



Noble and
Elegant out
from within



Corporate Governance Report

Since its establishment, Xinyu Hengdeli has been committed to maintaining a high standard of corporate governance practice to ensure transparency, such that the interests of our shareholders, customers, employees so that the long term development of the Group can be safeguarded. The Group has established the board of directors, audit committee, remuneration committee and nomination committee that are up to the requirements as being diligent, accountable and professional. KPMG has been appointed as the Group's external auditors, and Guotai Junan Capital Limited has been appointed as the compliance adviser.

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 2006 except for a derivation from the Code provision A.2.1. Given the Group's 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. Therefore the Board of Directors considers the Company has achieved balance of power and sufficient protection for 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 three executive Directors (Messrs. Zhang Yuping, Song Jianwen and Huang Yonghua), four non-executive Directors (Messrs. Chen Sheng, Shi Zhongyang, Shen Zhiyuan and Chuang Jian George) and three independent non-executive Directors (Messrs. Cai Jianmin, Liu Huangsong and Wong Kam Fai William).

To ensure the Board operates in an independent and accountable manner, the three executive Directors have been assigned with different responsibilities within our operations. 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 the Group's finance and investments, 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.

In 2006, a total of seven regular meetings were held by the Board of Directors. All members of the Board attended these meetings and the rate of attendance was 100%. The Board 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 developments of the Group and supported in discharge of their duties.

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Board of the Company 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 complied with the required rules and regulations 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 from pages 35 to 36.

AUDITORS' REMUNERATION

The audit fee, to be received by the auditors of the Company, for the year ended 31 December 2006 will be approximately RMB2.7 million.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin, Liu Huangsong and Wong Kam Fai William and one non-executive Director Chuang Jian, George, who joined the Board in October 2006, 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 interim report of 2006 and the audited annual results for the year ended 31 December 2006.

The audit committee held one meeting each in April 2006 and August 2006 to review the full year and half year reports respectively. 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 including 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.

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NOMINATION COMMITTEE

The Company has established a nomination committee in compliance with the Listing Rules. The nomination committee comprises three Directors including 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.

Two meetings had been held during the year to review the proposed appointment of Mr. Shi Zhongyang and Mr. Chuang Jian, George as Directors of the Company. All members of the committee attended the meetings.

INVESTOR RELATIONS

The Company 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 Company has maintained various communication channels with the mass media, analysts and fund managers such as one-on-one meetings, roadshows, seminars, press conferences and press releases. The Company endeavours to provide timely and accurate information to the public, so as to enhance the understanding of our investors about the status of the PRC's luxury watch industry, as well as the business development strategy and direction of the Company.