



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)

2008 INTERIM RESULTS

Financial Highlights	Six months ended 30 June		
	2008	2007	Change
Results	<i>RMB'000</i>	<i>RMB'000</i>	(%)
	(Unaudited)	(Unaudited)	
Sales	2,725,609	1,921,606	+41.8
Profit for the period	253,709	155,898	+62.7
Attributable to equity shareholders	237,605	145,386	+63.4
Basic earnings per share	0.096	0.059	+62.7

INTERIM RESULTS

The board of directors (the “Directors”) of Xinyu Hengdeli Holdings Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	For the six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	3	2,725,609	1,921,606
Cost of sales		<u>(2,060,894)</u>	<u>(1,510,809)</u>
Gross profit		664,715	410,797
Other revenue	4	23,111	5,203
Other net income	4	81,364	–
Distribution costs		(226,759)	(119,648)
Administrative expenses		(131,421)	(76,030)
Other operating expenses		<u>(4,294)</u>	<u>(84)</u>
Profit from operations		406,716	220,238
Finance costs	5(a)	(86,174)	(11,433)
Share of losses of jointly controlled entities		<u>(465)</u>	<u>(150)</u>
Profit before taxation	5	320,077	208,655
Income tax	6	<u>(66,368)</u>	<u>(52,757)</u>
Profit after taxation		<u>253,709</u>	<u>155,898</u>
Attributable to:			
Equity shareholders of the Company		237,605	145,386
Minority interests		<u>16,104</u>	<u>10,512</u>
Profit after taxation		<u>253,709</u>	<u>155,898</u>
Earnings per share	7		
Basic		<u>RMB0.096</u>	<u>RMB0.059</u>
Diluted		<u>RMB0.095</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

		At 30 June 2008	At 31 December 2007
	<i>Note</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment	9	381,774	288,725
Investment property	10	28,786	29,535
Intangible assets		42,871	43,444
Goodwill		213,165	213,165
Investments in jointly controlled entities		32,002	27,913
Other investments		250	250
Deferred tax assets		29,420	24,487
		<u>728,268</u>	<u>627,519</u>
Current assets			
Inventories	11	2,122,499	1,666,976
Trade receivables, prepayments and other receivables	12	719,126	560,433
Pledged bank deposits		54,414	83,470
Cash and cash equivalents		385,458	987,193
		<u>3,281,497</u>	<u>3,298,072</u>
Current liabilities			
Trade and other payables	13	538,983	476,119
Bank loans	14	393,671	245,346
Current taxation		27,982	87,644
		<u>960,636</u>	<u>809,109</u>
Net current assets		<u>2,320,861</u>	<u>2,488,963</u>
Total assets less current liabilities		<u>3,049,129</u>	<u>3,116,482</u>
Non-current liabilities			
Bank loans	14	41,168	–
Convertible bonds	15	873,936	994,558
Embedded financial derivatives	15	37,511	131,544
Deferred tax liabilities		11,598	8,009
		<u>964,213</u>	<u>1,134,111</u>
NET ASSETS		<u>2,084,916</u>	<u>1,982,371</u>
CAPITAL AND RESERVES			
Share capital		12,927	12,927
Reserves		1,859,012	1,772,571
Total equity attributable to equity shareholders of the Company		<u>1,871,939</u>	<u>1,785,498</u>
Minority interests		212,977	196,873
TOTAL EQUITY		<u>2,084,916</u>	<u>1,982,371</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Note</i>	For the six months ended 30 June	
		2008 <i>RMB'000</i> (unaudited)	2007 <i>RMB'000</i> (unaudited)
<i>Equity attributable to equity shareholders of the Company:</i>			
Balance at 1 January		1,785,498	1,472,086
Equity settled share-based payment transactions	16	11,856	–
Net profit for the period		237,605	145,386
Dividends declared	8	(149,070)	(69,566)
Exchange differences on translation into presentation currency		(13,950)	(9,461)
Balance at 30 June		1,871,939	1,538,445
<i>Minority interests:</i>			
Balance at 1 January		196,873	136,474
Share of net profit for the period		16,104	10,512
Dividends declared		–	(10,392)
Balance at 30 June		212,977	136,594
Total equity:		2,084,916	1,675,039

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	For the six months ended 30 June	
		2008 <i>RMB'000</i> (unaudited)	2007 <i>RMB'000</i> (unaudited)
Cash (used in)/generated from operations		(200,353)	13,352
Income tax paid		(127,373)	(86,457)
Net cash used in operating activities		(327,726)	(73,105)
Net cash (used in)/generated from investing activities		(113,204)	20,922
Net cash (used in)/generated from financing activities		(136,099)	23,033
Net decrease in cash equivalents		(577,029)	(29,150)
Cash and cash equivalents at 1 January		987,193	294,673
Effect of foreign exchange rate changes		(24,706)	(9,461)
Cash and cash equivalents at 30 June		<u>385,458</u>	<u>256,062</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 CORPORATE REORGANISATION

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

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements of the Company dated 22 April 2008.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from the 2007 annual financial statements. The 2007 annual financial statements are available from the Company’s registered office. The auditors have expressed an unqualified opinion on the 2007 annual financial statements in their report dated 22 April 2008.

3 SEGMENT INFORMATION

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

	For the six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Turnover		
Retail	1,889,420	1,341,816
Wholesale	768,375	553,026
Unallocated	67,814	26,764
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Total	2,725,609	1,921,606

The principal activities of the Group are retail and wholesales of watches. Sales mainly represent income arising from the sales of watches net of value added tax.

	For the six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Segment result		
Retail	315,170	185,942
Wholesale	74,966	53,699
	<hr/>	<hr/>
Total	390,136	239,641
Unallocated operating income and expenses	16,580	(19,403)
	<hr/>	<hr/>
Profit from operations	406,716	220,238
Finance costs	(86,174)	(11,433)
Share of losses of jointly controlled entities	(465)	(150)
Income tax	(66,368)	(52,757)
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Profit after taxation	253,709	155,898

4 OTHER REVENUE AND NET INCOME

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other revenue		
Interest income	6,580	4,283
Investment income	12,594	–
Rental income (<i>note 10</i>)	920	920
Others	3,017	–
	<u>23,111</u>	<u>5,203</u>

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other net income		
Changes in fair value of embedded financial derivatives (<i>note 15</i>)	81,364	–
	<u>81,364</u>	<u>–</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(a) <i>Finance costs</i>		
Interest expense on bank loans	17,919	10,858
Interest on convertible bonds (<i>note 15</i>)	27,786	–
Bank charges	12,083	575
Net foreign exchange loss	28,386	–
	<u>86,174</u>	<u>11,433</u>

5 PROFIT BEFORE TAXATION (Continued)

	For the six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
(b) <i>Other items</i>		
Cost of inventories [#]	2,066,548	1,511,699
Depreciation - property, plant and equipment, and investment property	12,267	10,688
Amortisation of intangible assets	286	60
Operating leases charges in respect of properties		
– minimum lease payments	23,990	9,317
– contingent rents	86,756	39,837
	<u>2,230,837</u>	<u>1,601,338</u>

[#] *Cost of inventories includes RMB998 thousand relating to write-down for inventories for the six months ended 30 June 2008 (the six months ended 30 June 2007: RMB950 thousand).*

6 INCOME TAX

	For the six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax		
Provision for Hong Kong profits tax for the period	13,493	12,185
Provision for PRC income tax for the period	54,219	44,237
Deferred tax		
Origination and reversal of temporary differences	(1,344)	(3,665)
	<u>66,368</u>	<u>52,757</u>

- (a) Pursuant to the income tax rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. Also, certain subsidiaries located in foreign jurisdictions other than the PRC, except for those mentioned below, are not subject to any income tax in their jurisdictions.
- (b) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

Prior to 31 December 2007

The applicable tax rates of the Group's operating subsidiaries in the PRC are 33% for the year ended 31 December 2007, except for a subsidiary which is entitled to a preferential income tax rate of 15%. The 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.

Since 1 January 2008

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "New Tax Law") which became effective on 1 January 2008, when the income tax rules and regulations of the PRC applicable to foreign investment enterprises (the "FEIT Law") was abolished. The New Tax Law adopts a uniform tax rate of 25% for all enterprises including foreign investment enterprises.

Pursuant to the transitional arrangement under the New Tax Law, 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 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%.

Applicable income tax rate of other domestic companies established in the PRC is 25%.

Pursuant to the New Tax Law, 10% withholding tax is levied on the foreign investor (5% for foreign investors who registered in Hong Kong) in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As at 30 June 2008, deferred tax liabilities of RMB3,657 thousand (31 December 2007: nil) have been recognized in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. Deferred tax liabilities of RMB5,486 thousand have not been recognised, as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that certain part of the profits earned by the Group's PRC subsidiaries for the period from 1 January 2008 to 30 June 2008 will not be distributed in the foreseeable future.

- (c) On 27 February 2008, the Hong Kong SAR Government announced a proposed reduction in the profit tax rate from 17.5% to 16.5% applicable to the operations in Hong Kong with effect from the fiscal year 2008-2009.

7 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 RMB237,605 thousand (six months ended 30 June 2007: RMB145,386 thousand) and the weighted average of 2,484,500,000 ordinary shares (six months ended 30 June 2007: 2,484,500,000 ordinary shares) in issue during the period. The weighted average number of ordinary shares in issue for the six months ended 30 June 2007 has been retrospectively adjusted for the effect of the share split on 6 February 2007.

7 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2008 was based on the profit attributable to equity shareholders of the Company (diluted) of RMB249,898 thousand and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 2,644,179,230. Diluted earnings per share for the six months ended 30 June 2007 is not presented because there were no dilutive potential ordinary shares in existence for that period.

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

	For the six months ended 30 June 2008 (unaudited)
Weighted average number of ordinary shares	2,484,500,000
Effect of conversion of convertible bonds (<i>note 15</i>)	159,679,230
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Weighted average number of ordinary shares (diluted) at 30 June	2,644,179,230
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The performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. As no shares would be issuable if 30 June 2008 were the end of the contingent period, no effect of share options is included in the calculation of diluted earnings per share.

7 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share (Continued)

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

	For the six months ended 30 June 2008
	<i>RMB'000</i>
	(unaudited)
Profit attributable to equity shareholders (basic)	237,605
Effect of effective interest on the liability component of convertible bonds (note 15)	27,786
Effect of gain recognised on the derivative component of convertible bonds (note 15)	(81,364)
Effect of exchange loss recognised on the liability and derivative components of convertible bonds	65,871
	<hr/>
Profit attributable to equity shareholders (diluted) at 30 June	249,898
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8 DIVIDENDS

- (a) No interim dividend was declared after the interim period.
- (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Dividend in respect of the previous financial year, approved and paid during the period	149,070	69,566
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9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired items of land and buildings with a cost of RMB93,584 thousand. Apart from that, there are no significant acquisitions/disposals during the period from 1 January 2008 to 30 June 2008.

10 INVESTMENT PROPERTY

The investment property is located in the PRC and has been rented out under the terms of operating leases since January 2007. The fair value of the investment property as at 30 June 2008, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to RMB33,448 thousand (31 December 2007: RMB52,354 thousand). The investment property has not been valued by an external independent valuer. Rental income of RMB920 thousand was received from leasing the investment property during the six months ended 30 June 2008 (six months ended 30 June 2007: RMB920 thousand).

11 INVENTORIES

Inventories in the consolidated balance sheets comprise:

	At 30 June 2008 <i>RMB'000</i> (unaudited)	At 31 December 2007 <i>RMB'000</i> (audited)
Raw materials	13,587	6,458
Work in progress	23,347	10,795
Finished goods	<u>2,085,565</u>	<u>1,649,723</u>
	<u>2,122,499</u>	<u>1,666,976</u>

12 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2008 <i>RMB'000</i> (unaudited)	At 31 December 2007 <i>RMB'000</i> (audited)
Trade receivables	519,708	391,676
Prepayments and other receivables	<u>199,418</u>	<u>168,757</u>
	<u>719,126</u>	<u>560,433</u>

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.

12 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

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

	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Within 1 month	407,380	317,917
Over 1 month but less than 3 months	104,463	63,053
Over 3 months but less than 12 months	7,865	10,706
	<u>519,708</u>	<u>391,676</u>

13 TRADE AND OTHER PAYABLES

	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Trade payables	358,091	343,467
Other payables and accrued expenses	157,418	112,131
Payables due to related parties	23,474	20,521
	<u>538,983</u>	<u>476,119</u>

An ageing analysis of the trade payables is as follows:

	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Within 1 month	305,492	283,605
Over 1 month but less than 3 months	51,446	51,323
Over 3 months but less than 12 months	598	4,427
Over 1 year	555	4,112
	<u>358,091</u>	<u>343,467</u>

14 BANK LOANS

	At 30 June 2008 <i>RMB'000</i> (unaudited)	At 31 December 2007 <i>RMB'000</i> (audited)
Current		
– secured bank loans	293,671	96,364
– unsecured bank loans	<u>100,000</u>	<u>148,982</u>
	<u>393,671</u>	<u>245,346</u>

The current secured bank loans as at 31 December 2007 and 30 June 2008 were secured by the Group's buildings with a carrying amount of RMB33,606 thousand and RMB46,790 thousand respectively. Certain secured bank loans as at 31 December 2007 were also secured by pledged deposits at banks. The current secured bank loans as at 30 June 2008 carried interest rates ranging from 2.38% to 7.29% (2007: 4.3% to 8.75%) per annum, and were all repayable within one year.

The current unsecured bank loans as at 30 June 2008 carried interest rates ranging from 6.57% to 7.29% (2007: 5.85% to 7.29%) per annum, and were all repayable within one year.

	At 30 June 2008 <i>RMB'000</i> (unaudited)	At 31 December 2007 <i>RMB'000</i> (audited)
Non-current secured bank loans	<u>41,168</u>	<u>–</u>

The non-current secured loans as at 30 June 2008 carried interest rates ranging from 2.45% to 2.75% per annum. The loans were secured by the Group's land and building with a carrying amount of RMB93,584 thousand as at 30 June 2008.

15 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 thousand (the “Convertible Bonds” or “the Bonds”). The subscription amount payable in respect of each RMB1,000 thousand principal amount of Bonds is approximately USD132,282. The Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

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

	Liability component <i>RMB'000</i>	Embedded financial derivatives <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2007	994,558	131,544	1,126,102
Interest charged during the period (<i>note 5(a)</i>)	27,786	–	27,786
Purchase by the Company during the period	(148,408)	(12,669)	(161,077)
Changes in fair value during the period (<i>note 4</i>)	–	(81,364)	(81,364)
	<u> </u>	<u> </u>	<u> </u>
As at 30 June 2008	<u>873,936</u>	<u>37,511</u>	<u>911,447</u>

No conversion of the Convertible Bonds has occurred up to 30 June 2008.

The Company has purchased, by way of market acquisition, some of the Bonds, which had been issued on 24 August 2007 and are listed on the Singapore Exchange Securities Trading Limited, with a principal value of RMB175,000 thousand, for a total consideration of USD22,973 thousand (RMB equivalent: 160,575 thousand). The purchased Bonds has been cancelled in accordance with the terms of the Bonds.

The changes in the fair value of the embedded financial derivatives from 31 December 2007 to 30 June 2008 resulted in a fair value gain of RMB81,364 thousand (from 24 August 2007 to 31 December 2007: RMB18,531 thousand), which has been recorded as “changes in fair value of embedded financial derivatives” in other income in the unaudited consolidated income statement for the six months ended 30 June 2008.

15 CONVERTIBLE BONDS (Continued)

The fair value of the embedded financial derivatives was calculated using the Barrier Option Valuation model. The major inputs used in the models as at 31 December 2007 and 30 June 2008 were as follows:

	31 December 2007	30 June 2008
Stock price	HKD4.37	HKD2.93
Exercise price	HKD7.06	HKD7.06
Risk-free rate	3.10%	3.11%
Expected life	1,698 days	1,516 days
Volatility	46.39%	48.5%

The Company's stock prices were as at 31 December 2007 and 30 June 2008 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.

16 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.

2,250 thousand share options have lapsed prior to 30 June 2008. Except for this, no share option has been exercised, lapsed or cancelled pursuant to the above share option scheme during the six months ended 30 June 2008.

17 COMMITMENTS

(a) Operating lease commitments

	At 30 June 2008 <i>RMB'000</i> (unaudited)	At 31 December 2007 <i>RMB'000</i> (audited)
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	57,547	61,718
Between one and five years	103,865	126,895
More than five years	50,570	47,070
	<u>211,982</u>	<u>235,683</u>

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 lease 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.

(b) Commitments of guaranteed profit

	At 30 June 2008 <i>RMB'000</i> (unaudited)	At 31 December 2007 <i>RMB'000</i> (audited)
Less than one year	8,800	8,800
Between one and five years	20,000	24,400
	<u>28,800</u>	<u>33,200</u>

Pursuant to a management agreement dated 31 December 2006 between Shanghai Xinyu Watch & Clock Group Ltd. (“Shanghai Xinyu”) and Shanghai Yi Min Department Stores Company Limited (“Yi Min”), a related party, Yi Min agreed to entrust to Shanghai Xinyu the operation and management of a shop located in Shanghai, and 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”), whereby 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 an annual guaranteed profits of RMB2,000 thousand from the Group.

18 RELATED PARTY TRANSACTIONS

The group has transactions with the 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 periods presented.

(a) Recurring

	For the six months ended 30 June	
	2008	2007
	<i>RMB’000</i>	<i>RMB’000</i>
	(unaudited)	(unaudited)
Lease expense to:		
Minority shareholders	900	2,400
Ultimate shareholders’ companies	416	965
Guaranteed profit to:		
Minority shareholders	4,400	4,400
Sales of goods to:		
A jointly controlled entity	2,713	3,543
Purchase of property from:		
Ultimate shareholders’ companies	47,262	–

(b) Amounts due from

	At 30 June	At 31 December
	2008	2007
	<i>RMB’000</i>	<i>RMB’000</i>
	(unaudited)	(audited)
Trade and other receivables from:		
A jointly controlled entity	12,311	7,904

(c) Amounts due to

	At 30 June	At 31 December
	2008	2007
	<i>RMB’000</i>	<i>RMB’000</i>
	(unaudited)	(audited)
Other payables due to:		
Minority shareholders	23,474	20,521

19 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2008

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008:

	Effective Date (for annual financial statements covering periods beginning on or after unless specified)
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
Amendments to HKFRS 2, Share-based payment – Vesting conditions and cancellations	1 January 2009
Amendments to HKFRS 32, Financial instruments: Presentation and HKAS 1, Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation	1 January 2009
	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 HKFRS 3, Business combinations	
Revised HKAS 27, Consolidated and separate financial statements	1 July 2009

The Group 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 Group's results of operations and financial position.

In addition, *HKFRS 8, Operation segments*, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

In keeping abreast with the market trends, the Group actively develops the retail and other businesses in China and Hong Kong and has therefore performed satisfactorily. For the six months ended 30 June 2008, sales and profit recorded 41.8% and 62.7% growth respectively as compared to the corresponding period last year, generating attractive returns for its shareholders.

I. Financial Review

Sales

For the six months ended 30 June 2008, the Group recorded sales of RMB2,725,609,000, an increase of 41.8% from the corresponding period last year, of which sales in retail business amounted to RMB1,889,420,000 and accounted for 69.3%, an increase of 40.8% from the corresponding period last year; whilst sales in wholesale business amounted to RMB768,375,000 and accounted for 28.2%, an increase of 38.9% from the corresponding period last year. The increasing sales was attributable to the Group's leverage of the good economic situation in China and Hong Kong to reliably and actively expand its retail network, strengthen its operational management, enhance its service level and extend its related product lines in various ways, as well as adjust its distribution brand structure according to market changes.

Sales breakdown (for the six months ended 30 June)

	2008		2007	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Retail Business	1,889,420	69.3	1,341,816	69.8
Wholesale Business	768,375	28.2	553,026	28.8
Customer Service and Others	67,814	2.5	26,764	1.4
Total	2,725,609	100.0	1,921,606	100.0

Gross profit and gross profit margin

For the six months ended 30 June 2008, the Group's gross profit increased by 61.8% from last year to approximately RMB664,715,000, whereas our gross profit margin grew 14.1% over last year to approximately 24.4%. This is due to the acquisition of Elegant Group in Hong Kong in August 2006. The gross profit margin recorded growth for the first time. This is mainly attributable by the economies of scale achieved in respect of the higher profit margin retail business actively expanded by the Group during the period, leverage of market sales regulations and enhancing retail management level in Hong Kong and China.

Profit for the period and profit margin

During the period under review, the Group recorded attractive profit growth. Profit increased by 62.7% to approximately RMB253,709,000 over last year; profit margin was approximately 9.3%. Profit growth was mainly attributable to the increasing sales and effective enhancement of operational management efficiency.

Financial condition and net debt to equity ratio

The Group maintained stable financial condition.

As at 30 June 2008, the Group's total equity interests were RMB1,871,939,000 and current net asset value was RMB2,320,861,000, of which bank deposits amounted to RMB439,872,000. In addition, the bank loans amounted to RMB434,839,000 and net debt to equity ratio was 26.4% (defined as the total bank loans net of cash and cash equivalents over total equity interests)

During the period under review, the Company redeemed RMB175 million USD settled Zero Coupon Convertible Bonds due 2012 ("Convertible Bond") issued in August 2007 and the remaining net bonds amounted to RMB975 million. Taking into account of such net convertible bonds, together with bank loans, the Group's total liabilities amounted to RMB1,346,286,000. As at 30 June 2008, the net debt to equity ratio of the Group, including Convertible Bonds, was 51.3%. The Directors still consider that such net debt to equity ratio is reasonable in terms of its operating scope.

Foreign exchange risk

The Group's transactions are mainly denominated in RMB and HKD. During the period under review, the foreign exchange movements of such currencies were hedged as appropriate. Accordingly, the Group does not face any significant foreign exchange risk.

The Group has been actively monitoring and observing its foreign exchange risk.

Contingent liabilities

As at 30 June 2008, the Group did not have any material contingent liabilities.

Current assets

During the period under review, the current assets of the Group amounted to approximately RMB3,281,497,000, including inventories of approximately RMB2,122,499,000, trade and other receivables of approximately RMB719,126,000 and cash and cash equivalent of approximately RMB385,458,000.

Current liabilities

During the period under review, the current liabilities of the Group amounted to approximately RMB960,636,000, including bank loans of approximately RMB393,671,000, trade and other payables of approximately RMB538,983,000, and current tax payable of approximately RMB27,982,000.

Capital structure

The Company's capital structure includes issued share capital, Convertible Bonds, reserve and accumulated profits. As at 30 June 2008, the issued share capital of the Company was 2,484,500,000 shares and the principal amount of the issued Convertible Bonds was RMB975 million. Such Convertible Bonds are due 2012 and are non-interest bearing.

II. Business Review

Expansion and Improvement of Retail Network

Adhering to its business growth strategies, the Group is committed to strengthen the development of retail network. In order to satisfy the strong market demand for middle-to-high end watches, the Group has adopted a reliable and active approach to expand its retail and distribution network, and continued to consolidate the sound relationship established with the brand suppliers.

During the period under review, the Group completed its retail network expansion plan as scheduled through opening of brand outlets with brand manufacturers, acquisitions and internal expansion. As of 30 June 2008, the Group operated a total of 190 retail outlets in China and Hong Kong, an increase of 57 retail outlets as compared to the same period last year. Sales results also remained upbeat. The realized retail sales grew by 40.8% over the same period last year to RMB1,889,420,000, representing 69.3% of the Group's total sales. Whilst the realized gross profits grew by 62.4% over the same period last year to RMB546,820,000, representing 82.3% of the Group total gross profits.

Elegant

During the period under review, the Group had three and eight Elegant shops respectively in Hong Kong and China, totaling 11 Elegant shops.

The business of Hong Kong Elegant continues to maintain fast growth. During the period, Hong Kong Elegant established three new brand outlets, including Vacheron Constantin, Omega and Franck Muller. Such brand outlets are all located in the busiest streets in Causeway Bay, displaying a sense of distinguished excellence in the overall environment. All shops are equipped with high-end watch consultants to provide tailored services for customers at any time.

Expansion of Elegant in China maintains an upward momentum. The five newly established Elegant shops include Zhengzhou Grand Shanghai Shop, Nanjing Jinying Shop, Beijing Letian Yintai Shop, Beijing Wangfujing Danyao Shop and Beijing Saite Shop. Such shops are all situated at the city center or classified as in shops or individual shops. Within a short timeframe after establishment, they have obtained satisfactory results. In addition, Beijing Wangfujing Danyao Shop is owned by the Group. Beijing Wangfujing Danyao Shop is located in Zhonghua First Street, the busiest Wangfujing Pedestrian Street, occupying an area of over 7,000 square feet. It offers various worldwide premier brands including Jaeger-LeCoultre, Audemars Piguet, Bregue, Glam Rock, JD, Glashutte and Omega and is one of the Elegant flagship stores of the Group.

The Group has expanded to the Taiwanese market for the establishment of an international renowned watch chain.

Expansion and Strengthening 2nd Tier and 3rd Tier Retail Network

With growing local economy of China and increasing standard of living among citizens, the consumption of luxuries in 2nd and 3rd tier cities has become a growth point with high potentials. During the period under review, in maintaining sales in the 1st tier city as its prime focus, the Group continued to expand and consolidate its retail network in 2nd and 3rd tier cities and established new Prime Time shops in Urumqi, Fushun, Chengdu, Chongqing, Suzhou, Wuhan and Yangzhou. Results of such shops are growing steadily.

Brand Outlets

The Group also continues to work with brand suppliers to establish high-end brand outlets. As at 30 June 2008, the Group operated a total of 27 brand outlets. Omega, Franck Muller and Vacheron Constantin, which are located in Lee Theatre Plaza, Causeway Bay, Hong Kong and Jaeger-LeCoultre and Zenith, which are located in Beijing Huamao and Shanghai Henglong, both on shop image and sales results have achieved satisfactory performance.

Adjustment to Brand Structure

The Group has maintained sound working relationship with many worldwide renowned watch manufacturers, including SWATCH Group, LVMH Group, RICHEMONT, ROLEX Group, DESCO Group. For the six months ended 30 June 2008, the Group distributed more than 50 world's renowned brands under any of the four major brand manufacturers, including Jaeger-LeCoultre, Audemars Piguet, TAG Heuer, Zenith, Breguet, IWC, Franck Muller, Glashutte, Rolex and Omega. In addition, after adjustment, during the period under review, a number of the newly added middle-to-high end jewel and watch brands mainly included Happy Wiston, Bvlgari, Dewitt, Girard-Perregaux, Hublot, Balmain and Frederique Costant. Sales of brands are adjusted according to the market changes. This helps diversify and improve the sales structure of the Group's brands, which is favorable to long-term business development and enhancing overall results.

Own Brand and Brand Distribution

The Group's strategy is to strengthen the development of its own brand.

OMAS

Following the acquisition of the world's renowned brand OMAS at the end of last year, during the period under review, the Group made significant restructuring to OMAS in terms of brand features and marketing strategies and also defined its new position to expand to other high-end consumer goods such as leather in addition to writing instruments. In addition, it commenced strong marketing activities in China as well as speeded up its expansion efforts in China. As of 30 June 2008, OMAS has opened 15 shops in China, including Beijing, Nanjing, Wuxi, Zhengzhou, Hanzhou and Suzhou. Sales results of such shops are growing gradually.

The Group also owns renowned Swiss watch brands including NIVADA, OLMA and NUMA JEANNIN. The Group has formulated its new development strategies based on the brand features of NIVADA.

The Group believes that the development of its own brand can establish a solid foundation for the sustainable development of the Group.

Brand Distribution

The Group has more than 300 wholesale customers over 40 cities in China. It distributes and exclusively distributes 21 world's renowned brand watches, including Jaeger-LeCoultre, Audemars Piguet, TAG Heuer, Zenith, Carl F. Bucherer, Tissot and Dior. During the period under review, the Group has newly acquired the exclusive distribution rights of Frederique Constant and Celine under LVMH Group in China. This has truly reflected the trust and support given by brand suppliers to the Group and the sound working relationship between major retailers and the Group.

Customer Services and Maintenance

The Group has always focused on the provision of premium after-sale services. Apart from the establishment of two major service centers in Beijing and Shanghai, the Group provides real-time maintenance services in each retail store. During the period under review, the newly invested customer services company established last year recorded fast growth and provided all-round services and the best quality assurance to customers through interactive customer services network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points".

During the period under review, Beijing Service Center was relocated to the newly acquired property of the Group in Wangfujing Pedestrian Street to migrate to a highly modern location. In addition, it also established more than 20 new maintenance services stations and maintenance points nationwide.

During the period under review, the Group additionally acquired the exclusive watch maintenance rights of two world's renowned brands namely French-based trendy jewel brand Fred and Swiss-based Victorinox (Product series of such brand includes watches and the famous Swiss army knife). For the six months ended 30 June 2008, the Group had 36 licensed maintenance rights for the international watch brands.

Ancillary Business

During the period under review, the Group continued to strengthen the internal management of its ancillary business company, Guangzhou Artdeco. In ensuring the product quality, the Group is committed to maintain stringent control over the costs of production, continue to update facilities technology and strengthen staff training so as to increase labor production efficiency. Guangzhou Artdeco has established long-term working relationship with many internationally renowned brand manufacturers such as Omega, Rolex, Tudor, Rado, Longines, Tissot and Ernest Borel where sales also increased by approximately 73% as compared to the same period last year. This has provided strong support for the fast growth of the Group's principal businesses including retail business.

III. Human Resources and Remuneration

As at 30 June 2008, the Group employed a total of 3,789 employees in China and Hong Kong.

The Group has always valued tapping and topping-up human resources. We employ regulated employment system and systematically input resources in the training of management personnel, front-line service staff and maintenance staff. Such training covers management ability, selling technique, brand knowledge and service initiative etc., so as to enhance its level of expertise, marketing techniques and service standard.

The Group offers competitive remuneration package and various incentives, and regularly reviews relevant system and structure to cope with the development of the corporation. At the same time, the Group offers various benefits to the employees, including pension contribution plan, insurance plan, housing and meals, etc.

Under a sound human resources protection system, the Group has recruited several senior sales persons and senior repair technicians. During the period under review, another senior retail sales person of the Group was again granted "Capital Labor Medal" (首都勞動獎章) and "May 1st Labor Medal" (全國五一勞動獎章). To date, many staff members have been granted this accreditation.

IV. FUTURE PLANS

Improving consumption policies and expanding the scope of services consumption, expanding internal demand will be one of the best and fastest growth strategies for the economy of China. Accordingly, the Group remains optimistic about the outlook for the middle-to-high end consumer goods market for the second half of 2008.

With international brand name watches forming the basis, the component distribution of high-end consumer goods will be the future direction for the Group, including watches, jewels, leather and writing instruments. The Group will focus on enhancing internal management quality, expanding and strengthening retail network, expanding and optimizing product portfolio as its future growth strategies.

The Group will continue to expand its retail network through various ways and adjust the business plans as appropriate from time to time according to market changes. In capturing the market share in 1st tier cities, we are also expanding the market share in 2nd and 3rd tier cities, horizontally to the central and western regions and vertically to the eastern coastal areas. Meanwhile, the Group will also capture the opportunities of the three direct links across the straits and make use of this to steadily expand the retail network in Taiwan as well as expand its coverage in the Greater China market so as to account for the largest market share.

The Group will also appropriately and timely adjust the structure of our three retail network systems, namely ELEGANT (the top grade internationally renowned brand of watches), PRIME TIME (the middle-to-high end internationally renowned brand of watches) and TEMPTATION (high end fashionable watches) so as to better improve the retail management and enhance the quality. Meanwhile, it also introduces a number of quality brand watches to further optimize the brand portfolio.

In order to increase its profit growth, the Group continues to strengthen the relationship with brand suppliers, improve the development of its own brand, develop brand distribution business, improve and strengthen customer services system as well as actively develop watch related ancillary business.

Looking forward, the Group will continue to adopt stable and healthy financial strategies, strengthen and consolidate the leading position of Xinyu Hengdeli in the middle-to-high end watches industry as well as enhance its corporate and brand image in an effort to realize steady and sustainable profit growth so as to generate fruitful returns for its shareholders and the general investors.

DIVIDEND DISTRIBUTION

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2008.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company to grant share options to selected participants as incentives and rewards for their contributions to the Group.

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. During the period under review, due to retirement of such employees, the total number of shares that may be subscribed changed to 37,130,000 ordinary shares.

During the period under review, no option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTING SHARES

During the period under review, the Company or any of its subsidiaries did not purchase, sale or redeem any of the listed shares of the Company.

CORPORATE GOVERNANCE

For a long period of time, the Company has been committed to maintain a high standard of corporate governance practice to ensure transparency, so that the interests of our shareholders and the cooperative development among customers, employees and the Group can be safeguarded.

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 (“Listing Rules”) during the reporting period except for a derivation from the Code provision A2.1. Given the Group’s 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, all of them possess adequate independence. Therefore, the Board of Directors considers the Company has achieved balance of power and sufficient protection for its interests by justifiable decisions.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive Directors, 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 interim report for the six months ended 30 June 2008.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Directors of the Company are not aware of any information which can reasonably show that the Company did not comply with the Code of Best Practice set out in Appendix 14 to the Listing Rules of the Stock Exchange at any time during the reporting period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the six months ended 30 June 2008, the Company had adopted a code of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions by its Directors. Following specific enquiry made with all Directors, the Directors had complied with the code for securities transactions relating to directors as required by the code mentioned above.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

An interim report for the six months ended 30 June 2008 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 Stock Exchange and the website of the Company 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 announcement, 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. Shen Zhiyuan and Mr. Shi Zhongyang and the Independent Non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xue Ling.

By order of the Board

Zhang Yuping

Chairman

Hong Kong, 26 August 2008