

(c) *Amounts due from*

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

(d) *Amounts due to*

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

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