

Corporate Governance Report

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2006 except for certain deviations disclosed herein.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. Having made specific enquiry, all directors have confirmed that they have fully complied with the required standard set out in the Model Code during the year.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the executive directors and senior management who perform their duties under the leadership of the Chief Executive Officer.

The Board currently consists of four Executive Directors, two Non-Executive Directors and three Independent Non-Executive Directors. One of our Independent Non-Executive Directors has relevant financial management expertise required by the Listing Rules.

The Board schedules four meetings a year and also meets as and when required. During the year, the Board held four regular meetings.

The members of the Board and the attendance of each member are as follows:

Directors	Number of attendance
Executive directors	
Dr. Li Zhong Yuan	4/4
Mr. Lee Jong Dae	4/4
Dr. Ni Aimin	4/4
Mr. Deng Ku Hon	4/4
Non-executive directors	
Mr. Robin Willi	1/4
Mr. Martin Treffer	2/4
Independent non-executive directors	
Mr. Li Xiao Ru	2/4
Dr. Ma Yin Ming	1/4
Mr. Mu Xiang Ming	1/4

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The Company has received annual confirmations of independence from Independent Non-Executive Directors and the Company considers them to be independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 9 to 11 of this annual report respectively.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Li Zhong Yuan is the Chairman of the Board and Mr. Lee Jong Dae is the Chief Executive Officer (“CEO”) of the Company. The roles of the Chairman and the CEO are two distinctively separate positions. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The CEO is responsible for the Group’s business development and management.

The annual general meeting held on 26 August 2005 was chaired by Mr. Lee Jong Dae, one of our executive directors, instead of Dr. Li Zhong Yuan. Dr. Li Zhong Yuan did not attend the annual general meeting 2005 as he was in a unexpected urgent business trip. In accordance with the Code E.1.2, Dr. Li Zhong Yuan should attend the annual general meeting of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Under A.4.1 of the Code, the independent non-executive directors should be appointed for a specific term, subject to re-election. Currently, none of the three Independent Non-executive Directors is appointed for a specific term, but are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Company’s Bye-laws.

REMUNERATION COMMITTEE

The Company has established its Remuneration Committee on 31 March 2006 with specific written terms of reference. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company’s policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all executive directors and senior management of the Company.

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Mu Xiang Ming, Mr. Li Xiao Ru and Dr. Ma Yin Ming. The Remuneration Committee has not held any meeting during the year.

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NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no Independent Non-Executive Director being involved in assessing his/her own independence.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, RSM Nelson Wheeler, is set out below:

HK\$'000

Services rendered	
– audit services	666
– non-audit services	
Review on 2005 interim results	50
Preparation of accountants' report for inclusion in a circular to shareholders in respect of a very substantial acquisition	150
	<u>866</u>

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and comments to the Board.

During the year, the Audit Committee held two meetings. Members of the Audit Committee and the attendance of each member are as follows:

Directors	Number of attendance
Independent Non-executive Directors	
Mr. Li Xiao Ru	2/2
Mr. Mu Xiang Ming	1/2
Dr. Ma Yin Ming	2/2

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During the year, the Audit Committee has performed the following duties:

- reviewed with the management and the external auditors the audited financial statements for the year ended 31 March 2005 and the unaudited interim financial statements for the six months ended 30 September 2005, with recommendations to the Board for approval;
- reviewed reports on internal control system covering financial, operational, procedural compliance and risk management functions; and
- reviewed the compliance issues with the regulatory and statutory requirements.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 March 2006.

The Chairman of the Audit Committee, Dr. Ma Yin Ming, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 September 2005 and for the year ended 31 March 2006, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.