Xinyu Hengdeli Holdings Limited
新宇亨得利控股有限公司

(incorporated in the Cayman Islands with limited liability)

Interim Report 2005

INTERIM RESULTS

The board of directors (the "Directors") of Xinyu Hengdeli Holdings Limited (the "Company") is pleased to present the unaudited combined interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005, along with the unaudited 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.

COMBINED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Sales	3	**656,504**	717,959
Cost of sales	4(ii)	**(491,474)**	(573,948)
Gross profit		**165,030**	144,011
Other revenue	4(ii)	**342**	447
Distribution costs		**(50,631)**	(43,101)
Administrative expenses		**(26,065)**	(23,668)
Other expenses		**(1,696)**	(1,607)
Profit from operations	3	**86,980**	76,082
Finance costs	4(i)	**(11,529)**	(7,919)
Profit before tax	4	**75,451**	68,163
Income tax expense	5	**(25,872)**	(22,685)
Profit for the period		**49,579**	45,478
Attributable to:			
Equity holders of the parent		**46,066**	40,307
Minority interests		**3,513**	5,171
		49,579	45,478
Basic earnings per share (RMB)	6	**0.06**	0.05

INTERIM RESULTS

The board of directors (the "Directors") of Xinyu Hengdeli Holdings Limited (the "Company") is pleased to present the unaudited combined interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005, along with the unaudited 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.

COMBINED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Sales	*3*	**656,504**	717,959
Cost of sales	*4(ii)*	**(491,474)**	(573,948)
Gross profit		**165,030**	144,011
Other revenue	*4(ii)*	**342**	447
Distribution costs		**(50,631)**	(43,101)
Administrative expenses		**(26,065)**	(23,668)
Other expenses		**(1,696)**	(1,607)
Profit from operations	*3*	**86,980**	76,082
Finance costs	*4(i)*	**(11,529)**	(7,919)
Profit before tax	*4*	**75,451**	68,163
Income tax expense	*5*	**(25,872)**	(22,685)
Profit for the period		**49,579**	45,478
Attributable to:			
Equity holders of the parent		**46,066**	40,307
Minority interests		**3,513**	5,171
		49,579	45,478
Basic earnings per share (RMB)	*6*	**0.06**	0.05

COMBINED BALANCE SHEET

	Notes	Unaudited At 30 June 2005 RMB'000	Audited At 31 December 2004 RMB'000
Non-current assets			
Property, plant and equipment	8	**100,172**	97,319
Intangible assets		**16,940**	17,000
Investments in associates		**960**	960
Other investments		**250**	250
Deferred tax assets		**12,286**	10,620
		130,608	126,149
Current assets			
Inventories	9	**565,142**	447,016
Trade and other receivables	10	**167,104**	212,984
Cash and cash equivalents	11	**79,729**	78,180
		811,975	738,180
Current liabilities			
Bank loans and other interest-bearing borrowings		**437,131**	398,198
Trade and other payables	12	**135,381**	72,928
Current tax payables		**21,130**	26,861
		593,642	497,987
Net current assets		**218,333**	240,193
Total assets less current liabilities		**348,941**	366,342
Non-current liabilities			
Other payables		**1,413**	2,261
		1,413	2,261
NET ASSETS		**347,528**	364,081
Equity attributable to equity holders of the parent		**255,442**	285,508
Minority interests		**92,086**	78,573
TOTAL EQUITY		**347,528**	364,081

COMBINED STATEMENT OF CHANGES IN EQUITY

		Unaudited For the six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Equity attributable to equity holders of the parent:			
Balance at 1 January		**285,508**	220,561
Profit for the period		**46,066**	40,307
Equity movements arising from the Reorganisation		**16,018**	–
Dividends	7	**(92,150)**	(32,598)
Balance at 30 June		**255,442**	228,270
Minority interests:			
Balance at 1 January		**78,573**	99,222
Capital contribution		**14,850**	–
Acquisition of additional interests in subsidiaries from minority shareholders		**–**	(17,518)
Share of profit for the period		**3,513**	5,171
Dividends		**(4,850)**	(6,969)
Balance at 30 June		**92,086**	79,906
Total equity:		**347,528**	308,176

CONDENSED COMBINED CASH FLOW STATEMENT

		Unaudited For the six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Cash generated from operations		**83,058**	25,381
Income tax paid		**(33,269)**	(17,215)
Net cash generated from operating activities		**49,789**	8,166
Net cash used in investing activities		**(9,420)**	(59,279)
Net cash (used in)/generated from financing activities		**(38,820)**	46,033
Net increase/(decrease) in cash and cash equivalents		**1,549**	(5,080)
Cash and cash equivalents at 1 January	11	**78,180**	83,860
Cash and cash equivalents at 30 June	11	**79,729**	78,780

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. Corporate reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 July 2004 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") of the Group to rationalise the group structure in preparation of the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 26 September 2005.

2. Basis of presentation

The Group's combined income statements, combined statements of changes in equity and condensed combined cash flow statements for the six months ended 30 June 2004 and 2005 ("the periods presented") include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the periods presented, or since the date of their incorporation where this is a shorter period. The Group's combined balance sheets as at 31 December 2004 and 30 June 2005 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the Directors, the unaudited interim financial report prepared on this basis presents fairly the results of operations and the state of affairs of the Group as a whole.

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. It was authorised for issuance on 27 September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the Accountants' Report of the Company (the "Accountants' Report") included in the Company's prospectus dated 14 September 2005 (the "Prospectus").

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, 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 combined 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 Accountants' Report. The condensed combined interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The financial information relating to the financial year ended 31 December 2004 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 Accountants' Report. The financial information of the Group for the year ended 31 December 2004 is contained in the Accountants' Report included in the Prospectus. The Accountants' Report is available from the Company's registered office. The auditors have expressed an unqualified opinion in the Accountants' Report dated 14 September 2005.

3. Segment information

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

	Unaudited For the six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Sales		
Retail	**306,830**	249,847
Wholesales	**341,983**	461,928
Unallocated	**7,691**	6,184
Total	**656,504**	717,959
Segment result		
Retail	**56,526**	38,009
Wholesales	**41,680**	51,465
Total	**98,206**	89,474
Unallocated operating income and expenses	**(11,226)**	(13,392)
Profit from operations	**86,980**	76,082
Finance costs	**(11,529)**	(7,919)
Income tax expense	**(25,872)**	(22,685)
Profit for the period	**49,579**	45,478

4. Profit before tax

Profit before tax is arrived at after charging/(crediting):

	Unaudited For the six months ended 30 June 2005 RMB'000	2004 RMB'000
(i) Finance costs		
Interest expense on bank loans and other borrowings	**10,350**	6,982
Other borrowing costs	**1,179**	937
Total borrowing costs	**11,529**	7,919
(ii) Other items		
Cost of inventories #	**492,401**	563,312
Interest income	**(342)**	(447)
Depreciation	**5,465**	5,711
Loss on disposal of property, plant and equipment	**3**	53
Amortisation of intangible assets	**60**	11,694
Operating leases charges in respect of properties		
– minimum lease payments	**6,970**	9,696
– contingent rents	**16,604**	13,601

Cost of inventories includes RMB987 thousands relating to provision for inventories for the six months ended 30 June 2005 (the six months ended 30 June 2004: RMB1,058 thousands).

5. Income tax expense

	Unaudited For the six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Current tax		
Provision for Hong Kong profits tax for the period	**91**	–
Provision for PRC income tax for the period	**27,447**	27,180
Deferred tax		
Origination and reversal of temporary differences	**(1,666)**	(4,495)
	25,872	22,685

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 are not subject to any income tax in their jurisdictions.

No provision for Hong Kong profits tax has been made during the six months ended 30 June 2004 as those subsidiaries did not earn any assessable income for Hong Kong profits tax purposes. Provision for Hong Kong profits tax during the six months ended 30 June 2005 is calculated at 17.5% of the estimated assessable profits of subsidiaries in Hong Kong.

The provision for PRC income tax is based on a statutory rate of 33% of the assessable profits of subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC during the periods presented.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent during the periods presented and the 750,000,000 shares in issue to Best Growth Limited, Artnew Development Limited, Business Up Limited and Spring Day Trading Limited as if the shares were outstanding throughout the periods presented. The 250,000,000 shares in issue pursuant to the Hong Kong public offer and the international placing are not taken into account of the calculation of basic earning per share.

There were no dilutive potential ordinary shares in existence for the periods presented and, therefore, diluted earnings per share are not presented.

7. Dividends

(a) Dividends attributable to the interim period

No interim dividend was declared after the interim period.

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Unaudited For the six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Dividend attributable to the previous financial year, approved and paid during the period	**92,150**	32,598

Pursuant to the resolutions passed at the board of directors' meeting held on 23 February 2004 and 29 March 2005, dividends (excluding share of dividends to minority shareholders) of RMB32,598 thousands and RMB92,150 thousands respectively, were declared by Shanghai Xinyu Watch & Clock Group, Ltd. ("Shanghai Xinyu") to its then major shareholders.

The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report. These dividends are not indicative of the Group's future dividend policy.

8. Property, plant and equipment

	Buildings	Leasehold improvements	Motor Vehicles	Office equipment and other fixed assets	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
Balance at 31 December 2004	94,740	15,556	5,553	12,454	285	128,588
Additions	6,300	765	382	892	–	8,339
Transfer from construction in progress	–	285	–	–	(285)	–
Disposals	–	–	–	(139)	–	(139)
Balance at 30 June 2005	101,040	16,606	5,935	13,207	–	136,788
Depreciation:						
Balance at 31 December 2004	(12,385)	(11,167)	(2,209)	(5,508)	–	(31,269)
Charge for the period	(2,333)	(1,555)	(316)	(1,261)	–	(5,465)
Disposals	–	–	–	118	–	118
Balance at 30 June 2005	(14,718)	(12,722)	(2,525)	(6,651)	–	(36,616)
Net book value:						
At 30 June 2005	86,322	3,884	3,410	6,556	–	100,172
At 31 December 2004	82,355	4,389	3,344	6,946	285	97,319

All of the buildings owned by the Group are located in the PRC.

As at 30 June 2005, the Group was in the process of obtaining the property ownership certificate of an office building in Beijing, with the carrying amount of approximately RMB9,332 thousands.

As at 30 June 2005, an office building in Shanghai with the carrying amount of RMB31,810 thousands (31 December 2004: RMB33,500 thousands) was pledged to banks for certain loans.

9. Inventories

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Finished goods	**569,415**	450,806
Less: Provision for obsolete and slow-moving inventories	**(4,273)**	(3,790)
	565,142	447,016

10. Trade and other receivables

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Trade receivables	**131,373**	147,462
Non-trade receivables	**35,731**	25,174
Receivables due from related parties	**–**	40,348
	167,104	212,984

All of the trade and other receivables are expected to be recovered within one year.

Customers are normally granted credit terms of 0 to 70 days depending on the credit worthiness of individual customers.

An ageing analysis of trade receivables is as follows:

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Within 1 month	**76,695**	89,833
Over 1 month but less than 3 months	**41,342**	44,102
Over 3 months but less than 12 months	**15,593**	15,045
Over 12 months	**3,884**	3,680
	137,514	152,660
Less: Allowance for bad and doubtful debts	**(6,141)**	(5,198)
	131,373	147,462

11. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is set out below:

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Cash and cash equivalents in combined balance sheets and combined cash flow statements	**79,729**	78,180
Cash and cash equivalents are denominated in:		
RMB	**78,833**	78,018
HK$	**896**	162
	79,729	78,180

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

12. Trade and other payables

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Trade payables	**82,601**	16,126
Non-trade payables and accrued expenses	**32,203**	10,284
Payables due to related parties	**20,577**	46,518
	135,381	72,928

An ageing analysis of the trade payables is as follows:

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Within 1 month	**62,548**	14,558
Over 1 month but less than 3 months	**15,951**	850
Over 3 months but less than 12 months	**3,742**	16
Over 12 months	**360**	702
	82,601	16,126

13. Commitments

(i) Operating lease commitments

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	**8,322**	9,617
Between one and five years	**10,420**	14,450
More than five years	**1,763**	1,987
	20,505	26,054

The leases run for an initial period of one to five 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.

(ii) Commitments of guaranteed profit

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Less than one year	**1,500**	1,500
Between one and five years	**750**	1,500
	2,250	3,000

Pursuant to a management agreement dated 5 July 2002 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 RMB1.5 million from the Group for the period from 1 June 2002 to 31 December 2006.

14. 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 an associate. 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*

	Unaudited For the six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Lease expense to:		
Minority shareholders	**2,400**	2,400
Ultimate shareholders' companies	**184**	–
Guaranteed profit to:		
Minority shareholders	**750**	750

(b) *Non-recurring*

	Unaudited For the six months ended 30 June 2005 RMB'000	2004 RMB'000
Sales of goods to:		
Minority shareholders	**6,222**	–
Purchase of goods from:		
Ultimate shareholders' companies	**–**	2,282
Minority shareholders	**29,571**	85,120
Interest expenses to:		
Minority shareholders	**–**	398
Loans lent to:		
Associate	**–**	7,500
Lease expenses to:		
Ultimate shareholders' companies	**–**	1,041
Minority shareholders	**–**	3,050
Service fees to:		
Ultimate shareholders' companies	**–**	375
Acquisition of equity interests in subsidiaries from:		
Minority shareholders	**–**	17,518

(c) *Amounts due from*

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Trade and other receivables from:		
Ultimate shareholders' companies	**–**	37,125
Minority shareholders	**–**	3,223
	–	40,348

(d) *Amounts due to*

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Other payables due to:		
Ultimate shareholders' companies	**754**	6,854
Minority shareholders	**19,823**	39,664
	20,577	46,518

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In recent years, the consumption level of China rises as its GNP maintaining steady increase and the people's living standard improving. The expanding middle-high income classes at home has led to the pursuit of living taste and living quality, which in turn triggers the demand for branded products among the high-income class. In the realm of watches, the precious, high-grade imported ones are always the rage at the market with increasing market-share and influence over the domestic market. Among them, Swiss-made watches are in the consumers' graces with their superb quality. According to a report issued by CCID Consulting Company Limited in September 2005, the sales of watches imported from Swiss accounted for 81% of the total turnover of watches sold in China.

(c) *Amounts due from*

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Trade and other receivables from:		
Ultimate shareholders' companies	**–**	37,125
Minority shareholders	**–**	3,223
	–	40,348

(d) *Amounts due to*

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 2004 *RMB'000*
Other payables due to:		
Ultimate shareholders' companies	**754**	6,854
Minority shareholders	**19,823**	39,664
	20,577	46,518

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In recent years, the consumption level of China rises as its GNP maintaining steady increase and the people's living standard improving. The expanding middle-high income classes at home has led to the pursuit of living taste and living quality, which in turn triggers the demand for branded products among the high-income class. In the realm of watches, the precious, high-grade imported ones are always the rage at the market with increasing market-share and influence over the domestic market. Among them, Swiss-made watches are in the consumers' graces with their superb quality. According to a report issued by CCID Consulting Company Limited in September 2005, the sales of watches imported from Swiss accounted for 81% of the total turnover of watches sold in China.

BUSINESS REVIEW

The Group has been engaged in the retail and wholesale of watches in the PRC which focuses on distributing watches of international brands and has grasped unlimited business opportunities in the promising imported watch market of China.

With its extensive retailing network, wholesale arrangement with many Swiss brand-owners and proprietary brand watches as well as strong after-sales service, the Group has managed to achieve superb development in the high-grade watch market of China.

Retail Network

The Group has established an extensive sales network in mainland China, comprising 51 retail outlets and retailing and distributing business of around 30 famous watch brands. Nationwide, the Group has around 300 wholesale customers in 40 major cities, and have allied with other major famous watch retailers in the PRC, such as Shanghai San Lian Group, Shanghai Oriental Commercial Building Ltd. and Shenzhen Hengjili World Brand Watches Centre Ltd., to form the famous watch retail strategic alliance, which encompasses hundred strong retail outlets. In addition, the Group owns two flagship shops, namely Beijing Hengdeli Swiss Watch Shop and Shanghai Watch Shop.

Wholesale Business

The Group is currently a wholesaler of 16 internationally well-known watch brandnames, of which 12 are on exclusive basis, namely Audemars Piguet, Carl F. Bucherer, Zenith, TAG Heuer, Christian Dior, Maurice Lacroix, Fendi, Baume & Mercier, Claude Bernard, Cyma, EDOX and Carven; and the other four are on non-exclusive basis, namely Jaeger-LeCoultre, Tissot, CK and Enicar. The Group has maintained good cooperation relationship with some leading watch suppliers around the world, including SWATCH Group, LVMH Group and RICHEMONT Group, all are the brand-owners of the watches dealt in and distributed by the Group.

Proprietary Brand – NIVADA

The Group owns its proprietary brand – "NIVADA" as well as the right to design, manufacture and distribute NIVADA in mainland China, Hong Kong and Macau. The securing and developing of this brand will reinforce the Group's profitability and competitiveness in the market.

After-sales Services

The Group is in good earnest to provide the customers with quality and efficient after-sales services, as a powerful backing of its retail network and wholesale business. The Group provides repair and maintenance services on the spot in every retail outlet, and it also has two large customer services centres in Beijing and Shanghai to provide various after-sales services. In order to offer quality service to the customers, the Group is embarking on the establishment of a nationwide joint guarantee system. All of the Group's maintenance staff possess professional technical qualifications, among whom some are brand suppliers' solely appointed maintenance technicians in China, some are national model workers, whilst others are appraised as advanced workers.

FINANCIAL REVIEW

During the six months ended 30 June 2005 (the "period"), the Group recorded a turnover of approximately RMB656,504,000 and profit before income tax of approximately RMB75,451,000 (2004: RMB68,163,000). Profit for the period reached approximately RMB49,579,000 (2004: RMB45,478,000). Basic earnings per share was RMB0.06 (2004: RMB0.05).

Sales

During the period, the Group recorded a turnover of approximately RMB656,504,000 (2004: RMB717,959,000). Turnover attributable to retail business amounted to approximately RMB306,830,000 (2004: RMB249,847,000), representing a growth of approximately 23% when compared with the corresponding period in last year. Turnover attributable to wholesale business amounted to approximately RMB341,983,000 (2004: RMB461,928,000), representing a decrease of approximately 26% when compared with the corresponding period in last year. Such decrease was due to the decrease in sales of Omega and Rado watches, which was partly offset by the increase in sales of other brands distributed by the Group.

Gross Profit

The gross profit margin of the period was approximately 25.1%, which was higher than 20.1% of the corresponding period in last year. Such increase is mainly attributable to: (1) the increased margin for certain brands due to the increase in average selling prices of these brands; (2) the decrease in the discount on the suggested retail price of certain brands granted to retail customers; (3) the change of the business segment mix with an increasing proportion of the retail sales. With the robust growth of the

PRC economy and an expanding middle-to-high income group, the Group has targeted on expanding its retail network and accelerating the establishment of long term agency brand. Accordingly, the Group is optimistic and positive towards its future prospects.

Profit for the Period

During the period, profit for the period amounted to approximately RMB49,579,000, representing a growth of approximately 9.02% as compared with the corresponding period in last year. Such increase was mainly attributable to the growth of retail business which enjoys a higher profit margin.

Expenses

The distribution costs for the period was approximately RMB50,631,000 (2004: RMB43,101,000). Distribution costs as a percentage of turnover was 7.7% (2004: 6.0%). Such increase was mainly due to the increase in the number of sales and marketing personnel which was in line with the expansion of retail network and the corresponding increase in rental expenses. Administrative expenses was approximately RMB26,065,000 (2004: RMB23,668,000) and administrative expenses as a percentage of turnover was approximately 4.0% (2004: 3.3%). Such increase was mainly due to the increase in the number of administrative personnel and the increase in salaries and welfare benefits and contribution to defined contribution plan as the Group commenced its operation in Hong Kong in 2005.

Return on Assets

As at 30 June 2005, the net asset of the Group amounted to RMB347,528,000 and net return on assets (defined as profit attributable to the shareholders of the Company divided by net assets) was 13.3% (2004: 11.1%).

Liquidity and Financial Resources

As at 30 June 2005, the Group had cash and cash equivalents of approximately RMB79,729,000 (31 December 2004: RMB78,180,000). As at 30 June 2005, total bank borrowings amounted to RMB437,131,000 which are repayable within one year.

Capital expenditures

The total capital expenditures of the Group for the period was RMB8,339,000 (2004: RMB40,662,000), representing a decrease of 79% when compared with the corresponding period in last year.

The capital expenditures for the period mainly comprised purchases of property, leasehold improvement on retail shops and office equipments for the strategic purposes of expanding our business.

Pledge of Assets

As at 30 June 2005, the Group had bank borrowings of approximately RMB35,000,000, which was secured by buildings with net book value of RMB31,810,000.

Foreign Exchange Exposure

Substantially all of the Group's business transactions, assets and liabilities were denominated in Renminbi and the exchange rate of Renminbi has been relatively stable in recent years. Furthermore, the Group did not experience any material operating difficulties in or effects of liquidity during periods of fluctuations in currency exchange rates in the past. As such, the Group's foreign exchange exposure is minimal.

Contingent Liabilities

As at 30 June 2005, the Group did not have any material contingent liabilities (31 December 2004: Nil).

HUMAN RESOURCES AND EMPLOYEE REMUNERATION

As at 30 June 2005, the Group employed a total of 1,143 full time staff members. The total costs of staff were approximately RMB20,521,000 for the period, while that for the same period of 2004 were approximately RMB15,219,000.

The Group has put into resources to provide continuing education and on-job training for managerial staff and other business staff with an aim to improve their skills and to enhance their knowledge base. The Group has also provided tailored knowhow training for the sales team and the maintenance technicians, including sales skill, brand knowledge and dedicated repair and maintenance technique and etc. The Group believes that such training and education could help strengthen staff quality, thereby improve its profitability.

The Group has offered competitive remunerations. Other benefits provided by the Group to the employees included pension contribution scheme, insurance plan, housing and catering benefits and the like.

The Company has complied with all regulations concerning staff welfare schemes.

PROSPECTS

The Chinese economy is in its rapid and healthy development. The steady increase in GNP will inevitably turn into the rise in the consumption power of the people. The middle and high income classes are growing and their pursuit for living taste and living quality will become more and more ardent, transforming into the increasing demand for precious and high-grade brand products, including high-grade precious watches. As compared with other developed or developing countries globally, China has only relatively low consumption of famous watches. Therefore, there is vast room for development in the imported watches market of China. The Group is engaged in retail and wholesale of watches in the PRC with a focus on distributing watches of international brands and is committed to expanding unceasingly its retail business as the upmost market segment. The Directors believe that the Group will score bumper harvest in the expanding high-end consumer market and be able to maintain stable increase of profitability.

To secure more market, the Company will continue to make more effort in the expansion of retail network and the establishment of new brands, and the customer services as well. The Directors is convinced that the Group is capable of capitalizing on market initiatives to make more profits for the company itself and to reward its shareholders and the community.

Further Expansion of Retail Network

The establishment of retail network is crucial to the sale of internationally renowned watch brands. The Group will further expand its retail and distribution network in mainland China, not only to channel more internationally renowned brands into the market of China, but also to form a well-established distribution platform for more international brands to tap into China market.

Expansion of Brands Portfolio

The Group will speed up to build relationship with new brand-owners with an aim to boost its sales in the short run. In order to secure the success of the new brands and proprietary brands, the Group promises to give sufficient promotion of brands while securing the development of its retail business.

Further Enhancement of After-Sale Services Quality

The Directors consider the customers the most valuable assets and resources of the Group, and believes that the vigor and vitality of retail and brand promotion come from good customer services, and that the establishment of a customer-based services system is key to the enhancement of corporate competitiveness. The Group will amass all effective resources to establish such a services system, and the nationwide joint guarantee system in respect of customer services signifies the first step towards this goal. In the course of future development, the Group will also endeavour to provide the customers with quality individualized before and after-sales services to give them best guarantee of confidence.

Maintaining and Strengthening the Group's Strategic Alliance

The Group is committed to establishing a comprehensive and quality distribution platform for internationally renowned watch brands, and pursuing the joint development with other retailers in the PRC. The Group considers that a sound operation environment and standardized market rules in the watch market of China are conducive to the advancement and development of both the company and the community. The Group will thus maintain and strengthen its good cooperation relationship with suppliers, maintain and strengthen its strategic alliance with other retailers in China, opening a new dimension of co-existence, co-sharing and mutual benefits.

Optimization of Human Resources Management

In order to nurture corporation sustainable development and make profits increasing, the Group will further strengthen management and perfect its human resources polices in relation to remuneration and incentives, such that the staff are fully geared with active and energetic spirit of progress.

DISCLOSURE UNDER RULES 13.13-19 OF THE LISTING RULES

As at 30 June 2005, there were no advances to entities by the Company and no financial assistance and no guarantees provided to affiliated companies of the Company which should be disclosed under Rules 13.13-19 of the Listing Rules.

INTERIM DIVIDEND

The Directors do not propose the payment of an interim dividend for the six months ended 30 June 2005. However, as set out in the Prospectus, upon the listing of the Company on the Stock Exchange, the Company will declare dividends in an aggregate amount of no less than 30% of profits attributable to equity holders of the parent to all shareholders.

SHARE OPTION SCHEME

On 27 August 2005, the shareholders of the Company adopted the share option scheme (as amended by a Committee of the Board on 13 September 2005), ("Share Option Scheme"), which enables the Company to grant options to selected participants as incentive or rewards for their contributions to the Group.

As at the date hereof, no share option has been granted or agreed to be granted pursuant to the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES

The Company was listed on 26 September 2005. The interests and short positions of the Directors and the chief executives in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will be required to be disclosed pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under the SFO), or which will be required, pursuant to section 347 of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, as at the date of this report, are as follows:

Name of Director	Nature of interest	Number of shares	Approximate percentage of the shares in issue*
Mr. Zhang Yuping	Controlled Corporation *(Note 1)*	726,300,000	72.63%
Mr. Song Jianwen	Controlled Corporation *(Note 2)*	11,850,000	1.185%

Note 1: Mr. Zhang Yuping owns 51.52% of the issued share capital of Best Growth International Limited which holds 72.63% of the issued share capital of the Company.

Note 2: Mr. Song Jianwen owns 100% of the issued share capital of Artnew Developments Limited which holds 1.185% of the issued share capital of the Company.

* *assuming that the Over-allotment Option is not exercised*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IS SHARES

The Company was listed on 26 September 2005.

(a) the following person(s) will have an interest or short position in the shares or the underlying shares which will be required to be disclosed to the Company pursuant to Divisions 2 and 3 of part XV of the SFO:–

Name	Number of shares	Approximate percentage of holding
Best Growth International Limited ("Best Growth") *(note 1)*	726,300,000	72.63%
Mr. Zhang Yuping *(note 1)*	726,300,000	72.63%
The Swatch Group (Hong Kong) Limited *(note 2)*	50,000,000	5.00%

Notes:

1. Mr. Zhang Yuping owns 51.52% of the issued share capital of Best Growth.

2. The Swatch Group (Hong Kong) Limited is a subsidiary of the Swatch Group Limited, a company established in Switzerland and whose shares are listed on the stock exchange of Switzerland.

(b) the following person(s) are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:–

Member of the Group	Name of substantial shareholder of members of the Group (other than the Company)	Percentage of interest
Beijing Hengdeli Swiss Timepieces Limited Liability Company (北京市亨得利瑞士鐘錶有限責任公司)	Beijing Yi Shang Group Ltd (北京一商集團有限公司)	45%
Hefei Xinyu Hengdeli World Famous Watches Centre Ltd. (合肥新宇亨得利世界明錶中心有限公司)	Hefei Jinbao Group Company (合肥金寶集團公司)	10%
Qingdao Xinyu Hengdeli Timepieces and Glasses Ltd. (青島新宇亨得利鐘錶眼鏡有限公司)	Qingdao Hengdeli Co., Ltd. (青島亨得利有限公司)	45%
Tianjin Shi Huichang Clocks, Watches & Glasses Ltd. (天津市惠昌鐘錶眼鏡有限公司)	Ms. Liu Yingqi (劉英琦)	40%

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares during the six months ended 30 June 2005.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, and is responsible for reviewing the accounting principles and practices adopted by the Company, any significant unusual items, the internal control and financial reporting matters, including review of the interim accounts as at 30 June 2005.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The directors of the Company were not aware of any information that can reasonably indicate that the Company has not complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange at any time during the period from 26 September 2005 (the date of the Company's shares commenced trading on the Stock Exchange) and up to the date of this report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct and rules governing Directors' securities transactions. The Company has made specific enquiry to all Directors. Since 26 September 2005 and up to the date of this report, the directors of the Company have strictly complied with the Model Code.

GENERAL INFORMATION

As at the date of this report, the executive Directors of the Company are Mr. Zhang Yuping, Mr. Song Jianwen and Mr. Huang Yonghua. The non-executive Directors are Mr. Li Jialin, Mr. Chen Sheng and Mr. Shen Zhiyuan. The independent non-executive Directors are Mr. Liu Huangsong, Mr. Cai Jianmin and Mr. Wong Kam Fai William.

By order of the Board
Zhang Yuping
Chairman

27 September 2005