

REPORT OF THE DIRECTORS

The directors of the Company hereby present the annual report together with the audited accounts of the Company for the year ended 31 December 2005.

THE COMPANY

The Group is a watch wholesaler and retailer in the PRC with a focused operation of the retail and distribution of internationally branded watches.

The principal activities of the subsidiaries of the Company are set out in Note 17 to the financial statements.

USE OF PROCEEDS

The Company issued a total of 287,500,000 new Shares which included the over-allotment option that had been exercised ("New Offer") by way of a public offer and an international placing at a price of HK\$1.32 per Share. Net proceeds of approximately HK\$350 million were raised from the New Offer in September 2005. For the year ended 31 December 2005, all proceeds were applied in the manner as mentioned in the prospectus and were not used for any other purposes.

DISTRIBUTABLE RESERVE

As at 31 December 2005, the Company did not have any distributable reserve available for distribution to the Company's shareholders.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

FINANCIAL SUMMARY

The summary of the results and assets and liabilities of the Group for the last four financial years ended 31 December is set out on page 86 of this annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the listing date of 26 September 2005 to 31 December 2005.

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SHARE OPTION

A share option scheme (“Share Option Scheme”) was adopted on 27 August 2005 by the way of passing written resolutions by all of the then shareholders of the Company. The Share Option Scheme enables the Group to grant share options to eligible participants as incentives and rewards for their contributions to the Group. Participants eligible to enroll the Share Option Scheme include all our Directors or employees, business partners, agents, consultants, persons seconded to participate in the work of the Group or an Associated Company with at least a devotion of 40% of their time to the business of the Group or an Associated Company, trusts representing the interests of the eligible persons or their direct relatives, and the companies controlled by the eligible participants or their direct families.

As at 31 December 2005, no option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme.

DIRECTORS’ SERVICE CONTRACTS

The Company has entered into service contracts with each of the executive Directors for a term of three years.

DIRECTORS’ INTERESTS IN CONTRACTS

Save as disclosed in this annual report and in connection with the group reorganisation effected in preparation for the listing of the shares on the Stock Exchange, no contracts of significance in relation to the Group’s business in which the Company or its subsidiaries, its controlling shareholder or any of its subsidiaries and any Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION OF THE FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

Details of remuneration of the Directors made in accordance with specific basis during the year under review are set out in Note 9 to the financial statements.

Details of remuneration of the five highest paid individuals during the year under review are set out in Note 10 to the financial statements.

RETIREMENT BENEFIT SCHEME

Details of the Group’s Retirement Benefit Scheme are set out in Note 29 to the financial statements.

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DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Details of the Directors and Senior Management's biographies are set out on pages 29 to 31 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATION

As at 31 December, 2005, the interests or short positions of each of the Directors and chief executives in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required pursuant to Section 352 of the SFO to be entered in the register required to be kept by the Company; or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO); and were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interest	Number of Shares	Percentage of issued share capital of the Company
Mr. Zhang Yuping (<i>alia</i> , Cheung Yu Ping) ("Mr. Zhang")	Controlled Corporation (<i>Note 1</i>)	726,300,000(L)	70%
Mr. Song Jianwen	Controlled Corporation (<i>Note 2</i>)	11,850,000(L)	1.142%

The letter "L" denotes the person's long position in the Shares.

Note 1: Mr. Zhang Yuiping owned 51.5% of the issued share capital of Best Growth International Limited ("Best Growth"), which in turn owned 70% of the issued capital of the Company.

Note 2: Mr. Song Jianwen owned the entire share capital of Artnew Developments Limited, which in turn owned 1.142% of the issued share capital of the Company.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2005, the interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares or underlying shares or debentures of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Number of Shares	Percentage of issued share capital of the Company
Best Growth (Note 1)	726,300,000(L)	70%
Mr. Zhang Yuping (Note 1)	726,300,000(L)	70%
The Swatch Group Hong Kong Limited (Note 2)	65,000,000(L)	6.27%
Hayek Nicolas Georges (Note 2)	65,000,000(L)	6.27%

The letter "L" denotes the person's long position in the Shares.

Note 1: Best Growth is owned by the Zhang's family in the following manner:

Mr. Zhang Yuping	51.5%
Ms. Zhang Yuhong, younger sister of Mr. Zhang	14.7%
Mr. Jiang Xuebin, younger brother-in-law of Mr. Zhang	13.6%
Mr. Zhang Yuwen, younger brother of Mr. Zhang	2.4%
Ms. Zhang Qiuling, cousin of Mr. Zhang	1.4%
Ms. Zhang Huiling, younger sister of Mr. Zhang	5.2%
Ms. Xiao Meirong, mother of Mr. Zhang	9.6%
Ms. Xiao Xiaohong, cousin of Mr. Zhang	1.0%
Ms. Jiang Xueping, younger sister of Mr. Jiang Xuebin	

Note 2: The Swatch Group Hong Kong Limited increased its shareholding on 13 January 2006. These 65,000,000 Shares are held in the name of and registered in the capacity of a beneficial owner, The Swatch Group Hong Kong Limited (the entire issued share capital of The Swatch Group Hong Kong Limited is beneficially owned by The Swatch Group Limited, a 36.29% interest of which is in turn beneficially owned by Mr. Hayek Nicolas Georges). Pursuant to the Securities and Futures Ordinance, both of The Swatch Group Limited and Mr. Hayek Nicolas Georges were deemed to be interested in all the shares held by The Swatch Group Hong Kong Limited.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Options" above, at no time during the 12 months ended 31 December 2005 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debenture of the Company or any other body corporate.

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MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year under review.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year under review attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	31%
– five largest suppliers combined	75%

Sales

– the largest customer	10%
– five largest customers combined	23%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

During the year under review, the following continuing connected transactions (the "Transactions") have been entered into by the Group to which the Stock Exchange has granted waivers (subject to certain conditions ("Conditions")) to the Company from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

- (a) THE LEASING AGREEMENT ENTERED INTO BETWEEN BEIJING HENGDELI SWISS TIMEPIECES LIMITED LIABILITY COMPANY ("BEIJING HENGDELI") AND BEIJING TIMEPIECES AND GLASSES COMPANY ("BEIJING TIMEPIECES")

Pursuant to a lease agreement dated 18 September 2002 as amended and supplemented by a supplemental agreement dated 25 August 2005 (the "Lease"), Beijing Hengdeli, a subsidiary of the Company, has been leasing a retail shop with a gross floor area of approximately 519 sq.m. situated at No. 271-273, Wangfujing Street, Dongcheng District, Beijing City from 北京市鐘錶眼鏡公司 (Beijing Timepieces and Glasses Company) ("Beijing Timepieces") for a term commencing from 1 January 2002 to 31 December 2007 at a monthly rent of RMB150,000 (approximately HK\$144,200), representing an annual rent of RMB1,800,000 (approximately HK\$1,730,800).

Beijing Timepieces is a state-owned enterprise under the supervision and management of Beijing Yi Shang Group which holds 45% interests in Beijing Hengdeli and is thus regarded as a connected person of the Company.

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The monthly rent payable by Beijing Hengdeli is based on an arm's length negotiation between the parties thereto. The leased shop is located at a famous commercial street - Beijing Wangfujing Street, a prime commercial location in Beijing, and is the flagship shop of the Group in Beijing. The shop has a gross floor area of approximately 519 sq.m. and is the largest shop of the Group in terms of gross floor area. The Directors believe that securing such a prime commercial location for the Group's flagship shop in Beijing is crucial to the Group's retail business.

It is expected that the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules and calculated with reference to the annual rent payable by Beijing Hengdeli to Beijing Timepieces under the Lease each year will exceed 0.1% but less than 2.5%. As such, the Lease will constitute a continuing connected transaction subject to the annual review requirements, the reporting requirements and the announcement requirements under Rules 14A.37 to 14A.41, Rules 14A.45 to 14A.46 and Rule 14A.47 of the Listing Rules but exempt from the independent shareholders' approval requirement.

The Company has applied for and the Stock Exchange has granted to the Company a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement requirements under the Listing Rules upon the listing of the Shares on the Stock Exchange in respect of the Lease between Beijing Hengdeli and Beijing Timepieces, subject to the maximum annual rent payable thereunder and the terms thereof, for the three financial years ending 31 December 2007.

The independent non-executive Directors has reviewed the Transactions and confirmed that the Transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms, or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, or terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirm that the disclosure requirement in accordance with Chapter 14A of the Listing Rules has been complied with by the Company.

The related party transactions disclosed in the Note 33 to the financial statements.

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(b) THE LEASE AGREEMENT ENTERED INTO BETWEEN HENGDELI INTERNATIONAL COMPANY LIMITED (“HENGDELI INTERNATIONAL”) AND WAI LUNG INTERNATIONAL COMPANY LIMITED (“WAI LUNG”)

On 29 April 2005, Hengdeli International entered into a tenancy agreement (the “Tenancy Agreement”) with Wai Lung whereby Wai Lung agreed to lease to Hengdeli International an office premise at Unit 301, 3rd Floor, Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong at a monthly rental of HK\$58,000 (exclusive of management fee, rates and utilities) for a term of three years commencing from 1 April 2005 with an option to renew for a further term of three years. Wai Lung also agreed to the use of the said premises by the Company as its principal place of business in Hong Kong and Sunshine Peninsula as its registered office.

Mr. Zhang Yuping holds a 53% interest in the issued share capital of Wai Lung, through Eastwealth International Limited, a company wholly owned by Mr. Zhang Yuping. Accordingly, Wai Lung is a connected person of the Company. The transaction contemplated under the Tenancy Agreement will constitute a continuing connected transaction under Chapter 14A of the Listing Rules upon the listing of the Shares on the Stock Exchange. However, since each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules and calculated with reference to the annual rent payable under the Tenancy Agreement is less than 0.1%, the transaction is exempted from the reporting, announcement and independent shareholders’ approval requirements pursuant to Rule 14A.33(3)(a) of the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

AUDITORS

The financial statements of the Company for the year under review have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Since 9 July 2004, being the date of incorporation of the Company, there had been no change in our auditors.

On behalf of the Board

Zhang Yuping

Chairman

Hong Kong, 12 April 2006