



**XINYU  
HENGDELI**  
新宇亨得利

Interim Report 2 0 0 9



**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)



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## FINANCIAL HIGHLIGHTS

Results	Six months ended 30 June		
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	Change (%)
Sales	<b>2,694,978</b>	2,725,609	-1.12
Profit for the period	<b>225,555</b>	253,709	-11.10
Attributable to equity shareholders	<b>212,198</b>	237,605	-10.69
Basic earnings per share	<b>0.086</b>	0.096	-10.42
Profit after taxation (excluding the effect of convertible bonds and profit/loss from currency exchange)	<b>247,033</b>	228,517	+8.10

## CHAIRMAN'S STATEMENT

Dear Shareholders,

The high-end consumables retail sector was encountering some obstacles and challenges against the backdrop of global financial crisis as well as the weakening macro economy in the first half of 2009. However, Xinyu Hengdeli Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group"), with its own unique strengths, deployed a proactive and positive approach to carry out a series of adjustment and consolidation initiatives for its businesses in line with market changes by focusing on retail business development in Mainland China and Hong Kong while ensuring a sound financial status, thus enabling the Group to accomplish the plans devised in the beginning of the year against the weakening market trend, achieve a steady growth in its business performance and effectively safeguard the interests of its shareholders.



For the six months ended 30 June 2009, the Group recorded sales of RMB2,694,978,000 representing an decrease of 1.12% from the corresponding period last year. Of these sales, retail sales in the Mainland of China and Hong Kong amounted to RMB1,270,355,000 and RMB681,940,000 respectively, representing a growth of 6.75% and 0.23% from the corresponding period last year respectively. Excluding the effect of the convertible bonds and the profit/loss from currency exchange, the Group's profit after taxation amounted to RMB247,033,000, representing a growth of 8.1% from the corresponding period last year.



It is always the Group's business development strategy to persistently strengthen and consolidate the build-up of the retail network. During the period under review, guided by the principles of "adjust and strengthen operation for healthy and steady development" and in line with market changes, the Group achieved satisfactory results in expanding the retail network in a steady yet proactive approach, optimizing inventory composition significantly and enhancing the quality of retail outlets substantially. As at 30 June, the number of our retail outlets had increased from 190 in the corresponding period last year to 216. Despite the unfavourable macro economic situation, sales still recorded a growth comparing to the corresponding period last year.

Steady development was made in our customer services, an ancillary segment of our retail business. In light of greater challenges, the Group placed more emphasis on after-sales services by further upgrading the quality of information based on its excellent management and information system established over the years, and by persistently strengthening retail and after-sales services as well as the interaction strategy for after-sales services in the Greater China region, receiving praise from both customers and brand suppliers. The production operations of the Group's ancillary business have developed smoothly as well, offering support to the Group's principal business.

During the period under review, the Group continued to carry out its ongoing strategy for the development of its own brands by having devised a strategy for the development of brands such as OMAS and OLMA. The build-up of its own brands is believed to bring about excellent opportunity for the Group's sustainable development.

The Group always maintains sound working relationship with brand suppliers and numerous retailers. During the period under review, with their support, the Group carried out some adjustment initiatives for the distribution portfolio in order to optimize brand structure constantly, and was once again granted by SWATCH Group the exclusive distribution rights to its brand Mido in Mainland China. This move has not only strengthened the Group's relationship with the brand supplier but also helped improve the Group's financial performance.

To maintain a steady and fast economic development is the top priority in China's economic program in 2009. Ongoing enhancement of consumption demand to achieve more sustainable economic growth remains to be one of the Chinese Government's development strategies. With improving global economy, especially in China, the Group believes that China will remain one of the most promising markets with greatest potential, and maintains a discreetly positive outlook for the Chinese middle-to-high-end consumables market in the second half of the year. Under this situation, the Group will develop the retail business in a positive and proactive approach while ensuring a sound financial status. Supplemented by other segments such as customer services and brand distribution, the Group will continue to persistently strengthen and consolidate its leading position in terms of the sales of middle-to-high-end internationally renowned brands in the Greater China region with a core presence in Mainland China, and to generate more satisfactory returns for our shareholders and the society.

By order of the Board

**Zhang Yuping**

*Chairman*

12 August 2009, Hong Kong

## MANAGEMENT DISCUSSION AND ANALYSIS

The high-end consumables retail sector was encountering some obstacles and challenges against the backdrop of global financial crisis and weakening macro economy in the first half of 2009. Relevant data from the Federation of the Swiss Watch Industry suggest that the export sales of Swiss watches from January to May 2009 fell by approximately 25% over the corresponding period last year. In spite of this, the Group, taking full advantage of itself, took a proactive and positive approach to carry out a series of adjustment and consolidation initiatives in line with changes in the market, steadily focusing on the retail business development in Mainland China and Hong Kong, and achieved a steady business growth against the weakening market trend. For the six months ended 30 June 2009, retail sales in Mainland China and Hong Kong grew by 6.75% and 0.23% from the corresponding period last year respectively. Excluding the effect of the convertible bonds and the profit/loss from currency exchange, the profit after taxation rose by 8.10%, generating substantial returns for its shareholders.

### I. Financial Review

#### *Sales*

For the six months ended 30 June 2009, the Group recorded sales of RMB2,694,978,000, representing a decrease of 1.12% from the corresponding period last year. The Group's total retail sales achieved better growth, of which retail sales in Mainland China and Hong Kong amounted to RMB1,270,355,000 and RMB681,940,000, representing a growth of 6.75% and 0.23% over the corresponding period last year respectively. The overall retail sales accounted for 72.4% of the total sales, which was in line with the direction of the Group's strategic development.

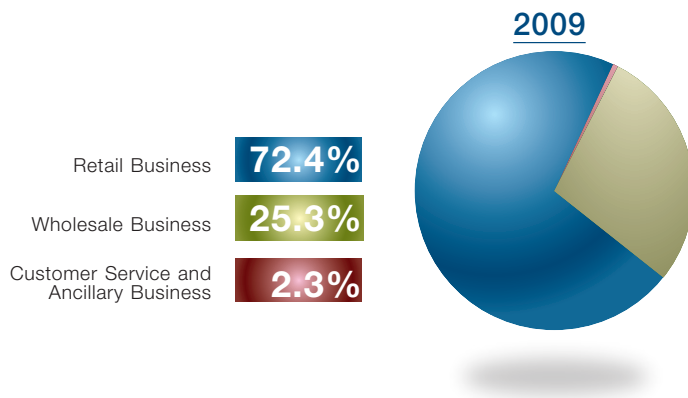


Against the backdrop of a severe economic crisis, the Group's overall sales remained at the same level against the corresponding period while retail business maintained a steady growth. Apart from the relatively stable Chinese economy, it is mainly attributed to the highly defensive nature of the Group's integrated retail network in Mainland China and Hong Kong as well as the rational combination of retail outlets in Chinese second and third tier cities and coastal first-tier developed cities, which has substantially mitigated the impact of the global financial crisis on the sales. In addition, through proactive negotiations and communications with upstream brand suppliers and in line with the actual market situation, the Group has promptly, reasonably and consistently adjusted the structure of brand portfolio, strengthened operations management and enhanced the service quality so as to ensure a steady growth in the business.

Sales breakdown (for the six months ended 30 June)

	2009		2008	
	RMB'000	%	RMB'000	%
Retail Business				
(Mainland China)	<b>1,270,355</b>	<b>47.1</b>	1,190,054	43.7
(Hong Kong)	<b>681,940</b>	<b>25.3</b>	680,372	25.0
Wholesale Business	<b>680,687</b>	<b>25.3</b>	787,369	28.9
Customer Services and Ancillary Business	<b>61,996</b>	<b>2.3</b>	67,814	2.4
Total	<b>2,694,978</b>	<b>100</b>	2,725,609	100





#### *Gross profit and gross profit margin*

For the six months ended 30 June 2009, the Group's gross profit was approximately RMB663,710,000, whereas our gross profit margin grew 0.8% over the corresponding period last year to approximately 24.6%. The growth was mainly attributable to the economies of scale achieved as a result of the proactive expansion of the retail business with a higher profit margin during the period, ceased some of the wholesale businesses with lower profit margin, as well as the disciplined pricing policies and the ongoing improvement of the retail management in Hong Kong and Mainland China.

#### *Profit for the period and profit margin*

During the period under review, excluding the effect of the convertible bonds and the profit/loss from currency exchange, the Group recorded a substantial growth of approximately RMB247,033,000 in profit after taxation, an increase of 8.1% from the corresponding period last year. The profit margin was approximately 9.2% accordingly. The increase was mainly attributable to the Group's effective and steady improvement of operational management efficiency as well as rational control and reduction of expense ratio. The Group's net profit after taxation amounted to RMB225,555,000, a decrease of 11.1% from the corresponding period last year, which was mainly attributable to the effect of profit/loss from relevant non-recurring items (including, among others, the effect of profit/loss from currency exchange and the convertible bonds).

#### *Financial status and net debt to equity ratio*

The Group maintained a sound and stable financial position.

As at 30 June 2009, the Group's total equity interests were RMB2,173,214,000 and current net asset value was RMB2,366,028,000, of which bank deposits amounted to RMB683,383,000. In addition, the bank loans totalled RMB977,621,000 and net debt to equity ratio was 14.9% (defined as the total bank loans net of cash and cash equivalents over total equity interests).

During the period under review, the Company redeemed RMB76 million USD Settled Zero Coupon Convertible Bonds due 2012 issued in August 2007, and the remaining net bonds amounted to approximately RMB669 million. Taking into account of such net convertible bonds, together with bank loans, the Group's total liabilities amounted to RMB1,619,052,000. As at 30 June 2009, the net debt to equity ratio of the Group, including convertible bonds, was approximately 44.3%, down 13.6% from the corresponding period last year. The directors of the Company believe that such net debt to equity ratio is within a reasonable range, and anticipate that the net debt ratio will improve further in the second half of the year.

#### *Foreign exchange risk*

The Group's transactions are mainly denominated in RMB and HKD. During the period under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to any significant risks associated with foreign exchange fluctuations.

The Group has been monitoring its foreign exchange risk with great attention.

#### *Contingent liabilities*

As at 30 June 2009, the Group did not have any material contingent liabilities.

#### *Current assets*

During the period under review, the current assets of the Group amounted to approximately RMB3,649,547,000, comprising inventories of approximately RMB2,381,140,000, trade and other receivables of approximately RMB585,024,000 and cash and cash equivalent of approximately RMB654,383,000.

#### *Current liabilities*

During the period under review, the current liabilities of the Group amounted to approximately RMB1,283,519,000, comprising bank loans of approximately RMB793,147,000, trade and other payables of approximately RMB462,041,000, and current tax payable of approximately RMB28,331,000.

*Significant investment, acquisition and disposal*

There was no significant acquisition or disposal of subsidiaries and associated companies nor was there any significant investment held by the Company during the period under review.

*Operating cash flow*

During the period under review, based on its prudent business objective for a sound and stable operation and a market-oriented approach and having assessed the situation, the Group kept under control the speed of expansion of its retail outlets, focused on improving the composition and turnover of inventory and substantially reduced the Company's demand for working capital. Then moving on from the significant improvement in operating cash flow since the second half of 2008, the Group recorded a surplus in operating cash flow, enabling it to mitigate its reliance upon external financing and improve its capability to generate its own cash, therefore laying a solid foundation for the Company's next expansion program.

*Capital structure*

The Company's capital structure is composed of issued share capital, convertible bonds, reserve and accumulated profits. As at 30 June 2009, the issued share capital of the Company was 2,476,684,000 shares and the principal amount of the issued convertible bonds was RMB669,000,000. These convertible bonds are due in 2012 and are non-interest bearing.

The Company completed the issue of 236,000,000 new shares on 3 July 2009. Accordingly, at the time of the publication of this interim results announcement, the Company's paid-up share capital was 2,712,684,000 shares. Net proceeds amounting to HK\$602 million were raised from this new share issue.

## II. Business Review

During the period under review, the Group's business remained focused on the build-up of the retail network in the Greater China region with a core presence in Mainland China. It is also supplemented with the provision of a comprehensive customer services, manufacture of extension products, research and development of its own brands and brand distribution, etc.



### *Expansion and Enhancement of Retail Network*

Adhering to its business development strategy, the Group continuously strengthens the build-up of its retail network. During the period under review, guided by the principles of “adjust and strengthen operations for healthy and steady development” and in line with changes in the market, the Group expanded the retail network in a steady yet proactive approach. With tremendous support from brand suppliers, the Group modified the inventory structure to improve sales under the prevailing market conditions so that a steady business growth was achieved. Accounting for 72.4% of the Group’s total sales, the retail sales amounted to RMB1,952,295,000, representing an increase of 4.4% over the corresponding period last year. Gross profit of retail business was RMB561,619,000, an increase of 4.0% from the corresponding period last year, accounting for 84.6% of the Group’s total gross profit.

The Group has been maintaining sound working relationship with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT, ROLEX Group and DKSH Group. For the six months ended 30 June 2009, the Group has distributed approximately 50 internationally renowned brands from the five major brand suppliers, including Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Frank Muller, Glashutte, Rolex, Omega, Maurice Lacroix and Tissot. In addition, after adjustment was made, efforts were stepped up to bring in and expand middle-to-high-end brands including Balmain, Frederique Constant, Mido and Olma. Sales of brands were adjusted according to the market changes. This helped diversify and improve the sales portfolio of the Group’s brands, which would be favorable to the long-term business development and ongoing enhancement of overall results.



Our retail network spans across the Greater China region where retail stores are mainly Elegant, Prime Time, TEMPTATION and single-brand boutiques. Elegant mainly sells top grade internationally renowned brand watches; Prime Time mainly sells middle-to-high-end internationally renowned brand watches, and TEMPTATION mainly sells middle-to-high-end internationally fashionable watches. Six new retail outlets were opened during the period under review. As at 30 June 2009, the Group operated a total of 216 retail outlets in Mainland China, Hong Kong and Taiwan, an increase of 26 outlets over the corresponding period last year. Of these stores, 13 were Elegant shops (3 in Hong Kong and 10 in Mainland China), 145 were Prime Time shops (all located in Mainland China), 18 were TEMPTATION shops (all located in Mainland China) and 40 were brand boutiques (31 in Mainland China, 7 in Hong Kong and 2 in Taiwan).



Mainland China

#### **Footprint of retail network**

The Group operates a total of 204 retail outlets in Mainland China. During the period under review, the Group committed tremendous efforts to improving the re-positioning and sale of middle-to-high-end brands, and continued to consolidate and expand its retail network in the second and third

tier cities. The Group had a comprehensive distribution network of watch retail outlets covering most of the provinces and cities in Mainland China, with a multiple-point footprint in major areas such as Shanghai, Beijing, Northeast, Zhejiang, Jiangsu, Henan and Shanxi, thus consolidating its control of market share.

#### **Positioning of retail outlets**

As the consumption demand for high-end watches remains low in Mainland China, and in order to complement the Group's high-end watch retail business in Hong Kong, more than 75% of the Group's retail outlets in Mainland China are Prime Time shops, which are positioned to sell middle-to-high-end watches. During the period under review, Prime Time contributed nearly 80% of the Group's total retail sales in Mainland China. It will remain the Group's leading retail brand in Mainland China in the foreseeable future.

Engaging in the sale of high-end watches by the Group, Elegant shop has a relatively small coverage in Mainland China. As at 30 June 2009, there were 10 Elegant shops mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang.

### Age of outlet portfolio

As the retail business of middle-to-high-end watches is affected, to a great extent, by the flow of people in the business districts where retail outlet are located, as well as by the period of establishment and local consumption level, these outlets will take more time to foster as compared with other retail outlets that sell general consumables. A watch retail outlet usually takes more than three years to reach maturity. The Group's portfolio comprising 204 retail outlets in Mainland China is still relatively young, 70% of sales are contributed by well-established stores (usually the sales per square meter of a mature outlet is two to three times higher than that of a young store with the same area). These well-established outlets have been opened for more than three years and account for 30% of the total number of retail outlets. The remaining young outlets with an average age of one to two years account for more than 70% of the entire portfolio, and therefore the Group's retail business possesses huge potential for organic growth.



### Hong Kong and Taiwan

As at 30 June 2009, the Group operated a total of 10 retail outlets in Hong Kong, of which 3 are Elegant shops that sell multiple brands and 7 are single-brand boutiques. These stores are mainly located in the business districts near Tsimshatsui and Causeway Bay. The Group plans to launch new outlets in other major business districts in the second half of the year.



Elegant under the Group has a long history in Hong Kong's watch retail industry. Elegant at Ocean Terminal, a flagship shop opened in 1970, has an area of approximately 170 square meters and has held the highest sales record up to the present as a single shop. The broad, profound and loyal clientele has helped the

Group's retail business in Hong Kong weather against the impact of the financial crisis smoothly.

The Group's retail business in Hong Kong is principally positioned to sell brands with a unit price of more than HK\$30,000. These brands include Vacheron Constantin, Cartier, Jaeger – LeCoultre, Omega, Breguet, Chopard, Panerai, Zenith, IWC and Frank Muller. They fully complement our retail business in Mainland China, creating tremendous synergy.

The Group has opened two brand boutiques including Omega in Taiwan. They have not only built up a corporate identity for the Group in Taiwan but are also a pioneer of the Group in establishing an interactive business platform in the Greater China region, helping lay a sound foundation for the development of the Group's international business.



#### *Customer Services and Maintenance*

The Group is always dedicated to the provision of premium customer services. Apart from the establishment of three major service centers in Beijing, Shanghai and Guangzhou, the Group provides timely maintenance services in each retail outlet, delivering all-round services to customers through an interactive customer service network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points". In addition, a service hotline 4008 has been set up for customers as the Group's centralized service window for the general public, offering customers timely and fast advice and the best assurance.



During the period under review, a CSMS management system for customer services was introduced to the Group in addition to the existing state-of-the-art information system. The system is able to track watch repair cycles promptly, provide timely financial information on the use of finished parts, generate a complete set of data on repairs within the entire network, effectively replace the conventional manual handling of

repair records and facilitate brand suppliers to timely track the quality of watches so that improvement can be made.

During the period under review, the Group additionally acquired the exclusive watch maintenance rights in Mainland China from two world's renowned brands namely Charril and Breitling. Our customer services have been widely recognised and tremendously supported by brand suppliers, and a number of our senior maintenance technicians have been certified by brand suppliers.

#### *Ancillary extension products*

During the period under review, Guangzhou Artdeco, an ancillary production company of the Group, faced with severe challenges as a result of the adverse impact of the global financial crisis on the economy. However, the Group continued to strengthen its internal management, exercised stringent control over production costs and stepped up its product research and development capabilities consistently while maintaining the quality of products, so as to enhance the Company's competitiveness in the market. Sales revenue remained at the same level as compared with the corresponding period last year, while operating profit was rising.



Guangzhou Artdeco has established a long-term partnership with many internationally renowned brand suppliers. In addition to existing business with brands such as Omega, Rolex, Tudor, Rado, Longines, Tissot and Ernest Borel. During the period under review, Artdeco once again partnered with Mido, Certina and Fendi. Its high quality products and precise delivery schedules were widely acclaimed by customers. This has provided a strong support for the steady development of the Group's principal businesses including the retail business.

#### *Self-own brands and brand distribution*

To persistently strengthen the build-up of its own brands is the Group's ongoing strategy.

### **OMAS**

Having significantly restructured and re-positioned its own brand OMAS in terms of its brand features and marketing strategies, the Group accelerated the expansion pace of its retail network in China during the period under review, and further carried out systematic planning for new shop distribution in line with its business features. As at 30 June 2009, OMAS opened 23 shops in China, namely in Beijing, Nanjing, Wuxi, Zhengzhou, Hangzhou and Suzhou. Sales of these shops are growing gradually.



The Group also owns renowned Swiss watch brands including NIVADA, OLMA and NUMA JEANNIN. New development strategies have been devised based on the brand features of OLMA and NIVADA.



The Group believes the build-up of its own brands can establish a sound foundation for its sustainable development.

#### **Brand distribution**

The Group has more than 300 wholesale customers in over 40 cities throughout the Mainland of China. It distributes and exclusively distributes numerous world's renowned brand watches, including Jaeger-LeCoultre, TAG Heuer, Zenith, Carl F. Bucherer, Maurice Lacroix, Tissot and Frederique Constant. During the period under review, the Group once again worked together with SWATCH Group to become the exclusive distributor of Mido in Mainland China, a brand owned by SWATCH Group.

The Group has always been maintaining good partnership with brand suppliers and numerous retailers and, with their extensive and tremendous support, achieved a harmonious win-win situation.

### **III. HUMAN RESOURCES AND TRAINING**

As at 30 June 2009, the Group employed a total of 3,972 employees in Mainland China, Hong Kong and Taiwan.

The Group is always serious about discovering and building human resources. We employ a systematic recruitment policy and commit resources to various training programs for the management staff, front-line service staff and maintenance technicians. These training programs cover the art of management, sales skills, brand knowledge and service awareness, etc., so as to enhance staff's knowhow, marketing skills and service capability. The Group also works with the brand suppliers on the provision of regular training to front-line service staff and maintenance technicians in brand knowledge and maintenance know-how.

The Group offers a competitive remuneration package and various incentives, and regularly reviews the structure of relevant mechanisms to cope with the needs for corporate development. The Group had granted options to the general management staff and associates of the Company in recognition of their contributions to the Group and as an incentive for their greater future commitment. The Group also offers various benefits to the employees, including a pension contribution plan, an insurance scheme, housing and meal allowances, etc. Details of the remuneration package and other benefits are set out in the financial statements.

Under a sound human resources protection policy, the Group has had a number of senior sales staff members and senior repair technicians. A number of staff members have received the “Capital Labour Medal” (首都勞動獎章) and the “May 1st Labour Medal” (全國五一勞動獎章).

#### IV. FUTURE DEVELOPMENT

To maintain a steady and fast economic development is the top priority in China's economic program in 2009. Ongoing enhancement of consumption demand to achieve more sustainable economic growth remains to be one of the Chinese Government's development strategies to boost consumption. As the global economy, especially the Chinese economic situation, is improving, we believe that China will remain to be one of the markets with the greatest growth potential. We remain discretely optimistic for the middle-to-high-end consumables market in China in the second half of the year. We have full confidence in the Group's development.

With international brand name watches forming the basis, the distribution of a portfolio comprising middle-to-high-end consumables, such as watches, jewels, leather goods and writing instruments, remains to be our future development direction.

To timely adjust the expansion pace of the retail network based on market demand remains to be our core development strategy. The consumption market condition is anticipated to be improving in the second half of the year. Having consolidated market share in first-tier cities, we will continue with our strategy deployed in the first half of the year by accelerating the market expansion in second- and third-tier cities that

cover medium-sized cities in the eastern region as well as provincial capitals in the central, southern and western regions. We will continue to regard China as our home base, and further expand the retail network in the Greater China region by launching new stores in Hong Kong and Taiwan. The Company raised net proceeds amounting to HK\$602 million from the issue of 236,000,000 new shares on 3 July. These proceeds will be mainly used for expanding our retail network by means of acquisition and merger as well as opening of retail stores by ourselves, as well as for working capital. Our business is believed to further improve as a result.

As our retail network grows, we will also timely finetune our three retail network systems, namely Elegant, Prime Time and TEMPTATION, continue to optimize the positions of retail outlet and the setup of single-brand boutiques so as to improve our retail management and make the configuration of our network system more capable to cater for market needs.

Meanwhile, more quality brand watches will be introduced to optimize our brand portfolio, and we aim to build a closer partnership with brand suppliers. We will also continue to improve and strengthen our customer services system and proactively develop the watch related ancillary business.

Looking into the future, under a sound financial policy, we will develop the retail business in a positive and proactive approach, supplemented by other business segments such as customer services and brand distribution, and continue to increase our market share and strengthen and consolidate our leading position in the middle-to-high-end watch sector in the Greater China region. We will fully capitalize on business opportunities and aim to achieve steady and sustainable profit growth so as to generate more satisfactory returns for our shareholders and general investors.

## REPORT OF THE DIRECTORS

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

As at 30 June 2009, 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 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:

<b>Name of Directors</b>	<b>Nature of Interests</b>	<b>Number of Shares</b>	<b>Approximate Percentage</b>
Mr Zhang Yuping	Controlled Corporation & Personal ( <i>Note 1</i> )	1,129,560,000(L)	45.61%
Mr Song Jianwen	Controlled Corporation ( <i>Note 2</i> )	18,052,000(L)	0.73%
Mr Chen Sheng	Personal ( <i>Note 3</i> )	17,800,000(L)	0.72%
Mr Huang Yonghua	Personal ( <i>Note 4</i> )	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"). During the period under review, Best Growth offered 236 million shares of the Company to investors by means of placing on 25 June 2009, accordingly, as of 30 June 2009, that company held 1,111,216,000 shares of the Company; Mr Zhang Yuping held 18,344,000 shares of the Company under his name, accordingly, Mr Zhang Yuping holds 1,129,560,000 shares of the Company in aggregate. On 3 July, the Company issued 236 million new shares to Best Growth, the number of shares of the Company held by Mr Zhang Yuping resumed back to the original 1,365,560,000 shares in aggregate, representing 50.34% of the issued share capital of the Company.
- Note 2:* Mr Song Jianwen owned the entire share capital of Artnew Developments Limited, which in turn owned 0.73% of the issued share capital of the Company.
- Note 3:* Mr Chen Sheng purchased 17,800,000 shares of the Company on the Stock Exchange by way of acquisition from the market.
- Note 4:* 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 30 June 2009, the interests or short positions of the persons, other than a Director of the Company, in the shares, underlying shares and debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Approximate Percentage</b>
Best Growth ( <i>Note 1</i> )	1,111,216,000(L)	44.87%
Mr Zhang Yuping ( <i>Note 1</i> )	1,129,560,000(L)	45.61%
The Swatch Group Hong Kong Limited ( <i>Note 2</i> )	201,000,000(L)	8.11%
The Swatch Group Limited ( <i>Note 2</i> )	201,000,000(L)	8.11%
Hayek Nicolas Georges ( <i>Note 2</i> )	201,000,000(L)	8.11%

Name of Shareholder	Number of Shares	Approximate Percentage
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%
Atlantis Investment Management Ltd (Note 4)	142,000,000(L)	5.73%
JP Morgan Chase & Co. (Note 5)	134,932,000(L)	5.45%
	114,332,000(P)	4.63%

The letter “L” denotes the person’s long positions in the Shares.

The letter “P” denotes shares held by the persons which are authorised to lend.

*Note 1:* Best Growth was 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%
Ms Zhang Yuwen (younger brother of Mr Zhang)	2.4%
Ms Zhang Huiling (younger sister of Mr Zhang)	5.2%

Mr Zhang Yuping owned 77.7% of the issued share capital of Best Growth. During the period under review, Best Growth offered 236 million shares of the Company that it held to investors on 25 June, accordingly, as of 30 June 2009 that company held 1,111,216,000 shares of the Company; Mr Zhang Yuping held 18,344,000 shares of the Company under his name, accordingly, Mr Zhang Yuping holds 1,129,560,000 shares of the Company in aggregate. On 3 July, the Company issued 236 million new shares to Best Growth, the number of shares held by Mr Zhang Yuping resumed back to the original 1,365,560,000 shares in aggregate, representing 50.34% of the issued share capital of the Company.

- Note 2:* These 201,000,000 shares were 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 was 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 were deemed to have interest in all the Shares held by The Swatch Group Hong Kong Limited. The Company issued new shares to Best Growth on 3 July, and The Swatch Group increased its holdings in the shares of the Company in July. At the date of this interim report, the number of shares of the Company held by The Swatch Group represented 8.90% of the issued share capital of the Company.
- Note 3:* Among these 185,416,000 shares, 12,336,000 shares were held in the name of and registered in the capacity of LVMH Watches & Jewelry Hong Kong Limited and 173,080,000 shares were held in the name of and capacity of LVMH Asia Pacific Limited. LVMH Watches & Jewelry Hong Kong Limited's entire interest was owned by TAG Heuer SA, and TAG Heuer International SA beneficially owned 100% interest in TAG Heuer SA. Sofidiv SAS beneficially owned 100% interest in TAG Heuer International SA and LVMH Asia Pacific Limited. LVMH SA owned 100% interest in Sofidiv SAS. The Company issued new shares to Best Growth on 3 July, the number of shares of the Company held by LVMH represented 6.84% of the issued share capital of the Company at the date of this interim report.
- Note 4:* During the period under review, when Best Growth offered the shares of the Company in the placing, Atlantis Investment Management Ltd ("Atlantis Investment") subscribed for 30,000,000 shares; together with the 112,000,000 shares that it originally held, Atlantis Investment holds 142,000,000 shares of the Company in aggregate, representing 5.73% of the issued share capital of the Company. The Company issued new shares to Best Growth on 3 July, the number of shares of the Company held by Atlantis Investment represents 5.23% of the issued share capital of the Company at the date of this interim report.
- Note 5:* Among these 134,932,000 shares, 19,500,000 shares are held in the name of and registered in the capacity of J.P. Morgan Securities Ltd. and 1,100,000 shares were held in the name of and registered in the capacity of JF Asset Management Limited. JPMorgan Chase Bank, N.A.'s entire interest was owned by JPMorgan Chase & Co., while J.P. Morgan International Inc.'s entire interest was owned by JPMorgan Chase Bank, N.A. and Bank One International Holdings Corporation's entire interest was owned by J.P. Morgan International Inc., while J.P. Morgan International Finance Limited's entire interest was owned by Bank One International Holdings Corporation. J.P. Morgan Capital Holdings Limited's entire interest was owned by J.P. Morgan International Finance Limited, while J.P. Morgan Chase (UK) Holdings Limited's entire interest was owned by J.P. Morgan Capital Holdings Limited. J.P. Morgan Chase International Holdings's entire interest was owned by J.P. Morgan Chase (UK) Holdings Limited, while J.P. Morgan Securities Ltd.'s 98.95% interest was owned by J.P. Morgan Chase International Holdings; whereas JPMorgan Chase & Co. also owned 100% interest in JPMorgan Asset Management Holdings Inc., and JPMorgan Asset Management (Asia) Inc.'s entire interest was owned by JPMorgan Asset Management Holdings Inc. and JPMorgan Asset Management (Asia) Inc. owned 100% interest in JF Asset Management Limited. 114,332,000 shares were held in the name of and registered in the capacity of JPMorgan Chase Bank, N.A.

During the period under review, when Best Growth offered the shares of the Company in the placing, JP Morgan Chase & Co. subscribed for 134,932,000 shares, representing 5.45% of the issued share capital of the Company. The Company issued new shares to Best Growth on 3 July, the number of shares of the Company held by JP Morgan Chase & Co. represents 4.79% of the issued share capital of the Company at the date of this interim report.

## DIVIDEND DISTRIBUTION

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2009.

## SHARE OPTION SCHEME

A share option scheme was adopted by the Company 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 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. On 1 January 2009, the total number of shares that might be subscribed for was 36,930,000 shares. Due to the retirement of certain employees, 500,000 options lapsed during the period under review. As at 30 June 2009, the total number of shares that might be subscribed for became 36,430,000 ordinary shares.

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

## PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company repurchased 2,316,000 shares listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the Stock Exchange by way of acquisition from the market, and the amount of the total consideration paid was HKD2,879,880. After the settlement of the repurchased shares had been completed, the Company cancelled all shares repurchased. As of 30 June 2009, the total issued share capital of the Company became 2,476,684,000 shares.



During the period under review, the Company repurchased certain Bonds on Singapore Exchange Securities Trading Limited by way of acquisition from the market. Such Bonds were listed on Singapore Exchange Securities Trading Limited on 24 August 2007. The principal amount of the Bonds repurchased was RMB76,000,000. The Bonds repurchased were cancelled according to the terms of the same. On 1 January 2009, the Company had RMB745,000,000 Bonds outstanding; as of 30 June 2009, the Company still had such Bonds outstanding at a carrying amount of RMB669,000,000.

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

### DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE HONG KONG STOCK EXCHANGE

An interim report for the six months ended 30 June 2009 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Stock Exchange and the website of the Company in due course.

### ACKNOWLEDGEMENT

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

### OTHERS

On 12 August 2009, the Directors resolved that the Company to, subject to shareholders' approval at the extraordinary general meeting, undertake proposals of bonus issue, increase in authorised share capital and change of company name. Please refer to an announcement published by the Company on 12 August 2009 for more information.

### GENERAL INFORMATION

As at the date of this announcement, the Executive Directors of the Company are Mr. Zhang Yuping (Chairman), Mr. Song Jianwen and Mr. Huang Yonghua, the Non-executive Directors are Mr. Chen Sheng, Mr. Shen Zhiyuan and Mr. Shi Zhongyang and the Independent Non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai William and Mr. Liu Xue Ling.

By order of the Board

**Zhang Yuping**

*Chairman*

## CORPORATE GOVERNANCE

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has always been committed maintaining a high standard of corporate governance practices to ensure transparency so that the interests of our shareholders and the cooperative development among customers, employees and the Group can be safeguarded.

The Company has adopted the Code on Corporate Governance Practices (the “Code”) of the Stock Exchange of Hong Kong Limited (“Stock Exchange”).

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) during the period under review, except for a deviation from the provision A2.1 of the Code. Given the Group’s existing corporate structure, the roles of the chairman and chief executive officer have not been separated. Although the functions and duties of the chairman and chief executive officer have been performed by the same individual, all major decisions would only be made after consultation with the Board of Directors and (where applicable) the committees of the Board of Directors. There are three independent non-executive directors in the Board of Directors, all of them possess adequate independence. Therefore, the Board of Directors considers the Company has achieved balance of power and sufficient protection for its interest by justifiable decisions.

## **AUDIT COMMITTEE**

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material exceptional items, internal controls and financial reporting matters, including a review on the interim report for the six months ended 30 June 2009.

## **COMPLIANCE WITH CODE OF BEST PRACTICE**

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

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

For the six months ended 30 June 2009, the Company had adopted a code of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions by its Directors. Following specific enquiry made with all Directors, the Directors had complied with the code for securities transactions relating to directors as required by the code mentioned above.

## INTERIM RESULTS

The board of directors (the “Directors”) of Xinyu Hengdeli Holdings Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

## CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2009 – unaudited

	Note	For the six months ended 30 June	
		2009 RMB'000	2008 RMB'000
<b>Turnover</b>	3	<b>2,694,978</b>	2,725,609
Cost of sales		<b>(2,031,268)</b>	(2,060,894)
<b>Gross profit</b>		<b>663,710</b>	664,715
Other revenue	4	<b>39,045</b>	16,531
Other net (loss)/income	4	<b>(6,820)</b>	81,364
Distribution costs		<b>(246,693)</b>	(226,759)
Administrative expenses		<b>(113,240)</b>	(131,421)
Other operating expenses		<b>(1,967)</b>	(4,294)
<b>Profit from operations</b>		<b>334,035</b>	400,136
Finance income		<b>2,319</b>	6,580
Finance expenses		<b>(50,786)</b>	(86,174)
Net finance cost	5(a)	<b>(48,467)</b>	(79,594)
Share of losses of jointly controlled entities		<b>(1,008)</b>	(465)
<b>Profit before taxation</b>	5	<b>284,560</b>	320,077
Income tax	6	<b>(59,005)</b>	(66,368)
<b>Profit after taxation</b>		<b>225,555</b>	253,709
Attributable to:			
Equity shareholders of the Company		<b>212,198</b>	237,605
Minority interests		<b>13,357</b>	16,104
<b>Profit after taxation</b>		<b>225,555</b>	253,709
<b>Earnings per share</b>	7		
Basic		<b>RMB0.086</b>	RMB0.096
Diluted		<b>RMB0.086</b>	RMB0.095

The notes on pages 33 to 55 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 8.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2009 – unaudited

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Profit after taxation</b>	<b>225,555</b>	253,709
<b>Other comprehensive income for the period:</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	(4,325)	(13,950)
<b>Total comprehensive income for the period</b>	<b>221,230</b>	239,759
Attributable to:		
Equity shareholders of the Company	207,873	223,655
Minority interests	13,357	16,104
<b>Total comprehensive income for the period</b>	<b>221,230</b>	239,759

The notes on pages 33 to 55 form part of this interim financial report.

**CONSOLIDATED BALANCE SHEET***at 30 June 2009 – unaudited*

	<i>Note</i>	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
<b>Non-current assets</b>			
Fixed assets	9		
– Investment property		26,889	27,771
– Other property, plant and equipment		534,904	529,183
		<b>561,793</b>	556,954
Intangible assets		42,357	42,974
Goodwill		228,367	228,367
Investments in jointly controlled entities		27,788	30,524
Other investments		797	797
Deferred tax assets		36,909	39,956
		<b>898,011</b>	899,572
<b>Current assets</b>			
Inventories	10	2,381,140	2,446,734
Trade receivables, prepayments and other receivables	11	585,024	449,962
Pledged bank deposits	12	29,000	96,497
Cash and cash equivalents	13	654,383	588,010
		<b>3,649,547</b>	3,581,203
<b>Current liabilities</b>			
Trade and other payables	14	462,041	584,464
Bank loans	15	793,147	760,122
Current taxation		28,331	70,340
		<b>1,283,519</b>	1,414,926

	<i>Note</i>	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
<b>Net current assets</b>		<b>2,366,028</b>	2,166,277
<b>Total assets less current liabilities</b>		<b>3,264,039</b>	3,065,849
<b>Non-current liabilities</b>			
Bank loans	15	184,474	35,685
Convertible bonds	16	629,062	680,146
Embedded financial derivatives	16	12,369	2,960
Deferred tax liabilities		19,409	15,038
		<b>845,314</b>	733,829
<b>NET ASSETS</b>		<b>2,418,725</b>	2,332,020
<b>CAPITAL AND RESERVES</b>			
Share capital		12,893	12,903
Reserves		2,160,321	2,082,895
<b>Total equity attributable to equity shareholders of the Company</b>		<b>2,173,214</b>	2,095,798
Minority interests		245,511	236,222
<b>TOTAL EQUITY</b>		<b>2,418,725</b>	2,332,020

The notes on pages 33 to 55 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2009 – unaudited

Note	Attributable to equity shareholders of the Company										
	Share capital	Capital			PRC				Total	Minority interests	Total equity
		Share redemption premium	reserve	Capital reserve	Exchange reserve	statutory reserve	Retained profits				
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
<b>At 1 January 2008</b>	12,927	1,189,784	-	(18,410)	(53,170)	110,751	543,616	1,785,498	196,873	1,982,371	
Equity settled share-based payment transactions	-	-	-	11,856	-	-	-	11,856	-	11,856	
Dividends to equity shareholders	-	-	-	-	-	-	(149,070)	(149,070)	-	(149,070)	
Total comprehensive income	-	-	-	-	(13,950)	-	237,605	223,655	16,104	239,759	
<b>At 30 June 2008 and 1 July 2008</b>	12,927	1,189,784	-	(6,554)	(67,120)	110,751	632,151	1,871,939	212,977	2,084,916	
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	-	-	-	9,715	-	-	-	9,715	-	9,715	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	9,286	9,286	
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	15,950	15,950	
Total comprehensive income	-	-	-	-	(2,102)	-	222,482	220,380	11,974	232,354	
<b>At 31 December 2008 and 1 January 2009</b>	12,903	1,189,784	24	3,161	(69,222)	137,825	821,323	2,095,798	236,222	2,332,020	
Dividends to equity shareholders 8	-	-	-	-	-	-	(138,694)	(138,694)	-	(138,694)	
Dividends to minority shareholders	-	-	-	-	-	-	-	-	(8,068)	(8,068)	
Repurchase of own shares 8											
- par value paid	(10)	-	-	-	-	-	-	(10)	-	(10)	
- premium paid	-	-	-	-	-	-	(2,539)	(2,539)	-	(2,539)	
- transfer between reserves	-	-	10	-	-	-	(10)	-	-	-	
Equity settled share-based payment transactions 17	-	-	-	10,786	-	-	-	10,786	-	10,786	
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	4,000	4,000	
Total comprehensive income	-	-	-	-	(4,325)	-	212,198	207,873	13,357	221,230	
<b>At 30 June 2009</b>	12,893	1,189,784	34	13,947	(73,547)	137,825	892,278	2,173,214	245,511	2,418,725	

The notes on pages 33 to 55 form part of this interim financial report.



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2009 – unaudited

	Note	For the six months ended 30 June	
		2009 RMB'000	2008 RMB'000
Cash generated from/(used in) operations		<b>157,264</b>	(200,353)
Income tax paid		<b>(93,596)</b>	(127,373)
Net cash generated from/(used in) operating activities		<b>63,668</b>	(327,726)
Net cash generated from/(used in) investing activities		<b>52,136</b>	(113,204)
Net cash used in financing activities		<b>(49,351)</b>	(136,099)
Net increase/(decrease) in cash equivalents		<b>66,453</b>	(577,029)
Cash and cash equivalents at 1 January	13	<b>588,010</b>	987,193
Effect of foreign exchange rate changes		<b>(80)</b>	(24,706)
Cash and cash equivalents at 30 June	13	<b>654,383</b>	385,458

The notes on pages 33 to 55 form part of this interim financial report.

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in RMB unless otherwise indicated)*

### 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised on 12 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from the 2008 annual financial statements. The 2008 annual financial statements are available from the Company’s registered office. The auditors have expressed an unqualified opinion on the 2008 annual financial statements in their report dated 25 March 2009.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to HKFRS 7, Financial instruments: Disclosures– improving disclosures about financial instruments
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations
- HK(IFRIC) 15, Agreements for the construction of real estate

The amendments to HKAS 23 and HKFRS 2, and Interpretations HK(IFRIC) 15 have had no material impact on the Group's financial statements as either they are consistent with accounting policies already adopted by the Group and the Company. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 3). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1(revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
  
- The “Improvements to HKFRSs(2008)” comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment have resulted in changes to the Group’s accounting policies.
  - As a result of amendments to HKAS 28, investments in associates, impairment losses recognized in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.
  
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognized as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognized in the Company’s profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognizing dividend income in profit or loss, the Company would recognize an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

### 3 SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in the People's Republic of China (PRC)). On first-time adoption of HKFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Retail (PRC (Other than Hong Kong)/Hong Kong): given the importance of the retail division to the Group, the Group's retail business is segregated further into two reportable segments on a geographical basis, as the divisional managers for each of these regions report directly to the senior executive team. Both segments primarily derive their revenue from the retail of watches through their own retail network.
- Wholesale: this segment distributes numerous World's renowned brand watches in the PRC.

#### (a) Segment results and assets

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following basis:

Segment assets represent inventories only.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Retail										
	PRC (Other than Hong Kong)		Hong Kong		Wholesale		All others #		Total		
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	
For the six months ended 30 June	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from											
external customers	1,270,355	1,190,054	681,940	680,372	680,687	787,369	61,996	67,814	2,694,978	2,725,609	
Inter-segment revenue	-	-	-	-	843,543	1,160,214	6,688	9,038	850,231	1,169,252	
Reportable segment revenue	1,270,355	1,190,054	681,940	680,372	1,524,230	1,947,583	68,684	76,852	3,545,209	3,894,861	
Reportable segment profit: (Gross Profit)	413,576	390,659	148,043	149,596	83,571	104,755	18,520	19,705	663,710	664,715	

	Retail									
	PRC (Other than Hong Kong)		Hong Kong		Wholesale		All others #		Total	
	30 June 2009	31 December 2008	30 June 2009	31 December 2008	30 June 2009	31 December 2008	30 June 2009	31 December 2008	30 June 2009	31 December 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	1,408,757	1,426,300	559,144	554,964	440,950	539,119	85,960	69,636	2,494,811	2,590,019

# Revenues from segments below the quantitative thresholds are mainly attributable to three operating segments of the Company. Those segments include a watch repairing and maintenance business, manufacture and distribution business of writing instruments branded OMAS, and a packing and decoration business. None of those segments met any of the quantitative thresholds for determining reportable segments.

**(b) Reconciliations of reportable segment revenues, profit or loss and assets**

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Revenue</b>		
Total revenues for reportable segments	3,476,525	3,818,009
Other revenue	68,684	76,852
Elimination of inter-segment revenue	(850,231)	(1,169,252)
Consolidated turnover	2,694,978	2,725,609

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Profit</b>		
Total profit for reportable segments	645,190	645,010
Other profit	18,520	19,705
	663,710	664,715
Other revenue	39,045	16,531
Other net (loss)/income	(6,820)	81,364
Distribution costs	(246,693)	(226,759)
Administrative expenses	(113,240)	(131,421)
Other operating expenses	(1,967)	(4,294)
Net finance cost	(48,467)	(79,594)
Share of losses of jointly controlled entities	(1,008)	(465)
Consolidated profit before taxation	284,560	320,077

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Asset</b>		
Total asset for reportable segments	2,408,851	2,520,383
Other assets	85,960	69,636
Elimination of inter-segment purchases	(113,671)	(143,285)
	<b>2,381,140</b>	2,446,734
Trade receivables, prepayments and other receivables	585,024	449,962
Pledged bank deposits	29,000	96,497
Cash and cash equivalents	654,383	588,010
Non-current assets	898,011	899,572
Consolidated total assets	<b>4,547,558</b>	4,480,775

#### 4 OTHER REVENUE AND NET INCOME

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Other revenue</b>		
Government grants	16,350	–
Dividend income from unlisted investments	17,334	12,594
Rental income	1,318	920
Others	4,043	3,017
	<b>39,045</b>	16,531

One of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group., Ltd. ("Shanghai Xinyu"), received unconditional grants totaling RMB16,350,000 for the period ended 30 June 2009 (the six months ended 30 June 2008: nil) from the local government in Shanghai, in support of Shanghai Xinyu's development.



	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Other net (loss)/income</b>		
Changes in fair value of embedded financial derivatives ( <i>note 16</i> )	(9,711)	81,364
Gain on purchases of convertible bonds ( <i>note 16</i> )	2,891	–
	<b>(6,820)</b>	<b>81,364</b>

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>(a) Net finance cost</b>		
Interest income	(2,319)	(6,580)
Finance income	(2,319)	(6,580)
Interest expense on bank loans	20,113	17,919
Interest on convertible bonds ( <i>note 16</i> )	17,000	27,786
Bank charges	16,015	12,083
Net foreign exchange (gain)/loss <sup>#</sup>	(2,342)	28,386
Finance expenses	<b>50,786</b>	<b>86,174</b>
Net finance cost	<b>48,467</b>	<b>79,594</b>

<sup>#</sup> Net foreign exchange (gain)/loss includes RMB279,000 loss relating to convertible bonds for the six months ended 30 June 2009 (the six months ended 30 June 2008: RMB65,871,000 loss).

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>(b) Other items</b>		
Cost of inventories <sup>#</sup>	2,032,600	2,061,892
Depreciation – property, plant and equipment, and investment property	16,312	12,267
Amortisation of intangible assets	485	286
Operating leases charges in respect of properties		
– minimum lease payments	39,929	23,990
– contingent rents	94,067	86,756

# Cost of inventories includes RMB1,332,000 relating to write-down for inventories for the six months ended 30 June 2009 (the six months ended 30 June 2008: RMB998,000).

## 6 INCOME TAX

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Current tax</b>		
Provision for Hong Kong profits tax for the period	15,745	13,493
Provision for PRC income tax for the period	35,842	54,219
<b>Deferred tax</b>		
Origination and reversal of temporary difference	7,418	(1,344)
	59,005	66,368

(a) Pursuant to the income tax rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. Also, certain subsidiaries located in foreign jurisdictions other than the PRC, except for those mentioned below, are not subject to any income tax in their jurisdictions.

- (b) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

Pursuant to the transitional arrangement under the New Tax Law, the PRC subsidiary which is in its tax holiday will also continue to enjoy the tax-exemption or 50% reduction on the applicable income tax rate until the expiry of the above-mentioned tax holiday previously granted under the FEIT Law, and thereafter it will be subject to the unified rate of 25%.

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

Pursuant to the New Tax Law, 10% withholding tax is levied on the foreign investor (5% for foreign investors who registered in Hong Kong) in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As at 30 June 2009, deferred tax liabilities of RMB11,413,000 (31 December 2008: RMB7,681,000) 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 RMB17,120,000 (31 December 2008: RMB11,522,000) have not been recognised, as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that certain part of the profits earned by the Group's PRC subsidiaries for the period will not be distributed in the foreseeable future.

- (c) The provision for Hong Kong Profit Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2008: 16.5%) to the six months ended 30 June 2009.

## 7 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB212,198,000 (six months ended 30 June 2008: RMB237,605,000) and the weighted average of 2,476,849,429 ordinary shares (six months ended 30 June 2008: 2,484,500,000 ordinary shares) in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB212,198,000 (six months ended 30 June 2008: RMB249,898,000) and the weighted average of 2,476,849,429 ordinary shares (six months ended 30 June 2008: 2,644,179,230 ordinary shares).

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

	For the six months ended 30 June	
	2009	2008
Weighted average number of ordinary shares	2,476,849,429	2,484,500,000
Effect of conversion of convertible bonds	-	159,679,230
Weighted average number of ordinary shares (diluted) at 30 June	<b>2,476,849,429</b>	2,644,179,230

The calculation of diluted earnings per share amount for the period ended 30 June 2009 has not included the potential effect of the deemed conversion of the convertible bonds into ordinary shares as it has an anti-dilutive effect on the basic earnings per share amount for the period.

The performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. As no shares would be issuable if 30 June 2009 were the end of the contingent period, no effect of share options is included in the calculation of diluted earnings per share.

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

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Profit attributable to equity shareholders (basic)	212,198	237,605
Effect of effective interest on the liability component of convertible bonds	–	27,786
Effect of gain recognised on the derivative component of convertible bonds	–	(81,364)
Effect of exchange loss recognised on the liability and derivative components of convertible bonds	–	65,871
Profit attributable to equity shareholders (diluted) at 30 June	212,198	249,898

## 8 CAPITAL, RESERVES AND DIVIDENDS

## (a) Dividends

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

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Dividend in respect of the previous financial year, approved and paid during the period	138,694	149,070

**(b) Purchase of own shares**

During the period ended 30 June 2009, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of Shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000	Equivalent RMB'000
January 2009	2,316,000	1.25	1.21	2,880	2,539

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 RMB10,000 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB2,539,000 was charged to retained profits.

**9 FIXED ASSETS****(a) Acquisitions and disposals**

During the six months ended 30 June 2009, the Group acquired items of construction in progress and leasehold improvements with a cost of RMB24,520,000. Apart from that, there are no significant acquisitions/disposals during the period from 1 January 2009 to 30 June 2009.

**(b) Valuation**

The investment property is located in the PRC and has been rented out under the terms of operating leases since January 2007. The fair value of the investment property as at 30 June 2009, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to RMB44,347,000 (31 December 2008: RMB43,680,000). The investment property has not been valued by an external independent valuer. Rental income of RMB1,280,000 was received from leasing the investment property during the six months ended 30 June 2009 (six months ended 30 June 2008: RMB920,000).

## 10 INVENTORIES

Inventories in the consolidated balance sheets comprise:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Raw materials	21,369	51,987
Work in progress	18,096	14,752
Finished goods	2,341,675	2,379,995
	<b>2,381,140</b>	<b>2,446,734</b>

## 11 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade receivables	395,704	272,093
Prepayments and other receivables	189,320	177,869
	<b>585,024</b>	<b>449,962</b>

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.

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

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Current	342,986	231,262
Less than 1 month past due	36,750	30,662
1 to 3 months past due	8,493	5,312
More than 3 months but less than 12 months past due	5,483	1,840
More than 12 months past due	1,992	3,017
	<b>395,704</b>	<b>272,093</b>

**12 PLEDGED BANK DEPOSITS**

	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
Pledged for letter of guarantee	17,000	71,997
Pledged for discounted bills payable	12,000	24,500
	<b>29,000</b>	96,497

**13 CASH AND CASH EQUIVALENTS**

	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
Deposits with banks and other financial instruments	9,958	41,487
Cash at bank and in hand	644,425	546,523
	<b>654,383</b>	588,010
Cash and cash equivalents in the balance sheet	<b>654,383</b>	588,010
Cash and cash equivalents in the cash flow statement	<b>654,383</b>	588,010

**14 TRADE AND OTHER PAYABLES**

	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
Trade payables	315,139	429,198
Other payables and accrued expenses	123,173	134,656
Payables due to related parties	23,729	20,610
	<b>462,041</b>	584,464



An ageing analysis of the trade payables is as follows:

	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
Within 1 month	275,902	357,613
Over 1 month but less than 3 months	28,412	52,181
Over 3 months but less than 12 months	4,097	16,265
Over 1 year	6,728	3,139
	<b>315,139</b>	429,198

## 15 BANK LOANS

	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
Current		
– secured bank loans	40,000	102,500
– non-current secured bank loans due within one year	2,485	2,286
– unsecured bank loans	750,662	655,336
	<b>793,147</b>	760,122

The current secured bank loans as at 30 June 2009 and 31 December 2008 were secured by the Group's pledged bank deposits. The non-current secured bank loans due within one year as at 30 June 2009 and 31 December 2008 were secured by the Group's land and buildings with carrying amounts of RMB79,579,000 and RMB80,001,000 respectively. The secured bank loans as at 30 June 2009 carried interest rates at 6.25% (31 December 2008: 6.03% to 6.12%).

The current unsecured bank loans as at 30 June 2009 carrying interest at rates ranging from floating interest rates of HIBOR+1% to HIBOR+3.5% (31 December 2008: HIBOR+1.25% to HIBOR+1.5%) (effective interest rate as at 30 June 2009: 1.54% to 5.11% (31 December 2008: 1.55% to 1.8%)) and from fixed interest rates of 4.86% to 6.66% (31 December 2008: 5.58% to 7.47%) per annum, and were all repayable within one year.

One of the Group's banking facilities is subject to the fulfillment of a covenant imposing certain specific performance requirements on the Group and a minimum shareholding requirement on the Group's major shareholder. If the Group were to breach the covenant, the drawn down facility would become payable on demand. The Group regularly monitors its compliance with the covenant. As at 30 June 2009, the Group had complied with the covenant.

	<b>At 30 June 2009 RMB'000</b>	At 31 December 2008 RMB'000
Non-current secured bank loans	<b>34,474</b>	35,685
Non-current unsecured bank loans	<b>150,000</b>	–
	<b>184,474</b>	35,685

The non-current secured loans as at 30 June 2009 and 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 1.42% to HKD Prime Rate minus 2.80% per annum (effective interest rate as at 30 June 2009: 2.20% (31 December 2008: 2.20%)) and were secured by the Group's land and buildings with a total carrying amount of RMB79,579,000 as at 30 June 2009.

The non-current unsecured bank loan as at 30 June 2009 carried interest at rate 5.13%, was repayable within two years.

## 16 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 Bonds is approximately USD132,282. The Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

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

	<b>Liability component RMB'000</b>	<b>Embedded financial derivatives RMB'000</b>	<b>Total RMB'000</b>
As at 31 December 2008	680,146	2,960	683,106
Interest charged during the period ( <i>note 5(a)</i> )	17,000	–	17,000
Purchase by the Company during the period	(68,084)	(302)	(68,386)
Changes in fair value during the period ( <i>note 4</i> )	–	9,711	9,711
As at 30 June 2009	629,062	12,369	641,431

No conversion of the Convertible Bonds has occurred up to 30 June 2009.

On 23 January 2009 the Company purchased, by way of market acquisition, Bonds listed on the Singapore Exchange Securities Trading Limited, with a principal amount of RMB76,000,000, for a total consideration of RMB65,495,000. The purchased Bonds will be cancelled in accordance with the terms of the Bonds.

The changes in the fair value of the embedded financial derivatives from 31 December 2008 to 30 June 2009 resulted in a fair value gain of RMB9,711,000 (for the year ended 31 December 2008: RMB121,416,000), which has been recorded in other income in the unaudited consolidated income statement for the six months ended 30 June 2009.

The fair value of the embedded financial derivatives was calculated using the Barrier Option 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 2008 and 30 June 2009 were as follows:

	31 December 2008	30 June 2009
Stock price	HKD1.20	HKD2.28
Exercise price	HKD7.06	HKD7.06
Risk-free rate	1.05%	1.34%
Expected life	1,333 days	1,151 days
Volatility	55.77%	58.2%

The Company's stock prices were as at 31 December 2008 and 30 June 2009 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.

## 17 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.

As at 30 June 2009, 2,950,000 share options have lapsed (31 December 2008: 2,450,000 share options) as 16 employees resigned prior to 30 June 2009. Except for this, no share option has been exercised, lapsed or cancelled pursuant to the above share option scheme during the six months ended 30 June 2009.

## 18 COMMITMENTS

### (a) Operating lease commitments

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	97,567	88,692
Between one and five years	194,054	192,671
More than five years	74,023	91,766
	<b>365,644</b>	<b>373,129</b>

The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum lease payments disclosed above, the Group has a commitment to pay rent of a proportion of turnover for certain leased properties. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

### (b) Commitments of guaranteed profit

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Less than one year	8,800	8,800
Between one and five years	11,200	15,600
	<b>20,000</b>	<b>24,400</b>

Pursuant to a management agreement dated 31 December 2006 between Shanghai Xinyu and Shanghai Yi Min Department Stores Company Limited ("Yi Min"), a related party, Yi Min agreed to entrust to Shanghai Xinyu the operation and management of a shop located in Shanghai, and is entitled to receive an annual guaranteed profit of RMB6,800,000 from the Group for the period from 1 January 2007 to 31 December 2011.

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

## 19 RELATED PARTY TRANSACTIONS

The Group has transactions with the companies controlled by the ultimate shareholders (“Ultimate shareholders’ companies”), minority shareholders of subsidiaries (“Minority shareholders”) and a jointly controlled entity. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

### (a) Recurring

	For the six months ended 30 June	
	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Lease expense to:</b>		
Minority shareholders	–	900
Ultimate shareholders’ companies	169	416
<b>Guaranteed profit to:</b>		
Minority shareholders	4,400	4,400
<b>Sales of goods to:</b>		
A jointly controlled entity	8,481	7,003
<b>Purchase of property from:</b>		
Ultimate shareholders’ companies	–	47,262

### (b) Amounts due from

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Trade and other receivables from:</b>		
A jointly controlled entity	12,216	12,833

## (c) Amounts due to

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<b>Other payables due to:</b>		
Minority shareholders	23,729	20,610

**20 NON-ADJUSTING POST BALANCE SHEET EVENT**

In July 2009, the Company issued 236,000,000 new shares at a price of HKD2.62 per Subscription Share by way of placing.

**21 COMPARATIVE FIGURES**

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these development are disclosed in note 2.

**22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2009**

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2009 and which have not been adopted in these financial statements.

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)**

Revised HKFRS 1, *First-time adoption of Hong Kong  
Financial Reporting Standards*

1 July 2009

	<b>Effective Date (for annual financial statements covering periods beginning on or after unless specified)</b>
Revised HKFRS 3, <i>Business combinations</i>	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, <i>Consolidated and separate financial statements</i>	1 July 2009
Amendments to HKAS 39, <i>Financial instruments: Recognition and measurement – Eligible hedged items</i>	1 July 2009
HK(IFRIC) 17, <i>Distributions of non-cash assets to owners</i>	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010



## 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

### COMPANY SECRETARY

Mr. Ng Man Wai

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2009-2018, 20/F

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