(Stock Code : 3389)

XINYU HENGDELI 新宇亨得利

Interim Report 2008

Xinyu Hengdeli Holdings Limited
新 宇 亨 得 利 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)

CONTENTS

Financial Highlights	2
Chairman's Statement	3
Management Discussion and Analysis	5
Report of the Directors	15
Corporate Governance Report	19
Consolidated Income Statement	21
Consolidated Balance Sheet	22
Consolidated Statement of Changes in Equity	23
Condensed Consolidated Cash Flow Statement	24
Notes to the Condensed Consolidated Financial Statements	25
Corporate Information	44

FINANCIAL HIGHLIGHTS

Results	Six months ended 30 June 2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)	Change (%)
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

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2008, Xinyu Hengdeli Holdings Limited (the "Company") and its subsidiaries (collectively as the "Group") leveraged the opportunities in retail market of middle-to-high-end consumer goods and boosted the expansion strategies of middle-to-high-end watches retail and distribution, so that all operations achieved outstanding performance with results exceeded planned target.

For the six months ended 30 June 2008 (the "period under review"), the Group recorded sales of RMB2,725,609,000, representing a growth of 41.8% from the corresponding period of last year. Profit for the period grew by 62.7% as compared to the corresponding period of last year, to RMB253,709,000. The number of retail stores also grew from 133 last year to 190.

Adhering to its business growth strategies, the Group is committed to strengthen the development of retail network. In rendering its efforts, during the period under review, the Group has achieved considerable growth in respect of retail network system development, strengthening of brand portfolio, quality improvement and vertical and horizontal expansion. In particular, the Group has achieved satisfactory performance in the expansion and management of Elegant and Prime Time.

After-sales services and ancillary business serve as a strong backing to the Group's principal business development. Over the past six months of operation, our new customer services company established last year has achieved significant results and received recognition and support from many international brand manufacturers. In addition, the ancillary production business has also recorded considerable business growth as compared to the corresponding period last year and have established long-term business relationship with many brands.

Continue to strengthen the development of its own brand is also the Group's Strategy. During the period under review, the Group has formulated different growth strategies for its worldwide famous writing instruments brand OMAS and the renowned Swiss watch brand NIVADA based on the Group's strategies and various brand features so as to establish a solid foundation for the sustainable development of the Group.

The brand distribution business grew satisfactorily. The Group has 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.

With international brand name watches forming the basis, the component distribution of high-end consumer goods will be the future direction for the Group. In setting foot in our principal business, we also actively and reliably develop its retail network and other related businesses according to market changes on the principle of limited diversification, and maintain corporate governance in accordance with international standards in this regard so as to safeguard healthy and stable development of the enterprise and generate the maximum return for its shareholders and the society.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 26 August 2008

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.

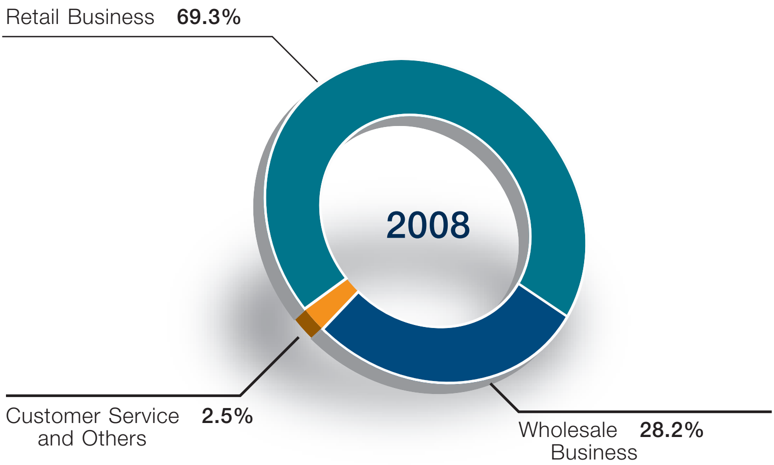
I. Financial Review

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	
	RMB'000	**%**	RMB'000	%
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 the first time recorded the gross profit margin growth since the acquisition of Elegant Group 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 period and profit margin

During the period under review, the Group recorded remarkable 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 of the Company (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 managed 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 Enhancement 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, Breguet, Zenith, 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 cities 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 Portfolio

The Group has maintained sound working relationship with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT, ROLEX Group and DESCO Group. For the six months ended 30 June 2008, the Group has retailed more than 50 world's renowned brands from the five major brand and other independent suppliers, 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 Constant. 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

Continue to strengthen the development of its own brand is also the Group's Strategy.

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 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 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, Maurice Lacroix, 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

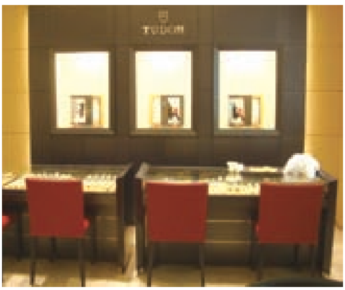
The Group has always focused on the provision of premium after-sale services. Apart from the establishment of two major service centers in Beijing and Shanghai, the Group provides real-time maintenance services in each retail store. During the period under review, the newly invested customer services 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 suppliers 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

Enhancing 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 goods 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, enhance 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.

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

As at 30 June 2008, the interests or short positions of each of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register pursuant to Section 352 of the SFO required to be kept by the Company; or were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO); or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Nature of Interest	Number of Shares	Approximate Percentage
Mr. Zhang Yuping ("Mr. Zhang")	Controlled Corporation *(Note 1)*	1,343,848,000(L)	54.09%
Mr. Song Jianwen	Controlled Corporation *(Note 2)*	18,100,000(L)	0.73%

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

Note 1: Mr. Zhang Yuping owned 77.7% of the issued share capital of Best Growth International Limited ("Best Growth"), which in turn owned 53.96% issued share capital of the Company. During the period under review, Mr. Zhang Yuping purchased an additional 3.2 million shares of the Company under his name, representing 0.13% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 54.09% of the issued share capital of the Company in aggregate.

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

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

As at 30 June 2008, the interests or short positions of the persons, other than a Director, in the shares, underlying shares and debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Number of Shares	Approximate Percentage
Best Growth *(Note 1)*	1,340,648,000(L)	53.96%
Mr. Zhang Yuping *(Note 1)*	1,343,848,000(L)	54.09%
The Swatch Group Hong Kong Limited *(Note 2)*	201,000,000(L)	8.09%
The Swatch Group Limited *(Note 2)*	201,000,000(L)	8.09%
Hayek Nicolas Georges *(Note 2)*	201,000,000(L)	8.09%
LVMH Watches & Jewelry Hong Kong Limited *(Note 3)*	12,336,000(L)	0.50%
TAG Heuer SA *(Note 3)*	12,336,000(L)	0.50%
TAG Heuer International SA *(Note 3)*	12,336,000(L)	0.50%
LVMH Asia Pacific Limited *(Note 3)*	173,080,000(L)	6.96%
Sofidiv SAS *(Note 3)*	185,416,000(L)	7.46%
LVMH SA *(Note 3)*	185,416,000(L)	7.46%

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

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

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

During the period under review, Mr. Zhang Yuping purchased an additional 3.2 million shares of the Company under his name, representing 0.13% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 54.09% of the issued share capital of the Company in aggregate.

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

Note 3: These 185,416,000 Shares are held in the name of and registered in the capacity of LVMH Watches & Jewelry Hong Kong Limited in its 12,336,000 shares and in the name of and capacity of LVMH Asia Pacific Limited in its 173,080,000 shares. LVMH Watches & Jewelry Hong Kong Limited's entire interest is owned by TAG Heuer SA, and TAG Heuer International SA beneficially owns 100% interest in TAG Heuer SA. Sofidiv SAS beneficially owns 100% interest in TAG Heuer International SA and LVMH Asia Pacific Limited. LVMH SA owns 100% interest in Sofidiv SAS.

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, no option had been exercised. However, 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.

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 interim report, the Executive Directors 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

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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.

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 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.

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

		For the six months ended 30 June	
	Note	**2008 RMB'000 (unaudited)**	2007 RMB'000 (unaudited)
Turnover	*3*	**2,725,609**	1,921,606
Cost of sales		**(2,060,894)**	(1,510,809)
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		**(4,294)**	(84)
Profit from operations		**406,716**	220,238
Finance costs	*5(a)*	**(86,174)**	(11,433)
Share of losses of jointly controlled entities		**(465)**	(150)
Profit before taxation	*5*	**320,077**	208,655
Income tax	*6*	**(66,368)**	(52,757)
Profit after taxation		**253,709**	155,898
Attributable to:			
Equity shareholders of the Company		**237,605**	145,386
Minority interests		**16,104**	10,512
Profit after taxation		**253,709**	155,898
Earnings per share	*7*		
Basic		**RMB0.096**	RMB0.059
Diluted		**RMB0.095**	N/A

CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (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
		728,268	627,519
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
		3,281,497	3,298,072
Current liabilities			
Trade and other payables	*13*	**538,983**	476,119
Bank loans	*14*	**393,671**	245,346
Current taxation		**27,982**	87,644
		960,636	809,109
Net current assets		**2,320,861**	2,488,963
Total assets less current liabilities		**3,049,129**	3,116,482
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
		964,213	1,134,111
NET ASSETS		**2,084,916**	1,982,371
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		**1,871,939**	1,785,498
Minority interests		**212,977**	196,873
TOTAL EQUITY		**2,084,916**	1,982,371

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	For the six months ended 30 June 2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Equity attributable to equity shareholders of the Company:			
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
Minority interests:			
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

		For the six months ended 30 June	
		2008	2007
	Note	**RMB'000**	RMB'000
		(unaudited)	(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		**385,458**	256,062

NOTES ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Turnover		
Retail	**1,889,420**	1,341,816
Wholesale	**768,375**	553,026
Unallocated	**67,814**	26,764
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	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Segment result		
Retail	**315,170**	185,942
Wholesale	**74,966**	53,699
Total	**390,136**	239,641
Unallocated operating income and expenses	**16,580**	(19,403)
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)
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 *(note 10)*	**920**	920
Others	**3,017**	–
	23,111	5,203

	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 *(note 15)*	**81,364**	–
	81,364	–

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) Finance costs		
Interest expense on bank loans	**17,919**	10,858
Interest on convertible bonds *(note 15)*	**27,786**	–
Bank charges	**12,083**	575
Net foreign exchange loss	**28,386**	–
	86,174	11,433

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(b) Other items		
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

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
	RMB'000	RMB'000
	(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)
	66,368	52,757

(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.

6 INCOME TAX *(Continued)*

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 divided 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.

(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 *(note 15)*	**159,679,230**
Weighted average number of ordinary shares (diluted) at 30 June	**2,644,179,230**

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 RMB'000 **(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**
Profit attributable to equity shareholders (diluted) at 30 June	**249,898**

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
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividend in respect of the previous financial year, approved and paid during the period	**149,070**	69,566

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

12 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

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

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
	519,708	391,676

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
	538,983	476,119

13 TRADE AND OTHER PAYABLES *(Continued)*

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
	358,091	343,467

14 BANK LOANS

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

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.

14 BANK LOANS *(Continued)*

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 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Non-current secured bank loans	**41,168**	–

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.

15 CONVERTIBLE BONDS *(Continued)*

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

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

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 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (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
	211,982	235,683

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 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Less than one year	**8,800**	8,800
Between one and five years	**20,000**	24,400
	28,800	33,200

17 COMMITMENTS *(Continued)*

(b) Commitments of guaranteed profit *(Continued)*

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
	RMB'000	RMB'000
	(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**	–

18 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Amounts due from

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

(c) Amounts due to

	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (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
Revised HKFRS 3, Business combinations	after 1 July 2009
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 theme 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.

CORPORATE INFORMATION

STOCK INFORMATION

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

BOARD OF DIRECTORS

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

Non-executive Directors
Mr. Chen Sheng
Mr. Shen Zhiyuan
Mr. Shi Zhongyang

Independent Non-executive Directors
Mr. Cai Jianmin
Mr. Wong Kam Fai, William
Mr. Liu Xuelin

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

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