaining highest paid individuals of the Group are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	**5,543**	1,299
Contributions to retirement benefit plans	**48**	12
Bonuses	**–**	299
Share-based payments	**218**	–
	5,809	1,610

The emoluments of the four (2006: two) individuals, other than directors, with the highest emoluments are within the following bands:

RMB	**2007 Number of individuals**	2006 Number of individuals
Nil – 1,000,000	**–**	1
1,000,001 – 1,500,000	**4**	1

During the two years ended 31 December 2006 and 2007, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB21,001 thousand (2006: a profit of RMB1,080 thousand) which has been dealt with in the financial statements of the Company.

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

	2007	2006
	RMB'000	RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**(21,001)**	1,080
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**71,461**	49,279
Company's profit for the year *(note 31(b))*	**50,460**	50,359

11. 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.

11. DIVIDENDS *(Continued)*

(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

12. 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 (note 31(c)).

(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 *(note 27)*	**59,572,599**	–
Weighted average number of ordinary shares (diluted) at 31 December	**2,544,072,599**	2,219,727,398

12. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share *(Continued)*

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

The performance-based employee share options (see note 29) 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 contingent 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 *(note 27)*	**19,772**	–
Effect of gain recognised on the derivative component of convertible bonds *(note 27)*	**(18,531)**	–
Profit attributable to equity shareholders (diluted) at 31 December	**418,764**	199,101

13. 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

13. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	2007 **RMB'000**	2006 RMB'000
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

13. SEGMENT INFORMATION *(Continued)*

Geographical segments

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

	2007 **RMB'000**	2006 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

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment and other fixed assets RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Balance at 1 January 2006	101,183	15,371	5,935	14,592	163	137,244
Additions	125,488	5,668	2,456	5,856	983	140,451
Additions through acquisition of subsidiaries	25,276	5,140	963	3,679	–	35,058
Transfer from construction in progress	–	430	–	–	(430)	–
Disposals	–	(211)	(633)	(473)	–	(1,317)
Balance at 31 December 2006	251,947	26,398	8,721	23,654	716	311,436
Additions	–	18,412	4,158	7,175	30,294	60,039
Additions through acquisition of subsidiaries *(note 33)*	27,486	3,077	255	6,717	–	37,535
Transfer from construction in progress	753	–	–	776	(1,529)	–
Transfer to investment property	(31,032)	–	–	–	–	(31,032)
Disposals	–	(1,822)	(678)	(4,089)	–	(6,589)
Balance at 31 December 2007	249,154	46,065	12,456	34,233	29,481	371,389
Accumulated depreciation:						
Balance at 1 January 2006	(17,906)	(12,651)	(2,922)	(7,557)	–	(41,036)
Charge for the year	(5,616)	(5,806)	(948)	(3,600)	–	(15,970)
Addition through acquisition of subsidiaries	–	(2,087)	(555)	(1,852)	–	(4,494)
Written-back on disposals	–	207	625	333	–	1,165
Balance at 31 December 2006	(23,522)	(20,337)	(3,800)	(12,676)	–	(60,335)
Charge for the year	(10,811)	(10,571)	(1,655)	(5,130)	–	(28,167)
Written-back on disposals	–	1,393	568	3,877	–	5,838
Balance at 31 December 2007	(34,333)	(29,515)	(4,887)	(13,929)	–	(82,664)
Net book value:						
At 31 December 2007	214,821	16,550	7,569	20,304	29,481	288,725
At 31 December 2006	228,425	6,061	4,921	10,978	716	251,101

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

i) Land owned by the Group is located in Italy.

ii) The buildings owned by the Group are located in the PRC and Italy.

iii) As at 31 December 2007, the buildings in Beijing with carrying amount of RMB33,606 thousand (2006: RMB66,673 thousand) were pledged to banks against certain loans (see note 26).

iv) As at 31 December 2007, the Group was in the process of obtaining the property ownership certificates of its buildings in Beijing, Guangzhou, Taiyuan and Zhengzhou with a carrying amount of approximately RMB59,985 thousand (2006: RMB148,772 thousand).

15. INVESTMENT PROPERTY

	2007 RMB'000
Cost:	
Balance at the beginning of the year	–
Transfer from property, plant and equipment *(note 14)*	31,032
Balance at the end of the year	31,032
Accumulated depreciation:	
Balance at the beginning of the year	–
Charge for the year	(1,497)
Balance at the end of the year	(1,497)
Net book value:	
At 31 December 2007	29,535
At 31 December 2006	–

The investment property is located in the PRC and, since January 2007, is rented out under the terms of operating leases. The fair value of the investment property as at 31 December 2007, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to RMB52,354 thousand. The investment property has not been valued by an external independent valuer. Rental income of RMB1,840 thousand was received from leasing the investment property during the year ended 31 December 2007.

16. INTANGIBLE ASSETS

The Group

	Trademarks with indefinite useful lives RMB'000	Trademarks with finite useful lives RMB'000	Edox agency rights and patents RMB'000	Total RMB'000
Cost:				
At 1 January 2006 and 1 January 2007	32,149	–	1,200	33,349
Addition through acquisition of subsidiaries *(note 33)*	–	8,259	2,769	11,028
At 31 December 2007	32,149	8,259	3,969	44,377
Amortisation:				
At 1 January 2006	–	–	(240)	(240)
Charge for the year	–	–	(120)	(120)
At 1 January 2007	–	–	(360)	(360)
Charge for the year	–	(304)	(269)	(573)
At 31 December 2007	–	(304)	(629)	(933)
Net book value:				
At 31 December 2007	32,149	7,955	3,340	43,444
At 31 December 2006	32,149	–	840	32,989

The amortisation of trademarks with finite useful lives, and Edox agency rights and patents, are included in "Cost of sales" in the consolidated income statement.

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

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on estimated annual growth rates ranging from 5% to 8% (2006: 5%) and a discount rate of 11% (2006: 6%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

17. GOODWILL

	The Group RMB'000
Cost:	
At 1 January 2007	181,045
Addition	32,120
At 31 December 2007	213,165
Accumulated impairment losses:	
At 1 January 2007 and 31 December 2007	–
Carrying amount:	
At 31 December 2007	213,165
At 31 December 2006	181,045

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

	2007 RMB'000	2006 RMB'000
Retail – PRC (other than Hong Kong)		
河南富豪表行有限公司 ("Henan Fuhao")	**8,197**	8,197
蘇州工業園區新宇世家鐘表有限公司 ("Suzhou Xinyu") *(note 33)*	**16,845**	–
北京世紀英迪商貿有限責任公司 ("Beijing Yingdi") *(note 33)*	**15,275**	–
Retail – Hong Kong		
Elegant Jewellery Holding Limited ("Elegant")	**171,163**	171,163
Wholesale – PRC		
廣州市雅迪裝飾包裝有限公司 ("Guangzhou Yadi")	**1,685**	1,685
	213,165	181,045

17. GOODWILL *(Continued)*

The recoverable amounts of the cash-generating units are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on estimated annual growth rates ranging from 5% to 8% (2006: 5%) and a discount rate of 11% (2006: 6%). The growth rate does not exceed the long-term average growth rate for the relevant markets.

18. INVESTMENT IN SUBSIDIARIES

The Company

	2007 **RMB'000**	2006 RMB'000
Unlisted shares, at cost	**515,006**	568,352

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

(Expressed in RMB unless otherwise indicated)

18. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operation	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activities
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表有限責任公司 ("Beijing Hengdeli")	the PRC	55%	RMB156,800,000/ RMB156,800,000	Retail and wholesale of watches
哈爾濱盛時鐘表有限公司 ("Harbin Shengshi")	the PRC	100%	RMB50,000,000/ RMB50,000,000	Retail of watches
遼寧新宇三寶鐘表有限公司 ("Liaoning Xinyu San Bao")	the PRC	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
深圳市亨得利陽光鐘表有限責任公司 ("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
安徽三新鐘表有限公司 ("Anhui Sanxin")	the PRC	70%	RMB20,000,000/ RMB20,000,000	Retail of watches
北京新宇亨瑞鐘表有限責任公司 ("Beijing Hengrui")	the PRC	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
Guangzhou Yadi	the PRC	100%	HKD45,000,000/ HKD45,000,000	Decoration and packaging
新宇亨得利鐘表(深圳)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%	Euro1,000,000/ Euro1,000,000	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

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.

19. INTEREST IN JOINTLY CONTROLLED ENTITIES

The Group

	2007 RMB'000	2006 RMB'000
Share of net assets	**20,009**	4,733
Amount due from a jointly controlled entity	**7,904**	9,987
	27,913	14,720

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

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity held by subsidiaries	Principal activity
北京亨聯達鐘表有限責任公司 ("Beijing Henglianda")	Incorporated	the PRC	RMB10,000,000	50%	Retail of watches
上海瑞亨琪鐘表商業有限公司 ("Shanghai Ruihengqi")	Incorporated	the PRC	RMB30,000,000	50%	Retail of watches

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

	2007 RMB'000	2006 RMB'000
Non-current assets	**81**	108
Current assets	**26,161**	11,670
Non-current liabilities	**(5,000)**	(5,000)
Current liabilities	**(1,233)**	(2,045)
Net assets	**20,009**	4,733
Income	**19,015**	9,253
Expenses	**(18,739)**	(9,333)
Profit/(loss) for the year	**276**	(80)

The amount due from a jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

20. OTHER INVESTMENTS

The Group

	2007 RMB'000	2006 RMB'000
Unlisted investments	**250**	250

21. INVENTORIES

Inventories in the consolidated balance sheets comprise:

	2007 RMB'000	2006 RMB'000
Raw materials	**6,458**	–
Work in progress	**10,795**	–
Finished goods	**1,649,723**	1,262,382
	1,666,976	1,262,382

22. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	2007 RMB'000	2006 RMB'000
Trade receivables	**391,676**	220,152
Prepayments and other receivables	**168,757**	100,856
	560,433	321,008

The Company

	2007 RMB'000	2006 RMB'000
Other receivables	**–**	235
Receivables due from subsidiaries *(note 34)*	**978,667**	504,783
	978,667	505,018

22. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

All of the trade and other receivables are expected to be recovered within one year.

Customers are normally granted credit terms of not more than 70 days depending on the credit worthiness of individual customers.

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

The Group

	2007	2006
	RMB'000	RMB'000
Within 1 month	**317,917**	154,458
Over 1 month but less than 3 months	**63,053**	57,581
Over 3 months but less than 12 months	**10,706**	8,113
	391,676	220,152

23. PLEDGED BANK DEPOSITS

The Group and the Company

The amount mainly represents deposits pledged at banks to secure banking facilities granted to the Group. The pledged bank deposits will be released upon the termination of the relevant banking facilities.

24. CASH AND CASH EQUIVALENTS

The Group

As at 31 December 2006 and 2007, all the Group's cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement represented cash at bank and other financial institutions and cash in hand.

	2007	2006
	RMB'000	RMB'000
Cash and cash equivalents in the balance sheet	**987,193**	298,275
Bank overdrafts *(note 26)*	**–**	(3,602)
Cash and cash equivalents in the consolidated cash flow statement	**987,193**	294,673

The Company

As at 31 December 2006 and 2007, all the Company's cash and cash equivalents in the balance sheet represented cash at bank and in hand.

25. TRADE AND OTHER PAYABLES

The Group

	2007 RMB'000	2006 RMB'000
Trade payables	**343,467**	262,954
Other payables and accrued expenses	**81,812**	66,631
Advance receipts from customers	**30,319**	20,950
Amounts due to related parties *(note 34)*	**20,521**	20,163
	476,119	370,698

The Company

	2007 RMB'000	2006 RMB'000
Other payables and accrued expenses	**597**	439
Amounts due to subsidiaries *(note 34)*	**6,796**	7,392
	7,393	7,831

An ageing analysis of trade payables is as follows:

The Group

	2007 RMB'000	2006 RMB'000
Within 1 month	**283,605**	195,622
Over 1 month but less than 3 months	**51,323**	66,742
Over 3 months but less than 12 months	**4,427**	525
Over 1 year	**4,112**	65
	343,467	262,954

26. BANK LOANS AND OVERDRAFTS

The Group

	2007	2006
	RMB'000	RMB'000
Current		
– secured bank loans	**96,364**	75,212
– unsecured bank loans	**148,982**	309,000
– secured bank overdrafts	**–**	3,602
	245,346	387,814

The current secured bank loans as at 31 December 2006 and 2007 were secured by the Group's buildings with a carrying amount of RMB28,148 thousand and RMB33,606 thousand respectively. Certain secured bank loans as at 31 December 2006 and 2007 were also secured by pledged deposits at banks. The current secured bank loans as at 31 December 2007 carried interest rates ranging from 4.3% to 8.75% (2006: 4.9% to 6.12%) per annum, and were all repayable within one year.

The current unsecured bank loans as at 31 December 2007 carried interest rates ranging from 5.85% to 7.29% (2006: 5.30% to 6.30%) per annum, and were all repayable within one year.

The secured bank overdrafts as at 31 December 2006 were secured by deposits pledged at bank.

	2007	2006
	RMB'000	RMB'000
Non-current secured bank loan	**–**	22,070

The non-current secured loan as at 31 December 2006 carried interest rate at 6.48% per annum. The loan was secured by the Group's building with a carrying amount of RMB38,525 thousand as at 31 December 2006.

27. CONVERTIBLE BONDS

On 24 August 2007, the Company issued United States Dollar ("USD") Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 in the aggregate principal amount of RMB1,150,000,000 (the "Convertible Bonds" or "the Bonds"). The subscription amount payable in respect of each RMB1,000,000 principal amount of the Bonds is approximately USD132,282. The Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The principal terms of the Convertible Bonds are as follows:

(a) Optional conversion

Each bond will, at the option of the holder ("Bondholders"), be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 21 February 2008 up to and including 17 August 2012 into fully paid ordinary shares of the Company with a par value of HKD0.005 each at an initial conversion price (the "Conversion Price") of HKD7.06 per share and a fixed exchange rate of HKD1.00 to RMB0.96637. The Conversion Price is subject to adjustments in the manner set out in the Convertible Bonds agreement.

(b) Redemption

– *Redemption at maturity*

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

– *Redemption at the option of the Company*

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

27. CONVERTIBLE BONDS *(Continued)*

(b) Redemption *(Continued)*

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

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

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

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

– *Redemption at the option of the Bondholders*

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

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

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

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

(Expressed in RMB unless otherwise indicated)

27. CONVERTIBLE BONDS *(Continued)*

(b) Redemption *(Continued)*

(ii) Embedded derivatives comprise:

- The fair value of the call option of the Company to redeem the Convertible Bonds;
- The fair value of the put option of the Bondholders to require the Company to redeem the Convertible Bonds; and
- The fair value of the conversion option of the Bondholders to convert the Convertible Bonds into the Company's shares.

(iii) The fair value of the embedded financial derivatives was calculated using the Barrier Option Valuation model. The major inputs used in the models as at 24 August 2007 and 31 December 2007 were as follows:

	24 August 2007	31 December 2007
Stock price	HKD4.21	HKD4.37
Exercise price	HKD7.06	HKD7.06
Risk-free rate	4.23%	3.10%
Expected life	1,827 days	1,698 days
Volatility	48.20%	46.39%

The Company's stock prices were as at 24 August 2007 and 31 December 2007 respectively. The risk-free rates were determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected lives were estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatilities of comparable companies under the same periods as the expected lives.

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

27. CONVERTIBLE BONDS *(Continued)*

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

	Liability component	**Embedded financial derivatives**	**Total**
	RMB'000	RMB'000	RMB'000
Convertible bonds issued on 24 August 2007	999,925	150,075	1,150,000
Transaction costs	(25,139)	–	(25,139)
Interest charged during the period from 24 August 2007 to 31 December 2007 *(note 6(a))*	19,772	–	19,772
Changes in fair value during the period from 24 August 2007 to 31 December 2007 *(note 4)*	–	(18,531)	(18,531)
As at 31 December 2007	994,558	131,544	1,126,102

No conversion of the Convertible Bonds has occurred up to 31 December 2007.

The changes in the fair value of the embedded financial derivatives from 24 August 2007 to 31 December 2007 resulted in a fair value gain of RMB18,531,000, which has been recorded as "changes in fair value of embedded financial derivatives" in other income in the consolidated income statement for the year ended 31 December 2007 *(note 4)*.

28. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 9% to 25% for the years ended 31 December 2006 and 2007 of the eligible employees' salaries.

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

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

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

(Expressed in RMB unless otherwise indicated)

29. SHARE-BASED PAYMENTS

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

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

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

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

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

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

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

29. SHARE-BASED PAYMENTS *(Continued)*

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

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

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

450,000 share options have lapsed as 3 employees resigned prior to 31 December 2007. Except for this, no share option has been exercised, lapsed or cancelled pursuant to the above share option scheme during the year ended 31 December 2007.

30. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) **Current taxation in the consolidated balance sheet represents:**

The Group

	2007	2006
	RMB'000	RMB'000
Provision for income tax for the year	**135,814**	90,512
Addition through acquisition of subsidiaries	**–**	5,630
Income tax paid	**(48,170)**	(22,062)
	87,644	74,080
Balance of income tax provision related to prior years	**–**	404
	87,644	74,484

30. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised

i) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the two years ended 31 December 2007 are as follows:

The Group

	Impairment of trade receivables RMB'000	Write down of inventories RMB'000	Tax losses not utilised RMB'000	Unrealised profit RMB'000	Total RMB'000
At 1 January 2006	2,202	1,848	886	12,617	17,553
Credited to consolidated income statement	24	650	170	6,551	7,395
At 31 December 2006	2,226	2,498	1,056	19,168	24,948
Additions	561	2,784	797	20,063	24,205
Credited to consolidated income statement	(121)	–	(719)	(19,168)	(20,008)
Effect of change in future enacted tax rate	(646)	(898)	(130)	(2,984)	(4,658)
At 31 December 2007	2,020	4,384	1,004	17,079	24,487

30. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

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

ii) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated balance sheets and the movements during the year ended 31 December 2007 are as follows:

The Group

	Fair value adjustments RMB'000
At 1 January 2007	–
Arising from acquisition of subsidiaries *(note 33)*	8,064
Credited to consolidated income statement	(55)
At 31 December 2007	8,009

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB25,664 thousand (2006: nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

31. CAPITAL AND RESERVES

(a) The Group

	Note	Attributable to equity shareholders of the Company								
		Share capital	Share premium	Capital reserve	Exchange reserve	PRC statutory reserve	Retained profits	Total	Minority interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006		10,828	552,777	(26,074)	–	51,948	105,161	694,640	99,511	794,151
Dividends to equity shareholders		–	–	–	–	–	(49,800)	(49,800)	–	(49,800)
Dividends to minority shareholders		–	–	–	–	–	–	–	(6,385)	(6,385)
Transfer between reserves		–	–	–	–	21,659	(21,659)	–	–	–
Issuance of new shares		2,099	654,260	–	–	–	–	656,359	–	656,359
Shares issuance expenses		–	(17,253)	–	–	–	–	(17,253)	–	(17,253)
Exchange difference on translation into presentation currency		–	–	–	(10,961)	–	–	(10,961)	–	(10,961)
Acquisition of subsidiaries		–	–	–	–	–	–	–	1,416	1,416
Capital contribution from minority shareholders		–	–	–	–	–	–	–	27,435	27,435
Profit for the year		–	–	–	–	–	199,101	199,101	14,497	213,598
At 1 January 2007		12,927	1,189,784	(26,074)	(10,961)	73,607	232,803	1,472,086	136,474	1,608,560
Dividends to equity shareholders	*11*	–	–	–	–	–	(69,566)	(69,566)	–	(69,566)
Dividends to minority shareholders		–	–	–	–	–	–	–	(7,951)	(7,951)
Transfer between reserves		–	–	–	–	37,144	(37,144)	–	–	–
Equity-settled share-based transactions	*29*	–	–	7,664	–	–	–	7,664	–	7,664
Exchange difference on translation into presentation currency		–	–	–	(42,209)	–	–	(42,209)	–	(42,209)
Acquisition of subsidiaries	*33*	–	–	–	–	–	–	–	5,220	5,220
Capital contribution from minority shareholders		–	–	–	–	–	–	–	38,500	38,500
Profit for the year		–	–	–	–	–	417,523	417,523	24,630	442,153
At 31 December 2007		**12,927**	**1,189,784**	**(18,410)**	**(53,170)**	**110,751**	**543,616**	**1,785,498**	**196,873**	**1,982,371**

31. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained losses RMB'000	Total RMB'000
At 1 January 2006		10,828	552,777	–	–	(897)	562,708
Issuance of new shares		2,099	654,260	–	–	–	656,359
Share issuance expenses		–	(17,253)	–	–	–	(17,253)
Dividends to equity shareholders		–	–	–	–	(49,800)	(49,800)
Profit for the year		–	–	–	–	50,359	50,359
Exchange difference on translation into presentation currency		–	–	–	(16,951)	–	(16,951)
At 1 January 2007		12,927	1,189,784	–	(16,951)	(338)	1,185,422
Dividends to equity shareholders	*11*	–	–	–	–	(69,566)	(69,566)
Equity settled share-based transactions	*29*	–	–	7,664	–	–	7,664
Profit for the year		–	–	–	–	50,460	50,460
Exchange difference on translation into presentation currency		–	–	–	(108,439)	–	(108,439)
At 31 December 2007		**12,927**	**1,189,784**	**7,664**	**(125,390)**	**(19,444)**	**1,065,541**

(c) Share capital

	2007		2006	
	Number of shares	**Amount HKD**	Number of shares	Amount HKD
Authorised:				
Ordinary shares of HKD0.005 (2006: HKD0.01) each	**4,000,000,000**	**20,000,000**	2,000,000,000	20,000,000

31. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

Issued and fully paid:

	2007		2006	
	Number of shares	Amount HKD	Number of shares	Amount HKD
At 1 January	**1,242,250,000**	**12,422,500.00**	1,037,500,000	10,375,000.00
Share split	**1,242,250,000**	**–**	–	–
Issuance of new shares	**–**	**–**	204,750,000	2,047,500.00
At 31 December	**2,484,500,000**	**12,422,500.00**	1,242,250,000	12,422,500.00
		equivalent RMB'000		**equivalent** RMB'000
		12,927		12,927

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Pursuant to an ordinary resolution passed at the Extraordinary General Meeting held on 6 February 2007, the Company subdivided every issued and unissued ordinary share of HKD0.01 each in the share capital of the Company into two ordinary shares of HKD0.005 each.

Subsequent to the completion of the subdivision, the issued and fully paid capital of the Company is 2,484,500,000 shares of HKD0.005 each.

31. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Capital reserve

The capital reserve comprises the following:

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

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

(iii) Exchange reserve

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

(iv) PRC statutory reserve

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

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

According to the PRC Company Law, the PRC subsidiaries of the Group are required to transfer 10% of their profit after taxation, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund.

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

Statutory surplus reserve can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25% of the registered capital of the subsidiaries. Statutory public welfare fund can only be utilised on capital items for the collective benefits of the employees such as the construction of staff quarters and other staff welfare facilities. This reserve is non-distributable other than in liquidation.

31. CAPITAL AND RESERVES *(Continued)*

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

(v) Distributability of reserves

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

The aggregate amount of distributable reserves of the Company as at 31 December 2007 was RMB1,170,340,000 (2006: RMB1,189,446,000).

(e) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business.

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

The gearing ratio for the year ended 31 December 2007 is 62% (2006: 25%). The gearing ratio is calculated by dividing total interest-bearing borrowings and convertible bonds with total equity.

The Group is not subject to externally imposed capital requirements.

32. COMMITMENTS

(a) Operating lease commitments

Non-cancelable operating lease rentals are payable as follows:

	2007	2006
	RMB'000	RMB'000
Less than one year	**61,718**	33,329
Between one and five years	**126,895**	74,518
More than five years	**47,070**	46,889
	235,683	154,736

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

32. COMMITMENTS *(Continued)*

(b) Commitments of guaranteed profit

	2007 RMB'000	2006 RMB'000
Less than one year	**8,800**	8,800
Between one and five years	**24,400**	33,200
	33,200	42,000

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

Pursuant to a management agreement dated 31 December 2005 entered into between Shanghai Xinyu and 青島亨得利有限公司 ("Qingdao Company"), Qingdao Company agreed to entrust to Shanghai Xinyu the operation and management of its four retail shops for the period from 31 December 2005 to 31 December 2010, and in return, Qingdao Company is entitled to receive annual guaranteed profits of RMB2,000 thousand from the Group.

33. ACQUISITION OF SUBSIDIARIES

On 3 August 2007, the Group acquired Suzhou Shijia Watch Co., Ltd. ("Suzhou Shijia")'s business via establishing a joint venture, Suzhou Xinyu, in which the Group holds 60% interest for a consideration of RMB19 million, satisfied in cash. After obtaining Suzhou Shijia's business, Suzhou Xinyu is principally engaged in retail of watches. In the period from 3 August 2007 to 31 December 2007, Suzhou Xinyu contributed a profit of RMB2,193 thousand to the Group.

On 15 October 2007, the Group acquired 90.1% equity interest in Omas SRL for a consideration of EUR2 million (RMB21.3 million), satisfied in cash. Omas SRL manufactures and distributes luxury writing instruments. In the period from 15 October 2007 to 31 December 2007, Omas SRL contributed a loss of RMB3,173 thousand to the Group.

On 30 October 2007, the Group acquired 100% equity interests in Beijing Yingdi for a consideration of RMB43.7 million, satisfied in cash. Beijing Yingdi is principally engaged in retail of watches. In the period from 30 October 2007 to 31 December 2007, Beijing Yingdi contributed a profit of RMB217 thousand to the Group.

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

If the above acquisitions had occurred on 1 January 2007, management estimates that consolidated revenue would have been RMB4,668,849 thousand and consolidated profit for the period would have been RMB420,538 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the dates of acquisition occurred on 1 January 2007.

Effect of acquisition

	Pre-acquisition carrying amounts					
	Acquisition of 60% interests of Suzhou Shijia in 2007	Acquisition of 90.1% equity interest of Omas SRL in 2007	Acquisition of 100% equity interest of Beijing Yingdi in 2007	Subtotal	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	1,470	16,262	2,000	19,732	17,803	37,535
Intangible assets	–	641	–	641	10,387	11,028
Inventories	15,315	30,588	20,901	66,804	–	66,804
Trade receivables, prepayments and other receivables	–	20,007	–	20,007	–	20,007
Cash and cash equivalents	–	424	27,097	27,521	–	27,521
Trade and other payables	(15,315)	(43,061)	(26,221)	(84,597)	–	(84,597)
Deferred tax liabilities	–	–	–	–	(8,064)	(8,064)
Net identifiable assets and liabilities	1,470	24,861	23,777	50,108	20,126	70,234
Minority interests	(588)	(2,461)	–	(3,049)	(2,171)	(5,220)
Goodwill – Suzhou Xinyu						16,845
Beijing Yingdi						15,275
Gain on acquisition *(note 4)*-Omas SRL						(13,141)
Consideration paid, satisfied in cash						83,993
Cash acquired						(27,521)
Net cash outflow						56,472

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see note 1(h) and 1(i) for methods used in determining fair values), with reference to valuation reports issued by Sallmanns (Far East) Ltd., an independent valuer.

34. RELATED PARTY TRANSACTIONS

The Group has transactions with companies controlled by the ultimate shareholders ("Ultimate shareholders' companies"), minority shareholders of subsidiaries ("Minority shareholders") and a jointly controlled entity. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the two years ended 31 December 2007.

(a) Recurring transactions

	2007 **RMB'000**	2006 RMB'000
Lease expenses to:		
Minority shareholders	**1,800**	4,800
Ultimate shareholders' companies	**1,922**	1,478
Guaranteed profit to:		
Minority shareholders	**8,800**	3,500
Sales of goods to:		
Jointly controlled entity	**10,015**	14,514
Advance to:		
Jointly controlled entity	**–**	5,000

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

34. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Trade and other receivables due from:

The Company

	2007 **RMB'000**	2006 RMB'000
Subsidiaries	**978,667**	504,783

(c) Trade and other payables due to:

The Group

	2007 **RMB'000**	2006 RMB'000
Minority shareholders	**20,521**	20,163

The Company

	2007 **RMB'000**	2006 RMB'000
Subsidiaries	**6,796**	7,392

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

	2007 **RMB'000**	2006 RMB'000
Short-term employee benefits	**10,451**	6,720
Post-employment benefits	**185**	165
	10,636	6,885

35. FINANCIAL INSTRUMENTS

The Group's business strategies, tolerance of risk and general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions.

The Group's financial assets comprise mainly cash and cash equivalents, pledged bank deposits and trade receivables, prepayments and other receivables. The Group's financial liabilities include bank loans and overdrafts, trade and other payables, convertible bonds and embedded financial derivatives.

The Group has no derivative instruments that are designated and qualified as hedging instruments during the two years ended 31 December 2007. Exposure to credit, liquidity, interest rate, and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

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

At the balance sheet dates, the Group had no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) Liquidity risk

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

35. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

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

31 December 2007	**Carrying amount** RMB'000	**Undiscounted contractual cash flow** RMB'000	**Within 1 year or on demand** RMB'000	**Within 2 years but over 1 year** RMB'000	**Within 5 years but over 2 years** RMB'000
Trade and other payables excluding advance receipts from customers	**445,800**	**(445,800)**	**(445,800)**	**–**	**–**
Secured interest-bearing loans	**96,364**	**(99,830)**	**(99,830)**	**–**	**–**
Unsecured interest-bearing loans	**148,982**	**(152,470)**	**(152,470)**	**–**	**–**
Convertible bonds	**994,558**	**(1,276,618)**	**–**	**–**	**(1,276,618)**
	1,685,704	**(1,974,718)**	**(698,100)**	**–**	**(1,276,618)**

31 December 2006	Carrying amount RMB'000	Undiscounted contractual cash flow RMB'000	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000
Trade and other payables excluding advance receipts from customers	349,748	(349,748)	(349,748)	–	–
Secured interest-bearing loans and overdrafts	100,884	(112,211)	(84,421)	(1,430)	(26,360)
Unsecured interest-bearing loans	309,000	(321,120)	(321,120)	–	–
	759,632	(783,079)	(755,289)	(1,430)	(26,360)

35. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

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

Cash and cash equivalents comprise mainly cash at bank, with fixed interest rate ranging from 0.72% to 5.15% per annum as at 31 December 2007 (2006: ranging from 0.72% to 3% per annum). Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for borrowing facilities granted to the Group.

Borrowings issued at variable rates, and borrowings and convertible bonds issued at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and maturity information of the interest-bearing bank loans and overdraft, and convertible bonds are disclosed in note 26 and 27.

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

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

	2007		2006	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Cash at bank	**3.0%**	**987,193**	2.8%	298,275
Pledged bank deposit	**3.1%**	**83,470**	3.5%	76,908
Secured interest-bearing loans	**6.97%**	**(87,000)**	6.45%	(55,672)
Unsecured interest-bearing loans	**6.57%**	**(148,982)**	5.79%	(309,000)
Convertible bonds	**5.46%**	**(994,558)**	–	–
		(159,877)		10,511
Variable rate instruments				
Secured interest-bearing loans	**4.3%**	**(9,364)**	4.9%	(45,212)
		(9,364)		(45,212)

35. FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk

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

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

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

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

(i) *Exposure to currency risk*

	As at 31 December 2007		
	RMB'000	**USD'000**	**Euro'000**
Cash and cash equivalents	**2,782**	**69,471**	**1,000**
Trade and other payables	**(3,096)**	**(406)**	**–**
Convertible Bonds	**(994,558)**	**–**	**–**
Overall net exposure	**(994,872)**	**69,065**	**1,000**

	As at 31 December 2006		
	RMB'000	USD'000	Euro'000
Trade and other payables	(536)	(140)	–
Overall net exposure	(536)	(140)	–

35. FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk *(Continued)*

(i) Exposure to currency risk (Continued)

The following significant exchange rates applied during the year:

	Average rates		Reporting date spot rate	
	2007	2006	**2007**	2006
RMB: HKD	**1.0316**	0.9783	**1.0679**	0.9953
USD: RMB	**7.5567**	7.9394	**7.3046**	7.8087
EUR: RMB	**10.4667**	9.9231	**10.6669**	10.2665

(ii) Sensitivity analysis

The following table indicates the approximate increase/(decrease) in the Group's profit for the year in response to a 5 percent strengthening/weakening of Renminbi against the foreign currencies to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	2007 **RMB'000**	2006 RMB'000
HKD		
– 5% strengthening of RMB	**(57,119)**	(27)
– 5% weakening of RMB	**57,119**	27
USD		
– 5% strengthening of RMB	**(25,225)**	55
– 5% weakening of RMB	**25,225**	(55)
Euro		
– 5% strengthening of RMB	**(533)**	–
– 5% weakening of RMB	**533**	–

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

35. FINANCIAL INSTRUMENTS *(Continued)*

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial derivatives of the Group. As at the balance sheet date the Group is exposed to this risk through the redemption rights attached to the convertible bonds issued by the Company as disclosed in note 27(b).

(f) Fair value

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

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

(i) *Cash and cash equivalents, pledged cash deposit, trade receivables, prepayment and other receivables and trade and other payables*

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

(ii) *Interest-bearing bank loans and overdrafts*

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

(iii) *Convertible bonds*

The Group selects appropriate valuation methods and makes assumptions with reference to market conditions existing at each balance sheet date, to determine the fair value of the embedded financial derivatives of the convertible bonds that are separated from the host debt contract. The basis for determining the fair value is disclosed in note 27.

36. NON-ADJUSTING POST BALANCE SHEET EVENTS

On 27 February 2008, Hengdeli International, an indirect wholly-owned subsidiary of the Company, entered into an Agreement with Wai Lung International Company Limited to acquire properties, namely, units 301 and 314, 3rd floor, Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, at the consideration of HKD52 million (RMB48 million).

After the balance sheet date, the directors proposed a final dividend on 22 April 2008. Further details are disclosed in note 11.

37. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2007 to be Best Growth International Limited, which is incorporated in British Virgin Islands.

38. ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 16, 17, 27, 29 and 35 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, convertible bonds, share based payments and financial instruments. Other judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed below.

(a) Impairment of receivables

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers to make the required payments. The management bases the estimates on the aging of the individual receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(b) Depreciation

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

(Expressed in RMB unless otherwise indicated)

38. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market conditions and the historical experience of distributing and selling products of similar nature. Management will reassess the estimations by the balance sheet date.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

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

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

	Effective for accounting periods beginning on or after
HK(IFRIC) 11, HKFRS 2 – Group and treasury share transaction	1 March 2007
HK(IFRIC) 12, Service concession arrangements	1 January 2008
HK(IFRIC) 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
HK(IFRIC) 13, Customer loyalty programmes	1 July 2008
HKFRS 8, Operating segments	1 January 2009
Revised HKAS 1, Presentation of financial statements	1 January 2009
Revised HKAS 23, Borrowing costs	1 January 2009

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007 *(Continued)*

	Effective for accounting periods beginning on or after
Amendments to HKFRS 2, Share-based payment – Vesting conditions and cancellations	1 January 2009
Revised HKFRS 3, Business combinations	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Revised HKAS 27, Consolidated and separate financial statements	1 July 2009

Financial Summary

RESULTS	Year ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Sales	1,496,401	1,518,582	1,396,531	2,404,699	**4,578,741**
Profit from operations	113,355	176,378	220,203	320,957	**632,994**
Finance costs	(13,661)	(17,614)	(23,353)	(27,048)	**(81,582)**
Share of losses of a jointly controlled entity	–	–	(187)	(80)	**276**
Profit before tax	99,694	158,764	196,663	293,829	**551,688**
Income tax	(32,498)	(52,881)	(64,886)	(80,231)	**(109,535)**
Profit for the year	67,196	105,883	131,777	213,598	**442,153**
Attributable to:					
Equity shareholders of the Company	55,441	97,545	121,011	199,101	**417,523**
Minority interests	11,755	8,338	10,766	14,497	**24,630**
Profit for the year	67,196	105,883	131,777	213,598	**442,153**
Basic earnings per share	RMB0.037	RMB0.065	RMB0.073	RMB0.090	**RMB0.168**

ASSETS AND LIABILITIES	At 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Total assets	690,088	864,329	1,343,504	2,463,626	**3,925,591**
Total liabilities	370,305	500,248	549,353	855,066	**1,943,220**
Net assets	319,783	364,081	794,151	1,608,560	**1,982,371**
Equity attributable to equity shareholders of the Company	220,561	285,508	694,640	1,472,086	**1,785,498**
Minority interests	99,222	78,573	99,511	136,474	**196,873**
Total shareholders' equity	319,783	364,081	794,151	1,608,560	**1,982,371**

STOCK INFORMATION

Place of Listing: Main Board of the Stock Exchange of Hong Kong Limited
Stock Short Name: Xinyu Hengdeli
Stock Code: 3389

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Chen Sheng
Mr. Shen Zhiyuan
Mr. Shi Zhongyang
Mr. Chuang Jian, George

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

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Kowloon, Hong Kong

AUDITORS

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

COMPANY'S LEGAL ADVISER

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

INVESTORS ENQUIRY

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