

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 RMB'000 (Unaudited)	2005 RMB'000 (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>(i) Finance costs</i>		
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
<i>(ii) Other items</i>		
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 RMB'000 (Unaudited)	2005 RMB'000 (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 RMB'000 (Unaudited)	2005 RMB'000 (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 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Trade and other receivables from:		
Jointly controlled entity	520	988

(d) Amounts due to

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (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.