

# Corporate Governance Report

## CORPORATE GOVERNANCE

The Board of Directors (the "Board") of Van Shung Chong Holdings Limited ("VSC") is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for VSC and its subsidiaries (the "VSC Group") to manage business risks, enhance transparency, maintain high standards of accountability and protect shareholders' interest in general. VSC has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31st March 2006, save for the deviations discussed below. The Board will continuously review and improve the corporate governance practices and standards of VSC to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

## MODEL CODE FOR SECURITIES TRANSACTIONS

VSC has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of VSC ("Directors") on 31st March 2004. Having made specific enquiry of all Directors, they all confirmed that they have complied with the required standard set out in the Model Code during the year ended 31st March 2006. On 9th March 2006, the Board has approved that the Model Code also applies to other specified relevant employees of the VSC Group in respect of their dealings in the securities of VSC.

## BOARD OF DIRECTORS

Currently, the Board consists of two executive Directors and four independent non-executive Directors. One of the independent non-executive Directors possesses appropriate professional accounting qualifications and financial management expertise. Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. VSC is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. The Board members have no financial, business, family or other material/relevant relationships with each other. VSC has arranged appropriate insurance cover in respect of legal actions against the directors within the VSC Group.

The executive Directors are responsible for managing the overall business and formulating and executing corporate strategies. The independent non-executive Directors consist of eminent and highly-regarded business executives from Hong Kong, Mainland China and United States, who provide independent advices to the management through their wide range of skills and experience. The executive Directors have regular meetings with the unit heads of CAMP and/or CMG, general managers of respective business units and key staff of support units to discuss major business plans and review operation and financial performance. Independent non-executive Directors are also invited to participate in special review meetings or brainstorming sessions.

The Board members have access to appropriate business documents and information about the VSC Group on a timely basis. The Directors are free to have access to the management for enquiries and to obtain further information when required. The Directors are encouraged to update their skills, knowledge and familiarity with the VSC Group through ongoing participation at board and committee meetings. All Directors also have recourse to external legal counsel and other professionals for independent advice at VSC's expense if they require it.

Three Board committees, namely the Executive Committee, the Remuneration Committee and the Audit Committee, have been established to oversee various aspects of the VSC Group's affairs. The Board has delegated the execution and daily operations of the VSC Group's business to Presidents of CAMP and CMG, HR Director and CFO under the leadership of the CEO.

Minutes of Board meetings are taken by the Company Secretary and these minutes, together with any supporting board papers, are freely accessed by all board members for inspection.

The number of Board meetings, Remuneration Committee meetings and Audit Committee meeting attended by each Director during the year is as follows:

Directors	Board Meetings	Remuneration Committee meetings	Audit Committee meeting
<i>Executive Directors:</i>			
Mr. Andrew Cho Fai Yao ( <i>Chairman</i> )	4/4	1/1	N/A
Mr. Fernando Sai Ming Dong	4/4	N/A	N/A
<i>Non-Executive Director:</i>			
Dr. Shao You Bao ( <i>Passed away on 12th March 2006</i> )	1/4	N/A	0/2
<i>Independent Non-Executive Directors:</i>			
Dr. Chow Yei Ching	1/4	N/A	0/2
Mr. Harold Richard Kahler	4/4	1/1	2/2
Mr. Kenny King Ching Tam	4/4	1/1	2/2
Mr. Kenneth Woo Shou Ting ( <i>Resigned on 26th August 2005</i> )	1/2	N/A	1/1
Mr. Xu Lin Bao ( <i>Appointed on 21st April 2006</i> )	N/A	N/A	N/A

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision A.2.1 stipulates that the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. VSC does not have a separate chairman and chief executive officer and Mr. Andrew Cho Fai Yao currently holds both positions. The Board believes that

vesting the roles of both chairman and chief executive officer in the same person provides the VSC Group with strong and consistent leadership, efficiency usage of resources and allows for effective planning, formulation and implementation of VSC's business strategies which will enable the VSC Group to sustain the development of the VSC Group's business efficiently.

## SPECIFIC TERMS OF NON-EXECUTIVE DIRECTORS & RE-ELECTION OF DIRECTORS

The CG Code provisions A.4.1 and A.4.2 stipulates that (1) the non-executive directors should be appointed for a specific term, subject to re-election and (2) all directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. VSC's non-executive Directors are not appointed for a specific term and one-third of the Directors are subject to retirement by rotation at each annual general meeting. The chairman and the managing director of VSC are not subject to retirement by rotation. According to the Bye-laws of VSC, all Directors appointed shall hold office only until the next following annual general meeting of VSC and shall then be eligible for re-election at the meeting. The Board has proposed amendments (details are stated in the Notice of Annual General Meeting in the accompany general mandate) to the Bye-Laws of VSC at the Annual General Meeting to be held on 31st August 2006 to provide for retirement of every Director (including those holding office as chairman and managing director) at least once every three years at annual general meetings of VSC which is to be approved by shareholders at the coming Annual General Meeting.

## EXECUTIVE COMMITTEE

Executive Committee has been set up in March 2006 and now consists of all executive Directors with Mr. Andrew Cho Fai Yao as chairman and Mr. Fernando Sai Ming Dong as member.

When the Board is not in session, the Executive Committee can discharge the specific power and administrative functions authorised by the Board. The Executive Committee is mainly responsible for monitoring the daily operations of the VSC Group.

Minutes of committee meetings are taken by the Company Secretary and, together with any supporting committee papers, are available to all board members.

## REMUNERATION COMMITTEE

The Remuneration Committee has been set by July 2005 and includes the executive Director Mr. Andrew Cho Fai Yao (as chairman) and two independent non-executive Directors, Mr. Harold Richard Kahler and Mr. Kenny King Ching Tam. The Remuneration Committee's role is to make recommendation to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the VSC Group's overall performance, having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all executive Directors and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. No Director or any of his associates may be involved in any decisions as to his own remuneration. The Remuneration Committee has adopted its terms of reference, which is in line with the CG Code was posted to VSC's website at <http://www.vschk.com>.

Minutes of committee meetings are taken by the Company Secretary and, together with any supporting committee papers, are available to all board members.

The attendance record of the Remuneration Committee meeting is stated in the table under "BOARD OF DIRECTORS".

## AUDIT COMMITTEE AND INTERNAL AUDIT

The Audit Committee has been set up since December 1998 and now consists of four independent non-executive Directors with Mr. Kenny King Ching Tam as chairman and Dr. Chow Yei Ching, Mr. Harold Richard Kahler and Mr. Xu Lin Bao as members. Mr. Kenny King Ching Tam who is an independent non-executive Director with appropriate professional accounting expertise as required under Rule 3.10 of the Listing Rules.

The VSC Group's financial statements for the year ended 31st March 2006 now reported on have been reviewed by the Audit Committee, who is of opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

The Audit Committee meetings are held not less than twice a year to review and discuss the various audit issues as reported by the external auditors and internal audit team. It also reviews the interim and final financials. There was no disagreement between the Board and the Audit Committee on the selection or appointment of the external auditors. Additional meetings may also be held by the Audit Committee from time to time to discuss special projects or other issues, which the members considers necessary.

In line with the global best practice, the head of internal audit reports functionally to the Audit Committee. To foster the communications between the Audit Committee and the Internal Audit Department, the chairman of the Audit Committee meets at least two times a year, in addition to the regular Audit Committee meetings, with VSC internal audit personnel without the presence of the executive Directors. The internal audit team has been conducting internal control review on VSC's business unit since its inception in 2005. The four-year internal audit work plan is in place, which served as a blueprint for the internal audit team to cover most of VSC's business units in four years time.

Scope of the work of the Audit Committee is defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance. The Audit Committee has adopted its terms of reference, which is in line with the CG Code was posted to VSC's website at <http://www.vschk.com>.

Minutes of committee meetings are taken by the Company Secretary and, together with any supporting committee papers, are available to all board members.

The attendance record of the Audit Committee meetings is stated in the table under "BOARD OF DIRECTORS".

## INTERNAL CONTROL

The Board has overall authority and responsibility to establish and to review the internal control processes and has delegated this authority to the senior management: Presidents of CAMP and CMG, HR Director and CFO under the leadership of CEO. The weekly Drum Beat meeting, monthly CAMP and CMG meetings and the quarterly "90-day work plan" meetings provide a platform for the top management to re-align the risk management and corporate governance matters with business strategies. Day-to-day internal control matters have been charged to the respective business unit chief. VSC will continue to seek internal and external advices in consummating its corporate governance processes.

It would be possible to maintain a full set of policies, procedures and systems and still have poor corporate governance. This is because corporate governance is, above all, by and large, a matter of culture. In order to ensure and promote integrity and ethical behaviour in its business operations, the VSC Group has long been established, among other policy statements, "A Code of Business Ethics" and "Employee Handbook". These documents collectively provide guidance on the issues such as: potential conflict of interest resolution, the anti-corruption practices and the customer relations.

Any staff members in breach of this guidance will be subject to appropriate actions. These documents will be updated from time to time, after taking into account of the changes in the relevant legislations and the business environment.

Risk is generally defined as the possibilities of deviation from business objective, this include two elements: likelihood and magnitude. Risk could not be hundred percent eliminated, but could be managed. A sound system of internal control contributes to safeguarding shareholders' investment and VSC's assets. Having said that, since profits are in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately, rather than to totally eliminate the risk. Therefore, VSC's internal controls can only provide reasonable but not absolute assurance against misstatement or loss.

## NOMINATION OF DIRECTORS

VSC has not established a Nomination Committee. The Board is empowered under the VSC's Bye-laws to appoint any person as Director either to fill a casual vacancy or as an additional member of the Board. The selection criteria are mainly based on the professional qualification and experience of the candidate. Prior to our suggested amendments in the Bye-laws of VSC to be approved in coming Annual General Meeting, a newly-appointed Director must retire and be re-elected at the first annual general meeting after his/her appointment. At each general meeting, one-third of the directors (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. A retiring Director shall be eligible for re-election.

## AUDITORS' REMUNERATION

During the year ended 31st March 2006, PricewaterhouseCoopers, the external auditors of VSC, provided the following services to the VSC Group and their respective fees charges are set out below:

Types of services	HK\$'000
Audit fee for the VSC Group	1,225
Taxation services	49
Special engagements	325
Total	1,599

## RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The Directors acknowledge their responsibility for preparing the accounts which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditors about their reporting responsibilities is set out on pages 75 and 76 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon VSC's ability to continue as a going concern.

## INVESTOR RELATIONS AND COMMUNICATION

The VSC Group is committed to promoting transparency and maintaining effective communication with investors, analysts and the press. The management periodically meets with existing and potential investors to make corporate presentations. Regular plant visits to our various manufacturing facilities are arranged for various interested fund managers, research analysts and bankers. Our user-friendly website, <http://www.vschk.com>, provides investors with the latest news, senior management interviews, corporate and financial information including announcements and annual and interim reports. The VSC Group continues to maintain a high level of transparency in information disclosures.