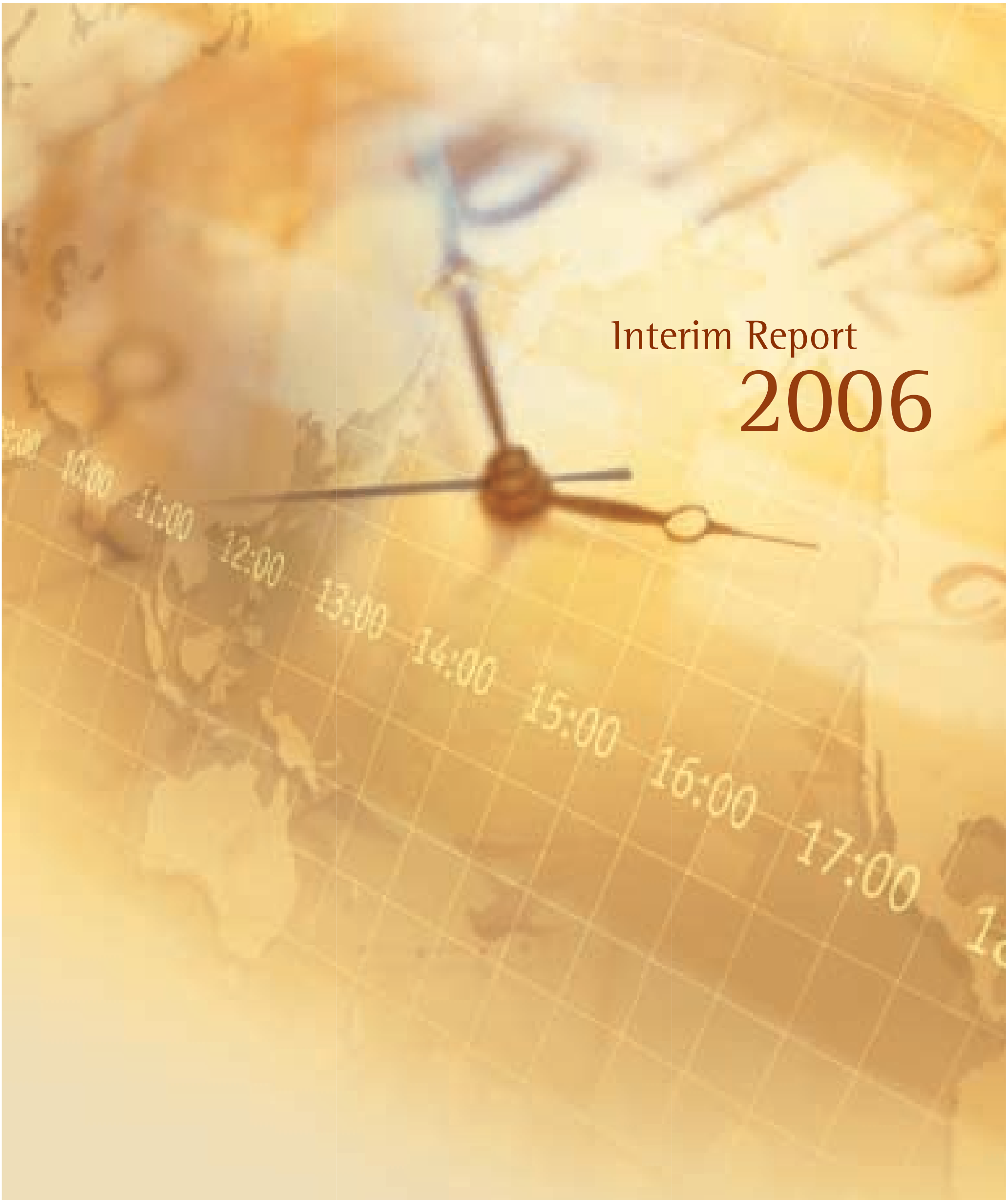

Interim Report 2006

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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Contents

Corporate Information

Place of Listing:
Main Board of The Stock Exchange of Hong Kong Limited

Stock Short Name:
Xinyu Hengdeli

Registered Office

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P.O. Box 2681 GT
George Cayman
British West Indies

Head Office and Principal Place of Business in Hong Kong

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Tsim Sha Tsui
Kowloon
Hong Kong

Auditors

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

Legal Adviser

Gallant Y. T. Ho & Co.
5th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Investor Relations Enquiry

Mr. Ng Man Wai, Peter
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Financial Highlights

RESULTS	Six months ended 30 June 2004 *RMB'000* (Unaudited)	2005 *RMB'000* (Unaudited)	**2006** ***RMB'000*** **(Unaudited)**
Sales	717,959	656,504	**907,668**
Profit from operations	76,082	86,980	**113,285**
Finance costs	(7,919)	(11,529)	**(9,336)**
Share of losses of a jointly controlled entity	–	–	**(170)**
Profit before tax	68,163	75,451	**103,779**
Income tax	(22,685)	(25,872)	**(33,632)**
Profit for the period	45,478	49,579	**70,147**
Attributable to:			
Equity shareholders of the Company	40,307	46,066	**64,951**
Minority interests	5,171	3,513	**5,196**

Chairman's Statement

Riding on the robust economic growth and huge consumer demand in the PRC, the Group recorded a remarkable business growth for the six months ended 30 June 2006 (the "period"). Progress for every task had been accomplished beyond our plan and encouraging results had been achieved.

For the six months ended 30 June 2006, the Group recorded a turnover of RMB907,668,000, representing a growth of 38.3% from the corresponding period of last year. Profit for the period grew by 41.5% as compared to the corresponding period of last year, to RMB70,147,000.

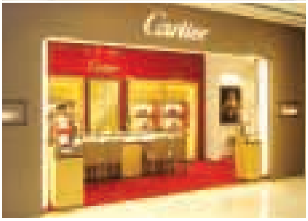
On retail business, the Group goes in line with its established strategic direction to expand its sales network through multi-format development. In particular, the Group had successfully entered into a provisional acquisition agreement with Elegant International Holdings Limited ("Elegant International") during the first half of the year to acquire its entire share capital, and has entered into a formal acquisition agreement in July. We consider that this acquisition can further enhance the profitability of the Group. As a result, it will be conductive to the steady growth of the Group in the long run, and will facilitate the synergy between our domestic and oversea retail operations of international luxurious watches. Consequently, the Group will further expand internationally and, building on its established foundation in the domestic market, become a leading retailer of medium to high end watches in the Greater China region.

During the period under review, the Company had also entered into placing agreements with Temasek (a investment fund of Singapore government) and the SWATCH Group. Upon the completion of placing, Temasek will become the second largest shareholder of the Company, while the SWATCH Group will keep increasing its stake in the Company to more than 7% of the total shares. According to a report, LVMH had also begun to acquire the Company's shares in the market and would further increase its stake in the Group. All the above demonstrates that the Group's position in import of high-end watches had been well recognized by the international market.

Looking forward, with the high income group keeps growing, there will be more potential for imported high end watches in the PRC. The Group will remain its focus on develop the PRC market, and at the same time, continue to penetrate into overseas retail markets including Hong Kong, in order to attain comprehensive growth in all areas in the medium to high end watches segment encompassing retail, distribution, customer services and watches accessories. The Group will leverage on its underlying strength to actively seek a larger market share, as well as to improve the quality of its service and to maximize its return to shareholders and the community as a whole.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 22 August 2006



Management Discussion and Analysis

(I) Market Review

Inheriting the strong economic performance in year 2005, China's economy has continued to grow in a rather fast pace and a stable manner in the first half of 2006. According to the government statistics, the GDP for the first quarter reached RMB4,331.3 billion, representing a year-on-year growth of 10.02%, with total retail consumption in the community also reached RMB1,844 billion, representing an increase year-on-year of 12.8%. The continuing economic development and increasing domestic income had resulted in substantial growth in consumers' demand, which in turn had contributed to the enormous development in the watches' retail market.

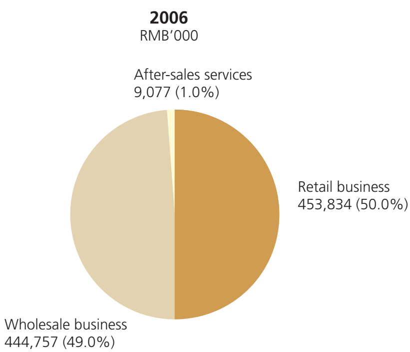
Under such favourable conditions, the Group had been developing its business with tremendous success as a major player in retail and distribution of internationally prestigious brand watches in the PRC.

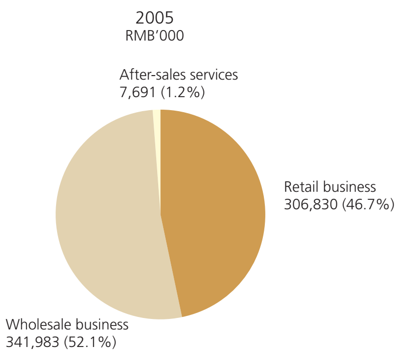
(II) Financial Review

Sales

For the six months ended 30 June 2006, the Group recorded sales of RMB907,668,000, representing a growth of 38.3% from the corresponding period of last year. 50.0% of the sales was attributable to the retail operation, which amounted to RMB453,834,000, or a growth of 47.9% from the corresponding period of last year.

Breakdown of the Group's sales: (six months ended 30 June 2006)





Gross profit

For the six months ended 30 June 2006, the Group's gross profit increased by 36.0% to approximately RMB224,366,000 as compared to last year. The increase was mainly attributable to our active expansion in the retail business which enjoys a higher gross profit margin.

Profit and net profit margin for the period

During the period under review, the Group has recorded a remarkable profit growth, profit for the period amounted to approximately RMB70,147,000, or 41.5% higher than that of the corresponding period of last year. Net profit margin for the period stood at 7.7%. This was mainly attributable to the Group's continued expansion of its sales network and broadening of its earning base, as well as its effort in maintaining good corporate governance practices. The strong performance in profit could also be attributable to the fact that the high-spending population in the PRC had kept on growing in line with the country's booming economy, creating significant demand for the high-end consumer goods market in the PRC.

Distribution costs

During the period under review, the Group had invested heavily in developing its retail business. Distribution costs amounted to approximately RMB76,034,000, which represented 8.4% of the Group's turnover.

Finance costs

During the period under review, the Group's finance costs amounted to approximately RMB9,336,000, representing a decrease of approximately 19.0% compared to the corresponding period last year.

Contingent liabilities

As at 30 June 2006, the Group did not have any material contingent liabilities.

Current assets

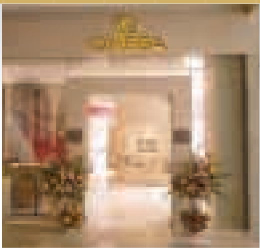
During the period under review, the current assets of the Group amounted to approximately RMB1,227,915,000, including inventories of approximately RMB742,707,000, trade and other receivables of approximately RMB236,733,000, and cash and cash equivalents of approximately RMB194,633,000.

(III) Business Review

Retail Business

Constant expansion of sales network is the Group's principal strategic direction of the year. During the period under review, the Group dedicated to expand its sales and distribution network through various means, including acquisitions and co-operations with retailers through various ways, collaboration with brand suppliers, co-opening brand franchised shops and direct investment in opening retail stores. Moreover, we made concerted efforts in strengthening good cooperative relationship with brand suppliers during sales network expansion in order to capture the tremendous demand for high end watches in the PRC market.

Speeding up the expansion of the retail business of Hong Kong and other oversea markets is one of the main tasks of the Group this year. During the period under review, the Group entered into a provisional acquisition agreement with Elegant International Holdings Limited in relation to the acquisition of the entire share capital of that group and a formal acquisition agreement was entered into July. Elegant International is mainly engaged in the trading and retail business of internationally branded watches in Hong Kong with four high end watch retail shops in Tsimshatsui, Causeway Bay and Central, Hong Kong. Its management has extensive and rich experience in the horizon of high end watch retail sector. The Group believes that this can bring material effect to the Group's development in the long run.



Over the period under review, two companies were added by the Group in provincial capitals like Hefei and Zhengzhou through the acquisition of 70% shareholding of Henan Fuhao Watch Ltd., and the setting up of Anhui Sanxin Watch & Clock Ltd. in joint hands with a well-reputed retailer in Auhui respectively. With these two projects, the overall retail shops of the Group were increased by 10, with the share of 85% and 90% in the high end watch retail market in Hefei and Zhengzhou respectively.

To persistently upgrade our group's retail image and to establish a strong foothold for our long term growth, the Group made great efforts in expanding our sales network, and at the same time continuously strengthen internal controls through a standardising image and operate by categories. At present, the group's sale business was basically divided into: high and middle end comprehensive shops, brand franchised shops and lifestyle stores. As to the high and middle end comprehensive shops, they will be gradually promoted under a unified brand name of "PRIME TIME" (盛時表行). Through constant adjustments, the Group now owns 87 retail outlets in China, distributed over 50 internationally renowned watch brands. In addition to the brands wholesaled by the Group, Rolex (勞力士), Omega (歐米茄), Rado (雷達), Vacheron Constantin (江詩丹頓) and Cartier (卡地亞) were also distributed by the Group.

The Comprehensive Retail Network of Xinyu Hengdeli

The Group recorded a realized retail sales of RMB453,834,000, representing an increase of 47.9% over the corresponding period last year. Gross profit amounted to RMB152,488,000, representing an increase of 43.7% over the corresponding period last year. The ratio of retail and wholesale sales amounted to 50.0:49.0, contrasting a ratio of 46.7:52.1 for the corresponding period of the last year. The retail development was completely in line with the Group's strategic directions.

Close Co-operations with Brand Suppliers

The Group has an extensive coverage of distribution network spreading over a geographic extent of 40 cities throughout the nation and a customer base of over 300 wholesale clients in the PRC.

The Group has maintained good relationships with numerous brand suppliers of internationally-famous watches, namely The Swatch Group, LVMH Group, Richemont (曆峰) Group, Rolex (勞力士)Group and The Desco (達昌) Group. The Group was the wholesalers of 19 internationally renowned watch brands under the above groups, of which 16 brands were distributed under an exclusive basis, including TAG Heuer (豪雅), Jaeger-LeCoultre (積家), Carl F. Bucherer (寶齊萊), Baume & Mercier (名士), Maurice Lacroix (艾美), Christian Dior (克麗絲汀 • 迪奧), Zenith (真力時) and Audemars Piguet (愛彼).

The Swatch Group was one of the strategic shareholders of the Company. The LVMH Group also acquired the Company's shares in the market and declared its intention to increase its shareholding of the Company.

The Group has always reinforced our co-operations with brand suppliers. During the period under review, 5 brand franchised shops were opened. Currently, there were 14 brand franchised shops under the Group, including Beijing Grand Hyatt Jaeger – LeCoultre Boutique (北京君悅積家專賣店), Beijing Grant Hyatt Zenith Boutique (北京君悅真力時專賣店), Beijing Grand Hyatt TAG Heuer Boutique (北京君悅豪雅專賣店), Beijing Oriented Plaza Rolex, Tudor Boutique (北京東方廣場勞力士、帝舵專賣店), Nanjing Deji Omega Boutique (南京德基歐米茄專賣店), Hangzhou Building Omega Boutique (杭州大廈歐米茄專賣店), Wuxi Oriental Plaza Cartier Boutique (無錫東方商廈卡地專賣店). All these shops are located in Beijing, Shanghai, Hangzhou, Nanjing and Shenzhen which are economically the wealthiest and the most prosperous places in China.

During the period under review, the Group marked a brand new epoch for our co-operation with Audemars Piguet by entering into a three-year renewable long-term exclusive agency agreement with Audemars Piguet.

Customer Services

Quality customer services represent good after-sales assurance for customers. Premium services are of particularly crucial for high end products. In view of this, the Group has always stressed on the provision of customer services. Apart from providing immediate repair and maintenance services at each retail shop, two sizeable repair and maintenance factories in Beijing and Shanghai served to assure our clients of full confidence. The two large repair and maintenance factories are equipped with strong technical capabilities by a pool of senior repair technicians and authorized repair technicians from high end watch brands like Jaeger-LeCoultre (積家). With an established customer service network, the Group is capable of offering repair and maintenance services on a nation-wide basis.

(IV) Future Plans

Given to the robust domestic economic growth and the increasing income level and purchasing power of the people, the watch retail market in China is set to be embedded with a more promising operating environment, and benefiting the Group's business development eventually.

The Group will adhere itself to a diversified approach of developing domestic as well as overseas sales network in order to set forth a firm base for our development. The retail outlets of the Group are expected to exceed 90 by the second half of the year.

The Group will continue to maintain and foster our close collaborative relationships with the brand suppliers through the joint promotion of brands in the China market and the establishment of brand franchised stores so as to cultivate an upgraded branding image as a flagship arm.

The Group will upgrade customer services to a higher and brand new level by setting up sound customer service hotlines and comprehensive service systems. Upon the completion of the acquisition of Elegant International, an interactive customer service network will be established between Hong Kong and China on basis of our nationwide joint repair and maintenance services.

To the Group's belief, ancillary production related to watch sales will be a new profit growth driver for enterprises. The Group will complete the construction of the relevant production bases promptly in order to achieve synergies from scale of economies as soon as practicable.

The Group will also foster higher operating efficiencies and improve resource allocation through optimized enterprise resource planning and management systems. At the same time, standard of the corporate management will be enhanced progressively to ensure the Group's decision made are in line with the overall interest of our shareholders.

The Group will dedicate greater effort to the development and promotion of its proprietary brands in order to foster the continual growth of its business. Meanwhile, through strengthening internal management and reinforcing marketing efforts, the Group will proactively enhance the brand awareness of "PRIME TIME" (盛時表行), the retail brand name of Xinyu Hengdeli.

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Corporate Governance

The Company has long been committed to maintain a high standard of corporate governance practice to ensure a higher level of transparency of the Group, such that the interests of our shareholders, customers, employees as well as the long term development of the Group can be safeguarded.

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

In the opinion of the Directors, the Company had complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules of the Stock Exchange throughout the period under review except for Code provision A2.1.

Given its existing corporate structure, the roles of chairman and chief executive officer have not been separated. Although the functions and duties of chairman and chief executive officer have been performed by the same individual, all major decisions would only be made after consultation with the Board of Directors and (where applicable) the committees of the Board of Directors. There are three independent non-executive Directors in the Board of Directors, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

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, internal controls and financial reporting matters, which included a review on the interim account for the period ended 30 June 2006.

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.

Model Code for Securities Transactions by the Director of the Company

For the six months ended 30 June 2006 the Company adopted a code of conduct regarding the securities transactions by the Directors of Company on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors and the Directors complied with the Model Code for Securities Transactions set out in Appendix 10 of Listing Rules and its required standards regarding the standards of securities transactions.

Human Resources and Employee Remuneration

During the period under review, the Group employed approximately 1,240 staff members in aggregate in the PRC and Hong Kong.

The Group persists the corporate culture of "human-oriented" that emphasizes on the development and appreciation of human resources, and has continuously put into resources to provide continuing education and on-job training for managerial staff and other staff with an aim to enhance their knowledge base and to improve their service quality. The Group has always worked together with brand suppliers also and the latter will specifically provide tailored knowhow training for the sales team and the maintenance technicians, including sales skill, brand knowledge of watch and dedicated repair and maintenance technique of watch and etc.. The Group believes that such training and education could help strengthen staff quality, thereby improve their profitability, and the Group considers such training as the stepping stone for the staff's self development, which constitutes part of their career.

The Group has offered competitive remunerations for its staff. 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.

Report of the Directors

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlaying Shares and Debentures of the Company or any of its Associated Corporation

As at 30 June 2006, the interests and short positions of each of the Directors and chief executives in the shares, underlying shares and debentures of the Company or 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 required pursuant to Section 352 of the SFO to be entered in the register 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); and were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhang Yuping (alia, Cheung Yu Ping) ("Mr. Zhang")	Controlled Corporation *(Note1)*	713,800,000(L) 12,500,000(S)	68.8% 1.2%
Mr. Song Jianwen	Controlled Corporation *(Note2)*	11,850,000(L)	1.142%

The letters "L" and "S" denote the person's long positions and short positions in the Shares respectively.

Note 1: Mr. Zhang Yuiping owned 51.5% of the issued share capital of Best Growth International Limited ("Best Growth"), which in turn owned 68.8% long positions and 1.2% short positions of the issued capital of the Company.

Note 2: Mr. Song Jianwen owned the entire share capital of Artnew Developments Limited, which in turn owned 1.142% of the issued share capital of the Company.

Save as disclosed above, the Directors or chief executives of the Company were not aware that there was any party who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders' Interests and Short Positions in Shares

As at 30 June 2006, the interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares or underlying shares or debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Number of Shares held	Approximate percentage of issued share capital of the Company
Best Growth *(Note 1)*	713,800,000(L) 12,500,000(S)	68.8% 1.2%
Mr. Zhang Yuping *(Note 1)*	713,800,000(L) 12,500,000(S)	68.8% 1.2%
The Swatch Group Hong Kong Limited *(Note 2)*	90,000,000(L)	8.67%
Hayek Nicolas Georges *(Note 2)*	90,000,000(L)	8.67%
Dunearn Investments (Mauritius) Pte Ltd *(Note 3)*	123,500,000(L)	9.94%
Seletar Investments Pte Ltd *(Note 3)*	123,500,000(L)	9.94%
Temasek Capital (Private) Limited *(Note 3)*	123,500,000(L)	9.94%
Temasek Holdings (Private) Limited *(Note 3)*	123,500,000(L)	9.94%

The letters "L" and "S" denote the person's long positions and short positions in the Shares respectively.

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

Mr. Zhang Yuping	51.5%
Ms. Zhang Yuhong, younger sister of Mr. Zhang	14.7%
Mr. Jiang Xuebin, younger brother-in-law of Mr. Zhang	13.6%
Mr. Zhang Yuwen, younger brother of Mr. Zhang	2.4%
Ms. Zhang Qiuling, cousin of Mr. Zhang	1.4%
Ms. Zhang Huiling, younger sister of Mr. Zhang	5.2%
Ms. Xiao Meirong, mother of Mr. Zhang	9.6%
Ms. Xiao Xiaohong, cousin of Mr. Zhang	1.0%
Ms. Jiang Xueping, younger sister of Mr. Jiang Xuebin	0.6%

Note 2: These 90,000,000 Shares are held in the name of and registered in the capacity of The Swatch Group Hong Kong Limited as a beneficial owner. The entire issued share capital of The Swatch Group Hong Kong Limited is beneficially owned by The Swatch Group Limited, a 38.02% interest of which is in turn beneficially owned by Mr. Hayek Nicolas Georges. Pursuant to the Securities and Futures Ordinance, both of The Swatch Group Limited and Mr. Hayek Nicolas Georges were deemed to be interested in all the shares held by The Swatch Group Hong Kong Limited.

Note 3: These 123,500,000 Shares are held in the name of and registered in the capacity of Dunearn Investments (Mauritius) Pte Ltd as a beneficial owner. The entire issued share capital of Dunearn Investments (Mauritius) Pte Ltd is owned by Seletar Investments Pte Ltd, a 100% interest of which is in turn beneficially owned by Temasek Capital (Private) Limited. Temasek Capital (Private) Limited's entire interest is owned by Temasek Holdings (Private) Limited.

Dividend Distribution

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2006.

Share Option Scheme

A share option scheme was adopted by the Company to grant share options to selected participants as incentives and rewards for their contributions to the Group.

As at the date of this report, no option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

Purchase, Sale or Redemption of Listing Shares

During the period under review, the Company has entered into Subscription Agreements with Swatch Group, Temasek and United Capital Investment respectively for the Private Placing of 148,500,000 new Shares to the three said parties and raised approximately HK$460,000,000 for the expansion of the sales network of the Company; and at the same time a total of 56,250,000 new Shares as the consideration paid for the acquisition of Elegant International. Details of the Placing are as follow:

Name of company	**Price per Share** *(HK$)*	**New Shares** *('0,000)*
Temasek	3.1	12,350
Swatch	3.1	1,250
United Capital Investment	3.1	1,250
Total		14,850

During the period under review, the Placing has not yet completed. However, the Group has entered into Formal Acquisition Agreement with Elegant International Holdings Limited on 27 July 2006.

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

Disclosure of Information on the Website of the Stock Exchange

An interim report for the six months ended 30 June 2006 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 in due course.

Acknowledgement

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

General Information

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

By order of the Board
Zhang Yuping
Chairman

22 August 2006, Hong Kong

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 2006, 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.

Consolidated Income Statement

		For the six months ended 30 June	
		2006	2005
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Sales	*3*	**907,668**	656,504
Cost of sales		**(683,302)**	(491,474)
Gross profit		**224,366**	165,030
Other revenue and net income	*4*	**8,179**	342
Distribution costs		**(76,034)**	(50,631)
Administrative expenses		**(42,295)**	(26,065)
Other expenses		**(931)**	(1,696)
Profit from operations		**113,285**	86,980
Finance costs	*5(i)*	**(9,336)**	(11,529)
Share of losses of a jointly controlled entity		**(170)**	–
Profit before tax		**103,779**	75,451
Income tax	*6*	**(33,632)**	(25,872)
Profit for the period		**70,147**	49,579
Attributable to:			
Equity shareholders of the Company		**64,951**	46,066
Minority interests		**5,196**	3,513
		70,147	49,579
Basic earnings per share	*7*	**RMB0.06**	RMB0.06

Consolidated Balance Sheet

	Notes	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**95,182**	96,208
Intangible assets		**33,049**	33,109
Goodwill	10	**8,115**	–
Investments in a jointly controlled entity		**4,643**	4,813
Other investments		**250**	250
Deferred tax assets		**20,944**	17,553
		162,183	151,933
Current assets			
Trading securities		**–**	42,792
Inventories	11	**742,707**	662,142
Trade and other receivables	12	**236,733**	214,110
Pledged bank deposits		**53,842**	130,025
Cash and cash equivalents	13	**194,633**	142,502
		1,227,915	1,191,571
Current liabilities			
Bank loans		**329,000**	314,000
Trade and other payables	14	**182,009**	185,376
Current taxation		**42,828**	49,412
		553,837	548,788
Net current assets		**674.078**	642,783
Total assets less current liabilities		**836,261**	794,716
Non-current liabilities			
Other payables		**–**	565
NET ASSETS		**836,261**	794,151
Total equity attributable to equity shareholders of the Company		**709,791**	694,640
Minority interests		**126,470**	99,511
TOTAL EQUITY		**836,261**	794,151

Consolidated Statement of Changes in Equity

	Notes	For the six months ended 30 June 2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Equity attributable to equity shareholders of the Company:			
Balance at 1 January		**694,640**	285,508
Profit for the period		**64,951**	46,066
Equity movements arising from the Reorganization		**–**	16,018
Dividends	8	**(49,800)**	(92,150)
Balance at 30 June		**709,791**	255,442
Minority interests			
Balance at 1 January		**99,511**	78,573
Capital contribution		**16,500**	14,850
Acquisition of subsidiaries		**10,900**	–
Share of profit for the period		**5,196**	3,513
Dividends		**(5,637)**	(4,850)
Balance at 30 June		**126,470**	92,086
Total equity		**836,261**	347,528

Condensed Consolidated Cash Flow Statement

	Notes	For the six months ended 30 June **2006** RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Cash (used in)/generated from operations		**(1,337)**	83,058
Income tax paid		**(43,607)**	(33,269)
Net cash (used in)/generated from operating activities		**(44,944)**	49,789
Net cash generated from/(used in) investing activities		**119,449**	(9,420)
Net cash used in financing activities		**(22,374)**	(38,820)
Net increase in cash and cash equivalents		**52,131**	1,549
Cash and cash equivalents at 1 January	*13*	**142,502**	78,180
Cash and cash equivalents at 30 June	*13*	**194,633**	79,729

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 preparation

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The Group's consolidated income statements, consolidated statements of changes in equity and condensed consolidated cash flow statements have been prepared on the basis that the Company was the holding company of the Group for both periods presented, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation. Accordingly, the consolidated results of the Group for the period beginning from 1 January 2005 to the date when the Company became the holding company of the Group include the results of the Company and its subsidiaries with effect from 1 January 2005 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the periods presented. The consolidated balance sheet at 31 December 2005 has been prepared on the basis that the current group structure was in place with effective from 1 January 2005. All material intra-group transactions and balances have been eliminated on consolidation.

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.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements of the Company.

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 accounting 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 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The financial information relating to the financial year ended 31 December 2005 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 2005 annual financial statements. The 2005 annual financial statements are available from the Company's registered office. The auditors have expressed an unqualified opinion in the 2005 annual financial statements dated 12 April 2006.

3 Segment information

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

	For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales		
Retail	**453,834**	306,830
Wholesales	**444,757**	341,983
Unallocated	**9,077**	7,691
Total	**907,668**	656,504

The principal activities of the Group are retail and wholesales of watches. Sales mainly represent income arising from the sales of watches net of value added tax.

	For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Segment result		
Retail	**76,761**	56,526
Wholesales	**51,874**	41,680
Total	**128,635**	98,206
Unallocated operating income and expenses	**(15,350)**	(11,226)
Profit from operations	**113,285**	86,980
Finance costs	**(9,336)**	(11,529)
Share of losses of a jointly controlled entity	**(170)**	–
Income tax expense	**(33,632)**	(25,872)
Profit for the period	**70,147**	49,579

4 Other revenue and net income

	For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**861**	342
Gain on disposal of trading securities	**7,318**	–
	8,179	342

5 Profit before tax

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

	For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(i) Finance costs		
Interest expense on bank loans and other borrowings	**8,248**	10,350
Other borrowing costs	**1,088**	1,179
Total borrowing costs	**9,336**	11,529
(ii) Other items		
Cost of inventories#	**683,871**	492,401
Interest income	**(861)**	(342)
Depreciation	**5,299**	5,465
Loss on disposal of property, plant and equipment	**–**	3
Amortisation of intangible assets	**60**	60
Operating leases charges in respect of properties		
– minimum lease payments	**8,678**	6,970
– contingent rents	**27,504**	16,604

\# *Cost of inventories includes RMB629,000 relating to provision for inventories for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB987,000).*

6 **Income tax expense**

	For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
Provision for Hong Kong profits tax for the period	**–**	91
Provision for PRC income tax for the period	**37,023**	27,447
Deferred tax		
Origination and reversal of temporary differences	**(3,391)**	(1,666)
	33,632	25,872

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 2006 as those subsidiaries did not earn any assessable income for Hong Kong profits tax purposes.

The provision for the 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.

7 **Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB64,951,000 (2005: RMB46,066,000) and the weighted average of 1,037,500,000 ordinary shares (2005: 750,000,000 ordinary shares after adjusting for the capitalisation issue in 2005) in issue during the period. The weighted average number of shares used to calculate the basic earnings per share for 2005 included 60,000,000 ordinary shares in issue as at the date of the prospectus of the Company and 690,000,000 ordinary shares pursuant to the capitalisation issue as detailed in the paragraph headed "Resolution in writing of the Shareholders of the Company passed on 27 August 2005" set out in Appendix V to the prospectus of the Company, as if the shares were outstanding on 1 January 2005.

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

8 Dividends

(a) The Directors do not recommend the payment of interim dividend for 2006 (six months ended 30 June 2005: Nil).

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the six months ended 30 June 2006.

	For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividend in respect of the previous financial year, approved and paid during the interim period	**49,800**	92,150

Pursuant to the resolutions passed at the board of directors' meeting held on 8 June 2006, dividends of RMB49,800,000 were declared by the Company to its equity shareholders.

Pursuant to the resolutions passed at the board of directors' meeting held on 29 March 2005, dividends (excluding share of dividends to minority shareholders) of RMB92,150,000 were declared by Shanghai Xinyu Watch & Clock Group, Ltd. ("Shanghai Xinyu") to its then major shareholders.

9 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 2005	101,183	15,371	5,935	14,592	163	137,244
Additions	816	181	218	1,846	985	4,046
Additions from acquisition	–	–	–	268	–	268
Transfer from construction in progress	–	430	–	–	(430)	–
Disposals	–	–	–	(66)	–	(66)
Balance at 30 June 2006	101,999	15,982	6,153	16,640	718	141,492
Depreciation:						
Balance at 31 December 2005	(17,906)	(12,651)	(2,922)	(7,557)	–	(41,036)
Charge for the period	(2,001)	(1,463)	(358)	(1,410)	–	(5,232)
Addition from acquisition	–	–	–	(67)	–	(67)
Disposals	–	–	–	25	–	25
Balance at 30 June 2006	(19,907)	(14,114)	(3,280)	(9,009)	–	(46,310)
Net book value:						
At 30 June 2006	82,092	1,868	2,873	7,631	718	95,182
At 31 December 2005	83,277	2,720	3,013	7,035	163	96,208

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

As at 30 June 2006, the Group was in the process of obtaining the property ownership certificate of an office building in Beijing, with the carrying amount of approximately RMB8,978 thousands.

As at 30 June 2006, an office building in Shanghai with the carrying amount of RMB28,962 thousands (31 December 2005: RMB30,195 thousands) was pledged to banks for certain loans.

10 Goodwill

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Goodwill arising from acquisition of a subsidiary	**8,115**	–

Goodwill represents the excess of the consideration of acquisition of 70% equity interest in Henan Fuhao Watch Ltd. ("Henan Fuhao") of RMB11,500 thousands over the Group's share of net fair value of Henan Fuhao's identifiable net assets of RMB3,385 thousands at the acquisition date.

The issued and paid up capital of Henan Fuhao amount to RMB5,000,000 at the acquisition date and was increased to RMB30,000,000 as at 30 June 2006 and its principal activity is retail of watches. The operating period of Henan Fuhao expires on 4 January 2015.

11 Inventories

As at 30 June 2006, all the Group's inventories were finished goods.

12 Trade and other payables

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Trade receivables	**183,307**	159,241
Other receivables	**52,906**	53,881
Receivables due from related parties	**520**	988
	236,733	214,110

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 (net of impairment losses for bad and doubtful debts) is as follows:

	At 30 June 2006 **RMB'000** **(Unaudited)**	At 31 December 2005 RMB'000 (Audited)
Within 1 month	**138,360**	121,719
Over 1 month but less than 3 months	**37,142**	30,589
Over 3 months but less than 12 months	**7,805**	6,933
	183,307	159,241

13 Cash and cash equivalents

As at 30 June 2006, all the Group's cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement represented cash at bank and other financial institutions and cash in hand.

14 Trade and other payables

	At 30 June 2006 **RMB'000** **(Unaudited)**	At 31 December 2005 RMB'000 (Audited)
Trade payables	**128,761**	121,418
Other payables and accrued expenses	**33,204**	38,782
Payables due to related parties	**20,044**	25,176
	182,009	185,376

An ageing analysis of the trade payables is as follows:

	At 30 June 2006 *RMB'000* **(Unaudited)**	At 31 December 2005 *RMB'000* (Audited)
Within 1 month	**93,352**	78,907
Over 1 month but less than 3 months	**28,327**	42,113
Over 3 months but less than 12 months	**6,438**	289
Over 1 year	**644**	109
	128,761	121,418

15 Commitments

(i) Operating lease commitments

	At 30 June 2006 *RMB'000* **(Unaudited)**	At 31 December 2005 *RMB'000* (Audited)
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	**17,804**	14,278
Between one and five years	**23,736**	19,449
More than five years	**1,756**	2,342
	43,296	36,069

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.

(ii) Commitments of guaranteed profit

	At 30 June 2006 *RMB'000* **(Unaudited)**	At 31 December 2005 *RMB'000* (Audited)
Less than one year	**2,750**	3,500
Between one and five years	**7,000**	8,000
	9,750	11,500

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.

Pursuant to a management agreement dated 31 December 2005 entered into between Shanghai Xinyu and Qingdao Hengdeli Company Ltd. ("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 thousands from the Group.

16 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	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Lease expense to:		
Minority shareholders	**2,400**	2,400
Ultimate shareholders' companies	**362**	184
Guaranteed profit to:		
Minority shareholders	**1,750**	750
Sales of goods to:		
Jointly controlled entity	**3,772**	–

(b) Non-recurring

	For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of goods to:		
Minority shareholders	**–**	6,222
Purchase of goods from:		
Ultimate shareholders' companies	**–**	–
Minority shareholders	**–**	29,571

(c) *Amounts due from*

	At 30 June 2006	At 31 December 2005
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade and other receivables from:		
Jointly controlled entity	**520**	988

(d) *Amounts due to*

	At 30 June 2006	At 31 December 2005
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Other payables due to:		
Minority shareholders	**20,044**	25,176
	20,044	25,176

17 Non-adjusting post balance sheet events

The following significant transactions took place subsequent to 30 June 2006:

On 27 July 2006, the Company entered into a sale and purchase agreement (the "Agreement") with independent vendors (the "Vendors"). Pursuant to the Agreement, the Company agreed to purchase from the Vendors the entire equity interests of Elegant International Holdings Limited (the "Target Company"), an investment company incorporated in the British Virgin Islands with limited liability, which is held by the Vendors, at a consideration of not more than HK$360,000,000 (equivalent to approximately RMB370,800,000) (the "Consideration"). The exact amount of consideration payable will be based on the audited consolidated profit for the year ended 31 March 2006 of the Target Company and its subsidiaries (the "Target Group").

According to the circular of the Company dated 14 August 2006, the Consideration will be satisfied by the Company as to:

(i) HK$180,000,000 (equivalent to RMB185,400,000) to be paid by cash; and

(ii) by the issue and allotment of 56,250,000 consideration Shares ("Consideration Shares") (representing 5.42% and 5.14% of the total issued share capital immediately before and after the completion of the Acquisition respectively) at consideration price of HK$3.20.