

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 March 2006, the Company has complied with the code provisions on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules which came into effect on 1 January 2005, with deviations from certain code provisions as explained below.

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The roles of the Chairman and the CEO of the Company are not separated and are performed by the same individual, Mr. Li Jialin. The Directors meet regularly to consider major matters affecting the operations of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Company and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

Under the code provision A.5.4, the board of Directors should establish written guidelines on no less exacting terms than the required standard of dealings for relevant employees in respect of any employee of the Company or a Director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. The Company has established written guidelines for the Directors but the application of the guidelines was extended to the employees on 13 April 2006 as stated in the code provision A.5.4.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company has set up its remuneration committee on 29 September 2005.

Under the code provision D.1.2, the Company should formalise the functions reserved to the board of Directors and those delegated to management. The Company has established written guidelines as to the functions and delegation between the board of Directors and the management of the Company on 30 March 2006.

To replace the vacancy arisen from the passing away of Mr. Phileas Fok Kwan Wing, an independent non-executive Director of the Company, on 21 January 2005, the Company has appointed Dr. Chan Po Fan Peter as an independent non-executive Director on 16 April 2005 to comply with the requirements as set out under Rules 3.10 and 3.21 of the Listing Rules. Reference is made to the announcement made by the Company on 18 April 2005 pursuant to which the Company announced that following the passing away of Mr. Phileas Fok Kwan Wing, the Company had only two independent non-executive Directors and two audit committee members which fell below the minimum number of three independent non-executive Directors and three audit committee members as required under Rules 3.10 and 3.21 of the Listing Rules

respectively. The Directors confirmed that upon the appointment of Dr. Chan Po Fan Peter as an independent non-executive Director and a member of the audit committee of the Company, the Company had satisfied the requirements under Rules 3.10 and 3.21 of the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

The Company wishes to highlight the importance of its board (the "Board") of Directors in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each Directors is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer of the Company (the "Chief Executive Officer") and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience necessary for its independent judgement and fulfilling its business needs.

The Board currently comprises seven members, consisting of three executive Directors, a non-executive Directors and three independent non-executive Directors.

The Board of the Company comprises the following Directors:

Executive Directors:

Mr. Li Jialin	<i>Chairman and Chief Executive Officer (the "Chairman")</i>
Mr. Cheng Kam Chung	<i>Vice Chairman</i>
Mr. William Choo	

Non-executive Director:

Madam Sun Ali

Independent Non-executive Directors:

Dr. Chan Po Fun Peter	<i>Chairman of Audit Committee and member of Remuneration Committee</i>
Mr. Ni Zhenwei	<i>Member of Audit Committee and Remuneration Committee</i>
Madam Hui Hiu Fai	<i>Chairman of Remuneration Committee and member of Audit Committee</i>

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Save as disclosed above, during the period under review, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Directors possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Directors of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of technical, business and financial expertise, experiences and independent judgement to the Board. Through their active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

Mr. Li Jialin and Mr. Cheng Kam Chung have entered into service agreements with the Company for a term of two years commencing from 9 May 2002 and expiring on 8 May 2004, renewable automatically for successive years of one year each commencing from the day immediately after the expiry of the then current term of the directors' appointment, unless terminated by not less than 3 months' notice in writing served by either party on the other. Mr. William Choo has entered into service agreement with the Company for a period of 1 year commencing from 28 April 2006 until 27 April 2007, unless terminated by not less than 3 months' notice in writing served by either party on the other. Under the service agreements, the initial annual emoluments of each executive Director is fixed and the remuneration payable to each of them will be reviewed by the Board each year.

The non-executive Directors and the independent non-executive Directors are also appointed for a specific term of one year and reviewed by the Board each year.

The terms of their appointments are as follows:

Executive directors:

Mr. Li Jialin	<i>(Chairman and Chief Executive Officer)</i>
Mr. Cheng Kam Chung	<i>(Vice Chairman)</i>
Mr. William Choo	<i>(Appointed on 28 April 2006)</i>

Non-executive director:

Madam Sun Ali

Independent non-executive directors:

Mr. Ni Zhenwei	
Dr. Chan Po Fun Peter	
Mr. Hu Yebi	<i>(Resigned on 8 May 2006)</i>
Madam Hui Hiu Fai	<i>(Appointed on 9 May 2006)</i>

Pursuant to the Company's articles of association subject to the proposed amendments at the forthcoming annual general meeting, all Directors will be subject to retirement by rotation once every three years and any new Directors appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Training for Directors

Each newly appointed Directors receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

The attendance of Directors at Board meetings, audit committee, and remuneration committee held during the period from the 1 April 2005 up to 19 June 2006 is set out below:

Directors	Attendance/Number of Meetings Board
<i>Executive Directors</i>	
Mr. Li Jialin	2/2
Mr. Cheng Kam Chung	2/2
Mr. William Choo	0/1
<i>Non-executive Director</i>	
Madam Sun Ali	2/2
<i>Independent Non-executive Directors</i>	
Mr. Ni Zhenwei	1/2
Dr. Chan Po Fun Peter	2/2
Mr. Hu Yebi	1/1
Madam Hui Hiu Fai	1/1

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Directors also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, chief financial officer and company secretary of the Company attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the company secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Directors, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

BOARD COMMITTEES

The Board has established two committees, namely the Audit Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the Chairman and members of each Board committee is set out under "Composition" of this report on page 18.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Directors who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year under review to review the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

The attendance of individual members at Audit Committee meetings is set out below:

	Attendance/Number of Meetings
Dr. Chan Po Fun Peter (<i>Chairman</i>)	2/2
Mr. Ni Zhenwei	1/2
Mr. Hu Yebi	1/1
Madam Hui Hiu Fai	1/1

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 March 2006 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for fixing the remuneration of the executive Directors and for fixing the remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for ensuring the remuneration packages are sufficient to attract and retain the Directors for running the Company successfully; avoiding over-paying and that no Directors or any of his/her associates will participate in deciding his/her own remuneration. The remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets by the end of each year for reviewing the policy, structure and related matters of the remuneration packages of the executive Directors and senior management. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee will consult the Chairman and the Chief Executive Officer about their recommendations on remuneration policy, structure and related matters of remuneration packages.

Three Remuneration Committee meetings have been held during the period up to the date of this report to review the packages of new executive Directors and bonus payment to employees.

The attendance of individual members at Remuneration Committee meeting is set out below:

	Attendance/Number of Meetings
Dr. Chan Po Fun Peter	3/3
Mr. Ni Zhenwei	3/3
Mr. Hu Yebi	3/3

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year from 1 April 2005 to 31 March 2006.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report".

The Company's external auditors are PricewaterhouseCoopers. The audit fee of the Company for the year ended 31 March 2006 is approximately HK\$700,000. In addition, the Company has also engaged Chan Chee Cheng & Co. with an engagement fee of HK\$7,300.00 to provide taxation service to the Group during the year under review.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the Company's assets, and reviewing the effectiveness of such on a semi-annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The management of the Company is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The management also conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of the Company's shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll and the poll procedures are included in all circulars despatched to the shareholders of the Company and will be explained during the proceedings of meetings.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are to be proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.vstholdings.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.