

## Chairman's Statement

Riding on the robust economic growth and huge consumer demand in the PRC, the Group recorded a remarkable business growth for the six months ended 30 June 2006 (the "period"). Progress for every task had been accomplished beyond our plan and encouraging results had been achieved.

For the six months ended 30 June 2006, the Group recorded a turnover of RMB907,668,000, representing a growth of 38.3% from the corresponding period of last year. Profit for the period grew by 41.5% as compared to the corresponding period of last year, to RMB70,147,000.

On retail business, the Group goes in line with its established strategic direction to expand its sales network through multi-format development. In particular, the Group had successfully entered into a provisional acquisition agreement with Elegant International Holdings Limited ("Elegant International") during the first half of the year to acquire its entire share capital, and has entered into a formal acquisition agreement in July. We consider that this acquisition can further enhance the profitability of the Group. As a result, it will be conducive to the steady growth of the Group in the long run, and will facilitate the synergy between our domestic and overseas retail operations of international luxurious watches. Consequently, the Group will further expand internationally and, building on its established foundation in the domestic market, become a leading retailer of medium to high end watches in the Greater China region.

During the period under review, the Company had also entered into placing agreements with Temasek (a investment fund of Singapore government) and the SWATCH Group. Upon the completion of placing, Temasek will become the second largest shareholder of the Company, while the SWATCH Group will keep increasing its stake in the Company to more than 7% of the total shares. According to a report, LVMH had also begun to acquire the Company's shares in the market and would further increase its stake in the Group. All the above demonstrates that the Group's position in import of high-end watches had been well recognized by the international market.

Looking forward, with the high income group keeps growing, there will be more potential for imported high end watches in the PRC. The Group will remain its focus on develop the PRC market, and at the same time, continue to penetrate into overseas retail markets including Hong Kong, in order to attain comprehensive growth in all areas in the medium to high end watches segment encompassing retail, distribution, customer services and watches accessories. The Group will leverage on its underlying strength to actively seek a larger market share, as well as to improve the quality of its service and to maximize its return to shareholders and the community as a whole.

By Order of the Board

**Zhang Yuping**

*Chairman*