

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors (the “Board”) of MEXAN LIMITED (the “Company”) believes that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Company and its subsidiaries (the “Group”).

In the opinion of the directors of the Company (“Directors” or individually, the “Director”), the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the year under review, except for the deviations as disclosed in this report.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. A reminder was served to each Director twice annually, one month before the relevant date of the board meetings to approve the Company’s half year results and annual results, that the Director cannot deal in the securities and derivatives of the Company until after such results have been published. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Company’s code of conduct regarding directors’ securities transaction throughout the year.

BOARD OF DIRECTORS

The Directors during the year ended 31 March 2006 and up to the date of this report were:

Executive Directors

Lau Kan Shan (*Chairman*)
Tse On Kin (*Managing Director*)
Ching Yung

Non-Executive Director

Leung Heung Ying (resigned on 4 October 2005)

Independent Non-Executive Directors

Chan Wai Dune
Lau Wai
Tong Kwai Lai





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BOARD OF DIRECTORS (continued)

As at the date of this report, the Board comprised six Directors, three of whom are Executive Directors (including the Chairman of the Board and the Managing Director) and three of whom are Independent Non-Executive Directors. Details of backgrounds and qualifications of each Director are set out on the section headed “Biographical Details of Directors and Senior Management” of this annual report. The Company has arranged appropriate insurance cover in respect of legal actions against the Directors.

The Board is responsible for the leadership and control of the Company and collectively responsible for promoting the success of the Company by directly and supervising the Company’s affairs. It also monitors overall strategic development of the Group, financial performance and the internal controls of the Group’s business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

Independent Non-Executive Directors serve the relevant function of bringing independent judgement on issues of strategy, policy, development, performance and risk management of the Group through their contributions in Board meetings. The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-Executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

The Board meets at least twice each year at approximately half a year interval to discuss the Group’s business development, operation and financial performance. Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend. All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the Board meetings. Minutes of Board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board.

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BOARD OF DIRECTORS (continued)

For the year ended 31 March 2006, other than resolutions passed by means of resolutions in writing of Directors, the Board held eleven meetings. The following table shows the attendance records of individual Director at the meetings of the Board held for the year ended 31 March 2006:—

Directors' Attendance

	Number of Board meetings held during the Director's term of office in 2005	Number of meeting(s) attended
<i>Executive Directors</i>		
Mr. Lau Kan Shan (<i>Chairman</i>)	11	2
Mr. Tse On Kin (<i>Managing Director</i>)	11	11
Ms. Ching Yung	11	11
<i>Non-Executive Director</i>		
Mr. Leung Heung Ying (resigned on 4 October 2005)	7	4
<i>Independent Non-Executive Directors</i>		
Mr. Chan Wai Dune	11	7
Mr. Lau Wai	11	5
Mr. Tong Kwai Lai	11	0

CHAIRMAN AND MANAGING DIRECTOR

The positions of the Chairman of the Board and Managing Director are held by Mr. Lau Kan Shan and Mr. Tse On Kin respectively. This segregation ensures that a clear distinction between the Chairman's responsibility to manage the Board and the Managing Director's responsibility to manage the Company's business. The respective responsibilities of the Chairman and the Managing Director are set out in an internal document entitled "Code of Corporate Governance".

Under the code provision E.1.2 of the CG Code, the Chairman should attend the annual general meeting. In the year under review, Mr. Lau Kan Shan, the Chairman, has not attended the annual general meeting of the Company held on 29 August 2005 due to other business engagement.





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NON-EXECUTIVE DIRECTORS

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. An Independent Non-Executive Director of the Company was not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws (the "Bye-laws").

Under the code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in accordance with the Bye-laws, the Chairman and Managing Director are not subject to retirement by rotation or taken into account on determining the number of Directors to retire. This constitutes a deviation from code provision of A.4.2 of the CG Code. As continuation is a key factor to the successful implementation of business plans, the Board believes that the roles of the Chairman and Managing Director provide the Group with strong and consistent leadership and are beneficial to the Company especially in planning and execution of business strategies and also believes that the present arrangement is beneficial to the Company and the shareholders of the Company as a whole.

REMUNERATION OF DIRECTORS

The Company has established a remuneration committee (the "Remuneration Committee") with specific written terms of reference. In line with its terms of reference approved by the Board, the role and function of the Remuneration Committee is to review, discuss and approve the remuneration mechanism of the Directors and senior management of the Company and to establish and maintain a reasonable and competitive remuneration level in order to attract and retain the Directors and senior management. The Remuneration Committee comprises three members, including the Managing Director and two Independent Non-Executive Directors. Mr. Tse On Kin is the chairman of the Remuneration Committee.

The Remuneration Committee convened one meeting for the year ended 31 March 2006. The remuneration of the Directors was discussed at the meeting. During the year under review, the Remuneration Committee reviewed and adjusted the fringe benefits of individual Director. The emoluments of the Directors are based on their respective responsibilities and their involvement in the Group's affairs and are determined by reference to the Group's business condition and the prevailing market practice. Under the policy, a Director is not allowed to approve his/her own remuneration.

During the year, one Remuneration Committee meeting was held and the individual attendance of each member is set out below:

Name of Members	Number of Attendance
Mr. Tse On Kin (<i>Chairman</i>)	1/1
Mr. Chan Wai Dune	1/1
Mr. Lau Wai	1/1

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REMUNERATION OF DIRECTORS (continued)

Under the code provision B.1.4 of the CG Code, the terms of reference of the Remuneration Committee are required to be made available on request and included on the issuer's website. At present, the Company does not maintain a website. However, the terms of reference of the Remuneration Committee are available on request.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. During the year under review, the Company has not established a nomination committee with specific written terms of reference which deal clearly with its authority and duties. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his/her qualifications, experience and background. During the year under review, no meeting was held by the Board for nomination of new director.

AUDITORS' REMUNERATION

Horwath Hong Kong CPA Limited ("Horwath") are the auditors of the Company. The services provided by them include audit and taxation advisory. Fees for auditing (including interim review with limited scope) and non-auditing services amounted to HK\$1,480,000 and HK\$124,400 respectively for the year ended 31 March 2006.

AUDIT COMMITTEE

The Audit Committee was established in March 1999. The Audit Committee currently comprises of three members, including Mr. Chan Wai Dune, Mr. Lau Wai and Mr. Tong Kwai Lai. All of them are Independent Non-Executive Directors. The chairman of the Audit Committee is Mr. Lau Wai. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

The Audit Committee's functions include:

- reviewing and monitoring financial reporting and the reporting judgement contained in them; and
- reviewing financial and internal controls, accounting policies and practices with management, internal and external auditors.





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AUDIT COMMITTEE (continued)

During the year, two Audit Committee meetings were held, one of which was attended by the external auditors, Horwath. The individual attendance of each member is set out below:

Name of Members	Number of Attendance
Mr. Chan Wai Dune	2/2
Mr. Lau Wai	2/2
Mr. Tong Kwai Lai	1/2

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited consolidated financial statements of the Group for the year ended 31 March 2006 have been reviewed by the Audit Committee.

Under the code provision C.3.4 of the CG Code, the terms of reference of the Audit Committee are required to be made available on request and included on the issuer's website. At present, the Company does not maintain a website. However, the terms of reference of the Audit Committee are available on request.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the financial statements for the year ended 31 March 2006, the Directors ensured that the financial statements are in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the financial statements on a going concern basis. The Directors are also responsible for the timely publication of the financial statements of the Group.

The statement of the auditors of the Company, Horwath, about their reporting responsibilities on the financial statements of the Group is set out in the "Report of the Auditors" section of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions.