

Corporate Governance Report

As a company listed in Hong Kong, the board of directors (the “Board”) of Man Sang International Limited (the “Company”) is committed to comply with statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness, protect shareholders’ interests and create shareholder’s value in the long term.

The Company has, throughout the year ended March 31, 2006, complied with most of the applicable code provisions (the “Code Provision(s)”) and principles under the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Listing Rules on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) which has come into effect on January 1, 2005, except for certain deviations as described below. This report describes the Company’s corporate governance practices, explains its applications of and deviations from the CG Code, together with considered reasons for such deviations.

Board of Directors

Composition

The Board currently comprises three Executive Directors and three Independent Non-executive Directors (the “INED(s)”). The Directors are well-versed in respective areas such as legal, accounting and finance, business management and industry knowledge and the Board as a whole has achieved an appropriate combination of skills and experience. The Directors’ biographical information is set out on pages 10 to 11 under the section headed “Directors and Senior Management Profile”.

Except that Mr. Cheng Chung Hing is the brother of Mr. Cheng Tai Po, there is no relationship among members of the Board.

Delegation by the Board

The Directors are collectively responsible for devising the Company’s management policies as well as operations and marketing strategies, providing leadership and guidance to put them into effect, reviewing and monitoring the performance of the Company and are accountable to the Company’s shareholders. The directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board has appointed Board Committees – an Audit Committee and a Remuneration Committee to oversee different areas of the Company’s affairs. The composition of the Board and the Board Committees are given below and their respective responsibilities are outlined in this Report.

Name of Directors	Board	Audit Committee	Remuneration Committee
Executive Directors			
Cheng Chung Hing	Chairman		Member
Cheng Tai Po	Deputy Chairman		Member
Yan Sau Man, Amy			
Independent Non-executive Directors			
Lee Kang Bor, Thomas		Chairman	Member
Kiu Wai Ming, Kenneth		Member	Chairman
Lau Chi Wah, Alex		Member	Member

Corporate Governance Report

The roles of the Board include determining the strategies, objectives, policies and business plan of the Company, supervising the execution of the Company's strategies and reviewing the corporate governance standard of the Company and enhancing communication with shareholders. It also reviews quarterly, interim and annual results, accounting policies adopted and disclosures in the financials, and discusses and examines discloseable and connected transactions. It also decides on appointment, retirement and re-appointment of directors, and dividend policy.

The Board has delegated the authority and responsibility for implementing its business strategies and managing day-to-day operations to three Executive Directors of the Company. They are fully accountable to the Board.

Board Committees

The Board has established an Audit Committee (the "Audit Committee") and a Remuneration Committee (the "Remuneration Committee") (collectively the "Committees") to oversee particular aspects of the Company's affairs. To reinforce independence, the Chairman of each of these Committees is an INED. The Committees report to the full Board regularly. Each of the Committees has adopted specific terms of reference covering its duties, powers and functions which are reviewed by the Board from time to time. The Committees adopt as far as practicable, the procedures and arrangement of Board meetings in their conduct of meetings, giving notices and preparation and keeping of minutes of meetings. Further particulars of each of the Committees are set out below:

(1) *Audit Committee*

The Audit Committee was established in 1997 and currently comprises all three INEDs and is chaired by Mr. Lee Kang Bor, Thomas who possesses both legal and accounting qualifications. All the Audit Committee members have extensive experiences in business and risk management, financial reporting and controls. The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting, to make recommendation to the Board on the appointment, re-appointment and removal of the Group's external auditors, to meet with the external auditors to discuss the nature and scope of the statutory audit, and matters of concern when requested to do so by the external auditors; to review the Company's quarterly, interim financial reports and annual financial statements before they are submitted to the Board; to review internal control; to assess risks and review reports and proposals from the financial and internal control teams of the Group.

During the year ended March 31, 2006, the Audit Committee met four times to review the management and accounting principles and practices adopted by the Group and to discuss internal controls and financial reporting matters including review of 2005/2006 quarterly, interim and annual results of the Group, recommend the re-appointment of external auditors and the fee proposal for the audit of the Group's financial results. The Audit Committee has also attended physical stock taking in the factory in China and the office in Hong Kong at the end of the current financial year. Each member of the Audit Committee has unrestricted access to the Group's external auditors and the management. At almost all the Audit Committee meetings held in the past year, at least one representative of the external auditors, in most instances the partner in charge of the audit, attended the meetings to discuss with the Audit Committee members issues of concern, changes of Hong Kong Financial Reporting Standard and effects of such changes on the financial reporting of the Group. The external auditors' reports to the Audit Committee are also discussed at Audit Committee meetings, and in some cases, followed up in subsequent meetings.

Attendance of each Audit Committee member at these meetings is as follows:

	No. of meetings attended/held
Lee Kang Bor, Thomas	4/4
Kiu Wai Ming, Kenneth	3/4
Lau Chi Wah, Alex	4/4

Corporate Governance Report

(2) *Remuneration Committee*

The Remuneration Committee currently comprises five members including two Executive Directors, namely, Mr. Cheng Chung Hing and Mr. Cheng Tai Po and all three INEDs. The Remuneration Committee is chaired by Mr. Kiu Wai Ming, Kenneth, an INED. The primary duties of the Remuneration Committee are to make recommendations to the Board on policy and structure of remuneration packages of each of the Directors and senior management staff.

During the year under review, the Remuneration Committee held one meeting in April 2005 with an attendance rate of 100%. At the meeting, members of the Remuneration Committee reviewed the remuneration packages and overall benefits of the Directors and senior management staff by taking into account factors including remuneration packages and benefits offered by comparable companies, business objectives of the Group as well as the respective contributions to the Group by individual Directors and members of senior management.

Insurance

The Group has arranged appropriate directors' and officers' liability insurance to indemnify the Directors and senior management staff of the Group against potential liabilities incurred by them in discharging their duties. The Group reviews the insurance coverage for the Directors and the Group's senior management staff on an annual basis.

Chairman and Chief Executive Officer ("CEO")

Under the Code Provision A.2.1, the roles of Chairman and CEO should be separate and should not be performed by the same individual. Currently, the Company does not comply with such Code Provision and Mr. Cheng Chung Hing ("Mr. Cheng") assumes the role of both the Chairman and the CEO of the Group.

Mr. Cheng is one of the founders and a substantial shareholder of the Group and has considerable industry experience. The Board is of the view that it is in the best interests of the Group to have an executive chairman who is most knowledgeable about the business of the Group and is most capable to guide the growth of the Group and report to the Board in a timely manner on pertinent issues and to facilitate open dialogue between the Board and management. In addition, the Group's business is best served when strategic planning and decisions are made and implemented by the management under the leadership of Mr. Cheng.

In light of the above, the Board does not currently propose to appoint two separate individuals to take up the respective roles of Chairman and CEO of the Company.

The Board also believes that the Company already has a strong corporate governance structure in place to ensure effective supervision of management. The structure has, among others, the following features:

- i) having INEDs comprising 50 percent of the Board members;
- ii) having the Audit Committee composed exclusively of INEDs;
- iii) having INEDs comprising a majority of the Compensation Committee; and
- iv) ensuring that INEDs have free and direct access to both the Company's external and internal auditors and independent professional advice where considered necessary.

Corporate Governance Report

The Board meets regularly to consider major matters affecting the business and operations of the Group and believes that the above measures will enable our INEDs to continue monitor and supervise the Group's management and to ensure that a high standard of corporate governance is achieved. The Board considers that this structure will not impair the balance of power and authority between the Board and the management and believes that this structure enables the Group to make and implement decisions promptly and efficiently.

The Board continually reviews the effectiveness of the Group's corporate governance structure to assess whether any changes, including the separation of the positions of Chairman and Chief Executive Officer, are necessary.

INEDs

The INEDs have the same duties of care and skill and fiduciary duties as the Executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs are experienced professionals with expertise in a wide area covering legal, accounting and financial management. With their professional knowledge and experiences, the INEDs advise the Company on its operation and management; provide independent opinion on the Company's major or connected transactions; assess and advise on internal control measures; participate in the Company's Audit Committee meetings and Remuneration Committee meetings. The INEDs ensure that there are adequate checks and balances to protect the interests of the Group and the Group's shareholders as a whole, and contribute further to the development and growth of the Group.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and is satisfied that all INEDs are independent.

Appointment and Re-election of Directors

Since the Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

Under the Code Provision A.4.1, non-executive directors should be appointed for specific terms, subject to re-election. Currently, all INEDs are appointed for a specific term of two years and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

Under the Code Provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to relevant provision of the Bye-laws of the Company, any director appointed to fill a casual vacancy shall hold office until the next annual general meeting of the Company and is therefore subject to re-election by the shareholders at that annual general meeting after his/her appointment. In compliance with the requirements under this CG Code, all directors would retire at annual general meeting at least once every three years either by rotation pursuant to the retirement provisions of the Bye-laws or on a voluntary basis. At the 2005 Annual General Meeting ("2005 AGM") of the Company held on 1 August 2005, all those Directors who had been in office for three years or more retired and had been duly re-elected at that meeting.

Corporate Governance Report

Supply of and access to information

Newly appointed directors will receive induction packages containing the duties and responsibilities of directors under the Listing Rules and other applicable rules and regulations.

Each of the directors is briefed and updated from time to time on the latest legislative and regulatory developments to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules, the applicable statutory and regulatory requirements.

In order to ensure that their duties can be properly discharged, the directors are entitled to seek advices from independent professional advisers whenever deemed necessary by them at the Company's expense.

Board Meetings

The full Board met 4 times during the year ended March 31, 2006 to review and approve, among other things, the 2005/06 quarterly, interim and annual results of the Group. The Company's full Board meetings (the "Board Meeting(s)") are permitted to be held by means of telephone or other means of electronic communications under the Bye-laws of the Company.

Reasonable notices are served and comprehensive information is provided to the Board members in advance of all the Board Meetings in order to enable them to consider and raise questions on the information provided and make informed decisions on all matters transacted at the Board Meetings.

The Company Secretary assists the Chairman in establishing the meeting agenda, and each director may request to include additional items on the agenda.

The proceedings of the Board Meetings are normally conducted by the Chairman of the Group who ensures that sufficient time is allowed for discussion among the directors on each agenda item and equal opportunities are being given to the directors to express their views and share their concerns.

Minutes of Board and Committees meetings are fully recorded and draft minutes of meetings are circulated to all directors/committee's members for comments before approval. All the Board/Committees Minutes are kept by the Company Secretary and are opened for inspection by the directors.

The following table shows the attendance of the full Board Meetings for the financial year ended March 31, 2006:

	No. of full Board Meetings attended/held
Executive Directors:	
Cheng Chung Hing (<i>Chairman</i>)	4/4
Cheng Tai Po (<i>Deputy Chairman</i>)	4/4
Yan Sau Man, Amy	4/4
INEDs:	
Lee Kang Bor, Thomas	4/4
Kiu Wai Ming, Kenneth	3/4
Lau Chi Wah, Alex	4/4

Corporate Governance Report

Model Code for Securities Transactions by Directors

The Company has adopted a Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) as set out in Appendix 10 to the Listing Rules for securities transactions by directors. Having made specific enquiries with all the directors, the Company confirmed that all the Directors have complied with the required standard as set out in the Model Code throughout the year ended March 31, 2006.

Accountability and Audit

The directors acknowledge their responsibility for preparing financial statements of the Group in accordance with relevant statutory requirements and generally accepted accounting principles in Hong Kong and ensuring that the financial statements give a true and fair view of the Group’s financial position. In preparing the financial statements of the Group for the year ended March 31, 2006, the directors have adopted suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis.

The Board aims to present a comprehensive, balanced and understandable assessment of the Group’s development and prospects in all corporate communications, including but not limited to interim and annual reports, price-sensitive announcements and financial disclosures required under the Listing Rules, reports to regulators as well as information required to be disclosed pursuant to other statutory requirements.

Internal Control and Risk Management

The Group is committed to implementing effective internal controls and risk management procedures to identify, reduce and manage the risks that may be faced by the Group, as well as to safeguard the interests of the Group and the Company’s shareholders as a whole.

The Board is responsible for maintaining a sound and effective internal control system of the Group, and for reviewing its effectiveness through the Audit Committee on an on-going basis.

The Internal Audit Department plays a major role in monitoring the internal control of the Group. It has unrestricted access to review all aspects of the Group’s activities and internal control and direct access to any level of management as it considers necessary.

The Board has reviewed the Group’s overall effectiveness of the internal control system including participating in and reviewing the stocktaking procedures during the year ended March 31, 2006. Based on the assessment and recommendations made by the Audit Committee, the Board is satisfied that the Group has implemented adequate internal controls and risk management procedures. No significant areas of concern which might affect the Group’s operations and the interests of the Company’s shareholders were identified.

Remuneration of External Auditors

The Group’s independent external auditors is Moores Rowland Mazars, Certified Public Accountants. The statement of the auditors about their reporting responsibilities on the financial statements of the Group is set out in the Auditors’ Report on page 25 of this annual report.

Corporate Governance Report

During the year, the Group has engaged Moores Rowland Mazars on various services which are listed as follows:-

- i) **Audit services** – audit services provided in connection with the audit of the consolidated financial statements;
- ii) **Other services** – audits or reviews to assess compliance with the disclosure requirements of notifiable transactions or contracts, etc;
- iii) **Taxation related services** – tax compliance services including reply to tax enquiries and tax planning services, except for those services which are provided in connection with the audit.

The Group uses the services of the external auditors where they are best suited.

The remuneration for the audit and non-audit services provided by Moores Rowland Mazars to the Group during the year ended March 31, 2006 was as follows:

Type of services	Amount HK\$'000
Audit	600
Non-audit services	
Taxation	80
Other services	127
Total:	807

Communication with Shareholders and Investor Relations

The Company strengthens its communications with shareholders through various channels such as publication of interim and annual reports, press release and announcements of the latest development of the Company in its corporate website in a timely manner. The annual general meeting provides an opportunity for shareholders to exchange views with the Board. The Chairman of the Company and the Chairman of Audit Committee and Remuneration Committee had attended the 2005 AGM of the Company held on August 1, 2005 to answer shareholders' questions.

Resolutions were proposed at 2005 AGM on each substantial separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll have been included in the circular to shareholders dispatched together with the 2005 annual report. Details of the proposed resolutions have also been set out in the circular.

The Group has voluntarily adopted a quarterly reporting practice since its listing on the Stock Exchange in 1997. This makes the Group's financial position as transparent as possible to shareholders, potential investors and the general public. The public are welcome to give their comments and make their enquiries through the Company's website and the management will provide their prompt response.