



CHAIRMAN  
Zhang Yuping

An extraordinary vigour ever fresh

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board of Directors"), I am pleased to present the annual report for the year ended 31 December 2005 (hereinafter as the "Year") of the Group, and hereby express our sincere gratitude to our shareholders and all staff for their continual support to the Company.

Our successful listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2005 marked a great step of the Company towards a brand new era. A sound capital operation platform following our listing paved a solid base for a regulated group management, which will in turn add contributive driving forces for achievement of our future development plans and continuously enhance the core competitiveness of the Group. Given our prime positioning as a leading industry player, our future corporate development will establish a solid and consolidated foundation.



During this listing, The Swatch Group Hong Kong Limited (being a company under Swatch Group which was an internationally reputed watch manufacturer and distributor and a business partner of the Company) subscribed 5% of the enlarged share capital of the Company, and became a strategic shareholder of the Company by gradually increasing its shareholding to over 6%.



In 2005, China's watch retail industry sustained vigorous development by leveraging on a strong demand for internationally famous imported watches from the domestic market. The Group fully captured each and every market opportunity by taking advantage of our intrinsic strengths, thereby flourishing fruitful results for the year. For the year ended 31 December 2005, the Company reported a sales of RMB1,396,531,000. Profit for the year grew by 24.5% to RMB131,777,000, whereas basic earnings per share grew by 15.4% to RMB0.15.

During 2005, by upholding our strategic move of devoting a concerted focus on expanding and consolidating our sales network coverage, the Group expanded into more widespread domestic and external distribution networks through various means, including by means of timely adjustments and reinforcement of our existing networks and enhancement of our retail shop quality, thereby forging towards a more solidified base for our future advancement.

By capitalizing on our close cooperative relationships with a pool of internationally famous brand watch suppliers, including Swatch Group, Richemont Group, LVMH Group, Rolex Group and Desco Group, the Group's business registered a sustainable stable growth despite of a rapid changing market environment.

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As part of our long-term development plans, the Group took a great leap in developing our proprietary brand NIVADA (尼維達), and acquired the worldwide ownership rights of the Swiss famous brands namely OLMA (奧爾瑪) and NUMA JEANNIN (龍馬珍).



*Xinyu Hengdeli was listed on the Main Board of Stock Exchange on 26 September 2005*

We place strong emphasis on effective cost controls and economies of scale on top of business expansion. At the same time, the Group has dedicated itself to further enhancing and maintaining a sound corporate governance mechanism by putting into place a whole-set regulated corporate governance system on the spectrums of finance, audit and human resources. Accordingly, the Company assured itself of making any and all decisions in the overall interest of our shareholders while delivering maximized shareholders' values.

The domestic high end consumer market stepped into times of a fierce rapid growth, since the accession of the PRC to the World Trade Organization (WTO), adding tremendous growing momentums for the medium and high end watch retail industry in China. To capture such an unprecedented valuable opportunity, the Group will continuously uphold a strategic direction of strengthening and solidifying our retail networks through a constant collaboration and enhancement of the Company's good relationships with our brand suppliers and other retailers. We committed endeavoured efforts in developing our proprietary brands. With the support of our shareholders, suppliers and business partners, unique core competitive strengths and wholehearted devotions of all staff, to the best belief of the Company, we will attain increasingly promising results in the rapidly growing domestic consumer market by creating the greatest shareholders' and social values.

Last but not the least, I, on behalf of the Board of Directors, would like to express our sincere gratitude to our shareholders, suppliers, customers and business partners for their heartfelt support, and to all our staff for their commitment and contribution.

By Order of the Board

**Zhang Yuping**

*Chairman*

Hong Kong, 12 April 2006

Pursuit of trueness through perfect rendition

