

## 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.

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

#### 4. Profit before tax

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

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

# 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

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

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*

<b>Unaudited</b>	
<b>For the six months</b>	
<b>ended 30 June</b>	
<b>2005</b>	2004
<b>RMB'000</b>	RMB'000

Dividend attributable to the previous financial year, approved and paid during the period	<b>92,150</b>	32,598
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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

	Leasehold		Motor	Office	Construction	Total
	Buildings	improvements	Vehicles	equipment	in progress	
	RMB'000	RMB'000	RMB'000	and other fixed assets RMB'000	RMB'000	RMB'000
<b>Cost:</b>						
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	<u>101,040</u>	<u>16,606</u>	<u>5,935</u>	<u>13,207</u>	<u>-</u>	<u>136,788</u>
<b>Depreciation:</b>						
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	<u>(14,718)</u>	<u>(12,722)</u>	<u>(2,525)</u>	<u>(6,651)</u>	<u>-</u>	<u>(36,616)</u>
<b>Net book value:</b>						
At 30 June 2005	<u>86,322</u>	<u>3,884</u>	<u>3,410</u>	<u>6,556</u>	<u>-</u>	<u>100,172</u>
At 31 December 2004	<u>82,355</u>	<u>4,389</u>	<u>3,344</u>	<u>6,946</u>	<u>285</u>	<u>97,319</u>

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**

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

**10. Trade and other receivables**

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

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:

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

## 11. Cash and cash equivalents

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

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

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

An ageing analysis of the trade payables is as follows:

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

### 13. Commitments

(i) *Operating lease commitments*

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

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*

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

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*

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

(b) *Non-recurring*

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

(c) *Amounts due from*

	<b>Unaudited</b>	Audited
	<b>At 30 June</b>	At 31 December
	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
<b>Trade and other receivables from:</b>		
Ultimate shareholders' companies	-	37,125
Minority shareholders	-	3,223
	<u>-</u>	<u>40,348</u>
	<b><u>-</u></b>	<b><u>40,348</u></b>

(d) *Amounts due to*

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

## 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.