XINYU HENGDELI
新宇亨得利

Annual 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)
(Stock Code : 3389)

XINYU HENGDELI
新宇亨得利

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Steady and Prudent Development

for Maintaining Leading Position

Corporate Profile

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

With international renowned watches as core focus, the sales distribution of middle to high-end consumers goods will remain as the business direction for the Group's future development.

The Group owns an extensive sales network. The categories includes: XINYU 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) and brand boutiques. As at the end of the reporting period, the Group owns 210 retail outlets which sell over 50 internationally renowned brands of watches in the Mainland of China, Hong Kong and Taiwan. The Group has approximately 300 wholesale customers in over 40 major cities in the PRC.

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

The Group maintains good business relationship with various internationally renowned watch brands suppliers such as the Swatch Group, the LVMH Group, the Richemont Group, and the Rolex Group etc., distributing numerous internationally renowned watch brands from the above mentioned groups on non-exclusive and exclusive basis.

The Group owns OMAS, an international luxury brand and famous Swiss watch brands NIVADA and OLMA.

The Company was listed on the Main Board of the Hong Kong Stock Exchange in September 2005 with stock code 3389. The stock short name is Xinyu Hengdeli.

Highlights of Brands sold at Xinyu Hengdeli Group

Swatch Group

- TISSOT
- CALVIN KLEIN
- CERTINA
- HAMILTON
- BREGUET
- LONGINES
- OMEGA
- RADO
- BLANCPAIN
- GLASHUTTE
- JAQUET DROZ

Rolex Group

- ROLEX
- TUDOR

LVMH Group

- TAG HEUER
- ZENITH
- CHRISTIAN DIOR
- FENDI

BREGUET

HAMILTON

TISSOT

RADO

OMEGA

ZENITH

TAG HEUER

Independent Brands

AUDEMARS PIGUET
CARL F. BUCHERER
EDOX
ENICAR
CARVEN
CYMA
CLAUDE BERNARD
BALL
GUCCI
MAURICE LACROIX
ORIS
RAYMOND WEIL
TITONI
BEDAT & CO.
BVLGARI
BREITLING
FRANCK MULLER
HERMES
GIRARD PERREGAUX
GRAND SEIKO
JEANRICHARD
MONTBLANC
PARMIGIANI
ULYSSE NARDIN

Richemont Group

JAEGER-LECOULTRE
BAUME & MERCIER
ALFRED DUNHILL
PANERAI
CARTIER
VACHERON CONSTANTIN
IWC

CARL F. BUCHERER

JAEGAR-LECOULTRE

VACHERON CONSTANTIN

AUDEMARS PIGUET

CARTIER

IWC

FRANCK MULLER

Chairman's Statement

A Status of Classic

Zhang Yuping
Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report for the year ended 31 December 2008 (hereinafter referred to as the "Year") of Xinyu Hengdeli Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for your review.

China's economy continued to show strong momentum in the first half of 2008, and the Group had taken full advantage of the business opportunities presented by pushing forward its strategy of a retail-driven business model, with customer service, ancillary business and brand distribution as supporting operations. The Group achieved rapid growth in its results. However, as a result of the global financial crisis and the downturn of the economy, the business environment in China experienced significant change. This had brought serious challenges to the consumer products market. Drawing on years of experience, the Group promptly adopted 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 has assured the steady and sound operation of the Group, as well as stable growth in its results.

For the year ended 31 December 2008, the Group recorded sales of RMB5,516,496,000, representing a growth of 20.5% as compared to previous year. Profit for the year grew 10.4% from previous year to RMB488,165,000.

During the Year under review, the Group adhered to its pre-set strategies. With retail operation as the core focus, through the principles of "adjustment, consolidation, healthy, steady", the establishment of the retail network was strengthened stably and actively. The Group promptly adjusted the expansion plan, modified the number of retail outlet and brand portfolio in accordance with market changes. Efforts were devoted to consolidate businesses in the first tier cities, while expanding into second tier cities and selectively exploring the third tier cities. Remarkable results were achieved. The Group also established its foothold in Taiwan. This built a favourable platform for the business interaction in the Greater China region in future. In the meantime, featured brand boutiques were established to satisfy the demand from the market. This served to continuously enhance our market share for middle to high-end brands. As at 31 December 2008, the number of our retail outlets had increased from 166 last year to 210 this year. Without compromising the quality, the scale of our retail network was further expanded.

During the Year under review, the Group further consolidated its customer services system, so as to continuously enhance the confidence of its customers. All-rounded services are provided to customers through its interactive customer services network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points", as well as the warranty available both in Hong Kong and the Mainland of China, so as to assure complete satisfaction of requirements from customers. This led to the recognition and accreditation from both of its customers and international brand suppliers. In addition, the Group successfully continued its ancillary production business and accessories business, which offered an effective and sustainable support to the development of its principal business.

Continuing to strengthen the development of proprietary brands is also the Group's strategy. During the Year under review, the Group has formulated different growth strategies for its international renowned 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 Group maintained solid relationship with various international brand suppliers, which adjusted and enriched its product portfolio. This had provided the market with more choices of premium brands. During the Year, the Group obtained the exclusive distribution rights of FREDERIQUE CONSTANT and CELINE in the Mainland China. They were part of our strategy to build a sales platform with quality and breadth for international brand suppliers.

The prospect of world economy will be 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 the stimulus to consumption demand. This is regarded as an effective mean to sustain the growth of the economy. Therefore, China will still remain one of the most promising markets in the world, where the Group will focus its business development.

With international renowned name watches as its core focus, delivering a portfolio of middle to high-end consumer goods will remain as the business direction for the Group's development in 2009. Under the new economic circumstances, the Group will continue to leverage on its strengths according to the market changes and expand our business in pragmatic approach. The initiatives for and mechanisms of "crisis management" will continue to strengthen. 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, so as to bring return to our shareholders and the public which have been showing supporting and care to the Group at all times.

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

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 25 March 2009

A Foundation of Steady Development

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

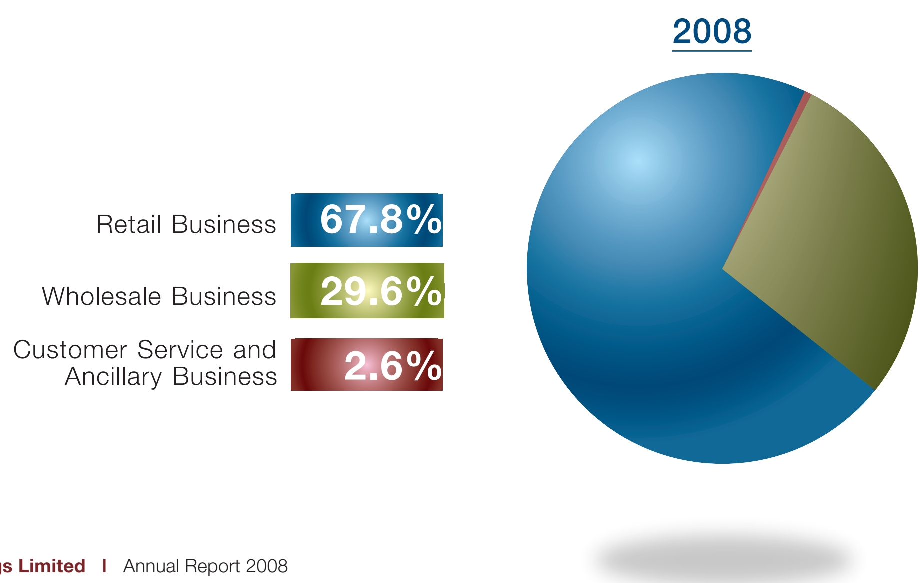
During the first half of the year, the market for middle to high-end consumer products sustained the outstanding trend extending from 2007. The Group maintained rapid expansion of its businesses through proactive financial policies. During the second half of the year, in particular, the fourth quarter, 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 development. With the adoption of pragmatic 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 the Mainland of China and Hong Kong to reliably and actively expand its retail network, strengthen its operational management, enhance its quality of service, enhance interaction between Hong Kong and the Mainland of China 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 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 Year, leverage of market sales regulations and enhancing retail management level in Hong Kong and the Mainland of 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). As at 31 December 2008, the bank facilities of the Group are secured by bank deposits and properties of the Group, details of which are set out in the financial statements.

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.

Significant investment, material acquisition and disposal

Save and except the acquisitions of subsidiaries disclosed in note 34 of the financial statements, there was no material acquisitioon or disposal of subsidiaries and associated companies nor was there any significant investment held by the Company in the Year under review.

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 the Mainland of 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 enhance the retail network in an ongoing manner in accordance with the market changes. 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 brand mixture 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 sells 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 三寶名表

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During the Year under review, the Group had three and nine Elegant shops respectively in Hong Kong and Mainland of 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 盛时表行
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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 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, Omega boutique was opened. The establishment of these brand boutiques 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 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 of China 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 set up a "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 and speeded up its expansion efforts in the Mainland of 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 enhance 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. Details of the remuneration information are set out in the financial statements.

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 focus, 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.

Report of Director

The Directors of the Company hereby present this annual report together with the audited accounts of the Company for the year ended 31 December 2008.

THE COMPANY

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

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

DISTRIBUTABLE RESERVE

As at 31 December 2008, the aggregate amount of distributable reserves of the Company was RMB1,187,177,000, which is set out in Note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FINANCIAL SUMMARY

The summary of the results and assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 125 of this annual report.

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 2008, 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.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTION SCHEME

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

Pursuant to the share option scheme, the Company granted 39,380,000 share options to certain senior employees of the Group on 28 August 2007 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. The number of outstanding options at the beginning of the Year was 38,930,000. Due to retirement of certain employees, 2,000,000 options lasped during the Year and as at 31 December 2008, the total number of shares that may be subscribed changed to 36,930,000 ordinary shares.

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

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with each of the executive Directors and letters of appointment with each of the non-executive director and independent non-executive directors for a term of three years which are all determinable by the Company within one year without payment of compensation (other then statutory compensation).

Save as otherwise disclosed in this annual report, no Directors have entered into any service agreement with any member of the Group.

DIRECTORS' MATERIAL INTERESTS IN CONTRACTS

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

REMUNERATION OF THE FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

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

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

The remuneration policies of the Group are as follows:

- The amount of remuneration for the Directors or the employees is determined according to their relevant experiences, responsibilities, workload and year of service in the Group;

- The non-monetary benefits are decided by the Board of Directors and are provided in the remuneration package of the Director or the employee;

- The Directors and the eligible employees shall be granted with option of the Company as decided by the Board of Directors to be part of their remuneration package.

EMPLOYEE RETIREMENT BENEFIT SCHEME

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

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Details of the Directors and senior management's biographies are set out on pages 32 to 34 of this annual report.

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

As at 31 December 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 and Personal *(Note 1)*	1,357,600,000 (L)	54.76%
Mr. Song Jianwen	Controlled Corporation *(Note 2)*	18,480,000 (L)	0.75%
Mr. Chen Sheng	Personal *(Note 3)*	11,160,000 (L)	0.45%
Mr. Huang Yonghua	Personal *(Note 4)*	1,600,000 (L)	0.06%

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 54.08% issued share capital of the Company. During the Year under review, Mr. Zhang Yuping purchased an additional 16,952,000 shares of the Company under his name, representing 0.68% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 54.76% 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 0.75% of the issued share capital of the Company.

Note 3: During the Year under review, Mr. Chen Sheng purchased 11,160,000 shares of the Company on the Stock Exchange by way of acquisition from the market.

Note 4: During the Year under review, Mr. Huang Yonghua purchased 1,600,000 shares of the Company on the Stock Exchange by way of acquisition from the market.

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

As the Directors were aware, as at 31 December 2008, the interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares or underlying shares or debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Number of Shares	Approximate Percentage
Best Growth *(Note 1)*	1,340,648,000 (L)	54.08%
Mr. Zhang Yuping *(Note 1)*	1,357,600,000 (L)	54.76%
The Swatch Group Hong Kong Limited *(Note 2)*	201,000,000 (L)	8.11%
The Swatch Group Limited *(Note 2)*	201,000,000 (L)	8.11%
Hayek Nicolas Georges *(Note 2)*	201,000,000 (L)	8.11%
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)	6.98%
Sofidiv SAS *(Note 3)*	185,416,000 (L)	7.48%
LVMH SA *(Note 3)*	185,416,000 (L)	7.48%

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 Year under review, Mr. Zhang Yuping purchased an additional 16,952,000 shares of the Company under his name, representing 0.68% of the issued share capital of the Company. Accordingly, Mr. Zhang Yuping holds 54.76% 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.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the 12 months ended 31 December 2008 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their respective spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debenture of the Company or any other body corporate.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	46.9%
– five largest suppliers combined	83.5%
Sales	
– the largest customer	7.6%
– five largest customers combined	18.0%

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

CONNECTED TRANSACTIONS

During the Year under review, the following continuing connected transactions (the "Transactions"), which are also related parties transaction in note 35 of the financial statements have been entered into by the Group from strict compliance with the announcement and/or shareholders' approval requirements under Chapter 14A of the Listing Rules:

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

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

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

On 27 February 2008, Hengdeli International entered into an agreement with Wai Lung to acquire the said premises at a consideration of HK$52,000,000. The purchase and sale of the said premises has been completed on 27 March 2008. Please refer to the announcement of the Company dated 27 February 2008 for details relating to the transaction.

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

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

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

PUBLIC FLOAT

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

AUDITORS

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

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 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.

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

An annual report for the year ended 31 December 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 Company and the Stock Exchange in due course.

ACKNOWLEDGEMENT

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

GENERAL INFORMATION

As at the date of this annual 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 Xueling.

By order of the Board
Zhang Yuping
Chairman

Hong Kong, 25 March 2009

Director' and Senior Managements Biographies

Executive Directors

Mr. Zhang Yuping (alia, Cheung Yu Ping) (張瑜平), aged 48, is the chairman and executive Director of the Company and the founder of the Group. He founded the Group in 1999. He is in charge of the Group's overall management and strategic development. He has more than 20 years of experience in the high-end consumables distribution industry for the PRC market.

Mr. Song Jianwen (宋建文), aged 56, is an executive Director. He is in charge of finance and investments of the Group. Mr. Song graduated from Zhongnan Finance Economics University（中南財經政法大學）with a master degree in economics. Mr. Song joined the Group in 2001 and has over 10 years of experience in finance and accounting.

Mr. Huang Yonghua (黃永華), aged 38, is an executive Director. He is in charge of the Group's business co-ordination and operational supervision. He joined the Group in 2001 and has more than 10 years of experience in the watch distribution industry and management for the PRC market.

Non-executive Directors

Mr. Chen Sheng (陳聖), aged 44, is a non-executive Director. Mr. Chen graduated from Fudan University with a master degree in business administration. Mr. Chen joined the Company in December 2007 and is responsible for investment.

Mr. Shen Zhiyuan (沈致遠), aged 66, is a non-executive Director. He graduated from Beijing Commerce College (北京商學院). He was the general manager of Beijing Yi Shang Group. He is currently the vice-chairman of Association of PRC Enterprises (中國商業企業協會) and the chairman of Association of Beijing Enterprises (北京商業企業協會). He joined the Group in March 2004.

Mr. Shi Zhongyang (史仲陽), aged 34, is a non-executive Director. Mr. Shi graduated from Nanjing University in the PRC and University of Goetting in Germany with master degree in law. Mr. Shi joined The Swatch Group Limited in 2000 and the Group in 2006. He is currently a legal counsel of the legal department of The Swatch Group Limited.

Independent Non-executive Directors

Mr. Cai Jianmin (蔡建民), aged 65, is an independent non-executive Director. He graduated from Shanghai Finance College (上海財經學院) in industrial accounting faculty (工業會計系). Mr. Cai holds a certificate for professional accountants (會計從業資格證書) in the PRC. He had held senior financial posts for several companies including Shanghai Hualian (Group) (上海華聯（集團）). He joined the Group in March 2005.

Mr. Wong Kam Fai, William (黃錦輝), aged 49, is an independent non-executive Director. He graduated from University of Edinburgh, Scotland with a bachelor degree and a doctorate degree in electrical engineering. Mr. Wong is currently a professor in the Department of Systems Engineering and Engineering Management in the Chinese University of Hong Kong. He obtained the qualification as a Chartered Engineer (CEng) since 1991, and is now a member of the Institute of Electrical Engineers, a professional member of the Association of Computing Machinery. He joined the Group in July 2005.

Mr. Liu Xueling (劉學靈), aged 51, is an independent non-executive Director. He graduated from East China Normal University, China with a doctorate degree in history. He was the independent Director at Shanghai Yimin Department Stores Company Limited. At present, Mr. Liu is a senior lawyer in Shanghai Zhongxin Law Firm. He joined the Group in 2007.

SENIOR MANAGEMENT

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

Mr. Zhuang Liming (莊立明), aged 55, is the vice chairman of Shanghai Xinyu. Mr. Zhuang graduated in Beijing Foreign Trade College (北京外貿學院). Before joining the Group in 2000, Mr. Zhuang had worked for PRC Light Industry Commodities Import and Export Company (中國輕工業品進出口總公司).

Ms. Wang Lingfei (王玲飛), aged 59, is the deputy president of Xinyu Hengdeli Group, who is responsible for work in brands. Before joining the Group in 2005, Ms. Wang was the deputy general manager of Beijing Yishang Group (北京一商集團).

Mr. Lee Wing On, Samuel (李永安), aged 44, is the deputy president of Xinyu Hengdeli Group, who is responsible for retailing in Hong Kong. Mr. Lee joined the Group in 2006 and he has over 20 years of experience in the Hong Kong watch retail industry and management for the Hong Kong market.

Mr. Stan Lee (李樹忠), aged 49, is the deputy president of Xinyu Hengdeli Group, who is responsible for retailing in Mainland. He joined the Group in 2007. He obtained a Bachelor of Arts degree in universities, and has participated advanced learning in Business Administration. He has over 20 years of experience in watches manufacturing and distribution.

Mr. Zhang Xingen (張新根), aged 64, is the Chairman of the Board of Directors of the customer services company under the Group, who is responsible for customer services activities. Before joining the Group in 1999, Mr. Zhang was the general manager of Shanghai Watch Shop and a director of Yi Min Department Store.

Ms. Suelyn So (蘇琳), aged 39, is the deputy president of Xinyu Hengdeli Group, who is responsible for customer services activities. Ms. So holds a certificate in Bachelor of Arts from the University of Sydney in Australia. Before joining the Group in 2007, Ms. So was the customer relationship manager of Sony Ericsson Communication Limited for China region and the general manager of Biogreen Technology Limited in China.

Mr. Ng Man Wai, Peter (吳文偉), aged 38, is the company secretary to the Company, qualified accountant and financial controller of the Group. Mr. Ng graduated from the University of Toronto with a bachelor's degree in commerce. Mr. Ng joined the Group in 2004 and is a member of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Ms. Tan Li (談麗), aged 44, is the secretary to the board of the Company and the assistant to the Chairman of the Company Shanghai Xinyu. Ms. Tan graduated from Nanjing Normal University (南京師範大學) with a master's degree in Chinese literature. Before joining the Group in 2001, Ms. Tan taught at the branch colleges of Beijing University in China. Since Ms. Tan joined the Group, she has been engaging in work related to the secretary to the board of the Group.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Ng Man Wai, Peter (吳文偉), aged 38, is the company secretary, qualified accountant and financial controller of the Group. Mr. Ng graduated from the University of Toronto with a bachelor's degree in commerce. Mr. Ng joined the Group in 2004 and is a member of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

Since its establishment, the Company has been committed to maintain 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.

SECURITIES TRANSACTIONS BY DIRECTORS

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

ACCOUNTABILITY AND AUDIT

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

The statement of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report from page 39 to page 40.

AUDITORS' REMUNERATION

The audit fee, to be received by the auditors of the Company, for the year ended 31 December 2008 will be approximately RMB3.9 million.

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.

REMUNERATION COMMITTEE

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

The remuneration committee held one meeting during the year to review matters related to the remuneration structure of the Directors and senior management. All members of the committee attended the meeting.

NOMINATION COMMITTEE

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

One meeting had been held during the year to review matters related to the retirement of Directors of the Company by rotation and re-election. All members of the committee attended the meeting.

INVESTOR RELATIONS

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

During the Year under review, the Group's management held regular and ad hoc meetings with different analysts and investors, including the marketing campaign on investor relations in the major investing center in Hong Kong, Beijing, Shanghai, Shenzhen, and Hangzhou etc. Besides, the Group also held roadshows in the USA, Britain, Singapore and Japan, etc. so as to help the investors to have a deep understanding of the Group.

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

Auditor's Report

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

We have audited the consolidated financial statements of Xinyu Hengdeli Holdings Limited (the "Company") set out on pages 41 to 124, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

25 March 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	3	**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	4	**39,874**	33,086
Other income	4	**140,859**	31,672
Distribution costs		**(500,378)**	(312,383)
Administrative expenses		**(253,182)**	(156,261)
Other operating expenses	5	**(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	*6(a)*	**(125,909)**	(59,927)
Share of (losses)/profits of jointly controlled entities	19	**(2,318)**	276
Profit before taxation	6	**618,984**	551,688
Income tax	*7(a)*	**(130,819)**	(109,535)
Profit for the year		**488,165**	442,153
Attributable to:			
Equity shareholders of the Company	*31(a)*	**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	*11(a)*	**138,694**	149,070
Earnings per share	12		
Basic		**RMB0.185**	RMB0.168
Diluted		**RMB0.165**	RMB0.165

The notes on pages 48 to 124 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	*14*	**529,183**	288,725
Investment property	*15*	**27,771**	29,535
Intangible assets	*16*	**42,974**	43,444
Goodwill	*17*	**228,367**	213,165
Interest in jointly controlled entities	*19*	**30,524**	27,913
Other investments	*20*	**797**	250
Deferred tax assets	*30(b)(i)*	**39,956**	24,487
		899,572	627,519
Current assets			
Inventories	*21*	**2,446,734**	1,666,976
Trade receivables, prepayments and other receivables	*22*	**449,962**	560,433
Pledged bank deposits	*23*	**96,497**	83,470
Cash and cash equivalents	*24*	**588,010**	987,193
		3,581,203	3,298,072
Current liabilities			
Trade and other payables	*25*	**584,464**	476,119
Bank loans	*26(a)*	**760,122**	245,346
Current taxation	*30(a)*	**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	*26(b)*	**35,685**	–
Convertible bonds	*27*	**680,146**	994,558
Embedded financial derivatives	*27*	**2,960**	131,544
Deferred tax liabilities	*30(b)(ii)*	**15,038**	8,009
		733,829	1,134,111
NET ASSETS		**2,332,020**	1,982,371

The notes on pages 48 to 124 form part of these financial statements.

Consolidated Balance Sheet (continued)

at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
CAPITAL AND RESERVES			
Share capital	*31(c)(i)*	**12,903**	12,927
Reserves	*31(d)*	**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

Approved and authorised for issue by the board of directors on 25 March 2009.

Zhang Yuping
Executive Director

Song Jianwen
Executive Director

The notes on pages 48 to 124 form part of these financial statements.

Balance Sheet

at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Investments in subsidiaries	18	**511,163**	515,006
Current assets			
Trade receivables, prepayments and other receivables	22	**1,153,137**	978,667
Pledged bank deposits	23	**49,705**	51,881
Cash and cash equivalents	24	**11,810**	653,482
		1,214,652	1,684,030
Current liabilities			
Trade and other payables	25	**2,145**	7,393
		2,145	7,393
Net current assets		**1,212,507**	1,676,637
Total assets less current liabilities		**1,723,670**	2,191,643
Non-current liabilities			
Convertible bonds	27	**680,146**	994,558
Embedded financial derivatives	27	**2,960**	131,544
		683,106	1,126,102
NET ASSETS		**1,040,564**	1,065,541
CAPITAL AND RESERVES			
Share capital	31(c)(i)	**12,903**	12,927
Reserves	31(d)	**1,027,661**	1,052,614
TOTAL EQUITY		**1,040,564**	1,065,541

Approved and authorised for issue by the board of directors on 25 March 2009.

Zhang Yuping
Executive Director

Song Jianwen
Executive Director

The notes on pages 48 to 124 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Equity attributable to equity shareholders of the Company			
Balance at 1 January		**1,785,498**	1,472,086
Repurchase of own shares:			
– Par value paid	*31(c)(ii)*	**(24)**	–
– Premium paid	*31(c)(ii)*	**(6,212)**	–
Equity settled share-based payment transactions	*29*	**21,571**	7,664
Profit for the year		**460,087**	417,523
Dividend declared	*11(b)*	**(149,070)**	(69,566)
Exchange differences on translation into presentation currency		**(16,052)**	(42,209)
Balance at 31 December		**2,095,798**	1,785,498
Minority interests:			
Balance at 1 January		**196,873**	136,474
Capital contribution		**15,950**	38,500
Acquisition of subsidiaries	*34*	**9,286**	5,220
Share of profit for the year		**28,078**	24,630
Dividend declared		**(13,965)**	(7,951)
Balance at 31 December		**236,222**	196,873
Total equity:	*31(a)*	**2,332,020**	1,982,371

The notes on pages 48 to 124 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before taxation	**618,984**	551,688
Adjustments for:		
Depreciation of property, plant and equipment	**33,710**	28,167
Depreciation of investment property	**1,764**	1,497
Amortisation of intangible assets	**1,234**	573
Interest income	**(9,998)**	(21,655)
Finance expenses	**103,862**	68,016
Changes in fair value of embedded financial derivatives	**(121,416)**	(18,531)
Share of losses/(profits) of jointly controlled entities	**2,318**	(276)
Loss on disposal of property, plant and equipment	**786**	606
Gain on purchase of convertible bonds	**(19,443)**	–
Investment income	**(16,124)**	(11,130)
Equity-settled share-based payment expenses	**21,571**	7,664
Gain on acquisition of a subsidiary	**–**	(13,141)
Operating profit before changes in working capital	**617,248**	593,478
Increase in inventories	**(739,672)**	(353,105)
Decrease/(increase) in trade receivables, prepayments and other receivables	**95,948**	(259,543)
Increase in trade and other payables	**72,135**	35,276
Cash generated from operations	**45,659**	16,106
Income tax refunded	**–**	24,995
Income tax paid	**(156,563)**	(120,964)
Net cash used in operating activities	**(110,904)**	(79,863)

The notes on pages 48 to 124 form part of these financial statements.

Consolidated Cash Flow Statement (continued)

for the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Investing activities		
Payment for the purchase of property, plant and equipment	**(274,223)**	(60,039)
Payment for the purchase of intangible assets	**(764)**	–
Proceeds from disposal of property, plant and equipment	**194**	145
Net cash out flow on acquisition of subsidiaries *(note 34)*	**(17,937)**	(56,472)
Interest received	**9,998**	21,655
Payment for investment in jointly controlled entities	**–**	(15,000)
Payment for unlisted investments	**(547)**	–
Increase in pledged bank deposits	**(13,027)**	(6,562)
Dividend received	**16,124**	11,130
Net cash used in investing activities	**(280,182)**	(105,143)
Financing activities		
Capital contributions from minority shareholders	**15,950**	38,500
Payment for repurchase of shares	**(6,236)**	–
Proceeds from bank loans	**1,160,720**	458,755
Repayment of bank loans	**(610,259)**	(619,691)
Finance expenses paid	**(51,959)**	(44,742)
Dividend paid to shareholders	**(149,070)**	(69,566)
Dividend paid to minority shareholders	**(14,064)**	(6,818)
Proceeds from issue of convertible bonds	**–**	1,150,000
Payment from purchases of convertible bonds	**(353,179)**	–
Payment of transaction costs on issue of convertible bonds	**–**	(28,912)
Net cash (used in)/generated from financing activities	**(8,097)**	877,526
Net (decrease)/increase in cash and cash equivalents	**(399,183)**	692,520
Cash and cash equivalents at 1 January	**987,193**	294,673
Cash and cash equivalents at 31 December	**588,010**	987,193

The notes on pages 48 to 124 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Xinyu Hengdeli Holdings Limited ("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 consolidated financial statements of the Company for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group"). The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 September 2005.

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

(c) Subsidiaries and minority interests

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Jointly controlled entities

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

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

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

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

(e) Goodwill

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

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

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

(f) Other investments in debt and equity securities

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities *(Continued)*

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

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

(g) Investment property

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

Investment properties are measured at cost less accumulated depreciation and impairment losses (see note 1(k)). Depreciation is calculated to write off the cost of investment property less its estimated residual value using the straight line method over its estimated useful life of 20 years. Rental income from investment properties is accounted for as described in note 1(u)(ii).

(h) Property, plant and equipment

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Land and buildings	20-50 years
Leasehold improvements	1-5 years
Motor vehicles	8 years
Office equipment and other fixed assets	4-5 years

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

No depreciation is provided for construction in progress.

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

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

(i) Intangible assets (other than goodwill)

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

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

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

Both the period and method of amortisation are reviewed annually.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets (other than goodwill) *(Continued)*

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

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

(j) Operating lease charges

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

(k) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- investment property;
- intangible assets;
- investments in subsidiaries and jointly controlled entities; and
- goodwill.

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Inventories

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

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

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

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

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

(m) Trade and other receivables

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

(n) Cash and cash equivalents

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade and other payables

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

(p) Interest-bearing borrowings

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

(q) Convertible bonds

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits

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

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

(iii) Share-based payments

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

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

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

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

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

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

  - the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue recognition

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

i) Sale of goods

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

ii) Rental income from operating leases

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

iii) Dividends

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

iv) Interest income

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

v) Government grants

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

(v) Translation of foreign currencies

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Translation of foreign currencies *(Continued)*

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

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

(w) Borrowing costs

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

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

(x) Related parties

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

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

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

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

(y) Segment reporting

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

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

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company:

- HK(IFRIC) 11, *HKFRS 2 – Group and treasury share transactions*

- HK(IFRIC) 12, *Service concession arrangements*

- HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*

- Amendment to HKAS 39, *Financial instruments: Recognition and measurement*, and HKFRS 7, *Financial instruments: Disclosures – Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's and the Company's financial statements as either they were consistent with accounting policies already adopted by the Group and the Company or they were not relevant to the Group's and the Company's operations.

The Group and the Company have not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 40).

3. TURNOVER

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

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

4. OTHER REVENUE AND OTHER INCOME

	2008 RMB'000	2007 RMB'000
Other revenue		
Government grants	**14,880**	13,758
Dividend income from unlisted investments *(note 20)*	**16,124**	11,130
Rental income *(note 15)*	**2,560**	1,840
Others	**6,310**	6,358
	39,874	33,086

One of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group., Ltd. ("Shanghai Xinyu"), received unconditional grants totalling RMB13,758 thousand and RMB14,880 thousand for the years ended 31 December 2007 and 2008, respectively, from the local government in Shanghai, in support of Shanghai Xinyu's development.

	2008 RMB'000	2007 RMB'000
Other income		
Changes in fair value of embedded financial derivatives *(note 27)*	**121,416**	18,531
Gain on acquisition of a subsidiary	**–**	13,141
Gain on purchases of convertible bonds	**19,443**	–
	140,859	31,672

5. OTHER OPERATING EXPENSES

	2008 RMB'000	2007 RMB'000
Write-down of inventories	**12,469**	12,506
Impairment losses for doubtful trade receivable	**(1,724)**	1,723
Loss on disposal of property, plant and equipment	**786**	606
	11,531	14,835

Provision of impairment losses for doubtful trade receivable of RMB3,971 thousand made in previous years was reversed in 2008 as the respective trade receivables were collected in 2008.

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2008 RMB'000	2007 RMB'000
(a) Net finance cost		
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 *(note 27)*	**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

6. PROFIT BEFORE TAXATION *(Continued)*

	2008 RMB'000	2007 RMB'000
(b) Staff costs		
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 *(note 29)*	**21,571**	7,664
	289,436	141,905

	2008 RMB'000	2007 RMB'000
(c) Other items		
Cost of inventories#	**4,197,396**	3,557,962
Auditors' remuneration – audit services	**3,860**	3,685
Depreciation of 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, which amount is also disclosed separately in note 5.*

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2008 RMB'000	2007 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 deferred 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, subsidiaries located in jurisdictions other than 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 applicable to the Group's operations in Hong Kong from 17.5% to 16.5% for the year ended 31 December 2008. 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%. This 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.

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

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

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 arrangements under the New Tax Law, the above mentioned 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 **RMB'000**	2007 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 *(note 30(d))*	**7,681**	–
Actual tax expense	**130,819**	109,535

8. DIRECTORS' REMUNERATION

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

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 28)*	Bonus RMB'000	Total RMB'000
Year ended 31 December 2007					
Executive Directors					
Mr. Zhang Yuping	–	1,594	11	–	1,605
Mr. Song Jianwen	–	793	32	–	825
Mr. Huang Yonghua	–	681	–	–	681
Non-executive Directors					
Mr. Chen Sheng	47	–	–	–	47
Mr. Shen Zhiyuan	47	–	–	–	47
Mr. Shi Zhongyang	93	–	–	–	93
Mr. Chuang Jian, George	93	–	–	–	93
Independent Non-executive Directors					
Mr. Liu Huangsong (resigned on 1 June 2007)	20	–	–	–	20
Mr. Cai Jianmin	47	–	–	–	47
Mr. Wong Kam Fai, William	93	–	–	–	93
Mr. Liu Xueling (appointed on 1 June 2007)	27	–	–	–	27
Total	467	3,068	43	–	3,578

8. DIRECTORS' REMUNERATION *(Continued)*

	Directors' Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 28)*	Bonus RMB'000	Total RMB'000
Year ended 31 December 2008					
Executive Directors					
Mr. Zhang Yuping	–	3,775	11	–	3,786
Mr. Song Jianwen	–	1,827	49	–	1,876
Mr. Huang Yonghua	–	1,827	–	–	1,827
Non-executive Directors					
Mr. Chen Sheng	601	–	–	–	601
Mr. Shen Zhiyuan	44	–	–	–	44
Mr. Shi Zhongyang	89	–	–	–	89
Mr. Chuang Jian, George (resigned on 3 June 2008)	–	–	–	–	–
Independent Non-executive Directors					
Mr. Cai Jianmin	44	–	–	–	44
Mr. Wong Kam Fai, William	89	–	–	–	89
Mr. Liu Xueling	44	–	–	–	44
Total	911	7,429	60	–	8,400

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group during the two years ended 31 December 2007 and 2008. There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 December 2007 and 2008.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year ended 31 December 2008 include three (2007: one) directors of the Group, whose emoluments are reflected in note 8. Details of emoluments paid to the remaining highest paid individuals of the Group are as follows:

	2008	2007
	RMB'000	RMB'000
Salaries and other emoluments	**4,504**	5,543
Contributions to retirement benefit plans	**21**	48
Bonuses	**19,535**	–
Share-based payments	**204**	218
	24,264	5,809

The emoluments of the two (2007: four) individuals, other than directors, with the highest emoluments are within the following bands:

	2008	2007
	Number of	Number of
RMB	**individuals**	individuals
Nil – 1,000,000	**–**	–
1,000,001 – 1,500,000	**–**	4
1,500,001 – 2,000,000	**1**	–
22,000,001 – 22,500,000	**1**	–

During the two years ended 31 December 2007 and 2008, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a gain of RMB18,134 thousand (2007: a loss of RMB21,001 thousand) which has been dealt with in the financial statements of the Company.

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

	2008	2007
	RMB'000	RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**18,134**	(21,001)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**154,009**	71,461
Company's profit for the year *(note 31(b))*	**172,143**	50,460

11. 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 *(note 37)* (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.

11. DIVIDENDS *(Continued)*

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

	2008 **RMB'000**	2007 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

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of 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 (see note 29) are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. As no shares would be issuable if 31 December 2008 were the end of the contingent period, no effect of share options is included in the calculation of diluted earnings per share.

12. EARNINGS PER SHARE *(Continued)*

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

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

	2008 RMB'000	2007 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

13. SEGMENT INFORMATION

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

13. SEGMENT INFORMATION *(Continued)*

Business segments

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

	2008 RMB'000	2007 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

13. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	2008 RMB'000	2007 RMB'000
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

13. SEGMENT INFORMATION *(Continued)*

Geographical segments

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

	2008 RMB'000	2007 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

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment and other fixed assets RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Balance at 1 January 2007	251,947	26,398	8,721	23,654	716	311,436
Additions	–	18,412	4,158	7,175	30,294	60,039
Additions through acquisition of subsidiaries	27,486	3,077	255	6,717	–	37,535
Transfer from construction in progress	753	–	–	776	(1,529)	–
Transfer to investment property	(31,032)	–	–	–	–	(31,032)
Disposals	–	(1,822)	(678)	(4,089)	–	(6,589)
Balance at 31 December 2007	249,154	46,065	12,456	34,233	29,481	371,389
Balance at 1 January 2008	249,154	46,065	12,456	34,233	29,481	371,389
Additions	81,948	45,571	2,669	10,467	133,568	274,223
Additions through acquisition of subsidiaries *(note 34)*	–	876	–	49	–	925
Transfer from construction in progress	1,878	–	–	584	(2,462)	–
Disposals	–	(328)	(638)	(2,140)	–	(3,106)
Balance at 31 December 2008	332,980	92,184	14,487	43,193	160,587	643,431
Accumulated depreciation:						
Balance at 1 January 2007	(23,522)	(20,337)	(3,800)	(12,676)	–	(60,335)
Charge for the year	(10,811)	(10,571)	(1,655)	(5,130)	–	(28,167)
Written-back on disposals	–	1,393	568	3,877	–	5,838
Balance at 31 December 2007	(34,333)	(29,515)	(4,887)	(13,929)	–	(82,664)
Balance at 1 January 2008	(34,333)	(29,515)	(4,887)	(13,929)	–	(82,664)
Charge for the year	(12,102)	(12,250)	(1,788)	(7,570)	–	(33,710)
Written-back on disposals	–	328	484	1,314	–	2,126
Balance at 31 December 2008	(46,435)	(41,437)	(6,191)	(20,185)	–	(114,248)
Net book value:						
At 31 December 2008	286,545	50,747	8,296	23,008	160,587	529,183
At 31 December 2007	214,821	16,550	7,569	20,304	29,481	288,725

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

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

ii) The buildings owned by the Group are located in the PRC, Italy, Hong Kong and Taiwan.

iii) As at 31 December 2008, the land and buildings in Taiwan and Hong Kong with carrying amount of RMB33,374 thousand and RMB46,627 thousand respectively (2007: RMB33,606 thousand, being a property in Beijing) were pledged to banks as security for certain loans (see note 26).

iv) As at 31 December 2008, the Group was in the process of obtaining the property ownership certificates of its buildings in Beijing, Guangzhou, Taiyuan and Zhengzhou with a carrying amount of approximately RMB59,314 thousand (2007: RMB59,985 thousand).

15. INVESTMENT PROPERTY

	RMB'000
Cost:	
Balance at 1 January 2007	–
Transfer from property, plant and equipment	31,032
Balance at 31 December 2007 and 31 December 2008	31,032
Accumulated depreciation:	
Balance at 1 January 2007	–
Charge for the year	(1,497)
Balance at 31 December 2007 and 1 January 2008	(1,497)
Charge for the year	(1,764)
Balance at 31 December 2008	(3,261)
Net book value:	
At 31 December 2008	27,771
At 31 December 2007	29,535

15. INVESTMENT PROPERTY *(Continued)*

The investment property is located in the PRC and, since January 2007, is rented out under the terms of operating leases. The fair value of the investment property as at 31 December 2008, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to RMB43,680 thousand (2007: RMB52,354 thousand). The investment property has not been valued by an external independent valuer. Rental income of RMB2,560 thousand was received from leasing the investment property during the year ended 31 December 2008 (2007: RMB1,840 thousand).

16. INTANGIBLE ASSETS

The Group

	Trademarks with indefinite useful lives RMB'000	Trademarks with finite useful lives RMB'000	Edox agency rights and patents RMB'000	Software licence RMB'000	Total RMB'000
Cost:					
At 1 January 2007	32,149	–	1,200	–	33,349
Addition through acquisition of subsidiaries	–	8,259	2,769	–	11,028
At 1 January 2008	32,149	8,259	3,969	–	44,377
Addition during the year	–	–	–	764	764
At 31 December 2008	32,149	8,259	3,969	764	45,141
Amortisation:					
At 1 January 2007	–	–	(360)	–	(360)
Charge for the year	–	(304)	(269)	–	(573)
At 1 January 2008	–	(304)	(629)	–	(933)
Change for the year	–	(781)	(416)	(37)	(1,234)
At 31 December 2008	–	(1,085)	(1,045)	(37)	(2,167)
Net book value:					
At 31 December 2008	32,149	7,174	2,924	727	42,974
At 31 December 2007	32,149	7,955	3,340	–	43,444

16. INTANGIBLE ASSETS *(Continued)*

The Group *(Continued)*

The amortisation charges for trademarks with finite useful lives, Edox agency rights and patents, and software licence are included in "Administrative expenses" in the consolidated income statement.

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

The recoverable amounts of the cash-generating units are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on an estimated annual growth rate in sales ranging from 1% to 10% (2007: 5% to 8%), a growth rate in gross profit ratio ranging from -4% to 10% (2007: 5% to 10%), and a discount rate ranging from 8% to 11% (2007: 11%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

17. GOODWILL

	The Group
	RMB'000
Cost:	
At 1 January 2007	181,045
Addition	32,120
At 1 January 2008	213,165
Addition *(note 34)*	15,202
At 31 December 2008	228,367
Accumulated impairment losses:	
At 1 January 2007, 1 January 2008 and 31 December 2008	–
Carrying amount:	
At 31 December 2008	228,367
At 31 December 2007	213,165

17. GOODWILL *(Continued)*

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

	2008 RMB'000	2007 RMB'000
Retail – PRC (other than Hong Kong)		
河南富豪表行有限公司 ("Henan Fuhao")	**8,197**	8,197
蘇州工業園區新宇世家鐘表有限公司 ("Suzhou Xinyu")	**16,845**	16,845
北京世紀英迪商貿有限責任公司 ("Beijing Yingdi")	**15,275**	15,275
無錫新宇鐘表有限公司 ("Wuxi Xinyu") *(note 34)*	**8,000**	–
深圳市瑞時達貿易有限公司 ("Shenzhen Ruishida") *(note 34)*	**2,956**	–
新疆世紀百達投資有限公司 ("Xinjiang Century Baida") *(note 34)*	**4,246**	–
Retail – Hong Kong		
Elegant Jewellery Holding Limited ("Elegant")	**171,163**	171,163
Wholesale – PRC		
廣州市雅迪裝飾包裝有限公司 ("Guangzhou Yadi")	**1,685**	1,685
	228,367	213,165

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on estimated annual growth rates in sales ranging from 1% to 8% (2007: 5% to 8%), a growth rate in gross profit ratio ranging from -1% to 8% (2007: 5% to 10%), and a discount rate of 9% (2007: 11%). The growth rate does not exceed the long-term average growth rate for the relevant markets.

18. INVESTMENT IN SUBSIDIARIES

The Company

	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	**511,163**	515,006

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

Name of company	Place of incorporation and operation	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activities
Shanghai Xinyu	the PRC	95%	RMB550,000,000/ RMB550,000,000	Retail and wholesale of watches
北京市亨得利瑞士鐘表有限責任公司 ("Beijing Hengdeli")	the PRC	55%	RMB156,800,000/ RMB156,800,000	Retail and wholesale of watches
哈爾濱盛時鐘表有限公司 ("Harbin Shengshi")	the PRC	100%	RMB50,000,000/ RMB50,000,000	Retail of watches
遼寧新宇三寶鐘表有限公司 ("Liaoning Xinyu Sanbao")	the PRC	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
深圳市亨得利陽光鐘表有限責任公司 ("Shenzhen Yangguang")	the PRC	100%	RMB15,000,000/ RMB15,000,000	Retail of watches
Henan Fuhao	the PRC	70%	RMB30,000,000/ RMB30,000,000	Retail of watches
安徽三新鐘表有限公司 ("Anhui Sanxin")	the PRC	70%	RMB20,000,000/ RMB20,000,000	Retail of watches

(Expressed in RMB unless otherwise indicated)

18. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operation	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activities
北京新宇亨瑞鐘表有限責任公司 ("Beijing Hengrui")	the PRC	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
Guangzhou Yadi	the PRC	100%	HKD45,000,000/ HKD45,000,000	Decoration and packaging
深圳新宇鍾表有限公司 ("Shenzhen Xinyu")	the PRC	100%	HKD50,000,000/ HKD50,000,000	Wholesale of watches
Elegant	Hong Kong	100%	HKD5,000,000/ HKD5,000,000	Retail of watches and jewellery
Omas SRL	Italy	90.1%	EUR1,000,000/ EUR1,000,000	Production and wholesale of luxury writing instruments
Suzhou Xinyu	the PRC	60%	RMB50,000,000/ RMB50,000,000	Retail of watches
Beijing Yingdi	the PRC	100%	RMB500,000/ RMB500,000	Retail of watches
Wuxi Xinyu	the PRC	80%	RMB10,800,000/ RMB36,000,000	Retail of watches
Shenzhen Ruishida	the PRC	80%	RMB10,000,000/ RMB10,000,000	Retail of watches
Xinjiang Century Baida	the PRC	100%	RMB7,000,000/ RMB7,000,000	Retail of watches
新疆世紀之星商貿有限公司 ("Xinjiang Century Star")	the PRC	100%	RMB900,000/ RMB900,000	Retail of watches

Note: All the subsidiaries incorporated in the PRC are domestic enterprises, except for Shanghai Xinyu, Guangzhou Yadi and Shenzhen Xinyu, which are foreign invested enterprises.

19. INTEREST IN JOINTLY CONTROLLED ENTITIES

The Group

	2008 RMB'000	2007 RMB'000
Share of net assets	**17,691**	20,009
Amount due from jointly controlled entities	**12,833**	7,904
	30,524	27,913

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

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

19. INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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

	2008	2007
	RMB'000	RMB'000
Non-current assets	**2,463**	81
Current assets	**37,168**	26,161
Non-current liabilities	**(10,000)**	(5,000)
Current liabilities	**(11,940)**	(1,233)
Net assets	**17,691**	20,009
Income	**35,342**	19,015
Expenses	**(37,660)**	(18,739)
(Loss)/profit for the year	**(2,318)**	276

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

20. OTHER INVESTMENTS

The Group

	2008	2007
	RMB'000	RMB'000
Unlisted investments	**797**	250

21. INVENTORIES

Inventories in the consolidated balance sheet comprise:

	2008	2007
	RMB'000	RMB'000
Raw materials	**51,987**	6,458
Work in progress	**14,752**	10,795
Finished goods	**2,379,995**	1,649,723
	2,446,734	1,666,976

22. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	2008	2007
	RMB'000	RMB'000
Trade receivables	**277,901**	399,255
Less: allowance for doubtful debts *(note 22(b))*	**(5,808)**	(7,579)
Receivables	**272,093**	391,676
Prepayments and deposits	**177,869**	168,757
	449,962	560,433

The Company

	2008	2007
	RMB'000	RMB'000
Other receivables	**11,837**	–
Receivables due from subsidiaries *(note 35(c))*	**1,141,300**	978,667
	1,153,137	978,667

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.

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

(a) Ageing analysis

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

The Group

	2008 RMB'000	2007 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

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

The Group

	2008 RMB'000	2007 RMB'000
At 1 January	**7,579**	6,040
Impairment loss recognised	**2,247**	2,345
Uncollectible amounts written off	**(47)**	(184)
Reversal of impairment loss upon receipts *(note 5)*	**(3,971)**	(622)
At 31 December	**5,808**	7,579

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

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

The Group

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	**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	**1,820**	4,116
	37,794	58,401
	269,056	390,054

Receivables that were neither past due nor impaired relate to a wide range of customers for whom where was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

23. PLEDGED BANK DEPOSITS

The Group and the Company

The amount mainly represents deposits pledged at banks to secure letters of guarantee, letters of credit, bank loans and banking facilities granted to the Group. The pledged bank deposits will be released upon the termination of the relevant instruments.

24. CASH AND CASH EQUIVALENTS

The Group

As at 31 December 2007 and 2008, all the Group's cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement represented cash at bank and other financial institutions and cash in hand.

	2008 RMB'000	2007 RMB'000
Cash and cash equivalents in the consolidated balance sheet	**588,010**	987,193
Cash and cash equivalents in the consolidated cash flow statement	**588,010**	987,193

The Company

As at 31 December 2007 and 2008, all the Company's cash and cash equivalents in the balance sheet represented cash at bank and in hand.

25. TRADE AND OTHER PAYABLES

The Group

	2008 RMB'000	2007 RMB'000
Trade payables	**429,198**	343,467
Other payables and accrued expenses	**108,821**	81,812
Advance receipts from customers	**25,835**	30,319
Amounts due to related parties *(note 35(d))*	**20,610**	20,521
	584,464	476,119

25. TRADE AND OTHER PAYABLES *(Continued)*

The Company

	2008 RMB'000	2007 RMB'000
Other payables and accrued expenses	**251**	597
Amounts due to subsidiaries *(note 35(d))*	**1,894**	6,796
	2,145	7,393

An ageing analysis of trade payables is as follows:

The Group

	2008 RMB'000	2007 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

26. BANK LOANS

(a) Current bank loans

The Group

	Note	2008 RMB'000	2007 RMB'000
Current			
– current secured bank loans		**102,500**	96,364
– non-current secured bank loans due within one year	*26(b)*	**2,286**	–
– current unsecured bank loans		**655,336**	148,982
		760,122	245,346

The current secured bank loans as at 31 December 2007 and 2008 were secured by the Group's land and buildings with a carrying amount of RMB33,606 thousand and RMB80,001 thousand, respectively. Certain secured bank loans as at 31 December 2007 and 2008 were also secured by pledged deposits at banks. The current secured bank loans as at 31 December 2008 carried interest at rates ranging from 6.03% to 6.12% (2007: 4.3% to 8.75%) per annum, and were all repayable within one year.

The current unsecured bank loans as at 31 December 2008 carried interest at rates ranging from floating interest rates of HIBOR +1.25% to HIBOR +1.5% (2007: HIBOR +1%) (effective interest rate as at 31 December 2008: 1.55% to 1.8% (2007: 4.5%)) and fixed interest rates of 5.58% to 7.47% (2007: 5.85% to 7.29%) per annum, and were all repayable within one year.

(b) Non-current secured bank loans

	Note	2008 RMB'000	2007 RMB'000
At 1 January		**–**	–
Addition during the year		**39,614**	–
Decrease during the year			
– Repayment		**(1,643)**	–
– Transfer to non-current bank loans due within one year	*26(a)*	**(2,286)**	–
At 31 December		**35,685**	–

The non-current secured loans as at 31 December 2008 were property mortgage loans repayable in monthly instalments of principal and interest throughout the respective loans' borrowing periods. The loans carried interest at rates ranging from HKD Prime Rate minus 2.8% per annum (effective interest rate as at 31 December 2008: 2.2%) to 2.7% per annum and were secured by the Group's land and buildings with a total carrying amount of RMB80,001 thousand as at 31 December 2008.

27. CONVERTIBLE BONDS

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

The principal terms of the Convertible Bonds are as follows:

(a) Optional conversion

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

(b) Redemption

– *Redemption at maturity*

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

– *Redemption at the option of the Company*

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

27. CONVERTIBLE BONDS *(Continued)*

(b) Redemption *(Continued)*

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

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

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

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

– *Redemption at the option of the Bondholders*

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

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

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

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

(Expressed in RMB unless otherwise indicated)

27. CONVERTIBLE BONDS *(Continued)*

(ii) Embedded derivatives comprise:

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

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

	31 December 2008	31 December 2007
Stock price	**HKD1.20**	HKD4.37
Exercise price	**HKD7.06**	HKD7.06
Risk-free rate	**1.05%**	3.10%
Expected life	**1,333 days**	1,698 days
Volatility	**55.77%**	46.39%

The Company's stock prices were HKD4.37 and HKD1.20 as at 31 December 2007 and 31 December 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.

27. CONVERTIBLE BONDS *(Continued)*

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

	Liability component RMB'000	Embedded financial derivatives RMB'000	Total RMB'000
Convertible bonds issued on 24 August 2007	999,925	150,075	1,150,000
Transaction costs	(25,139)	–	(25,139)
Interest charged during the period from 24 August 2007 to 31 December 2007	19,772	–	19,772
Changes in fair value during the period from 24 August 2007 to 31 December 2007	–	(18,531)	(18,531)
As at 31 December 2007 and 1 January 2008	994,558	131,544	1,126,102
Interest charged during the year	51,042	–	51,042
Purchase by the Company during the year	(365,454)	(7,168)	(372,622)
Changes in fair value during the year	–	(121,416)	(121,416)
As at 31 December 2008	680,146	2,960	683,106

No conversion of the Convertible Bonds has occurred up to 31 December 2008.

During the year ended 31 December 2008, the Company purchased, by way of market acquisition, Bonds listed on the Singapore Exchange Securities Trading Limited, with a principal amount of RMB405,000 thousand, for a total consideration of RMB353,179 thousand. The purchased Bonds have been cancelled in accordance with the terms of the Bonds.

The changes in the fair value of the embedded financial derivatives for the year ended 31 December 2008 resulted in a fair value gain of RMB121,416 thousand (from 24 August 2007 to 31 December 2007: RMB18,531 thousand), which has been recorded in other income in the income statement.

28. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 9% to 25% for the years ended 31 December 2007 and 2008 of the eligible employees' salaries.

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

Pursuant to the labour regulations of Taiwan, the Group joined a defined contribution retirement plan for its employees. The Group is required to make contributions to the retirement plan at 6% of the employees' salaries while the employees are entitled to choose whether to pay their own contributions at rates ranging from 1% to 6% of salaries.

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

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

29. SHARE-BASED PAYMENTS

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

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

(Expressed in RMB unless otherwise indicated)

29. SHARE-BASED PAYMENTS *(Continued)*

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

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

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

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

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

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

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

As at 31 December 2008, 2,450,000 share options have lapsed (2007: 450,000 share options) as 15 employees resigned prior to 31 December 2008. Except for this, no share option has been exercised, lapsed or cancelled pursuant to the above share option scheme during the year ended 31 December 2008.

30. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

The Group

	2008 RMB'000	2007 RMB'000
Provision for income tax for the year	**141,167**	135,814
Income tax paid	**(70,827)**	(48,170)
	70,340	87,644

(b) Deferred tax assets and liabilities recognised

i) *Deferred tax assets recognised:*

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the two years ended 31 December 2008 are as follows:

The Group

	Impairment of trade receivables RMB'000	Write down of inventories RMB'000	Tax losses not utilised RMB'000	Unrealised profit RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2007	2,226	2,498	1,056	19,168	–	24,948
Additions	561	2,784	797	20,063	–	24,205
Credited to consolidated income statement	(121)	–	(719)	(19,168)	–	(20,008)
Effect on deferred tax balances at 1 January resulting from a change in tax rate *(note 7(a))*	(646)	(898)	(130)	(2,984)	–	(4,658)
At 31 December 2007 and 1 January 2008	2,020	4,384	1,004	17,079	–	24,487
Additions	24	–	588	26,768	2,500	29,880
Credited to consolidated income statement	(592)	(852)	(841)	(12,126)	–	(14,411)
At 31 December 2008	1,452	3,532	751	31,721	2,500	39,956

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

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

ii) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated balance sheets and the movements during the two years ended 31 December 2008 are as follows:

The Group

	Expected profit distribution by the Group's PRC subsidiaries	Fair value adjustments in relation to business combinations	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	–	–	–	–
Arising from acquisition of subsidiaries	–	8,064	–	8,064
(Charged)/credited to consolidated income statement	–	(220)	165	(55)
At 31 December 2007 and 1 January 2008	–	7,844	165	8,009
Credited/(charged) to consolidated income statement	7,681	(655)	12	7,038
Effect on deferred tax balances at 1 January resulting from a change in tax rate *(note 7(a))*	–	–	(9)	(9)
At 31 December 2008	7,681	7,189	168	15,038

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB54,074 thousand (2007: RMB25,664 thousand) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

Pursuant to the New Tax Law in the PRC, 10% withholding tax is levied on foreign investors (5% for foreign investors who are registered in Hong Kong) in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As at 31 December 2008, deferred tax liabilities of RMB7,681 thousand (31 December 2007: nil) have been recognised 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 RMB11,522 thousand have not been recognised, as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that certain of the profits earned by the Group's PRC subsidiaries for the year from 1 January 2008 to 31 December 2008 will not be distributed in the foreseeable future.

31. CAPITAL AND RESERVES

(a) The Group

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007		12,927	1,189,784	–	(26,074)	(10,961)	73,607	232,803	1,472,086	136,474	1,608,560
Dividends to equity shareholders		–	–	–	–	–	–	(69,566)	(69,566)	–	(69,566)
Dividends to minority shareholders		–	–	–	–	–	–	–	–	(7,951)	(7,951)
Transfer between reserves		–	–	–	–	–	37,144	(37,144)	–	–	–
Equity settled share-based payment transactions		–	–	–	7,664	–	–	–	7,664	–	7,664
Exchange difference on translation into presentation currency		–	–	–	–	(42,209)	–	–	(42,209)	–	(42,209)
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	5,220	5,220
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	38,500	38,500
Profit for the year		–	–	–	–	–	–	417,523	417,523	24,630	442,153
At 31 December 2007 and 1 January 2008		12,927	1,189,784	–	(18,410)	(53,170)	110,751	543,616	1,785,498	196,873	1,982,371
Dividends to equity shareholders	*11*	–	–	–	–	–	–	(149,070)	(149,070)	–	(149,070)
Dividends to minority shareholders		–	–	–	–	–	–	–	–	(13,965)	(13,965)
Repurchase of own shares											
– par value paid		(24)	–	–	–	–	–	–	(24)	–	(24)
– premium paid		–	–	–	–	–	–	(6,212)	(6,212)	–	(6,212)
– transfer between reserves		–	–	24	–	–	–	(24)	–	–	–
Transfer between reserves		–	–	–	–	–	27,074	(27,074)	–	–	–
Equity settled share-based payment transactions	*29*	–	–	–	21,571	–	–	–	21,571	–	21,571
Exchange difference on translation into presentation currency		–	–	–	–	(16,052)	–	–	(16,052)	–	(16,052)
Acquisition of subsidiaries	*34*	–	–	–	–	–	–	–	–	9,286	9,286
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	15,950	15,950
Profit for the year		–	–	–	–	–	–	460,087	460,087	28,078	488,165
At 31December 2008		12,903	1,189,784	24	3,161	(69,222)	137,825	821,323	2,095,798	236,222	2,332,020

31. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Note	**Share capital** RMB'000	**Share premium** RMB'000	**Capital redemption reserve** RMB'000	**Capital reserve** RMB'000	**Exchange reserve** RMB'000	**Retained losses** RMB'000	**Total** RMB'000
At 1 January 2007		12,927	1,189,784	–	–	(16,951)	(338)	1,185,422
Dividends to equity shareholders		–	–	–	–	–	(69,566)	(69,566)
Equity settled share-based payment transactions		–	–	–	7,664	–	–	7,664
Profit for the year		–	–	–	–	–	50,460	50,460
Exchange difference on translation into presentation currency		–	–	–	–	(108,439)	–	(108,439)
At 31 December 2007 and 1 January 2008		12,927	1,189,784	–	7,664	(125,390)	(19,444)	1,065,541
Dividends to equity shareholders	*11*	–	–	–	–	–	(149,070)	(149,070)
Repurchase of own shares								
– par value paid		(24)	–	–	–	–	–	(24)
– premium paid		–	–	–	–	–	(6,212)	(6,212)
– transfer between reserves		–	–	24	–	–	(24)	–
Equity settled share-based payment transactions	*29*	–	–	–	21,571	–	–	21,571
Profit for the year		–	–	–	–	–	172,143	172,143
Exchange difference on translation into presentation currency		–	–	–	–	(63,385)	–	(63,385)
At 31 December 2008		12,903	1,189,784	24	29,235	(188,775)	(2,607)	1,040,564

31. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

(i) Authorised and issued share capital

	2008 Number of shares	2008 Amount HKD	2007 Number of shares	2007 Amount HKD
Authorised:				
Ordinary shares of HKD0.005 each	**4,000,000,000**	**20,000,000**	4,000,000,000	20,000,000

Issued and fully paid:

	2008 Number of shares	2008 Amount HKD	2007 Number of shares	2007 Amount HKD
At 1 January	**2,484,500,000**	**12,422,500**	1,242,250,000	12,422,500
Share split	**–**	**–**	1,242,250,000	–
Repurchase of shares *(note ii)*	**(5,500,000)**	**(27,500)**	–	–
At 31 December	**2,479,000,000**	**12,395,000**	2,484,500,000	12,422,500
		equivalent RMB'000		equivalent RMB'000
		12,903		12,927

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

31. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(ii) Purchase of own shares

During the year ended 31 December 2008, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of Shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid	Equivalent
		HKD	HKD	HKD'000	RMB'000
October 2008	300,000	1.37	1.31	403	355
November 2008	5,200,000	1.35	1.00	6,676	5,881
				7,079	6,236

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the nominal value of these shares of RMB24 thousand was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB6,212 thousand was charged to retained profits.

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by the Companies Law of the Cayman Islands.

(ii) Capital reserve

The capital reserve comprises the following:

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

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

31. CAPITAL AND RESERVES *(Continued)*

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

(iii) Exchange reserve

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

(iv) PRC statutory reserve

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

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

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

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

Statutory surplus reserve can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25% of the registered capital of the subsidiaries.

(v) Distributability of reserves

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

The aggregate amount of distributable reserves of the Company as at 31 December 2008 was RMB1,187,177 thousand (2007: RMB1,170,340 thousand).

31. CAPITAL AND RESERVES *(Continued)*

(e) Capital management

The Group's policy is to maintain investor, creditor and market confidence and to sustain future development of business.

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

The gearing ratio for the year ended 31 December 2008 is 63% (2007: 63%). The gearing ratio is calculated by dividing total interest-bearing borrowings and convertible bonds with total equity.

The Group is not subject to externally imposed capital requirements.

32. COMMITMENTS

(a) Operating lease commitments

Non-cancelable operating lease rentals are payable as follows:

	2008 **RMB'000**	2007 RMB'000
Less than one year	**88,692**	61,718
Between one and five years	**192,671**	126,895
More than five years	**91,766**	47,070
	373,129	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 rental payments disclosed above, the Group has a commitment to pay rent based on a proportion of turnover for certain leased properties. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

32. COMMITMENTS *(Continued)*

(b) Commitments of guaranteed profit

	2008 RMB'000	2007 RMB'000
Less than one year	**8,800**	8,800
Between one and five years	**15,600**	24,400
	24,400	33,200

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

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

33. CONTINGENT LIABILITIES

The Company

As at the balance sheet date, the Company has issued the guarantees of HKD383,050,000 (2007: HKD363,000,000) to banks to secure facilities granted to subsidiary companies. The facilities were utilised to the extent of HKD45,000,000 (2007: HKD10,000,000) at the balance sheet date.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. No provision was therefore made by the Company in this respect at 31 December 2007 and 31 December 2008.

34. ACQUISITION OF SUBSIDIARIES

On 22 January 2008, the Group acquired 100% equity interests in Xinjiang Century Baida for a consideration of RMB13.5 million, satisfied in cash. Xinjiang Century Baida is principally engaged in retail of watches. In the period from 22 January 2008 to 31 December 2008, Xinjiang Century Baida contributed a profit of RMB1,323 thousand to the Group.

On 27 February 2008, the Group acquired 80% equity interest in Shenzhen Ruishida for a consideration of RMB11.3 million, satisfied in cash. Shenzhen Ruishida is principally engaged in retail of watches. In the period from 27 February 2008 to 31 December 2008, Shenzhen Ruishida contributed a loss of RMB2,333 thousand to the Group.

On 28 April 2008, the Group acquired Wuxi Zhongbai Watch & Haberdashery Co., Ltd. ("Wuxi Zhongbai")'s business via establishing a joint venture, Wuxi Xinyu, in which the Group holds 80% interest for a consideration of RMB36.8 million, satisfied in cash. After obtaining Wuxi Zhongbai's business, Wuxi Xinyu is principally engaged in retail of watches. In the period from 28 April 2008 to 31 December 2008, Wuxi Xinyu contributed a profit of RMB1,325 thousand to the Group.

If the above acquisitions had occurred on 1 January 2008, management estimates that consolidated revenue would have been RMB5,537,348 thousand and consolidated profit for the period would have been RMB490,623 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the dates of acquisition occurred on 1 January 2008.

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

Effect of acquisition

	Pre-acquisition carrying amounts					
	Acquisition of 100% interests of Xinjiang Century Baida in 2008	Acquisition of 80% equity interests of Shenzhen Ruishida in 2008	Acquisition of 80% equity interests of Wuxi Zhongbai in 2008	Subtotal	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	896	28	1	925	–	925
Inventories	13,819	9,592	16,675	40,086	–	40,086
Trade receivables, prepayments and other receivables	2,508	3,950	–	6,458	–	6,458
Cash and cash equivalents	1,211	6,452	36,000	43,663	–	43,663
Trade and other payables	(9,180)	(9,592)	(16,676)	(35,448)	–	(35,448)
Net identifiable assets and liabilities	9,254	10,430	36,000	55,684	–	55,684
Minority interests	–	(2,086)	(7,200)	(9,286)	–	(9,286)
Goodwill – Shenzhen Ruishida						2,956
Wuxi Xinyu						8,000
Xinjiang Century Baida						4,246
Consideration paid, satisfied in cash						61,600
Cash acquired						(43,663)
Net cash outflow						17,937

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their fair values (see note 1(h) and 1(i) for methods used in determining fair values), which approximate to their pre-acquisition carrying amounts, according to valuation reports issued by Jones Lang LaSalle Sallmanns, an independent valuer.

35. RELATED PARTY TRANSACTIONS

The Group has transactions with companies controlled by the ultimate shareholders ("Ultimate shareholders' companies"), minority shareholders of subsidiaries ("Minority shareholders") and a jointly controlled entity. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the two years ended 31 December 2008.

(a) Recurring transactions

	2008	2007
	RMB'000	RMB'000
Lease expenses to:		
Minority shareholders	**900**	1,800
Ultimate shareholder's company	**712**	1,922
Guaranteed profit to:		
Minority shareholders	**8,800**	8,800
Sales of goods to:		
Jointly controlled entity	**16,071**	10,015

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

(b) Non-recurring transactions

	2008	2007
	RMB'000	RMB'000
Purchase of property from:		
Ultimate shareholder's company	**47,578**	–

(c) Trade and other receivables due from:

The Company

	2008	2007
	RMB'000	RMB'000
Subsidiaries	**1,141,300**	978,667

35. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Trade and other payables due to:

The Group

	2008 RMB'000	2007 RMB'000
Minority shareholders	**20,610**	20,521

The Company

	2008 RMB'000	2007 RMB'000
Subsidiaries	**1,894**	6,796

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

	2008 RMB'000	2007 RMB'000
Short-term employee benefits	**37,024**	10,451
Post-employment benefits	**210**	185
	37,234	10,636

36. FINANCIAL INSTRUMENTS

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

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

The Group has no derivative instruments that are designated and qualified as hedging instruments during the two years ended 31 December 2008. Exposure to credit, liquidity, interest rate, and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

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

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

(b) Liquidity risk

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

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

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

31 December 2008	Carrying amount RMB'000	Undiscounted contractual cash flow RMB'000	Within 1 year or on demand RMB'000	Within 2 years but over 1 year RMB'000	Within 5 years but over 2 years RMB'000	Over 5 years RMB'000
Trade and other payables excluding advance receipts from customers	558,629	(558,629)	(558,629)	–	–	–
Secured interest-bearing loans	140,471	(154,238)	(107,923)	(3,247)	(9,740)	(33,328)
Unsecured interest-bearing loans	655,336	(680,619)	(680,619)	–	–	–
Convertible bonds	680,146	(848,775)	–	(848,775)	–	–
	2,034,582	(2,242,261)	(1,347,171)	(852,022)	(9,740)	(33,328)

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

36. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

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

Cash and cash equivalents comprise mainly cash at bank, with fixed interest rates ranging from 0.36% to 0.96% per annum as at 31 December 2008 (2007: ranging from 0.72% to 5.15% per annum). Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for borrowing facilities granted to the Group.

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

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

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

	2008		2007	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Cash at bank	**0.36%-0.96%**	**588,010**	3.0%	987,193
Pledged bank deposit	**0.05%-5.15%**	**96,497**	3.1%	83,470
Secured interest-bearing loans	**6.03%-6.12%**	**(102,500)**	6.97%	(87,000)
Unsecured interest-bearing loans	**5.58%-7.47%**	**(615,651)**	6.57%	(148,982)
Convertible bonds	**5.46%**	**(680,146)**	5.46%	(994,558)
		(713,790)		(159,877)
Variable rate instruments				
Secured interest-bearing loans	**2.2%-2.7%**	**(37,971)**	4.3%	(9,364)
Unsecured interest-bearing loans	**1.55%-2.5%**	**(39,685)**	–	–
		(77,656)		(9,364)

36. FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk

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

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

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

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

(i) Exposure to currency risk

	As at 31 December 2008			
	RMB	**USD**	**EUR**	**HKD**
	'000	**'000**	**'000**	**'000**
Cash and cash equivalents	**–**	**193**	**–**	**4,280**
Trade and other payables	**–**	**–**	**–**	**(300,000)**
Convertible Bonds	**(680,146)**	**–**	**–**	**–**
Overall net exposure	**(680,146)**	**193**	**–**	**(295,720)**

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

36. FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk *(Continued)*

(i) Exposure to currency risk (Continued)

The following significant exchange rates applied during the year:

	Average rates		Reporting date spot rate	
	2008	2007	**2008**	2007
RMB: HKD	**1.1009**	1.0316	**1.1339**	1.0679
USD: RMB	**7.0969**	7.5567	**6.8346**	7.3046
EUR: RMB	**10.1630**	10.4667	**9.6590**	10.6669

(ii) Sensitivity analysis

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

	2008 RMB'000	2007 RMB'000
HKD		
– 5% strengthening of RMB	**(20,967)**	(57,119)
– 5% weakening of RMB	**20,967**	57,119
USD		
– 5% strengthening of RMB	**(66)**	(25,225)
– 5% weakening of RMB	**66**	25,225
EUR		
– 5% strengthening of RMB	**–**	(533)
– 5% weakening of RMB	**–**	533

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

36. FINANCIAL INSTRUMENTS *(Continued)*

(e) Equity price risk

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

(f) Fair value

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

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

(i) *Cash and cash equivalents, pledged bank deposits, trade receivables, prepayments and other receivables and trade and other payables*

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

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

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

(iii) *Convertible bonds*

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

37. NON-ADJUSTING POST BALANCE SHEET EVENTS

On 23 January 2009, the Company 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 RMB76 million. The purchased Bonds will be cancelled in accordance with the terms of the Bonds.

In January 2009, the Company repurchased and cancelled 2,316,000 ordinary shares on the Stock Exchange. After taking the cancellation of the mentioned shares into account, the total number of ordinary shares was 2,476,684,000 as at 14 January 2009.

After the balance sheet date, the directors proposed a final dividend of RMB 0.056 per ordinary share on 25 March 2009. Further details are disclosed in note 11.

38. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2008 to be Best Growth International Limited, which is incorporated in British Virgin Islands.

39. ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 16, 17, 27, 29 and 36 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment, convertible bonds, share-based payments and financial instruments. Other judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed below.

(a) Impairment of receivables

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

(b) Depreciation

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

(c) Net realisable value of inventories

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

(Expressed in RMB unless otherwise indicated)

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

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

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

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

	Effective date (for annual financial statements covering periods beginning on or after unless specified)
HK(IFRIC) 13, *Customer loyalty programmes*	1 July 2008
HK (IFRIC) 16, *Hedges of a net investment in a foreign operation*	1 October 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

(Expressed in RMB unless otherwise indicated)

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2008 *(Continued)*

Amendments to HKFRS 2, *Share-based payment – Vesting conditions and cancellations*	1 January 2009
Amendments to HKAS 32, *Financial instruments: Presentation and HKAS 1, Presentation of financial Statements – Puttable financial instruments and obligations arising on liquidation*	1 January 2009
Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards, and HKAS 27, Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly-controlled entity or associate*	1 January 2009
Improvement to HKFRSs	1 January 2009 or 1 July 2009
HK(IFRIC) 15, *Agreements for the construction of real estate*	1 January 2009
Revised HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*	1 July 2009
Revised HKFRS 3, *Business combinations*	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Revised HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1 January 2009
HK(IFRIC) 17, *Distributions of non-cash assets to owners*	1 July 2009
HK(IFRIC) 18, *Transfers of assets from customers*	Effective for transfers of assets from customers received on or after 1 July 2009

Financial Summary

RESULTS	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Sales	1,518,582	1,396,531	2,404,699	4,578,741	**5,516,496**
Profit from operations	175,723	216,852	314,786	611,339	**747,211**
Net finance cost	(16,959)	(20,002)	(20,877)	(59,927)	**(125,909)**
Share of (losses)/profits of a jointly controlled entity	–	(187)	(80)	276	**(2,318)**
Profit before tax	158,764	196,663	293,829	551,688	**618,984**
Income tax	(52,881)	(64,886)	(80,231)	(109,535)	**(130,819)**
Profit for the year	105,883	131,777	213,598	442,153	**488,165**
Attributable to:					
Equity shareholders of the Company	97,545	121,011	199,101	417,523	**460,087**
Minority interests	8,338	10,766	14,497	24,630	**28,078**
Profit for the year	105,883	131,777	213,598	442,153	**488,165**
Basic earnings per share	RMB0.065	RMB0.073	RMB0.090	RMB0.168	**RMB0.185**

ASSETS AND LIABILITIES	At 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	864,329	1,343,504	2,463,626	3,925,591	**4,480,775**
Total liabilities	500,248	549,353	855,066	1,943,220	**2,148,755**
Net assets	364,081	794,151	1,608,560	1,982,371	**2,332,020**
Equity attributable to equity shareholders of the Company	285,508	694,640	1,472,086	1,785,498	**2,095,798**
Minority interests	78,573	99,511	136,474	196,873	**236,222**
Total shareholders' equity	364,081	794,151	1,608,560	1,982,371	**2,322,020**

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 Xueling

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

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COMPANY'S LEGAL ADVISER

As to Hong Kong Law
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