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

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 3389)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

Financial highlights

Sales	increase 20.5% to RMB5,516,496,000
Gross profit	increase 29.3% to RMB1,331,569,000
Profit from operations	increase 22.2% to RMB747,211,000
Profit attributable to equity shareholders of the Company	increase 10.2% to RMB460,087,000
Basic earnings per share	increase 10.1% to RMB0.185 per share

Proposed final dividend of RMB138,694,000, representing 30.1% distribution from the profit attributable to equity shareholders of the Company for the financial year 2008.

The Board of Directors (the "Board") of Xinyu Hengdeli Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2008 (hereinafter refer to as the "Year or Year under review"), which have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	**2008** *RMB'000*	2007 *RMB'000*
Turnover		**5,516,496**	4,578,741
Cost of sales		**(4,184,927)**	(3,548,681)
Gross profit		**1,331,569**	1,030,060
Other revenue		**39,874**	33,086
Other income		**140,859**	31,672
Distribution costs		**(500,378)**	(312,383)
Administrative expenses		**(253,182)**	(156,261)
Other operating expenses		**(11,531)**	(14,835)
Profit from operations		**747,211**	611,339
Finance income		**9,998**	21,655
Finance expenses		**(135,907)**	(81,582)
Net finance cost	*2(a)*	**(125,909)**	(59,927)
Share of (losses)/profits of jointly controlled entities		**(2,318)**	276
Profit before taxation		**618,984**	551,688
Income tax	*3(a)*	**(130,819)**	(109,535)
Profit for the year		**488,165**	442,153
Attributable to:			
Equity shareholders of the Company		**460,087**	417,523
Minority interests		**28,078**	24,630
Profit for the year		**488,165**	442,153
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	*4(a)*	**138,694**	149,070
Earnings per share			
Basic	*5(a)*	**RMB0.185**	RMB0.168
Diluted	*5(b)*	**RMB0.165**	RMB0.165

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**529,183**	288,725
Investment property		**27,771**	29,535
Intangible assets		**42,974**	43,444
Goodwill		**228,367**	213,165
Interest in jointly controlled entities		**30,524**	27,913
Other investments		**797**	250
Deferred tax assets		**39,956**	24,487
		899,572	627,519
Current assets			
Inventories		**2,446,734**	1,666,976
Trade receivables, prepayments and other receivables	*7*	**449,962**	560,433
Pledged bank deposits		**96,497**	83,470
Cash and cash equivalents		**588,010**	987,193
		3,581,203	3,298,072
Current liabilities			
Trade and other payables	*8*	**584,464**	476,119
Bank loans		**760,122**	245,346
Current taxation		**70,340**	87,644
		1,414,926	809,109
Net current assets		**2,166,277**	2,488,963
Total assets less current liabilities		**3,065,849**	3,116,482
Non-current liabilities			
Bank loans		**35,685**	–
Convertible bonds		**680,146**	994,558
Embedded financial derivatives		**2,960**	131,544
Deferred tax liabilities		**15,038**	8,009
		733,829	1,134,111
NET ASSETS		**2,332,020**	1,982,371
CAPITAL AND RESERVES			
Share capital		**12,903**	12,927
Reserves		**2,082,895**	1,772,571
Total equity attributable to equity shareholders of the Company		**2,095,798**	1,785,498
Minority interests		**236,222**	196,873
TOTAL EQUITY		**2,332,020**	1,982,371

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

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

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

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

2. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Net finance cost

	2008	2007
	RMB'000	*RMB'000*
Interest income	**(9,998)**	(21,655)
Finance income	**(9,998)**	(21,655)
Interest expense on bank loans	**28,965**	26,589
Interest on convertible bonds	**51,042**	19,772
Bank charges	**23,855**	17,882
Net foreign exchange loss	**32,045**	13,566
Others	**–**	3,773
Finance expenses	**135,907**	81,582
Net finance cost	**125,909**	59,927

(b) Staff costs

	2008	2007
	RMB'000	*RMB'000*
Wages, salaries and other benefits	**250,394**	125,497
Contributions to defined contribution retirement plans	**17,471**	8,744
Equity-settled share-based payment transactions	**21,571**	7,664
	289,436	141,905

(c) Other items

	2008	2007
	RMB'000	*RMB'000*
Cost of inventories#	**4,197,396**	3,557,962
Auditors' remuneration – audit services	**3,860**	3,685
Depreciation – property, plant and equipment	**33,710**	28,167
Depreciation of investment property	**1,764**	1,497
Amortisation of intangible assets	**1,234**	573
Operating leases charges in respect of properties		
– minimum lease payments	**78,690**	41,238
– contingent rents	**157,744**	114,159

\# *Cost of inventories includes RMB12,469 thousand (2007: RMB12,506 thousand), relating to write-down of inventories for the year ended 31 December 2008.*

3. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2008	2007
	RMB'000	*RMB'000*
Current tax		
Provision for Hong Kong profits tax for the year	**28,648**	31,939
Provision for PRC income tax for the year	**112,519**	103,875
Over provision in respect of prior years	**(1,908)**	(1,690)
Income tax refund	**–**	(24,995)
Sub-total	**139,259**	109,129
Deferred tax		
Origination and reversal of temporary differences	**(8,431)**	(4,252)
Effect on defferred tax balances at 1 January resulting from a change in tax rate	**(9)**	4,658
Sub-total	**(8,440)**	406
Total	**130,819**	109,535

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 Italy, Hong Kong and the PRC, are not subject to any income tax in these jurisdictions.

In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the Group's 2008 consolidated financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated accordingly.

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 continue to enjoy the tax-exemption or 50% reduction in 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%.

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

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

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	**618,984**	551,688
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**120,711**	138,515
Non-taxable income	**(7,751)**	(9,266)
Non-deductible expenses	**3,566**	1,266
Over-provision in prior years	**(1,908)**	(1,690)
Tax effect of unused tax losses not recognised	**8,529**	1,047
Income tax refund	**–**	(24,995)
Effect on deferred balances at 1 January resulting from a change in tax rate	**(9)**	4,658
Deferred tax liabilities on the expected profits distribution by the Group's PRC subsidiaries	**7,681**	–
Actual tax expense	**130,819**	109,535

4. DIVIDENDS

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

	2008	2007
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of RMB0.056 per ordinary share (2007: RMB0.060 per ordinary share)	**138,694**	149,070

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

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

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.060 per share (2007: RMB0.028 per share)	**149,070**	69,566

5. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB460,087 thousand (2007: RMB417,523 thousand) and the weighted average of 2,483,741,918 ordinary shares (2007: 2,484,500,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity shareholders of the Company (diluted) of RMB436,356 thousand (2007: RMB418,764 thousand) and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 2,639,285,230 (2007: 2,544,072,599), calculated as follows:

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

	2008	2007
Weighted average number of ordinary shares	**2,483,741,918**	2,484,500,000
Effect of conversion of convertible bonds	**155,543,312**	59,572,599
Weighted average number of ordinary shares (diluted) at 31 December	**2,639,285,230**	2,544,072,599

The performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. As no shares would be issuable if 31 December 2008 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)

	2008	2007
	RMB'000	*RMB'000*
Profit attributable to equity shareholders (basic)	**460,087**	417,523
Effect of effective interest on the liability component of convertible bonds	**51,042**	19,772
Effect of gain recognised on the derivative component of convertible bonds	**(121,416)**	(18,531)
Effect of exchange loss recognised on the liability component of convertible bonds	**66,086**	–
Effect of gain on purchase of convertible bonds	**(19,443)**	–
Profit attributable to equity shareholders (diluted) at 31 December	**436,356**	418,764

6. SEGMENT INFORMATION

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

Business segments

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

	2008	2007
	RMB'000	*RMB'000*
Turnover		
Retail	**3,742,367**	3,048,755
Wholesale	**1,631,916**	1,439,980
Unallocated	**142,213**	90,006
Total	**5,516,496**	4,578,741
Segment result		
Retail	**523,639**	522,936
Wholesale	**139,956**	138,117
Total	**663,595**	661,053
Unallocated operating income and expenses	**83,616**	(49,714)
Profit from operations	**747,211**	611,339
Net finance cost	**(125,909)**	(59,927)
Share of (losses)/profits of jointly controlled entities	**(2,318)**	276
Income tax	**(130,819)**	(109,535)
Profit for the year	**488,165**	442,153
Segment assets		
Retail	**2,962,506**	2,151,345
Wholesale	**1,136,191**	1,315,392
Total	**4,098,697**	3,466,737
Unallocated assets	**382,078**	458,854
Total assets	**4,480,775**	3,925,591
Segment liabilities		
Retail	**742,847**	395,144
Wholesale	**224,026**	86,655
Total	**966,873**	481,799
Unallocated liabilities	**1,181,882**	1,461,421
Total liabilities	**2,148,755**	1,943,220
Capital expenditure		
Retail	**158,040**	24,821
Unallocated	**116,183**	35,218
Total	**274,223**	60,039
Depreciation and amortisation		
Retail	**24,399**	21,122
Unallocated	**12,309**	9,115
Total	**36,708**	30,237

Geographical segments

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

	2008	2007
	RMB'000	*RMB'000*
Turnover		
The PRC (other than Hong Kong)	**3,982,193**	3,101,659
Hong Kong	**1,502,510**	1,455,454
Others	**31,793**	21,628
Total	**5,516,496**	4,578,741
Segment assets		
The PRC (other than Hong Kong)	**3,210,527**	2,311,171
Hong Kong	**1,135,455**	1,512,701
Others	**134,793**	101,719
Total	**4,480,775**	3,925,591
Capital expenditure		
The PRC (other than Hong Kong)	**189,360**	54,741
Hong Kong	**50,805**	4,413
Others	**34,058**	885
Total	**274,223**	60,039

7. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

Included in trade receivables, prepayments and other receivables as at 31 December 2008 was an amount of RMB272,093 thousand (2007: RMB391,676 thousand) relating to accounts receivable. An ageing analysis of accounts receivable is as follows:

	2008	2007
	RMB'000	*RMB'000*
Current	**231,262**	331,653
Less than 1 month past due	**30,662**	39,775
1 to 3 months past due	**5,312**	14,510
More than 3 months but less than 12 months past due	**1,840**	5,738
More than 12 months past due	**3,017**	–
Amounts past due	**40,831**	60,023
	272,093	391,676

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

8. TRADE AND OTHER PAYABLES

Included in trade and other payables as at 31 December 2008 was an amount of RMB429,198 thousand (2007: RMB343,467 thousand) relating to accounts payable. An ageing analysis of accounts payable is as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 1 month	**357,613**	283,605
Over 1 month but less than 3 months	**52,181**	51,323
Over 3 months but less than 12 months	**16,265**	4,427
Over 1 year	**3,139**	4,112
	429,198	343,467

MANAGEMENT DISCUSSION AND ANALYSIS

2008 had been a year full of changes and challenges. China's economy maintained a strong momentum during the first half of 2008. 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 rapid growth in its results. However, triggered by the global financial crisis and the deterioration of economic environment, the business environment in China experienced change in a relatively significant extent in the second half of the year. This had brought serious challenges to the consumer products market. By leveraging on years of experience, the Group swiftly implemented certain measures and timely adjusted its business strategies and pace of expansion. Risk management and internal control were further strengthened. Various sophisticated issues were resolved proactively. This had assured the steady and sound operation for the businesses of the Group, as well as a stable growth in its results.

I. FINANCIAL REVIEW

During the first half of the year, the market for middle to high-end consumer products sustained the outstanding trend extending from 2007. The Group maintained rapid expansion of its businesses through proactive financial policies. During the second half of the year, in particular, the fourth quarter, significant changes in the global business environment occurred. Although their effect on the Group were relatively minor, the Group remained cautious and prudent in its business practice. With the adoption of sound financial policies, and by leveraging on the continuous growth in the core businesses, as well as its own competitive edges, a relatively desirable result was achieved and financial position remained healthy.

Sales

For the year ended 31 December 2008, the Group recorded sales of RMB5,516,496,000, an increase of 20.5% from the corresponding period last year, of which sales in retail business amounted to RMB3,742,367,000 and accounted for 67.8%, an increase of 22.8% from the corresponding period last year; whilst sales in wholesale business amounted to RMB1,631,916,000 and accounted for 29.6%, an increase of 13.3% from the corresponding period last year. The increasing sales were 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, enhance interaction between Hong Kong and Mainland and extend its related product lines in various ways, as well as adjust its distribution brand portfolio in accordance to market changes.

Sales breakdown (for the year ended 31 December 2008)

	2008		2007	
	RMB'000	***%***	*RMB'000*	*%*
Retail Business	**3,742,367**	**67.8**	3,048,755	66.6
Wholesale Business	**1,631,916**	**29.6**	1,439,980	31.4
Customer Service and Ancillary Production Business	**142,213**	**2.6**	90,006	2.0
Total	**5,516,496**	**100.0**	4,578,741	100.0

Gross profit and gross profit margin

For the year ended 31 December 2008, the Group's gross profit increased by 29.3% from the corresponding period last year to approximately RMB1,331,569,000, whereas our gross profit margin grew by 7.1% over the corresponding period last year to approximately 24.1%. This is the first time gross profit margin growth has been recorded since the acquisition of Hong Kong Elegant in August 2006. 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 year and profit margin

For the year ended 31 December 2008, the Group's profit increased by 10.4% to approximately RMB488,165,000 over the same period last year; profit margin was approximately 8.8%.

Financial condition and net debt to equity ratio

The Group maintained stable financial condition.

As at 31 December 2008, the Group's total equity interests were RMB2,332,020,000 and current assets value was RMB3,581,203,000, of which bank deposits amounted to RMB684,507,000. In addition, the bank loans amounted to RMB795,807,000 and net debt to equity ratio was 4.8% (defined as the total bank loans net of bank deposits over total equity interests).

The Company had redeemed RMB405 million USD settled convertible bonds denominated in Renminbi of par interest as zero due 2012 issued in August 2007. As at 31 December 2008, such bonds with a net par value amounted to RMB745 million were still outstanding by the Company. Taking into account of such net Convertible Bonds, together with bank loans, the Group's total liabilities amounted to RMB1,478,913,000. As at 31 December 2008, the net debt to equity ratio of the Group, including Convertible Bonds, was approximately 34.1%. The Directors 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 year under review, the foreign exchange movements of such currencies were managed appropriately. Accordingly, the Group does not have any significant foreign exchange risk.

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

Contingent liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities.

Current assets

During the Year under review, the current assets of the Group amounted to approximately RMB3,581,203,000, including inventories of approximately RMB2,446,734,000, trade and other receivables of approximately RMB449,962,000 and bank deposits of approximately RMB684,507,000.

Current liabilities

During the Year under review, the current liabilities of the Group amounted to approximately RMB1,414,926,000, including bank loans of approximately RMB760,122,000, trade and other payables of approximately RMB584,464,000, and current tax payable of approximately RMB70,340,000.

Capital structure

The Company's capital structure includes issued share capital, Convertible Bonds, reserve and accumulated profits. As at 31 December 2008, the issued share capital of the Company was 2,479,000,000 shares and the principal amount of the issued Convertible Bonds was RMB745 million. Such Convertible Bonds are due 2012 and have par interest of zero.

Final dividend

The Company recommends the payment of a final dividend of RMB0.056 per share for the financial year ended 31 December 2008 in return for shareholders' support, subject to approval by shareholders at the Annual General Meeting to be held on 29 April 2009. The proposed cash dividend will be paid on or before 15 May 2009 to shareholders whose names appear on the register of members of the Company on 23 April 2009.

II. BUSINESS REVIEW

Healthy and steady development of retail network

Adhering to its business growth strategies, the Group is committed to provide an extensive distribution platform with high quality to various international renowned watch brands. During the first half of the year, the Group expanded its retail network in an active and aggressive approach. During the second half of the year, there occurred relatively significant change in the business environment. Through the principles of "adjustment, consolidation, healthy, steady", the establishment of the retail network was strengthened reliably and actively. These efforts also effectively enhanced and consolidated the scale and quality of the existing retail network. As of 31 December 2008, the Group operated a total of 210 retail outlets in China, Hong Kong and Taiwan, an increase of 44 retail outlets as compared to the same period last year. Sales results also steadily remained upbeat. The realized retail sales grew by 22.8% over the same period last year to RMB3,742,367,000, representing 67.8% of the Group's total sales. Whilst the realized retail gross profits grew by 37.2% over the same period last year to RMB1,077,985,000, representing 81% of the Group total gross profits.

Enhancement of retail network and optimisation of inventory composition

It has always been the mission of the Group to closely follow the market so as to enhance the retail network in an ongoing manner. During the Year, the Group timely adjusted its retail network according to the market orientation, which included the establishment of retail outlets, adjustment to the brand portfolio among the outlets, and correction of the wrong positioning of brands for the operation of various retail outlets. We can thus ensure a favourable positioning in the prevailing business environment. With a sound brand portfolio and an inventory composition of quality, the effective and sound application of funds would thus be assured for achieving ever outstanding operating results.

The Group has maintained close business relationship with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT, and ROLEX Group. As of 31 December 2008, the Group distributes more than 50 internationally acclaimed brands from the four major brand and other independent suppliers, including Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Franck Muller, Glashutte, Rolex and Omega. In addition, after adjustment, during the Year under review, a number of middle-to-high end jewel and watch brands were newly added, such as Harry Winston, Bvlgari, Dewitt, Girard-Perregaux, Hublot, Balmain and Frederique Constant.

Elegant

During the Year under review, the Group had three and nine Elegant shops respectively in Hong Kong and Mainland China, totaling 12 Elegant shops.

Succeeding the good trend from the previous year, the business of Hong Kong Elegant during the first three quarters continues to maintain fast growth. Business for the fourth quarter remained moderately positive. Apart from the three multi-brand shops, Hong Kong Elegant also had a number of brand boutiques. During the Year, Hong Kong Elegant established four new brand boutiques, one each for Vacheron Constantin, Omega, Franck Muller and Girard-Perregaux. These four boutiques are all located in the busiest streets in Causeway Bay, displaying a sense of prestige in the overall environment. All shops have senior watch consultants to serve customers at any time.

Elegant in China also achieved excellent performance in its development. During the Year, six additional Elegant shops were established, which included Zhengzhou Grand Shanghai Shop, Nanjing Jinying Shop, Beijing Letian Yintai Shop, Beijing Wangfujing Danyao Shop, Beijing Saite Shop and Taiyuan Flagship Shop. These shops, all situated at city centers, are either in department stores or stand alone. Moreover, the premises for Beijing Wangfujing Danyao Shop and Taiyuan Flagship Shop are owned by the Group. Beijing Wangfujing Danyao Shop is located in China's First Street, the busiest Pedestrian Street Wang Fu Jing, occupying an area of over 7,000 square feet. It offers various worldwide premier brands including Jaeger-LeCoultre, Breguet, Zenith, JD, Glashutte, Audemars Piguet and Omega and is one of the Elegant flagship stores of the Group.

Prime Time

The business from middle to high-end brands has always been the backbone of the Group. These products are also the most popular in the market. Prime Time positions itself at the level of middle to high-end brand in the retail system of the Group. During the Year under review, the operation strategies of Prime Time were to maintain the market share in first tier cities, expand in second tier cities and selectively explore the potential in third tier cities. With growing local economy and improving standard of living, the consumption of middle to high-end products in second and third tier cities has become a growing point with high potentials. During the Year, the Group established new Prime Time shops in Urumqi, Fushun, Chengdu, Chongqing, Suzhou, Wuhan and Yangzhou, and acquired Wuxi Zhongbai Watch Company and renamed it as Wuxi Prime Time Watch Co., Limited. The retail outlets of Wuxi Prime Time are mostly located in prosperous commercial districts. The successful acquisition of Wuxi company enabled the Group to enhance and strengthen its businesses in eastern China areas.

Brand boutiques

The Group always maintains good cooperation relationship with brand suppliers, and jointly establishes respective brand boutiques with them. During the Year, the Group opened 14 brand boutiques. As at 31 December 2008, the Group operated a total of 38 brand boutiques. Of which in Hong Kong, Omega, Franck Muller, Vacheron Constantin and Girard-Perregaux are situated in Causeway Bay. As to Mainland, brand boutiques of Jaeger-LeCoultre, Zenith, Omega, Longines and Tissot were also opened in Beijing, Shanghai, Shenyang and Suzhou. As to Taiwan, a brand outlet of Omega was opened. The establishment of these brand outlets not only helped to enhance the brand image, and strengthened the relationship between the Group and the brand suppliers, they also bring profitable business to the Group.

A platform of business interaction within the Greater China region

During the Year under review, the Group first expanded its businesses to Taiwan. An Omega brand boutique was opened jointly with the brand supplier. The opening of the shop marked the first introduction of the Group to Taiwan as a retailer. This was also beneficial to the building of platform for business interaction within the Greater China region among Hong Kong, Mainland and Taiwan by the Group. This had laid a sound foundation for the long-term development of the enterprise.

Advanced customer relationship management system

During the Year under review, apart from the advanced Enterprise Resources Planning ("ERP") management system, the Group also introduced a Customer Relationship Management ("CRM") system. The CRM management platform was established at every region and in every outlet nationwide. The system can breakdown the sales details of every end-user customer. It greatly eased the usual operation and management of retailing, and can be applied to maintain long-term customer relationship. This in turn benefited the excellent and long term operation of the enterprise.

Customer Services and Maintenance

The Group has always focused on the provision of premium after-sale services, which forms an integral part to the retail operation of the Group. All-rounded services are provided to the customers through interactive customer services network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points". The Group has established three major service centers in Beijing, Shanghai and Guangzhou, and provides real-time maintenance services in each retail outlet.

During the Year, Beijing Service Center was relocated to the newly acquired property of the Group in Wangfujing Pedestrian Street, a modern location. In addition, it also established more than 20 new repair service stations and repair service points nationwide. Moreover, the Group additionally acquired the authorised watch maintenance rights of four world's renowned brands in China, namely Frederique Constant, Celine, French-based fashion jewel brand Fred and Swiss-based Victorinox.

The Company now employs the majority of senior repair technicians in China and have regularly received professional trainings from brand suppliers. These technicians formed the basis of the Group to provide top quality services to its customers.

In order to manage the Group's service network more effectively, the Group introduced an advanced maintenance management system during the Year. Customer relationship management, watch maintenance and parts management are centralized under one system. During the Year, the Group also created "4008 Xinyu Hengdeli Customer Services Hotline" which is dedicated as the unified access by external parties for the services of the Group. The hotline timely and swiftly delivers to the customers consultation and real time services.

By leveraging on its professional expertise and professionalism, the Group continuously pursued for advanced maintenance technology and premier services qualities under the motto of "Founded upon professional operation competencies, all arounded services are delivered to customers as its own mission", which has received recognition and accreditation from customers and brand suppliers.

Proprietary Brand and Brand Distribution

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

OMAS

Following the acquisition of the world's renowned brand OMAS, during the Year, 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 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 31 December 2008, OMAS has opened 23 shops in China, including Beijing, Shanghai, Nanjing, Shenyang, Zhengzhou, Hangzhou, Suzhou and Wuxi, etc., which recorded steady growth in sales.

The Group also owns renowned Swiss watch brands including NIVADA and OLMA. The Group has formulated their new development strategies based on the features of respective brands.

Brand Distribution

The strategy of the Group for brand distribution is to choose and continuously adjust the brand portfolio according to the market requirement. Through the efforts devoted in the previous years, the Group has established an extensive distribution network with more than 300 wholesale customers over 40 cities in China. It distributes and exclusively distributes numerous world's renowned brand watches, including Jaeger-LeCoultre, TAG Heuer, Zenith, Carl F. Bucherer, Tissot and Dior. During the Year, the Group has newly acquired the exclusive distribution rights of two international renowned brands Frederique Constant, and Celine in China.

Ancillary Production Business

During the Year 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 operation efficiency as a whole. Through such series of efforts, Guangzhou Artdeco has established long-term business relationship with many internationally renowned brand suppliers such as Omega, Rolex, Tudor, Rado, Longines, Tissot and Ernest Borel. This has provided strong support for the steady development of the Group's principal businesses including retail business.

III. HUMAN RESOURCES AND TRAINING

As at 31 December 2008, the Group employed a total of 3,950 employees in China, Hong Kong and Taiwan.

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 also cooperates with the brand suppliers for the provision of training regularly to front-line service staff and maintenance staff about brand knowledge and maintenance techniques.

The Group offers competitive remuneration package and various incentives, and regularly reviews relevant system and structure to cope with the development of the corporation. The Group 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.

Under a sound human resources protection system, the Group has recruited a number of senior sales persons and senior repair technicians. There was also a staff that was granted "Capital Labor Medal" (首都勞動獎章) and "May 1st Labor Medal" (全國五一勞動獎章).

The Group believes that taking up social responsibilities is one of the ways to demonstrate the success of the enterprise. Social responsibilities are always regarded as own missions. The Group has been enthusiastic about social charity business and affairs in Project Hope. During the Year, the Group actively participated in the donations for Sichuan earthquake.

IV. FUTURE PLANS

The prospect of global economy is challenging in 2009. The economy of China will also enter into its phase of adjustment. However, it is also apparent that the policy guidance of the PRC government is to maintain the growth of economy in a stable and relatively fast manner. This is in fact the primary mission for the economic activities planned for 2009. One of the focuses will be the expansion of domestic demand, in particular to stimulate to consumption demand. This is regarded as an effective way to sustain the growth in the economy. Therefore, the Group believes that China will still remain one of the markets with highest potential in the world, and the base of our business development.

As to retail operation, the Group will continue to strengthen the establishment of its retail network through the principles of "adjustment, consolidation, healthy, steady". China will remain its core market, while the Group is committed to the building of business interaction platform within the Greater China region.

The Group will continuously enhance the quality of its retail outlets, with an aim to adjust and promote the brand images for our three retail network systems, namely ELEGANT, PRIME TIME and TEMPTATION so as to better improve the retail management and fulfill the demand from the market. Meanwhile, it will continue to optimize the brand portfolio, adjust and optimize the inventory composition, so as to ensure a healthy financial position.

The Group will also continue to strengthen its customer services system, and enhance the internal mechanisms that support the retail operation of the Group, so that sales and customer services are interlinked and develop in a coordinated manner.

As to the ancillary production business, the Group will continue to enhance its standard of operation, which can gradually match with the international market in terms of receipt of orders as well as daily administration.

With international renowned watch brands as core products, delivering a portfolio of middle to high-end consumer goods will be the development direction for the Group in 2009. In the new economic environment, the Group will adopt sound financial management policies. With a prudent and active attitude, the Group can leverage on its strengths and make progresses in various businesses in the changing market, as well as, establish and improve a long-term efficient mechanism for risk management. Through the optimization of retail channels, we will consolidate our diversified brand portfolio. Strategies such as improvement in operation management, enhancement of service standard, strengthening of risk management and corporate governance will be adopted. We will transform ourselves into an enterprise with adequate capital, stringent internal control, sound operation with good services and efficiency through further enhancing and consolidating our own competitiveness. This will in turn bring return to our shareholders and the public at large that have been supporting and caring for the Group.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 24 April 2009 to Tuesday, 28 April 2009 (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 Thursday, 23 April 2009.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Year under review, the Company repurchased 5,500,000 shares listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") by way of acquisition on the Stock Exchange. Following the completion with the settlement on the repurchase of shares, the Company had cancelled all shares repurchased. As at 31 December 208, the number of total issued shares of the Company was 2,479,000,000 shares.

During the Year under review, the Company repurchased certain Convertible Bonds at Singapore Exchange Limited by way of acquisition on the Singapore Exchange Limited. Such Convertible Bonds were listed on Singapore Exchange Limited on 24 August 2007. The principal amount of the Convertible Bonds repurchased was RMB405 million. The Convertible Bonds repurchased were cancelled according to the terms of the same. As at 31 December 2008, such Convertible Bonds with the principal amount of RMB745 million were still outstanding by the Company.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin (Chairman), Wong Kam Fai, William and Liu Xueling, 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 2008 and the interim report for the period ended 30 June 2008.

The audit committee held one meeting each on 22 April 2008 and 26 August 2008 to review the full year and half year reports respectively. All members of the committee attended the meetings.

CODE ON CORPORATE GOVERNANCE PRACTICES

Since its establishment, the Company 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 as set out in Appendix 14 to the Listing Rules. In the opinion of the Board, the Company had complied with the Code throughout the year ended 31 December 2008 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. There are three independent non-executive Directors in the Board, therefore the Board considers the Company has achieved balance of power and sufficient protection for its sound operation.

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 comprises of three executive Directors (Messrs. Zhang Yuping, Song Jianwen and Huang Yonghua), three non-executive Directors (Messrs. Chen Sheng, Shi Zhongyang, and Shen Zhiyuan) and three independent non-executive Directors (Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling).

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 internal audit and control of the Group, and Mr. Huang Yonghua is in charge of the Group's business coordination and business supervision.

Each of the three non-executive Directors has professional expertise and extensive experience in the areas of law and business administration respectively, who can offer supervision to the usual operation, and provide corresponding opinions and recommendations in a timely manner. We believe the non-executive Directors are beneficial to the standardised operation of the Company and can protect the interests of our shareholders.

Each of the three independent non-executive Directors has professional expertise and extensive experience in the areas of accounting, economics, law, 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 order to ensure the interests of our shareholders, apart from the engagement of KPMG as the external auditor of the Group, the Group also established departments dedicated to the supervision of finance and business operation. Such departments conduct audit and trail checking from all aspects and at all departments regularly and on ad hoc basis, so as to ensure the sound development of the enterprise. The Board has reviewed the effectiveness of our internal control system and completed its annual review on the same. Pursuant to the review made by independent review institutes to the internal control system of the Group, the Group will further improve its internal administration and control system.

In 2008, a total of seven meetings were held by the Board. Among which, four were regular meetings; all members of the Board attended these meetings and the rate of attendance was 100%.

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

The Board has received confirmation from all independent non-executive Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules. 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.

By order of the Board
Zhang Yuping
Chairman

Hong Kong 25 March 2009

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