

CORPORATE GOVERNANCE REPORT

Since its establishment, Xinyu Hengdeli has been committed to maintain a high standard of corporate governance practice, such that the interests of our shareholders, customers, employees as well as the long term development of the Group can be safeguarded. To this end, the Group has established the board of directors, audit committee, remuneration committee and nomination committee ensuring they are up to the requirements as being diligent, accountable and professional. KPMG has been engaged as the Group's external auditors, and Guotai Junan Capital Limited and Partners Capital International Limited have been engaged as the compliance advisers.

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 Board of Directors, the Company had complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules of the Stock Exchange throughout the year ended 31 December 2005 except for Code provision A.2.1. Given its existing corporate structure, the roles of chairman and chief executive officer have not been separated. Although the functions and duties of 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 and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

To maintain a high level of independence and objectivity in decision making, and to exercise its power of supervising the management of the Group in a comprehensive and equitable manner, the Board of Directors comprises of three executive Directors (Messrs. Zhang Yuping, Song Jianwen and Huang Yonghua), three non-executive Directors (Messrs. Chen Sheng, Shi Zhongyang and Shen Zhiyuan) and three independent non-executive Directors (Messrs. Cai Jianmin, Liu Huangsong and Wong Kam Fai William).

To ensure the Board running in an independent and accountable manner, the three executive Directors have been assigned with different responsibilities within our operation. Mr. Zhang Yuping, the Chairman, is in charge of the Group's overall management and strategic development, while Mr. Song Jianwen is in charge of finance and investments of the Group, and Mr. Huang Yonghua is in charge of the Group's brand management.

Each of the three independent non-executive Directors has professional expertise and extensive experience in the areas of accounting, economics, computing control and management, and business administration respectively. We believe the independent non-executive Directors can adequately act for the benefits of our shareholders.

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Subsequent to the listing of the Company in late September 2005, a total of two regular meetings were held by the Board of Directors. All members of the Board attended the two meetings and the rate of attendance was 100%. From 2006, the Board of the Company will hold at least four regular meetings each year.

Members of the Board will be provided with appropriate and sufficient information in a timely manner so that they may be updated with the latest development of the Group and supported in discharge of their duties.

The Board had received confirmation from all independent non-executive Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules of the Stock Exchange. The Board considers all current independent non-executive Directors have met the requirements of the guidelines set out in Rule 3.13 of the Listing Rules of the Stock Exchange, and remain independent.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board of the Group had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made with all directors, the Company has confirmed that all Directors had been in compliance with the required standard mentioned above.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 32.

AUDITORS' REMUNERATION

The audit fee, to be received by the auditors of the Company, for the year ended 31 December 2005 shall be approximately RMB1.50 million.

The Company also incurred approximately RMB3.44 million for the services provided by the reporting accountants in respect of the IPO and listing of the Company's shares on the Hong Kong Stock Exchange and the amount has been charged to the share premium account. It was not practicable to separate the amount payable for those services between the year 2004 and 2005.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin, Liu Huangsong and Wong Kam Fai William, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as substantial exceptional items, internal controls and financial reporting matters, which included a review on the audited annual results for the year ended 31 December 2005 and the interim report of 2005.

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The audit committee held one meeting each in September 2005 and April 2006 to review the half-year and full year reports. All members of the committee attended the meetings.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the Listing Rules. The remuneration committee comprises three Directors include Messrs. Zhang Yuping (chairman), Cai Jianmin and Liu Huangsong. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management.

The remuneration committee held one meeting during the year to review Directors' remuneration matters. All members of the committee attended the meeting.

NOMINATION COMMITTEE

The Group has established a nomination committee in compliance with the Listing Rules. The nomination committee comprises three Directors include Messrs. Song Jianwen, Cai Jianmin and Liu Huangsong. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and management of Board succession.

The nomination committee did not hold any meeting during the year as there was no change of director. One meeting has been held in February 2006 to review the proposed appointment of Mr. Shi Zhongyang as a Director of the Company. All members of the committee attended the meeting.

INVESTOR RELATIONSHIP

The Group firmly believes the importance of communicating with the investment community at large and the shareholders in attaining a high level of transparency. Since the days of its preparation of listing, the Group has maintained various communication channels with the mass media, analysts and fund managers such as one-on-one meetings, road shows, seminars, press conferences, press releases. The Group endeavours to provide timely and accurate information to the investment public, so as to enhance the understanding of our investors to the status of Mainland China's luxury timepiece industry, business development strategy and direction of the Group.