




CHAIRMAN'S STATEMENT



Zhang Yuping
Chairman



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 2006 (hereinafter as the "Year") of Xinyu Hengdeli Holdings Limited (hereinafter as the "Company") and its subsidiaries (hereinafter as the "Group") for your review.

Following the satisfactory development trend of the previous year, the Group was able to maintain a rapid business development in 2006 and achieve outstanding results. The Group's revenue reached 2.4 billion (RMB, as all amounts hereinafter shall refer to), increased 72.2% as compared to last year. Profit for the year was 214 million, increased 62.1% from that of last year.



In this year, the Group continued to expand the domestic as well as overseas retail networks by various means. In China market, the Group extended the retail network to regions like Hefei, Zhengzhou and Wenzhou through joint ventures and acquisitions, gaining more than 85% or 90% in market share of middle-to-high-end import watches. The notable results achieved represents

our successful implementation of the Group's strategy of swift and steady expansion in retail business. At the same time, our retail network in Harbin, Shenyang and Taiyuan also

achieved new breakthrough. During the year under review, retail outlets of the Group in the PRC reached 92, surpassing the target we had previously set.

In particular, the Group successfully acquired the entire equity interests of Elegant International Holdings Limited which had 4 high-end watch outlets in Hong Kong in August 2006. The move marked a milestone of the Group's effort in implementing its overseas retail business strategy. During the four months from August to December 2006, the Elegant group achieved excellent results with more than 30% growth in both turnover and gross profit margin when compared to the previous corresponding period. This successful acquisition have enriched the experience and laid down a solid foundation for further overseas expansion of the Group.



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On this basis, the Group has established a comprehensive retail business model, covering different classes of watches from the supreme luxury, middle-to-high-end, and the trendy watches.

During the year under review, Temasek has become a strategic investor of the Company. Moreover, each of the Swatch Group Limited (the world's largest watch manufacturer and distributor) and the LVMH Group (the world's leading luxury goods conglomerate) has acquired and held more than 7% shareholding interest in the Company through share placement and purchase on the market respectively. The strategic investor profile of the Group testifies its leading position in the high-end import watch market. On the other hand, the opening of boutiques under various brands include Cartier of Richemont Group, Omega of the Swatch Group, TAG Heuer of LVMH Group, and Rolex of

the Rolex Group; and renewal of long-term agency agreements with the Audemars Piguet and Maurice Lacroix, illustrate the Group is working even more closely with brand owners, thus its business development has entered into a new historical stage.



During the year under review, in view of providing highest level of confidence for customers, the Group committed to establish a group-scale customer service system with bases in Beijing, Shanghai and Hong Kong. During the year, the Group also acquired the entire interests of a decorating and packaging company, bringing synergy to its effort in enhancing outlet image as well as vertical development of the Group's luxury consumer products business.

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Together with active business pursuit, the Group has always committed to maintaining and improving its corporate governance, so as to ensure decisions made by the Company will be in the interest of its shareholders as a whole, and bring greatest benefit to shareholders and the community.

Moving forward, under a favorable macro-economic environment, the Group will continue to leverage on its strengths to further expand the domestic and overseas retail networks in compliance with international standard. Effort will also be spent in building and maintaining long-term and deep cooperating relationship with the Group's brand owners, expanding and optimizing its high-end consumer products portfolio, further enhancing the customer service system in Greater China, and tirelessly striving for better quality in service and corporate governance, thereby maximize returns to its shareholders and the community.



On behalf of the Board of Directors, I would like to express our sincere gratitude to our shareholders, suppliers, customers and our other business partners for their heartfelt trust and support, as well as to our dedicating staff for their continued commitment and contribution during the past year.

By Order of the Board

Zhang Yuping

Chairman

Hong Kong, 10 April 2007