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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)

2009 INTERIM RESULTS

Financial Highlights	Six months ended 30 June		
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	Change (%)
Results			
Sales	2,694,978	2,725,609	-1.12
Profit for the period	225,555	253,709	-11.10
Attributable to equity shareholders	212,198	237,605	-10.69
Basic earnings per share	0.086	0.096	-10.42
Profit after taxation (excluding the effect of convertible bonds and profit/loss from currency exchange)	247,033	228,517	+8.10

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 2009, along with the 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 2009 – unaudited

		For the six months ended 30 June	
		2009	2008
	Note	RMB'000	RMB'000
Turnover	2	2,694,978	2,725,609
Cost of sales		<u>(2,031,268)</u>	<u>(2,060,894)</u>
Gross profit		663,710	664,715
Other revenue	3	39,045	16,531
Other net (loss)/income	3	(6,820)	81,364
Distribution costs		(246,693)	(226,759)
Administrative expenses		(113,240)	(131,421)
Other operating expenses		<u>(1,967)</u>	<u>(4,294)</u>
Profit from operations		334,035	400,136
Finance income		2,319	6,580
Finance expenses		<u>(50,786)</u>	<u>(86,174)</u>
Net finance cost	4(a)	(48,467)	(79,594)
Share of losses of jointly controlled entities		<u>(1,008)</u>	<u>(465)</u>
Profit before taxation	4	284,560	320,077
Income tax	5	<u>(59,005)</u>	<u>(66,368)</u>
Profit after taxation		<u>225,555</u>	<u>253,709</u>
Attributable to:			
Equity shareholders of the Company		212,198	237,605
Minority interests		<u>13,357</u>	<u>16,104</u>
Profit after taxation		<u>225,555</u>	<u>253,709</u>
Earnings per share	6		
Basic		<u>RMB0.086</u>	<u>RMB0.096</u>
Diluted		<u>RMB0.086</u>	<u>RMB0.095</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2009 – unaudited

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Profit after taxation	225,555	253,709
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(4,325)</u>	<u>(13,950)</u>
Total comprehensive income for the period	<u>221,230</u>	<u>239,759</u>
Attributable to:		
Equity shareholders of the Company	207,873	223,655
Minority interests	<u>13,357</u>	<u>16,104</u>
Total comprehensive income for the period	<u>221,230</u>	<u>239,759</u>

CONSOLIDATED BALANCE SHEET
at 30 June 2009 – unaudited

		At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
	<i>Note</i>		
Non-current assets			
Fixed assets	8		
– Investment property		26,889	27,771
– Other property, plant and equipment		534,904	529,183
		<u>561,793</u>	<u>556,954</u>
Intangible assets		42,357	42,974
Goodwill		228,367	228,367
Investments in jointly controlled entities		27,788	30,524
Other investments		797	797
Deferred tax assets		36,909	39,956
		<u>898,011</u>	<u>899,572</u>
Current assets			
Inventories	9	2,381,140	2,446,734
Trade receivables, prepayments and other receivables	10	585,024	449,962
Pledged bank deposits		29,000	96,497
Cash and cash equivalents		654,383	588,010
		<u>3,649,547</u>	<u>3,581,203</u>
Current liabilities			
Trade and other payables	11	462,041	584,464
Bank loans	12	793,147	760,122
Current taxation		28,331	70,340
		<u>1,283,519</u>	<u>1,414,926</u>
Net current assets		<u>2,366,028</u>	<u>2,166,277</u>
Total assets less current liabilities		<u>3,264,039</u>	<u>3,065,849</u>
Non-current liabilities			
Bank loans	12	184,474	35,685
Convertible bonds	13	629,062	680,146
Embedded financial derivatives	13	12,369	2,960
Deferred tax liabilities		19,409	15,038
		<u>845,314</u>	<u>733,829</u>
NET ASSETS		<u>2,418,725</u>	<u>2,332,020</u>
CAPITAL AND RESERVES			
Share capital		12,893	12,903
Reserves		2,160,321	2,082,895
Total equity attributable to equity shareholders of the Company		<u>2,173,214</u>	<u>2,095,798</u>
Minority interests		245,511	236,222
TOTAL EQUITY		<u>2,418,725</u>	<u>2,332,020</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2009 – unaudited

	<i>Note</i>	For the six months ended 30 June	
		2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Cash generated from/(used in) operations		157,264	(200,353)
Income tax paid		(93,596)	(127,373)
Net cash generated from/(used in) operating activities		63,668	(327,726)
Net cash generated from/(used in) investing activities		52,136	(113,204)
Net cash used in financing activities		(49,351)	(136,099)
Net increase/(decrease) in cash equivalents		66,453	(577,029)
Cash and cash equivalents at 1 January		588,010	987,193
Effect of foreign exchange rate changes		(80)	(24,706)
Cash and cash equivalents at 30 June		654,383	385,458

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

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 (“HKICPA”). It was authorised on 12 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements.

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 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 2008 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 (“HKFRS”).

The financial information relating to the financial year ended 31 December 2008 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 2008 annual financial statements. The 2008 annual financial statements are available from the Company’s registered office. The auditors have expressed an unqualified opinion on the 2008 annual financial statements in their report dated 25 March 2009.

2 SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in the People’s Republic of China (PRC)). On first-time adoption of HKFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Retail (PRC (Other than Hong Kong)/Hong Kong): given the importance of the retail division to the Group, the Group’s retail business is segregated further into two reportable segments on a geographical basis, as the divisional managers for each of these regions report directly to the senior executive team. Both segments primarily derive their revenue from the retail of watches through their own retail network.
- Wholesale: this segment distributes numerous World’s renowned brand watches in the PRC.

(a) Segment results and assets

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following basis:

Segment assets represent inventories only.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

For the six months ended 30 June	Retail											
	PRC				Wholesale		All others #		Total			
	(Other than Hong Kong)		Hong Kong		2009		2008		2009		2008	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue from external customers	1,270,355	1,190,054	681,940	680,372	680,687	787,369	61,996	67,814	2,694,978	2,725,609		
Inter-segment revenue	-	-	-	-	843,543	1,160,214	6,688	9,038	850,231	1,169,252		
Reportable segment revenue	1,270,355	1,190,054	681,940	680,372	1,524,230	1,947,583	68,684	76,852	3,545,209	3,894,861		
Reportable segment profit (Gross Profit)	413,576	390,659	148,043	149,596	83,571	104,755	18,520	19,705	663,710	664,715		

Reportable segment assets	Retail											
	PRC				Wholesale		All others #		Total			
	(Other than Hong Kong)		Hong Kong		30 June		31 December		30 June		31 December	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	1,408,757	1,426,300	559,144	554,964	440,950	539,119	85,960	69,636	2,494,811	2,590,019		

Revenues from segments below the quantitative thresholds are mainly attributable to three operating segments of the Company. Those segments include a watch repairing and maintenance business, manufacture and distribution business of writing instruments branded OMAS, and a packing and decoration business. None of those segments met any of the quantitative thresholds for determining reportable segments.

(b) Reconciliations of reportable segment revenues, profit or loss and assets

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Revenue		
Total revenues for reportable segments	3,476,525	3,818,009
Other revenue	68,684	76,852
Elimination of inter-segment revenue	<u>(850,231)</u>	<u>(1,169,252)</u>
Consolidated turnover	<u>2,694,978</u>	<u>2,725,609</u>
	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Profit		
Total profit for reportable segments	645,190	645,010
Other profit	<u>18,520</u>	<u>19,705</u>
	663,710	664,715
Other revenue	39,045	16,531
Other net (loss)/income	(6,820)	81,364
Distribution costs	(246,693)	(226,759)
Administrative expenses	(113,240)	(131,421)
Other operating expenses	(1,967)	(4,294)
Net finance cost	(48,467)	(79,594)
Share of losses of jointly controlled entities	<u>(1,008)</u>	<u>(465)</u>
Consolidated profit before taxation	<u>284,560</u>	<u>320,077</u>
	At 30 June	At 31 December
	2009	2008
	RMB'000	RMB'000
Asset		
Total asset for reportable segments	2,408,851	2,520,383
Other assets	85,960	69,636
Elimination of inter-segment purchases	<u>(113,671)</u>	<u>(143,285)</u>
	2,381,140	2,446,734
Trade receivables, prepayments and other receivables	585,024	449,962
Pledged bank deposits	29,000	96,497
Cash and cash equivalents	654,383	588,010
Non-current assets	<u>898,011</u>	<u>899,572</u>
Consolidated total assets	<u>4,547,558</u>	<u>4,480,775</u>

3 OTHER REVENUE AND NET INCOME

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Other revenue		
Government grants	16,350	–
Dividend income from unlisted investments	17,334	12,594
Rental income	1,318	920
Others	4,043	3,017
	<u>39,045</u>	<u>16,531</u>

One of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group., Ltd. ("Shanghai Xinyu"), received unconditional grants totaling RMB16,350,000 for the period ended 30 June 2009 (the six months ended 30 June 2008: nil) from the local government in Shanghai, in support of Shanghai Xinyu's development.

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Other net (loss)/income		
Changes in fair value of embedded financial derivatives (<i>note 13</i>)	(9,711)	81,364
Gain on purchases of convertible bonds (<i>note 13</i>)	2,891	–
	<u>(6,820)</u>	<u>81,364</u>

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
(a) Net finance cost		
Interest income	<u>(2,319)</u>	<u>(6,580)</u>
Finance income	<u>(2,319)</u>	<u>(6,580)</u>
Interest expense on bank loans	20,113	17,919
Interest on convertible bonds (note 13)	17,000	27,786
Bank charges	16,015	12,083
Net foreign exchange (gain)/loss [#]	<u>(2,342)</u>	<u>28,386</u>
Finance expenses	<u>50,786</u>	<u>86,174</u>
Net finance cost	<u><u>48,467</u></u>	<u><u>79,594</u></u>

[#] Net foreign exchange (gain)/loss includes RMB279,000 loss relating to convertible bonds for the six months ended 30 June 2009 (the six months ended 30 June 2008: RMB65,871,000 loss).

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
(b) Other items		
Cost of inventories [#]	2,032,600	2,061,892
Depreciation – property, plant and equipment, and investment property	16,312	12,267
Amortisation of intangible assets	485	286
Operating leases charges in respect of properties		
– minimum lease payments	39,929	23,990
– contingent rents	<u>94,067</u>	<u>86,756</u>

[#] Cost of inventories includes RMB1,332,000 relating to write-down for inventories for the six months ended 30 June 2009 (the six months ended 30 June 2008: RMB998,000).

5 INCOME TAX

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Current tax		
Provision for Hong Kong profits tax for the period	15,745	13,493
Provision for PRC income tax for the period	35,842	54,219
Deferred tax		
Origination and reversal of temporary difference	<u>7,418</u>	<u>(1,344)</u>
	<u>59,005</u>	<u>66,368</u>

- (a) 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 other than the PRC, except for those mentioned below, are not subject to any income tax in their jurisdictions.
- (b) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "New Tax Law") which became effective on 1 January 2008, when the income tax rules and regulations of the PRC applicable to foreign investment enterprises (the "FEIT Law") was abolished. The New Tax Law adopts a uniform tax rate of 25% for all enterprises including foreign investment enterprises.

Pursuant to the transitional arrangement under the New Tax Law, the PRC subsidiary which is in its tax holiday will also continue to enjoy the tax-exemption or 50% reduction on the applicable income tax rate until the expiry of the above-mentioned tax holiday previously granted under the FEIT Law, and thereafter it will be subject to the unified rate of 25%.

Applicable income tax rate of other domestic companies established in the PRC is 25%.

Pursuant to the New Tax Law, 10% withholding tax is levied on the foreign investor (5% for foreign investors who registered in Hong Kong) in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As at 30 June 2009, deferred tax liabilities of RMB11,413,000 (31 December 2008: RMB7,681,000) have been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. Deferred tax liabilities of RMB17,120,000 (31 December 2008: RMB11,522,000) have not been recognised, as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that certain part of the profits earned by the Group's PRC subsidiaries for the period will not be distributed in the foreseeable future.

- (c) The provision for Hong Kong Profit Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2008: 16.5%) to the six months ended 30 June 2009.

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB212,198,000 (six months ended 30 June 2008: RMB237,605,000) and the weighted average of 2,476,849,429 ordinary shares (six months ended 30 June 2008: 2,484,500,000 ordinary shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB212,198,000 (six months ended 30 June 2008: RMB249,898,000) and the weighted average of 2,476,849,429 ordinary shares (six months ended 30 June 2008: 2,644,179,230 ordinary shares).

(i) *Weighted average number of ordinary shares (diluted)*

	For the six months ended 30 June	
	2009	2008
Weighted average number of ordinary shares	2,476,849,429	2,484,500,000
Effect of conversion of convertible bonds	–	<u>159,679,230</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u>2,476,849,429</u>	<u>2,644,179,230</u>

The calculation of diluted earnings per share amount for the period ended 30 June 2009 has not included the potential effect of the deemed conversion of the convertible bonds into ordinary shares as it has an anti-dilutive effect on the basic earnings per share amount for the period.

The performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. As no shares would be issuable if 30 June 2009 were the end of the contingent period, no effect of share options is included in the calculation of diluted earnings per share.

(ii) Profit attributable to equity shareholders of the Company (diluted)

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Profit attributable to equity shareholders (basic)	212,198	237,605
Effect of effective interest on the liability component of convertible bonds	–	27,786
Effect of gain recognised on the derivative component of convertible bonds	–	(81,364)
Effect of exchange loss recognised on the liability and derivative components of convertible bonds	–	65,871
	<u>–</u>	<u>65,871</u>
Profit attributable to equity shareholders (diluted) at 30 June	<u>212,198</u>	<u>249,898</u>

7 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

- (i) No interim dividend was declared after the interim period.
- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Dividend in respect of the previous financial year, approved and paid during the period	<u>138,694</u>	<u>149,070</u>

(b) Purchase of own shares

During the period ended 30 June 2009, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of Shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000	Equivalent RMB'000
January 2009	2,316,000	1.25	1.21	2,880	2,539

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the nominal value of these shares of RMB10,000 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB2,539,000 was charged to retained profits.

8 FIXED ASSETS

(a) Acquisitions and disposals

During the six months ended 30 June 2009, the Group acquired items of construction in progress and leasehold improvements with a cost of RMB24,520,000. Apart from that, there are no significant acquisitions/disposals during the period from 1 January 2009 to 30 June 2009.

(b) Valuation

The investment property is located in the PRC and has been rented out under the terms of operating leases since January 2007. The fair value of the investment property as at 30 June 2009, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to RMB44,347,000 (31 December 2008: RMB43,680,000). The investment property has not been valued by an external independent valuer. Rental income of RMB1,280,000 was received from leasing the investment property during the six months ended 30 June 2009 (six months ended 30 June 2008: RMB920,000).

9 INVENTORIES

Inventories in the consolidated balance sheets comprise:

	At 30 June 2009	At 31 December 2008
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	21,369	51,987
Work in progress	18,096	14,752
Finished goods	<u>2,341,675</u>	<u>2,379,995</u>
	<u>2,381,140</u>	<u>2,446,734</u>

10 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2009	At 31 December 2008
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	395,704	272,093
Prepayments and other receivables	<u>189,320</u>	<u>177,869</u>
	<u>585,024</u>	<u>449,962</u>

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

Customers are normally granted credit terms of not more than 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 2009 RMB'000	At 31 December 2008 RMB'000
Current	342,986	231,262
Less than 1 month past due	36,750	30,662
1 to 3 months past due	8,493	5,312
More than 3 months but less than 12 months past due	5,483	1,840
More than 12 months past due	1,992	3,017
	<u>395,704</u>	<u>272,093</u>

11 TRADE AND OTHER PAYABLES

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade payables	315,139	429,198
Other payables and accrued expenses	123,173	134,656
Payables due to related parties	23,729	20,610
	<u>462,041</u>	<u>584,464</u>

An ageing analysis of the trade payables is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Within 1 month	275,902	357,613
Over 1 month but less than 3 months	28,412	52,181
Over 3 months but less than 12 months	4,097	16,265
Over 1 year	6,728	3,139
	<u>315,139</u>	<u>429,198</u>

12 BANK LOANS

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Current		
– secured bank loans	40,000	102,500
– non-current secured bank loans due within one year	2,485	2,286
– unsecured bank loans	750,662	655,336
	<u>793,147</u>	<u>760,122</u>

The current secured bank loans as at 30 June 2009 and 31 December 2008 were secured by the Group's pledged bank deposits. The non-current secured bank loans due within one year as at 30 June 2009 and 31 December 2008 were secured by the Group's land and buildings with carrying amounts of RMB79,579,000 and RMB80,001,000 respectively. The secured bank loans as at 30 June 2009 carried interest rates at 6.25% (31 December 2008: 6.03% to 6.12%).

The current unsecured bank loans as at 30 June 2009 carrying interest at rates ranging from floating interest rates of HIBOR+1% to HIBOR+3.5% (31 December 2008: HIBOR+1.25% to HIBOR+1.5%) (effective interest rate as at 30 June 2009: 1.54% to 5.11% (31 December 2008: 1.55% to 1.8%)) and from fixed interest rates of 4.86% to 6.66% (31 December 2008: 5.58% to 7.47%) per annum, and were all repayable within one year.

One of the Group's banking facilities is subject to the fulfillment of a covenant imposing certain specific performance requirements on the Group and a minimum shareholding requirement on the Group's major shareholder. If the Group were to breach the covenant, the drawn down facility would become payable on demand. The Group regularly monitors its compliance with the covenant. As at 30 June 2009, the Group had complied with the covenant.

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Non-current secured bank loans	34,474	35,685
Non-current unsecured bank loans	150,000	–
	<u>184,474</u>	<u>35,685</u>

The non-current secured loans as at 30 June 2009 and 31 December 2008 were property mortgage loans repayable in monthly instalments of principal and interest throughout the respective loans' borrowing periods. The loans carried interest at rates ranging from 1.42% to HKD Prime Rate minus 2.80% per annum (effective interest rate as at 30 June 2009: 2.20% (31 December 2008: 2.20%)) and were secured by the Group's land and buildings with a total carrying amount of RMB79,579,000 as at 30 June 2009.

The non-current unsecured bank loan as at 30 June 2009 carried interest at rate 5.13%, was repayable within two years.

13 CONVERTIBLE BONDS

On 24 August 2007, the Company issued United States Dollar (“USD”) Settled Senior Unsecured Zero Coupon Convertible Bonds due 2012 in the aggregate principal amount of RMB1,150,000,000 (the “Convertible Bonds” or “the Bonds”). The subscription amount payable in respect of each RMB1,000,000 principal amount of Bonds is approximately USD132,282. The Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The movement of the liability component and embedded financial derivatives of the Convertible Bonds for the period is set out below:

	Liability component	Embedded financial derivatives	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2008	680,146	2,960	683,106
Interest charged during the period (<i>note 4(a)</i>)	17,000	–	17,000
Purchase by the Company during the period	(68,084)	(302)	(68,386)
Changes in fair value during the period (<i>note 3</i>)	–	9,711	9,711
	<u>629,062</u>	<u>12,369</u>	<u>641,431</u>
As at 30 June 2009	<u>629,062</u>	<u>12,369</u>	<u>641,431</u>

No conversion of the Convertible Bonds has occurred up to 30 June 2009.

On 23 January 2009 the Company purchased, by way of market acquisition, Bonds listed on the Singapore Exchange Securities Trading Limited, with a principal amount of RMB76,000,000, for a total consideration of RMB65,495,000. The purchased Bonds will be cancelled in accordance with the terms of the Bonds.

The changes in the fair value of the embedded financial derivatives from 31 December 2008 to 30 June 2009 resulted in a fair value gain of RMB9,711,000 (for the year ended 31 December 2008: RMB121,416,000), which has been recorded in other income in the unaudited consolidated income statement for the six months ended 30 June 2009.

The fair value of the embedded financial derivatives was calculated using the Barrier Option Valuation model. The major inputs used in the models as at 31 December 2008 and 30 June 2009 were as follows:

	31 December 2008	30 June 2009
Stock price	HKD1.20	HKD2.28
Exercise price	HKD7.06	HKD7.06
Risk-free rate	1.05%	1.34%
Expected life	1,333 days	1,151 days
Volatility	55.77%	58.2%

The Company’s stock prices were as at 31 December 2008 and 30 June 2009 respectively. The risk-free rates were determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected lives were estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatilities of comparable companies under the same periods as the expected lives.

Any changes in the major inputs into the model will result in changes in the fair value of the embedded financial derivatives. The variables and assumptions used in calculating the fair value of the embedded financial derivatives are based on the directors' best estimates.

14 SHARE-BASED PAYMENTS

On 27 August 2005, the Company adopted a share option scheme pursuant to the resolutions of the shareholders of the Company. Pursuant to the share option scheme, the Company may grant 745,350,000 share options.

On 28 August 2007, the Company granted 39,380,000 share options to certain senior employees of the Group to subscribe for 39,380,000 ordinary shares at an exercise price of HKD4.83 per share at any time from 1 August 2010 to 31 July 2012 if certain performance targets are achieved during the period from 28 August 2007 to 31 July 2010.

As at 30 June 2009, 2,950,000 share options have lapsed (31 December 2008: 2,450,000 share options) as 16 employees resigned prior to 30 June 2009. Except for this, no share option has been exercised, lapsed or cancelled pursuant to the above share option scheme during the six months ended 30 June 2009.

15 COMMITMENTS

(a) Operating lease commitments

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	97,567	88,692
Between one and five years	194,054	192,671
More than five years	74,023	91,766
	<u>365,644</u>	<u>373,129</u>

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.

(b) **Commitments of guaranteed profit**

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Less than one year	8,800	8,800
Between one and five years	11,200	15,600
	<u>20,000</u>	<u>24,400</u>

Pursuant to a management agreement dated 31 December 2006 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 RMB6,800,000 from the Group for the period from 1 January 2007 to 31 December 2011.

Pursuant to a management agreement dated 31 December 2005 entered into between Shanghai Xinyu and 青島亨得利有限公司 (“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 RMB2,000,000 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	
	2009 RMB'000	2008 RMB'000
Lease expense to:		
Minority shareholders	–	900
Ultimate shareholders’ companies	169	416
Guaranteed profit to:		
Minority shareholders	4,400	4,400
Sales of goods to:		
A jointly controlled entity	8,481	7,003
Purchase of property from:		
Ultimate shareholders’ companies	–	47,262

(b) Amounts due from

	At 30 June 2009 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>
Trade and other receivables from:		
A jointly controlled entity	<u>12,216</u>	<u>12,833</u>

(c) Amounts due to

	At 30 June 2009 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>
Other payables due to:		
Minority shareholders	<u>23,729</u>	<u>20,610</u>

17 NON-ADJUSTING POST BALANCE SHEET EVENT

In July 2009, the Company issued 236,000,000 new shares at a price of HKD2.62 per Subscription Share by way of placing.

18 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

19 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2009

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2009 and which have not been adopted in these financial statements.

The following developments may result in new or amended disclosures in the financial statements:

	Effective Date (for annual financial statements covering periods beginning on or after unless specified)
Revised HKFRS 1, <i>First-time adoption of Hong Kong Financial Reporting Standards</i>	1 July 2009
Revised HKFRS 3, <i>Business combinations</i>	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Revised HKAS 27, <i>Consolidated and separate financial statements</i>	1 July 2009
Amendments to HKAS 39, <i>Financial instruments: Recognition and measurement – Eligible hedged items</i>	1 July 2009
HK(IFRIC) 17, <i>Distributions of non-cash assets to owners</i>	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

MANAGEMENT DISCUSSION AND ANALYSIS

The high-end consumables retail sector was encountering some obstacles and challenges against the backdrop of global financial crisis and weakening macro economy in the first half of 2009. Relevant data from the Federation of the Swiss Watch Industry suggest that the export sales of Swiss watches from January to May 2009 fell by approximately 25% over the corresponding period last year. In spite of this, the Group, taking full advantage of itself, took a proactive and positive approach to carry out a series of adjustment and consolidation initiatives in line with changes in the market, steadily focusing on the retail business development in Mainland China and Hong Kong, and achieved a steady business growth against the weakening market trend. For the six months ended 30 June 2009, retail sales in Mainland China and Hong Kong grew by 6.75% and 0.23% from the corresponding period last year respectively. Excluding the effect of the convertible bonds and the profit/loss from currency exchange, the profit after taxation rose by 8.10%, generating substantial returns for its shareholders.

I. Financial Review

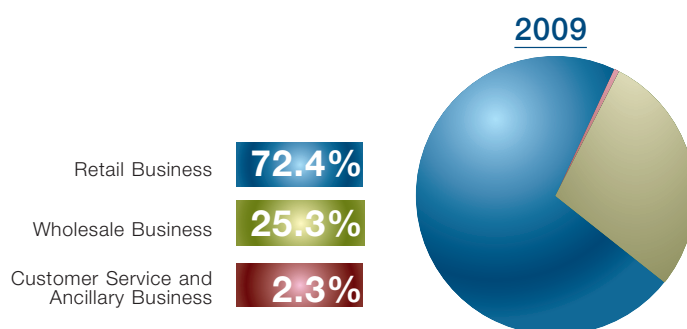
Sales

For the six months ended 30 June 2009, the Group recorded sales of RMB2,694,978,000, representing a decrease of 1.12% from the corresponding period last year. The Group's total retail sales achieved better growth, of which retail sales in Mainland China and Hong Kong amounted to RMB1,270,355,000 and RMB681,940,000, representing a growth of 6.75% and 0.23% over the corresponding period last year respectively. The overall retail sales accounted for 72.4% of the total sales, which was in line with the direction of the Group's strategic development.

Against the backdrop of a severe economic crisis, the Group's overall sales remained at the same level against the corresponding period while retail business maintained a steady growth. Apart from the relatively stable Chinese economy, it is mainly attributed to the highly defensive nature of the Group's integrated retail network in Mainland China and Hong Kong as well as the rational combination of retail outlets in Chinese second and third tier cities and coastal first-tier developed cities, which has substantially mitigated the impact of the global financial crisis on the sales. In addition, through proactive negotiations and communications with upstream brand suppliers and in line with the actual market situation, the Group has promptly, reasonably and consistently adjusted the structure of brand portfolio, strengthened operations management and enhanced the service quality so as to ensure a steady growth in the business.

Sales breakdown (for the six months ended 30 June)

	2009		2008	
	RMB'000	%	RMB'000	%
Retail Business				
(Mainland China)	1,270,355	47.1	1,190,054	43.7
(Hong Kong)	681,940	25.3	680,372	25.0
Wholesale Business	680,687	25.3	787,369	28.9
Customer Services and Ancillary Business	61,996	2.3	67,814	2.4
Total	2,694,978	100	2,725,609	100



Gross profit and gross profit margin

For the six months ended 30 June 2009, the Group's gross profit was approximately RMB663,710,000, whereas our gross profit margin grew 0.8% over the corresponding period last year to approximately 24.6%. The growth was mainly attributable to the economies of scale achieved as a result of the proactive expansion of the retail business with a higher profit margin during the period, the reduction of some of the wholesale businesses with a lower profit margin, as well as the disciplined pricing policies and the ongoing improvement of the retail management in Hong Kong and Mainland China.

Profit for the period and profit margin

During the period under review, excluding the effect of the convertible bonds and the profit/loss from currency exchange, the Group recorded a substantial growth of approximately RMB247,033,000 in profit after taxation, an increase of 8.1% from the corresponding period last year. The profit margin was approximately 9.2% accordingly. The increase was mainly attributable to the Group's effective and steady improvement of operational management efficiency as well as rational control and reduction of expense ratio. The Group's net profit after taxation amounted to RMB225,555,000, a decrease of 11.1% from the corresponding period last year, which was mainly attributable to the effect of profit/loss from relevant non-recurring items (including, among others, the effect of profit/loss from currency exchange and the convertible bonds).

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position.

As at 30 June 2009, the Group's total equity interests were RMB2,173,214,000 and current net asset value was RMB2,366,028,000, of which bank deposits amounted to RMB683,383,000. In addition, the bank loans totalled RMB977,621,000 and net debt to equity ratio was 14.9% (defined as the total bank loans net of cash and cash equivalents over total equity interests).

During the period under review, the Company redeemed RMB76 million USD Settled Zero Coupon Convertible Bonds due 2012 issued in August 2007, and the remaining net bonds amounted to approximately RMB669 million. Taking into account of such net convertible bonds, together with bank loans, the Group's total liabilities amounted to 1,619,052,000. As at 30 June 2009, the net debt to equity ratio of the Group, including convertible bonds, was approximately 44.3%, down 13.6% from the corresponding period last year. The directors of the Company believe that such net debt to equity ratio is within a reasonable range, and anticipate that the net debt ratio will improve further in the second half of the year.

Foreign exchange risk

The Group's transactions are mainly denominated in RMB and HKD. During the period under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to any significant risks associated with foreign exchange fluctuations.

The Group has been monitoring its foreign exchange risk with great attention.

Contingent liabilities

As at 30 June 2009, 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 RMB3,649,547,000, comprising inventories of approximately RMB2,381,140,000, trade and other receivables of approximately RMB585,024,000 and cash and cash equivalent of approximately RMB654,383,000.

Current liabilities

During the period under review, the current liabilities of the Group amounted to approximately RMB1,283,519,000, comprising bank loans of approximately RMB793,147,000, trade and other payables of approximately RMB462,041,000, and current tax payable of approximately RMB28,331,000.

Significant investment, acquisition and disposal

There was no significant acquisition or disposal of subsidiaries and associated companies nor was there any significant investment held by the Company during the period under review.

Operating cash flow

During the period under review, based on its prudent business objective for a sound and stable operation and a market-oriented approach and having assessed the situation, the Group kept under control the speed of expansion of its retail outlets, focused on improving the composition and turnover of inventory and substantially reduced the Company's demand for working capital. Then moving on from the significant improvement in operating cash flow since the second half of 2008, the Group recorded a surplus in operating cash flow, enabling it to mitigate its reliance upon external financing and improve its capability to generate its own cash, therefore laying a solid foundation for the Company's next expansion program.

Capital structure

The Company's capital structure is composed of issued share capital, convertible bonds, reserve and accumulated profits. As at 30 June 2009, the issued share capital of the Company was 2,476,684,000 shares and the principal amount of the issued convertible bonds was RMB669,000,000. These convertible bonds are due in 2012 and are non-interest bearing.

The Company completed the issue of 236,000,000 new shares on 3 July 2009. Accordingly, at the time of the publication of this interim results announcement, the Company's paid-up share capital was 2,712,684,000 shares. Net proceeds amounting to HK\$602 million were raised from this new share issue.

II. Business Review

During the period under review, the Group's business remained focused on the build-up of the retail network in the Greater China region with a core presence in Mainland China. It is also supplemented with the provision of a comprehensive customer services, manufacture of extension products, research and development of its own brands and brand distribution, etc.

Expansion and Enhancement of Retail Network

Adhering to its business development strategy, the Group continuously strengthens the build-up of its retail network. During the period under review, guided by the principles of "adjust and strengthen operations for healthy and steady development" and in line with changes in the market, the Group expanded the retail network in a steady yet proactive approach. With tremendous support from brand suppliers, the Group modified the inventory structure to improve sales under the prevailing market conditions so that a steady business growth was achieved. Accounting for

72.4% of the Group's total sales, the retail sales amounted to RMB1,952,295,000, representing an increase of 4.4% over the corresponding period last year. Gross profit of retail business was RMB561,619,000, an increase of 4.0% from the corresponding period last year, accounting for 84.6% of the Group's total gross profit.

The Group has been maintaining sound working relationship with many worldwide renowned watch suppliers, including SWATCH Group, LVMH Group, RICHEMONT, ROLEX Group and DKSH Group. For the six months ended 30 June 2009, the Group has distributed approximately 50 internationally renowned brands from the five major brand suppliers, including Jaeger-LeCoultre, TAG Heuer, Zenith, Breguet, IWC, Frank Muller, Glashutte, Rolex, Omega, Maurice Lacroix and Tissot. In addition, after adjustment was made, efforts were stepped up to bring in and expand middle-to-high-end brands including Balmain, Frederique Constant, Mido and Olma. Sales of brands were adjusted according to the market changes. This helped diversify and improve the sales portfolio of the Group's brands, which would be favorable to the long-term business development and ongoing enhancement of overall results.

Our retail network spans across the Greater China region where retail stores are mainly Elegant, Prime Time, TEMPTATION and single-brand boutiques. Elegant mainly sells top grade internationally renowned brand watches; Prime Time mainly sells middle-to-high-end internationally renowned brand watches, and TEMPTATION mainly sells middle-to-high-end internationally fashionable watches. Six new retail outlets were opened during the period under review. As at 30 June 2009, the Group operated a total of 216 retail outlets in Mainland China, Hong Kong and Taiwan, an increase of 26 outlets over the corresponding period last year. Of these stores, 13 were Elegant shops (3 in Hong Kong and 10 in China), 145 were Prime Time shops (all located in Mainland China), 18 were TEMPTATION shops (all located in China) and 40 were brand boutiques (31 in Mainland China, 7 in Hong Kong and 2 in Taiwan).

Mainland China

Footprint of retail network

The Group operates a total of 204 retail outlets in Mainland China. During the period under review, the Group committed tremendous efforts to improving the re-positioning and sale of middle-to-high-end brands, and continued to consolidate and expand its retail network in the second and third tier cities. The Group had a comprehensive distribution network of watch retail outlets covering most of the provinces and cities in Mainland China, with a multiple-point footprint in major areas such as Shanghai, Beijing, Northeast, Zhejiang, Jiangsu, Henan and Shanxi, thus consolidating its control of market share.

Positioning of retail outlets

As the consumption demand for high-end watches remains low in Mainland China, and in order to complement the Group's high-end watch retail business in Hong Kong, more than 75% of the Group's retail outlets in Mainland China are Prime Time shops, which are positioned to sell middle-to-high-end watches. During the period under review, Prime Time contributed nearly 80% of the Group's total retail sales in Mainland China. It will remain the Group's leading retail brand in Mainland China in the foreseeable future.

Engaging in the sale of high-end watches by the Group, Elegant shop has a relatively small coverage in Mainland China. As at 30 June 2009, there were 10 Elegant shops mainly located in developed first tier cities such as Shanghai, Beijing, Hangzhou, Nanjing and Shenyang.

Age of outlet portfolio

As the retail business of middle-to-high-end watches is affected, to a great extent, by the flow of people in the business districts where retail outlet are located, as well as by the period of establishment and local consumption level, these outlets will take more time to foster as compared with other retail outlets that sell general consumables. A watch retail outlet usually takes more than three years to reach maturity. The Group's portfolio comprising 204 retail outlets in Mainland China is still relatively young. 70% of sales are contributed by well-established stores (usually the sales per square meter of a mature outlet is two to three times higher than that of a young store with the same area). These well-established outlets have been opened for more than three years and account for 30% of the total number of retail outlets. The remaining young outlets with an average age of one to two years account for more than 70% of the entire portfolio, and therefore the Group's retail business possesses huge potential for organic growth.

Hong Kong and Taiwan

As at 30 June 2009, the Group operated a total of 10 retail outlets in Hong Kong, of which 3 are Elegant shops that sell multiple brands and 7 are single-brand boutiques. These stores are mainly located in the business districts near Tsimshatsui and Causeway Bay. The Group plans to launch new outlets in other major business districts in the second half of the year.

Elegant under the Group has a long history in Hong Kong's watch retail industry. Elegant at Ocean Terminal, a flagship shop opened in 1970, has an area of approximately 170 square meters and has held the highest sales record up to the present as a single shop. The broad, profound and loyal clientele has helped the Group's retail business in Hong Kong weather against the impact of the financial crisis smoothly.

The Group's retail business in Hong Kong is principally positioned to sell brands with a unit price of more than HK\$30,000. These brands include Vacheron Constantin, Cartier, Jaeger – LeCoultre Omega, Breguet, Chopard, Panerai, Zenith, IWC and Frank Muller. They fully complement our retail business in Mainland China, creating tremendous synergy.

The Group has opened two brand boutiques including Omega in Taiwan. They have not only built up a corporate identity for the Group in Taiwan but are also a pioneer of the Group in establishing an interactive business platform in the Greater China region, helping lay a sound foundation for the development of the Group's international business.

Customer Services and Maintenance

The Group is always dedicated to the provision of premium customer services. Apart from the establishment of three major service centers in Beijing, Shanghai and Guangzhou, the Group provides timely maintenance services in each retail outlet, delivering all-round services to customers through an interactive customer service network consisting of "repair and maintenance service centers", "repair service stations" and "repair service points". In addition, a service hotline 4008 has been set up for customers as the Group's centralized service window for the general public, offering customers timely and fast advice and the best assurance.

During the period under review, a CSMS management system for customer services was introduced to the Group in addition to the existing state-of-the-art information system. The system is able to track watch repair cycles promptly, provide timely financial information on the use of finished parts, generate a complete set of data on repairs within the entire network, effectively replace the conventional manual handling of repair records and facilitate brand suppliers to timely track the quality of watches so that improvement can be made.

During the period under review, the Group additionally acquired the exclusive watch maintenance rights in Mainland China from two world's renowned brands namely Charriol and Breitling. Our customer services have been widely recognised and tremendously supported by brand suppliers, and a number of our senior maintenance technicians have been certified by brand suppliers.

Ancillary extension products

During the period under review, Guangzhou Artdeco, an ancillary production company of the Group, faced with severe challenges as a result of the adverse impact of the global financial crisis on the economy. However, the Group continued to strengthen its internal management, exercised stringent control over production costs and stepped up its product research and development capabilities consistently while maintaining the quality of products, so as to enhance the Company's competitiveness in the market. Sales revenue remained at the same level as compared with the corresponding period last year, while operating profit was rising.

Guangzhou Artdeco has established a long-term partnership with many internationally renowned brand suppliers. In addition to existing business with brands such as Omega, Rolex, Tudor, Rado, Longines, Tissot and Ernest Borel. During the period under review, Artdeco once again partnered with Mido, Certina and Fendi. Its high quality products and precise delivery schedules were widely acclaimed by customers. This has provided a strong support for the steady development of the Group's principal businesses including the retail business.

Self-own brands and brand distribution

To persistently strengthen the build-up of its own brands is the Group's ongoing strategy.

OMAS

Having significantly restructured and re-positioned its own brand OMAS in terms of its brand features and marketing strategies, the Group accelerated the expansion pace of its retail network in China during the period under review, and further carried out systematic planning for new shop distribution in line with its business features. As at 30 June 2009, OMAS opened 23 shops in China, namely in Beijing, Nanjing, Wuxi, Zhengzhou, Hangzhou and Suzhou. Sales of these shops are growing gradually.

The Group also owns renowned Swiss watch brands including NIVADA, OLMA and NUMA JEANNIN. New development strategies have been devised based on the brand features of OLMA and NIVADA.

The Group believes the build-up of its own brands can establish a sound foundation for its sustainable development.

Brand distribution

The Group has more than 300 wholesale customers in over 40 cities throughout the Mainland of China. It distributes and exclusively distributes numerous world's renowned brand watches, including Jaeger-LeCoultre, TAG Heuer, Zenith, Carl F. Bucherer, Maurice Lacroix, Tissot and Frederique Constant. During the period under review, the Group once again worked together with SWATCH Group to become the exclusive distributor of Mido in Mainland China, a brand owned by SWATCH Group.

The Group has always been maintaining good partnership with brand suppliers and numerous retailers and, with their extensive and tremendous support, achieved a harmonious win-win situation.

III. HUMAN RESOURCES AND TRAINING

As at 30 June 2009, the Group employed a total of 3,972 employees in Mainland China, Hong Kong and Taiwan.

The Group is always serious about discovering and building human resources. We employ a systematic recruitment policy and commit resources to various training programs for the management staff, front-line service staff and maintenance technicians. These training programs cover the art of management, sales skills, brand knowledge and service awareness, etc., so as to enhance staff's knowhow, marketing skills and service capability. The Group also works with the brand suppliers on the provision of regular training to front-line service staff and maintenance technicians in brand knowledge and maintenance know-how.

The Group offers a competitive remuneration package and various incentives, and regularly reviews the structure of relevant mechanisms to cope with the needs for corporate development. The Group had granted options to the general management staff and associates of the Company in recognition of their contributions to the Group and as an incentive for their greater future commitment. The Group also offers various benefits to the employees, including a pension contribution plan, an insurance scheme, housing and meal allowances, etc. Details of the remuneration package and other benefits are set out in the financial statements.

Under a sound human resources protection policy, the Group has had a number of senior sales staff members and senior repair technicians. A number of staff members have received the “Capital Labour Medal” (首都勞動獎章) and the “May 1st Labour Medal” (全國五一勞動獎章).

IV. FUTURE DEVELOPMENT

To maintain a steady and fast economic development is the top priority in China’s economic program in 2009. Ongoing enhancement of consumption demand to achieve more sustainable economic growth remains to be one of the Chinese Government’s development strategies to boost consumption. As the global economy, especially the Chinese economic situation, is improving, we believe that China will remain to be one of the markets with the greatest growth potential. We remain discretely optimistic for the middle-to-high-end consumables market in China in the second half of the year. We have full confidence in the Group’s development.

With international brand name watches forming the basis, the distribution of a portfolio comprising middle-to-high-end consumables, such as watches, jewels, leather goods and writing instruments, remains to be our future development direction.

To timely adjust the expansion pace of the retail network based on market demand remains to be our core development strategy. The consumption market condition is anticipated to be improving in the second half of the year. Having consolidated market share in first-tier cities, we will continue with our strategy deployed in the first half of the year by accelerating the market expansion in second- and third-tier cities that cover medium-sized cities in the eastern region as well as provincial capitals in the central, southern and western regions. We will continue to regard China as our home base, and further expand the retail network in the Greater China region by launching new stores in Hong Kong and Taiwan. The Company raised net proceeds amounting to HK\$602 million from the issue of 236,000,000 new shares on 3 July. These proceeds will be mainly used for expanding our retail network by means of acquisition and merger as well as opening of retail stores by ourselves, as well as for working capital. Our business is believed to further improve as a result.

As our retail network grows, we will also timely finetune our three retail network systems, namely Elegant, Prime Time and TEMPTATION, continue to optimize the positions of retail outlet and the setup of single-brand boutiques so as to improve our retail management and make the configuration of our network system more capable to cater for market needs.

Meanwhile, more quality brand watches will be introduced to optimize our brand portfolio, and we aim to build a closer partnership with brand suppliers. We will also continue to improve and strengthen our customer services system and proactively develop the watch related ancillary business.

Looking into the future, under a sound financial policy, we will develop the retail business in a positive and proactive approach, supplemented by other business segments such as customer services and brand distribution, and continue to increase our market share and strengthen and consolidate our leading position in the middle-to-high-end watch sector in the Greater China region. We will fully capitalize on business opportunities and aim to achieve steady and sustainable profit growth so as to generate more satisfactory returns for our shareholders and general investors.

DIVIDEND DISTRIBUTION

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2009.

SHARE OPTION SCHEME

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

Pursuant to the share option scheme, the Company may grant 745,350,000 share options. On 28 August 2007, the Company granted 39,380,000 share options to certain senior employees of the Group to subscribe for 39,380,000 ordinary shares at an exercise price of HKD4.83 per share at any time from 1 August 2010 to 31 July 2012 if certain performance targets are achieved during the period from 28 August 2007 to 31 July 2010. On 1 January 2009, the total number of shares that might be subscribed for was 36,930,000 shares. Due to the retirement of certain employees, 500,000 options lapsed during the period under review. As at 30 June 2009, the total number of shares that might be subscribed for became 36,430,000 ordinary shares.

During the period under review, no option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company repurchased 2,316,000 shares listed on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) on the Stock Exchange by way of acquisition from the market, and the amount of the total consideration paid was HKD2,879,880. After the settlement of the repurchased shares had been completed, the Company cancelled all shares repurchased. As of 30 June 2009, the total issued share capital of the Company became 2,476,684,000 shares.

During the period under review, the Company repurchased certain Bonds on Singapore Exchange Securities Trading Limited by way of acquisition from the market. Such Bonds were listed on Singapore Exchange Securities Trading Limited on 24 August 2007. The principal amount of the Bonds repurchased was RMB76,000,000. The Bonds repurchased were cancelled according to the terms of the same. On 1 January 2009, the Company had RMB745,000,000 Bonds outstanding; as of 30 June 2009, the Company still had such Bonds outstanding at a carrying amount of RMB669,000,000.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or repurchased any of the Company's listed securities.

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has always been committed maintaining a high standard of corporate governance practices to ensure transparency so that the interests of our shareholders and the cooperative development among customers, employees and the Group can be safeguarded.

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

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") during the period under review, except for a deviation from the provision A2.1 of the Code. Given the Group's existing corporate structure, the roles of the chairman and chief executive officer have not been separated. Although the functions and duties of the 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. Therefore, the Board of Directors considers the Company has achieved balance of power and sufficient protection for its interest by justifiable decisions.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material exceptional items, internal controls and financial reporting matters, including a review on the interim report for the six months ended 30 June 2009.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Directors of the Company are not aware of any information which can reasonably show that the Company did not comply with the Code of Best Practice set out in Appendix 14 to the Listing Rules of the Stock Exchange at any time during the reporting period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the six months ended 30 June 2009, the Company had adopted a code of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions by its Directors. Following specific enquiry made with all Directors, the Directors had complied with the code for securities transactions relating to directors as required by the code mentioned above.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

An interim report for the six months ended 30 June 2009 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 and the website of the Company 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.

OTHERS

On 12 August 2009, the Directors resolved that the Company to, subject to shareholders' approval at the extraordinary general meeting, undertake proposals of bonus issue, increase in authorised share capital and change of company name. Please refer to an announcement published by the Company on 12 August 2009 for more information.

GENERAL INFORMATION

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

By order of the Board
Zhang Yuping
Chairman

Hong Kong, 12 August 2009