

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

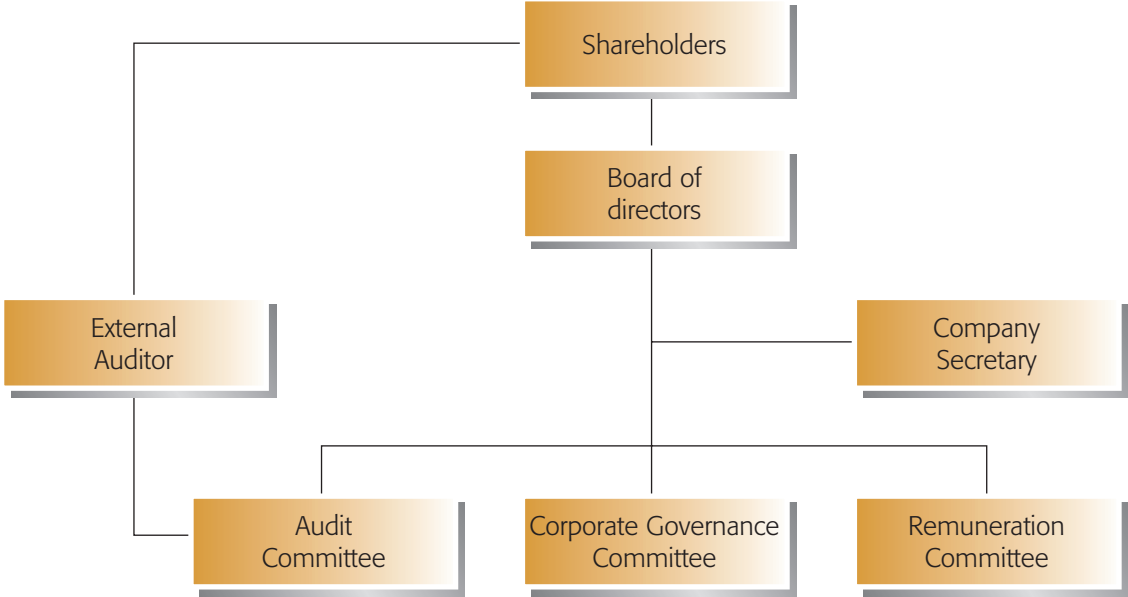
The Hong Kong Stock Exchange introduced a exposure draft of “Code on Corporate Governance Practices and Corporate Governance Report” on 11 December 2004. It would be effective for the accounting periods commencing on or after 1 January 2005. The exception was in respect of Code Provision C.2 on internal controls and the proposed disclosure requirements in the Corporate Governance Report relating to the internal control. The Board noted the changes and will apply them to the Company (as applicable).

On 15 April 2005, the Company adopted its own Corporate Governance Code and the Company’s Corporate Governance Code exceeds the Code Provisions set out in the Code on Corporate Governance Practices – Appendix 14 of Listing Rules.

The Company attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. Under strict compliance with the framework of governance standard provided for in the laws of Hong Kong, it is an inevitable outcome that the board of directors and management will endeavor to establish a set of internal code of corporate governance in compliance with and excelling the regulations set by the regulatory authorities in Hong Kong.

In order to indicate the commitment of the board of directors and management to comply with the corporate governance standard, this code of corporate governance is formulated, and every effort will be made to comply with the principles and practice contained herein in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, we will continue to monitor and revise the Company’s governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

Organization structure in relation to corporate governance



DIRECTORS’ SECURITIES TRANSACTION

On 15 April 2005, the Company adopted its own Code of Conduct regarding Directors’ Securities Transactions and the terms of the Company’s Code of Conduct regarding Directors’ Securities Transactions are no less exacting than the required standard set out in the Model Code – Appendix 10 of Listing Rules (“Model Code”).

Having made specific enquiry of all directors, the directors of the Company have complied with the required standard set out in the Model Code and the Company’s own Code of Conduct regarding Directors’ Securities Transactions.

BOARD

a) Board Composition

The Board currently comprises three executive Directors, one non-executive Director and four independent non-executive Directors, serving the important function of guiding the management.

The Board members for the year ended 31 March 2005 were:–

Chairman

Mr. Zhang Yang

Executive directors

Mr. Zhang Yang

Mr. Chan Wing Yuen, Hubert

Mr. Lam Cheung Shing, Richard

Non-executive director

Mr. Hui Ho Ming, Herbert, J.P.

Independent non-executive directors

Mr. Lee Peng Fei, Allen, J.P.

Mr. Wu Wai Chung, Michael

Mr. Wong Hon Sum

Ms. Ha Ping

BOARD (continued)

b) Role and function

The board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the Group. The board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended 31 March 2005, the Board:-

- i. reviewed the performance of the Group and formulated business strategy of the Group;
- ii. reviewed and approved the annual and interim results of the Group for the year ended 31 March 2004 and for the period ended 30 September 2004 respectively;
- iii. reviewed and approved connected transaction of the Group;
- iv. reviewed effective internal controls were taken by the Group;
- v. reviewed the amendments to the Article of Association and general mandates to issue and repurchase shares of the Company; and

BOARD (continued)

b) Role and function (continued)

- vi. reviewed and approved the notifiable transactions/discloseable transactions as herein below:-

Date of Announcement	Type of Transaction	Description
3 May 2004	Discloseable Transaction	Sale of property in Hong Kong
20 May 2004	Discloseable Transaction	The Group entered into the agreement with Ma'anshan Government for the exclusive rights to invest, design, construct, operate, manage the new water treatment plant and the redevelopment water treatment plant
14 September 2004	Discloseable Transaction	Disposal of a piece of land in Changsha, the PRC
28 October 2004	Notifiable Transaction	Termination of the agreement for the purchase of shares of Shanghai Qiangsheng Holdings Co., Ltd
15 February 2005	Discloseable Transaction	Acquisition of a piece of land in Xian, the PRC

To the best knowledge of the Company, there is no financial, business and family relationship among our directors between the chairman and the chief executive officers. All of them are free to exercise their independent judgment.

BOARD (continued)

c) Meeting Records

There were two board meetings held for the year ended 31 March 2005.

The following was an attendance record of the board meetings held by the board during the year:

Board Members	Attendance at meetings held for the year ended 31 March 2005
Mr. Zhang Yang	0/2
Mr. Chan Wing Yuen, Hubert	2/2
Mr. Lam Cheung Shing, Richard	2/2
Mr. Hui Ho Ming, Herbert, J.P.	2/2
Mr. Lee Peng Fei, Allen, J.P.	1/2
Mr. Wu Wai Chung, Michael	2/2
Mr. Wong Hon Sum	2/2
Ms. Ha Ping	1/2

d) Independent Non-executive Directors

All independent non-executive directors are financially independent from the Company and any of its subsidiaries.

The Company confirmed with all non-executive directors as to their independence with reference to the factors as set out in Listing Rules 3.13.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman and chief executive officer of the Company are Mr. Zhang Yang and Mr. Chan Wing Yuen, Hubert respectively.

The chairman's responsibility is to manage the Board and the chief executive officer's responsibility is to manage the Company's business. The division of responsibilities between the chairman and chief executive officer is clearly established and set out in the Code of Corporate Governance of the Company.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:–

- Audit Committee
- Remuneration Committee
- Corporate Governance Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

a) Audit Committee

On 1 September 2002, the audit committee had been established. It currently consists of three independent non-executive directors.

Composition of audit committee

Mr. Wong Hon Sum (chairman of audit committee)

Mr. Wu Wai Chung, Michael

Ms. Ha Ping

BOARD COMMITTEES (continued)

a) Audit Committee (continued)

Role and function

The audit committee is mainly responsible for:

- i. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;
- ii. to review the draft Company's annual report and accounts and half yearly before submission to, and providing advice and comments thereon on to the Board of Directors;
- iii. to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal; and
- iv. to discuss problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary).

Meeting Records

The audit committee met twice during the year, particular in reviewing the interim and annual results of the Group.

The following was an attendance record of the of the audit committee meetings for the year ended 31 March 2005:

Committee member	Attendance at meetings held for the year ended 31 March 2005
Mr. Wong Hon Sum	2/2
Mr. Wu Wai Chung, Michael	1/2
Ms. Ha Ping	2/2

BOARD COMMITTEES (continued)

a) Audit Committee (continued)

Meeting Records (continued)

During the meetings, the audit committee would mainly discuss the following matters:–

1) Financial Reporting

The audit committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors, the chief executive officer, the company secretary and the financial controller of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the audit committee, the management of the Company would provide breakdown, analysis and supporting documents to the audit committee members in order to ensure that the audit committee members were fully satisfied and make proper recommendation to the board.

2) External Auditors

The appointment of the external auditors and the audit fee were considered by the audit committee and recommendations were made to the board on the selection of external auditors of the Company.

b) Remuneration Committee

The Remuneration Committee was established on 14 April 2005. It currently consists of two independent non-executive directors and one non-executive director.

For the year ended 31 March 2005, there was no meeting held.

BOARD COMMITTEES (continued)

b) Remuneration Committee (continued)

Composition of remuneration committee

Mr. Lee Peng Fei, J.P. (chairman of the remuneration committee)

Mr. Hui Ho Ming, Herbert, J.P.

Mr. Wu Wai Chung, Michael

Role and function

The remuneration committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;
2. making recommendations to the board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
3. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;
4. determining the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors;
5. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

BOARD COMMITTEES (continued)

b) Remuneration Committee (continued)

Role and function (continued)

6. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
7. reviewing and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
8. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
9. ensuring that no director or any of his associates is involved in deciding his own remuneration; and
10. advising the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some remuneration committee decisions are approved by way of written resolutions passed by all the committee members.

c) Corporate Governance Committee

The corporate governance committee was established on 4 July 2005. It currently consists of one executive director, one independent non-executive director and one non-executive director.

BOARD COMMITTEES (continued)

c) Corporate Governance Committee (continued)

Composition of corporate governance committee

Mr. Hui Ho Ming, Herbert, J.P. (chairman of the corporate governance committee)

Mr. Chan Wing Yuen, Hubert

Mr. Wong Hon Sum

Role and function

The corporate governance committee is mainly responsible for:

1. reviewing the policies relating to corporate governance;
2. proposing to the board of directors in respect of the Company's corporate governance policies and in respect of the formulation of these corporate governance policies for the establishment of formal and transparent procedures;
3. ensuring a formal structure of policies and systems, such as that set out in this Code on Corporate Governance, including the necessary checks and balances, can only work effectively within an overall of honesty and integrity;
4. monitoring the performance of management of the Company in relation to corporate governance matters;
5. setting the Company's values and standards for its corporate governance;
6. reviewing and advise upon matters in respect of the present or future regulatory related matters of the Company; and
7. delegating such of its powers as this Committee deems appropriate to the management of the Company.

Where circumstances are considered appropriate, some board decisions are approved by way of written resolutions passed by all the directors.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders - to communicate with them and encourage their participation – through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholders is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:–

Hotline no.: 2528 9910

By post: 45th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong

EXTERNAL AUDITORS

It is the auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the report of the auditors.

Apart from the provision of annual audit services, the Group's external auditors also carried out interim review of the Group's results, taxation advisory service and the due diligence review of the Group.

For the year ended 31 March 2005, Deloitte Touche Tohmatsu, the external auditors provided the following services to the Group:—

	2005 <i>HK\$'000</i>
Annual audit services	1,155
Taxation advisory service	109
Other advisory services	<u>550</u>

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

For the year ended 31 March 2005, the following shareholder meeting was held by the Company:—

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
28 September 2004	Taishan Room, Level 5, Island Shangri-la Hotel, Pacific Place, Supreme Court Road, Hong Kong	Annual General Meeting	<ol style="list-style-type: none"> 1. To re-elect directors 2. To re-appoint Deloitte Touche Tohmatsu as auditors and authorize the board of directors to fix their remuneration 3. To approve the amendment of Article of Association of the Company; and 4. To approve the general mandate to issue and repurchase shares of the Company 	By show hands and by poll votes

INVESTOR RELATIONS (continued)**Change to Memorandum and Articles of Association**

To align with changes of the Listing Rules, the Articles of Association were amended accordingly and approved by shareholders at 2004 Annual General Meeting held on 28 September 2004. The relevant amendments of the changes of the Articles of Association can be found on the circular dated 30 July 2004.

Capital Structure and Shareholder Base

As at 31 March 2005, the market capitalization of the Company was HK\$801 million and 4,684,923,632 shares were in issue, each with a par value of HK\$0.10. The following table summarized the existing shareholding structure of the Company:—

By Category	No. of Shares	% of issued share capital of the Company
Wealth Land Development Corp. (a company beneficially and wholly owned by Mr. Zhang Yang)	1,612,025,000	34.41%
Mr. Zhang Yang	90,000,000	1.92%
Public Shareholders	<u>2,982,898,632</u>	<u>63.67%</u>
Total	<u>4,684,923,632</u>	<u>100%</u>

Financial Calendar for 2005/06

Event	Proposed Date
Announcement of 2004/05 annual results	4 July 2005
Annual General Meeting	16 August 2005
Announcement of interim results	mid December 2005