
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xinyu Hengdeli Holdings Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected, for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

DISCLOSEABLE TRANSACTION

**ACQUISITION OF THE ENTIRE EQUITY INTERESTS IN
SHARP WONDER**

Financial Adviser



Guotai Junan Capital Limited

CONTENT

	<i>Pages</i>
Definitions	1
Letter from the Board	
Introduction.	6
The Provisional Acquisition Agreement	
Date.	7
Parties	7
Equity interests to be acquired	8
Consideration.	8
Payment arrangement	8
Conditions Precedent	9
Completion	10
Post-Completion Undertakings	10
Restrictions on Vendors	11
Profit Guarantee by the Vendors.	11
Information on the Larry Jewelry Group	12
Reasons for and benefits of the Acquisition.	13
Information on the Company and the Purchaser	13
Implications under the Listing Rules	13
General	14
Appendix – General Information	15

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	the acquisition by the Purchaser of the entire equity interests of Sharp Wonder
“Audited NAV”	the audited net asset value of the Larry Jewelry Group as at Completion Date as audited by the auditors of the Company
“Audited Completion Accounts”	the completion accounts (including the balance sheet and profit and loss accounts) of the Larry Jewelry Group as at Completion Date as audited by the auditors of the Company
“Better Act”	Better Act Group Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Sharp Wonder
“Better Win”	Better Win International Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Sharp Wonder
“Board”	the board of Directors, including independent non-executive Directors, of the Company
“Business Day/Date”	any day/date (excluding a Saturday) on which banks generally are open for business in Hong Kong and/or Singapore
“Buy Option”	means the option mentioned under paragraph (f) under the heading “Post-Completion Undertakings” of this circular
“Company”	Xinyu Hengdeli Holdings Limited, a company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange
“Completion Date”	the date being the 14th Business Date after the signing of the Formal Acquisition Agreement or any later days as agreed by the parties subject to the fulfillment of the conditions set out below under the heading “Conditions Precedent” of this circular
“Conditions Fulfillment Date”	30 September 2008 or such later date as agreed by the parties

DEFINITIONS

“Consideration”	the consideration for the Acquisition which will be calculated by the formula: $(A + B) \times 80\%$, where A being the Audited NAV as at the Completion Date and B being HK\$150,000,000 and in any event the maximum Consideration will not exceed HK\$360,000,000
“Corporate Vendor”	Larry Jewelry (Overseas) Limited, a company incorporated in Hong Kong engaging in the investment holding business and owns 20% of the equity interests of Larry Jewelry (HK) after the Hong Kong Reorganisation
“Directors”	the directors of the Company
“Force Majeure Events”	force majeure events including war and significant natural disasters
“Formal Acquisition Agreement”	the conditional agreement for sale and purchase to be entered into between the parties in relation to the Acquisition
“First Deposit”	an amount of HK\$10,000,000, being part of the Consideration
“Guaranteed Profit”	the aggregate amount of the consolidated net profit after tax (including minority interest but excluding extraordinary profit) of Larry Jewelry (HK) and Larry Jewelry (Singapore) for the Profit Guarantee Period as certified by the auditors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Reorganisation”	a group reorganisation undergone by Larry Jewelry (HK) at the cost of the Vendors such that after the reorganisation, the Corporate Vendor and Better Win beneficially hold 20% and 80%, 1% of which is held in trust by Better Act, equity interests of Larry Jewelry (HK) respectively
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Independent Third Parties”	parties which are independent of and not connected with any of the directors, chief executives, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules

DEFINITIONS

“Ka Wah Diamond”	Ka Wah Diamond Limited, a company incorporated in Hong Kong and ultimately owned as to 50% by the Vendors and one of its directors being Mr. Chan Tzuenn Man
“Larry Jewelry Group”	Sharp Wonder and its subsidiaries
“Larry Jewelry (HK)”	Larry Jewelry Limited, a company incorporated in Hong Kong and engaged in the business of design, trading and retailing of jewelry in Hong Kong
“Larry Jewelry (Singapore)”	Larry Jewelry (1967) Pte. Ltd, a company incorporated in Singapore and engaged in the business of design, trading and retailing of jewelry in Singapore
“Latest Practicable Date”	21 May 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minority Interests”	the 20% equity interests of Larry Jewelry (HK) and Larry Jewelry (Singapore) respectively held by the Corporate Vendor and the Warrantor after the Completion
“Options”	collectively means the Buy Option and the Put Option
“parties”	means the parties to the Provisional Acquisition Agreement
“PRC”	the People’s Republic of China including Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Profit Guarantee Period”	a period of 24 months commencing from the Completion Date (both dates inclusive) in respect of the profit guaranteed by the Vendors in relation to Larry Jewelry (HK) and Larry Jewelry (Singapore) in the Provisional Acquisition Agreement
“Provisional Acquisition Agreement”	the conditional legally binding provisional acquisition agreement dated 6 May 2008 in relation to the Acquisition
“Purchaser”	Xinyu Hengdeli Finance Limited, a wholly-owned subsidiary of the Company

DEFINITIONS

“Put Option”	means the option mentioned under paragraph (e) under the heading “Post-Completion Undertakings” of this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Reorganisations”	collectively the Hong Kong Reorganisation and the Singapore Reorganisation
“S\$”	Singapore dollar(s), the lawful currency of Singapore
“Second Deposit”	an amount of HK\$159,200,000, being part of the Consideration
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Sharp Wonder”	Sharp Wonder Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and ultimately owned by the Vendors or their nominees
“Singapore Reorganisation”	a group reorganisation undergone by Larry Jewelry (Singapore) at the cost of the Vendors such that after the reorganisation, the Warrantor and Better Act will hold 20% and 80%, 1% of which shall be held in trust by Better Win, equity interests of Larry Jewelry (Singapore) respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it in the Listing Rules
“Vendors”	the Corporate Vendor, Mr. Chan Hoo Chow, Mr. Chan Tzuenn Man, Mrs. Chan Liu Pui Fong and Mr. Chan Ho Kong who to the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, is Independent Third Parties not connected with any of the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules

DEFINITIONS

“Warrantor” Larry Jewelry Singapore Private Limited, a company incorporated in Singapore and will own 20% of the equity interests of Larry Jewelry (Singapore) after the Singapore Reorganisation

“%” per cent.

For the sake of your easy reference, the exchange rate between Singapore and Hong Kong dollar provided in this circular is: S\$1 = HK\$5.70. The provision of such exchange rate does not mean that Hong Kong Dollar could be converted into Singapore based on such exchange rate.

LETTER FROM THE BOARD



XINYU HENGDELI HOLDINGS LIMITED

新宇亨得利控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

Executive Directors:

Mr. ZHANG Yuping (*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

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Head Office and Principal

Place of Business:

Room 301, 3/F.

Lippo Sun Plaza

28 Canton Road

Tsim Sha Tsui

Kowloon

Hong Kong

26 May 2008

To shareholders of the Company

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

**ACQUISITION OF THE ENTIRE EQUITY INTERESTS IN
SHARP WONDER**

I. INTRODUCTION

The Board announced on 6 May 2008 that the Purchaser entered into the Provisional Acquisition Agreement with the Vendors pursuant to which the Purchaser agreed to purchase the entire equity interests of Sharp Wonder.

As the relevant percentage ratios set out in Chapter 14 of the Listing Rules are more than 5% but less than 25%, the Acquisition, if proceeded with, will constitute a discloseable transaction for the Company and is subject to the notification and publication requirements under the Listing Rules.

LETTER FROM THE BOARD

Upon Completion, the Put Option will be granted to the Corporate Vendor and the Warrantor whereas the Buy Option will be granted to the Company. The Put Option and the Buy Option are subject to Rule 14.74 and Rule 14.75 of the Listing Rules respectively.

As the relevant percentage ratios set out in Chapter 14 of the Listing Rules for the Options are more than 5% but less than 25%, the Options, subject to the completion of the Acquisition, if proceeded with, will constitute discloseable transactions for the Company and are subject to the notification and publication requirements under the Listing Rules.

II. THE PROVISIONAL ACQUISITION AGREEMENT

Date: 6 May 2008

Parties: Purchaser: Xinyu Hengdeli Finance Limited, a wholly-owned subsidiary of the Company

Vendors: Larry Jewelry (Overseas) Limited, Mr. Chan Hoo Chow, Mr. Chan Tzuenn Man, Mrs. Chan Liu Pui Fong and Mr. Chan Ho Kong. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Vendors and the ultimate beneficial owners of the Corporate Vendor are Independent Third Parties not connected with any of the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules.

Warrantor: Larry Jewelry Singapore Private Limited. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Warrantor and its ultimate beneficial owners are Independent Third Parties not connected with any of the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules.

Guarantor: Mr. Chan Tzuenn Man

LETTER FROM THE BOARD

Equity interests to be acquired:

Subject to the fulfillment of the conditions precedent set out below, the Purchaser has agreed to purchase the entire equity interests of Sharp Wonder. Sharp Wonder is an investment holding company indirectly holding 80% of the equity interests of each of Larry Jewelry (HK) and Larry Jewelry (Singapore) after the Reorganisations. After the completion of the Acquisition, Sharp Wonder will become a wholly-owned subsidiary of the Company.

Consideration:

The Consideration will be calculated by the formula: $(A + B) \times 80\%$, where A being the Audited NAV and B being HK\$150,000,000, and in any event the maximum Consideration will not exceed HK\$360,000,000. The Consideration was determined with reference to price-to-earnings ratio of approximately 7 times. The Consideration has been determined based on (1) arm's length negotiations between the Group and the Vendors and on normal commercial terms; and (2) by reference to price-to-earnings ratio of the companies listed in Hong Kong which engaged in similar business with Larry Jewelry (HK) and Larry Jewelry (Singapore). Given the nature of business of Larry Jewelry (HK) and Larry Jewelry (Singapore), the Directors consider that the use of price-to-earnings ratio as the basis of calculating the Consideration is a more appropriate benchmark than others.

Payment arrangement:

The Consideration will be settled by the Purchaser in the following manner:

- (a) upon signing of the Provisional Acquisition Agreement, the Purchaser has paid the First Deposit to the solicitors of the Vendors who shall keep the First Deposit as stakeholder and release the First Deposit, together with the interests thereon, to the Vendors as part of the Consideration upon the signing of the Formal Acquisition Agreement;
- (b) the Second Deposit shall be paid by the Purchaser to the Vendors upon the signing of the Formal Acquisition Agreement, which shall be entered into between the parties on the 14th Business Date after the Purchaser has completed its due diligence exercise or on any earlier or later date as agreed between the Purchaser and Vendors; and
- (c) the balance of the Consideration shall be paid by the Purchaser, within 14 Business Days from the date of issue of the Audited Completion Accounts by the auditors of the Company, to the Vendors, or to the solicitors of the Vendors should the Purchaser fail to receive any written instruction from the Vendors within 7 Business Days before the Completion Date stipulating the allocation of the balance of the Consideration amongst the Vendors, on the Completion Date.

The Company intends to use its internal resources and bank borrowings to satisfy the Consideration, which will be entirely satisfied by cash.

LETTER FROM THE BOARD

Conditions Precedent:

Completion of the Acquisition is conditional upon the fulfillment of the following conditions on or before the Conditions Fulfillment Date:

- (a) the Vendors having completed the Reorganisations;
- (b) the Purchaser having completed the financial due diligence review on the Larry Jewelry Group and the results of such financial due diligence review being found satisfactory by the Purchaser in every aspect (including that the consolidated net profit of Larry Jewelry (HK) and Larry Jewelry (Singapore) for the period from 1 January 2007 to 31 December 2007 shall not be less than HK\$35,000,000 as represented by the Vendors);
- (c) the Purchaser having completed the legal due diligence review on the Larry Jewelry Group and there is no material legal problem; and
- (d) no material changes in the senior management structure of the Larry Jewelry Group and no action has been conducted adversely affecting the business, assets, properties, financial situation, operation and future prospect of the Larry Jewelry Group (in the opinion of the Company) before and upon Completion.

As at the Latest Practicable Date, the Hong Kong Reorganisation has been completed. The Vendors shall use their best endeavour to procure the fulfillment of the remaining conditions precedent and if the Vendors become aware of any matter or reason causing such conditions impossible to be fulfilled, they shall inform the Purchaser in writing immediately. If the conditions abovementioned cannot be fulfilled or waived by the Purchaser on or before the Conditions Fulfillment Date, the Provisional Acquisition Agreement shall be terminated and the Vendors shall forthwith return all payments made by the Purchaser under the Provisional Acquisition Agreement together with interests, after which neither party under the Provisional Acquisition Agreement shall have any claim against each other.

If the Purchaser refuses to complete the Acquisition in accordance with the Provisional Acquisition Agreement after the fulfillment of all the conditions precedent (other than due to the defaults of the Vendors), the Vendors shall be entitled to issue a written notice to the Purchaser or to the solicitors of the Purchaser to terminate the Provisional Acquisition Agreement forthwith and forfeit the First Deposit paid by the Purchaser under the Provisional Acquisition Agreement. After the forfeiture of the First Deposit, the obligations of the parties under the Provisional Acquisition Agreement shall cease automatically and the Vendors shall have no further claim against the Purchaser.

If the Vendors fail to complete the Acquisition in accordance with the Provisional Acquisition Agreement (other than due to the defaults of the Purchaser), the Vendors shall forthwith return the First Deposit paid by the Purchaser under the Provisional Acquisition Agreement together with interests and further pay to the Purchaser a sum equal to the First Deposit as liquidated damages, after which the obligations of the parties under the Provisional Acquisition Agreement shall cease automatically and the Purchaser shall have no further claim against the Vendors.

LETTER FROM THE BOARD

Completion:

The Formal Acquisition Agreement, setting out further details of the Acquisition and/or further supplemental terms or conditions (if any) based on the Provisional Acquisition Agreement, shall be entered into between the parties on the 14th Business Date after the Purchaser has completed its due diligence exercise or on any earlier or later date as agreed between the Purchaser and the Vendors. As at the Latest Practicable Date, the Formal Acquisition Agreement has not yet been signed by the parties. Further announcement setting out the details of the Formal Acquisition Agreement and changes of the material terms of the Provisional Acquisition Agreement, if any, will be published in due course.

Completion shall take place on the Completion Date, being the 14th Business Date after the signing of the Formal Acquisition Agreement or any later date as agreed between the Purchaser and the Vendors, subject to the fulfillment of the conditions set out above.

Post-Completion Undertakings:

Subject to Completion, the Purchaser and the Vendors undertake with each other that:

- (a) Larry Jewelry (HK) and/or Larry Jewelry (Singapore) shall not establish any new retail outlets in the PRC within one year (both dates inclusive) after the Completion Date unless with the unanimous consent of their respective shareholders;
- (b) the number of directors of Larry Jewelry (HK), which shall be not less than three, shall be determined by the Purchaser. The Corporate Vendor shall have the right to nominate a person to be a director of Larry Jewelry (HK) subject to its holding 20% of the equity interests of Larry Jewelry (HK);
- (c) the number of directors of Larry Jewelry (Singapore), which shall not be less than three, shall be determined by the Purchaser. The Warrantor shall have the right to nominate a person to be a director of Larry Jewelry (Singapore) subject to its holding 20% of the equity interests of Larry Jewelry (Singapore);
- (d) the Vendors shall not use the names of “Larry Jewelry” and/or “俊文珠寶” and/or “俊文寶石” or any similar names in any part of the world after Completion and shall procure the change of names of their companies within 10 Business Days after the Completion Date;
- (e) the Corporate Vendor and the Warrantor shall have the right to sell the entire, but not part, of the Minority Interests to the Purchaser at a price being one-fourth of the Consideration during the period commencing from the date after the 1st anniversary of the Completion Date and ending on the date on which the Profit Guarantee Period ends; and

LETTER FROM THE BOARD

- (f) subject to Completion, the Purchaser shall have the right of first refusal to acquire the Minority Interests from the Corporate Vendor and the Warrantor after the end of the Profit Guarantee Period. The Corporate Vendor and the Warrantor would only dispose of the entire Minority Interests to a third party when such third party offers a price higher than that of the Purchaser for acquiring the Minority Interests and the Purchaser has confirmed that it will not acquire the Minority Interests at the same price offered by such third party.

Restrictions on Vendors:

Each of the Vendors undertakes with the Purchaser that:

- (a) for a period of ten years after the Completion Date, he/she/it will not within the PRC, Hong Kong and Singapore either on his/her/its own account or in conjunction with or on behalf of any person, firm or company carry on or be engaged, concerned or interested, directly or indirectly, whether as shareholder, director, employee, partner, agent or otherwise in carrying any business which will directly or indirectly competes with the business carried by Larry Jewelry (HK) and Larry Jewelry (Singapore) as at the Completion Date; and
- (b) for a period of ten years after the Completion Date, he/she/it will:
- (i) at reasonable endeavour procure Ka Wah Diamond to confine its business in the wholesale of diamonds and not to carry any business which will directly or indirectly competes with the business carried by Larry Jewelry (HK) and Larry Jewelry (Singapore) as at the Completion Date;
 - (ii) maintain the status quo of the shareholding structure of Ka Wah Diamond;
 - (iii) maintain the power of control in the board of directors of Ka Wah Diamond; and
 - (iv) veto any resolutions of Ka Wah Diamond for engaging in the business which will directly or indirectly competes with the business carried by Larry Jewelry (HK) and Larry Jewelry (Singapore) as at the Completion Date.

However if Larry Jewelry (HK) and/or Larry Jewelry (Singapore) carries the business of wholesale of diamonds, the Vendors shall not be considered as breaching the obligations.

Profit Guarantee by the Vendors:

In consideration of the Purchaser entering into the Provisional Acquisition Agreement, the Vendors jointly and severally guarantees to the Purchaser that the Guaranteed Profit shall not be less than HK\$80,000,000 for the Profit Guarantee Period, that is a period of 24 months commencing from the Completion Date.

LETTER FROM THE BOARD

In the event that the Guaranteed Profit is less than HK\$80,000,000, the Vendors agree to repay to the Purchaser an amount being 80% of the shortfall within 7 Business Days after the date of the issue of the audited consolidated financial statements of Sharp Wonder by the auditors of the Company.

The profit guarantee by the Vendors in the Provisional Acquisition Agreement shall be released automatically if:

- (a) the Guaranteed Profit achieves the guaranteed amount of HK\$80,000,000; or
- (b) there is any Force Majeure Events during the Profit Guarantee Period affecting the performance of Larry Jewelry (HK) and Larry Jewelry (Singapore).

III. INFORMATION ON THE LARRY JEWELRY GROUP

Sharp Wonder is an investment holding company incorporated in the British Virgin Islands and will through Better Act and Better Win indirectly hold 80% of the equity interests of each of Larry Jewelry (HK) and Larry Jewelry (Singapore) upon the completion of the Reorganisations.

Better Act and Better Win are both intermediate holding companies incorporated in the British Virgin Islands. Upon the completion of the Reorganisations, Better Act will directly hold 80% of the equity interests of Larry Jewelry (Singapore) (1% of which will be held in trust by Better Win) and Better Win directly holds 80% of the equity interests of Larry Jewelry (HK) (1% of which is held in trust by Better Act). The principal businesses of Better Act and Better Win are investment holding.

Larry Jewelry (HK) is a company incorporated in Hong Kong and principally engaged in the design, trading and retailing of jewelry in Hong Kong. Based on the audited financial statements provided by the Vendors, for the financial year ended 31 March 2006, the profit before tax of Larry Jewelry (HK) was approximately HK\$19,300,000; the profit after tax was approximately HK\$15,900,000. Based on the unaudited financial information provided by the Vendors, for the financial year ended 31 March 2007, the profit before tax of Larry Jewelry (HK) was approximately HK\$42,600,000; the profit after tax was approximately HK\$35,100,000. The net assets value of Larry Jewelry (HK) as at 31 March 2006 and 31 March 2007 was approximately HK\$95,500,000 and HK\$130,600,000 respectively.

Larry Jewelry (Singapore) is a company incorporated in Singapore on 28 August 2006 and principally engaged in the design, trading and retailing of jewelry in Singapore. Based on the unaudited financial information provided by the Vendors, for the financial period ended 31 December 2006, the revenue of Larry Jewelry (Singapore) was zero, the net loss before and after tax of Larry Jewelry (Singapore) was approximately S\$2,755 (equivalent to approximately HK\$15,700). Based on the unaudited financial information provided by the Vendors, for the financial period from 1 January 2007 to 31 December 2007, the profit before tax attributable to Larry Jewelry (Singapore) was approximately

LETTER FROM THE BOARD

S\$4,900,000 (equivalent to approximately HK\$27,930,000); the profit after tax attributable to Larry Jewelry (Singapore) was approximately S\$4,000,000 (equivalent to approximately HK\$22,800,000). The net assets value of Larry Jewelry (Singapore) as at 31 December 2006 was approximately S\$2,754 (equivalent to approximately HK\$15,700). The net assets value of Larry Jewelry (Singapore) as at 31 December 2007 was approximately S\$5,000,000 (equivalent to approximately HK\$28,500,000).

IV. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors believe that the acquisition of the Larry Jewelry Group enables the Company to extend its retail network to the Hong Kong and Singapore markets and expand its jewelry business to high-end products at a faster pace and a relatively lower cost when compared to developing the similar retail network by the Group itself. The Directors also believe that the Acquisition will further enhance the competitiveness of the Group.

It is expected that the completion of the Acquisition will increase the earnings of the Group. As part of the Consideration will be financed by bank borrowings, the Acquisition will increase both the assets and the liabilities of the Group.

The Directors consider that the terms of the Provisional Acquisition Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

V. INFORMATION ON THE COMPANY AND THE PURCHASER

The Company is a major retailer and distributor of imported medium and high-grade watch and jewelry in the PRC. The Group operates retail outlets and boutiques of watches, jewelry and other related accessories in various major cities of the PRC and introduces to the market various high-end watch and jewelry brands.

The Purchaser, Xinyu Hengdeli Finance Limited, is a wholly-owned subsidiary of the Company. The principal business of the Purchaser is investment holding.

VI. IMPLICATIONS UNDER THE LISTING RULES

As the relevant percentage ratios set out in Chapter 14 of the Listing Rules are more than 5% but less than 25%, the Acquisition, if proceeded with, will constitute a discloseable transaction for the Company and is subject to the notification and publication requirements under the Listing Rules.

Upon Completion, the Put Option will be granted to the Corporate Vendor and the Warrantor whereas the Buy Option will be granted to the Company. The Put Option and the Buy Option are subject to Rule 14.74 and Rule 14.75 of the Listing Rules respectively.

As the relevant percentage ratios set out in Chapter 14 of the Listing Rules for the Options are more than 5% but less than 25%, the Options, subject to the completion of the Acquisition, if proceeded with, will constitute discloseable transactions for the Company and are subject to the notification and publication requirements under the Listing Rules.

LETTER FROM THE BOARD

As the exercise of the Put Option is at the discretion of the Corporate Vendor and the Warrantor, the Put Option will be classified as if the Put Option had been exercised on the grant of the Put Option as set out in Rule 14.74 of the Listing Rules. Further announcement will be made by the Company in accordance with Chapter 14 of the Listing Rules when such right is exercised by the Corporate Vendor and/or the Warrantor pursuant to Rule 14.74 of the Listing Rules.

Whereas the exercise of the Buy Option is at the discretion of the Purchaser, the Buy Option will be classified as two separate transactions, that is upon the time of grant and the time of exercise as set out in Rule 14.75 of the Listing Rules. If the exercise of the Buy Option constitutes a notifiable transaction under the Listing Rules, the Company will have to comply with the relevant provisions under Chapter 14 of the Listing Rules.

After the completion of the Acquisition, the Corporate Vendor and the Warrantor will become the Substantial Shareholders who in turn are connected persons (as defined in the Listing Rules) of the Company. If the Company elects to exercise the Buy Option, the Company will be further subject to and has to comply with the provisions under Chapter 14A of the Listing Rules.

VII. GENERAL

Your attention is drawn to the general information set out in the Appendix of this circular.

By Order of the Board
Mr. Zhang Yuping
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, 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 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
Zhang Yuping (<i>alia</i> , Cheung Yu Ping)	Controlled Corporation (<i>Note 1</i>)	1,340,648,000(L)	53.96%
Song Jianwen	Controlled Corporation (<i>Note 2</i>)	18,100,000(L)	0.73%

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

Notes:

- Zhang Yuping owns 77.7% of the issued share capital of Best Growth International Limited, which in turn owns 53.96% of the issued share capital of the Company.
- Song Jianwen owns the entire share capital of Artnew Developments Limited, which in turn owns 0.73% of the issued share capital of the Company.

Save as disclosed above, none of the Directors and chief executive of the Company aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of the Company or any associated corporation pursuant to Divisions 7 and 8 of Part XV of the SFO, Section 352 of the SFO and Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules as at the Latest Practicable Date.

(b) Interests of Substantial Shareholders

As the Directors were aware, as at the Latest Practicable Date, 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 International Limited (<i>Note 1</i>)	1,340,648,000(L)	53.96%
Zhang Yuping (<i>Note 1</i>)	1,340,648,000(L)	53.96%
The Swatch Group Hong Kong Limited (<i>Note 2</i>)	201,000,000(L)	8.09%
The Swatch Group Limited (<i>Note 2</i>)	201,000,000(L)	8.09%
Hayek Nicolas Georges (<i>Note 2</i>)	201,000,000(L)	8.09%
LVMH Watches & Jewelry Hong Kong Limited (<i>Note 3</i>)	12,336,000(L)	0.50%
TAG Heuer SA (<i>Note 3</i>)	12,336,000(L)	0.50%
TAG Heuer International SA (<i>Note 3</i>)	12,336,000(L)	0.50%
LVMH Asia Pacific Limited (<i>Note 3</i>)	173,080,000(L)	6.96%
Sofidiv SAS (<i>Note 3</i>)	185,416,000(L)	7.46%
LVMH SA (<i>Note 3</i>)	185,416,000(L)	7.46%

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

Notes:

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

- 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.

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.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

3. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. LITIGATION

Neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against either the Company or any of its subsidiaries as at the Latest Practicable Date.

6. GENERAL

- (a) The registered office and the head office of the Company are situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 301, 3/F., Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong respectively.
- (b) The transfer office of the Company is Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The secretary and qualified accountant of the Company is Mr. Ng Man Wai, Peter (*HKICPA, ACCA*).
- (d) The English text of this circular shall prevail over the Chinese text in case of inconsistencies.