

Corporate Governance Report

The Company has made continued efforts to incorporate the key elements of sound corporate governance in its management structures and internal control procedures. The Company is committed to high standards of ethics and integrity in all aspects of its business, and to ensuring its affairs are conducted in accordance with applicable laws and regulations.

Corporate Governance Practices

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of The Listing Rules Governing Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 March 2006, save for the following deviations:

Code Provision A.4.2

Under provision A.4.2 of the Code, every Director should be subject to retirement by rotation at least once every three years. The Bye-laws 87(1) of the Company provides that the chairman of the Board and/or the managing director of the Company ("Managing Director") shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. The Board considers that the chairman of the Board and the Managing Director are not subject to retirement by rotation in order to maintain the stability and continuity. Nevertheless, the amendment to the Bye-laws of the Company will be proposed at the forthcoming annual general meeting to ensure one-third of the Directors (other than the Chairman and Managing Director) shall retire from office by rotation at least once every three years.

Code Provision A.5.4

Under provision A.5.4 of the Code, the Board should establish written guidelines on no less exacting terms than the Model Code set out in Appendix 10 of the Listing Rules ("Model Code") for relevant employees in respect of their dealings in the securities of the Company. To comply with this code provision, the Board has issued the written guidelines to the relevant employees in March 2006.

Directors' Securities Transactions

The Company has adopted the Model Code regarding securities transactions by Directors. All Directors, after specific enquiry by the Company, confirmed they have complied with the required standard set out in the Model Code during the year.

Board of Directors

The Board is responsible for the management of the Company on behalf of the Shareholders. Key responsibilities include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The Board confines itself to making broad policy decisions and also exercising a number of reserved powers as mentioned below, delegating responsibility for more detailed considerations to the Management Committee under the leadership of the Chairman:

- those functions and matters as set out in the terms of reference of various committees (as amended from time to time), in which Board approval must be sought from time to time;
- those functions and matters in which Board approval must be sought in accordance with the Group's internal policy as amended from time to time;
- consideration and approval of financial statements in interim reports and annual reports, announcements and press releases of interim and final results;
- focus its attention on matters affecting the Company's overall strategic policies, finances and Shareholders;
- consideration of dividend policy and dividend amount; and
- monitoring the corporate governance of the Group in compliance with the relevant rules and regulations.

The Board comprises a total of eight Directors including four executive Directors, namely, Mr. Pang Kam Chun (Chairman), Mr. Kwok Yuk Chiu, Clement (Managing Director), Madam Li Wai Hang, Christina, and Mr. Nip Yun Wing; and four Independent Non-executive Directors, namely, Mr. Au Son Yiu, Mr. Lee Shing See, Mr. Hui Chiu Chung and Mr. Chan Chiu Ying who has appropriate professional qualifications, accounting and financial management expertise. Madam Li Wai Hang, Christina is the spouse of Mr. Pang Kam Chun.

Half of the Board are Independent Non-executive Directors which exceeds the minimum number required under the Listing Rules. The Company has received an annual written confirmation from each Independent Non-executive Director to confirm his independence under the Listing Rules to the Company and accordingly, the Company considers all of the Independent Non-executive Directors to be independent under the Listing Rules.

Board of Directors continued

Each of the Independent Non-executive Directors has a service agreement for a term of one year. The agreement is renewable subject to consent given by the Company and the respective Directors. The Independent Non-executive Directors are also subject to retirement by rotation in accordance with the Bye-laws.

All Directors have full and timely access to all relevant information, including regular reports from the Board Committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

During the year under review, 6 meetings were held by the Board. The attendance of individual members of the Board and other Board Committees meetings during the year under review is set out in the following table:

Directors	Meetings attended/Eligible to attend			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
<i>Executive Directors</i>				
Mr. Pang Kam Chun (Chairman of the Board)	6/6	–	–	–
Mr. Kwok Yuk Chiu, Clement (Managing Director)	6/6	–	1/1	0/0
Madam Li Wai Hang, Christina	6/6	–	–	–
Mr. Nip Yun Wing	6/6	–	–	–
<i>Independent Non-Executive Directors</i>				
Mr. Au Son Yiu	5/6	2/2	1/1	0/0
Mr. Chan Chiu Ying	6/6	2/2	–	0/0
Mr. Lee Shing See	2/2	0/0	–	–
Mr. Hui Chiu Chung	2/2	–	0/0	–

Chairman and Managing Director

The chairman of the Board is Mr. Pang Kam Chun and Managing Director is Mr. Kwok Yuk Chiu, Clement. The role of the Chairman is separated from that of Managing Director. The Chairman is responsible for overseeing the functioning of the Board while Managing Director is responsible for managing the Group's business.

Board Committees

The Board has established the following committees with defined terms of reference. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are of no less exacting terms than those set out in the Code. All committees are provided with sufficient resources to discharge their duties.

Management Committee

The Management Committee operates as a general management committee with overall delegated authority from the Board. The Management Committee manages the daily operation of the Company and reports through the chairman to the Board.

Members of the Management Committee are:

Mr. Pang Kam Chun (*Chairman*)
Mr. Kwok Yuk Chiu, Clement (*Managing Director*)
Madam Li Wai Hang, Christina
Mr. Nip Yun Wing

Remuneration Committee

The Remuneration Committee was formed in 6 April 2005. Its primary objective is to ensure the Company is able to attract, retain and motivate high-calibre employees who will underpin the success of the Company and enhance the value of the Company to its shareholders. The Remuneration Committee performs its functions, which primarily include assisting the Board in the overall management of the remuneration practices of the Group to ensure that effective policies, processes and practices are implemented in respect of the incentives for the Directors and senior management, in accordance with provision B.1.3 of the Code.

The Remuneration Committee comprises three members, a majority of whom are Independent Non-executive Directors.

Remuneration Committee continued

Members of the Remuneration Committee are:

Mr. Au Son Yiu (*Chairman*)
Mr. Chan Chiu Ying
Mr. Kwok Yuk Chiu, Clement

During the year under review, no meeting was held by the Remuneration Committee.

Nomination Committee

The Nomination Committee was formed in 6 April 2005 to make recommendations to the Board on the appointment and re-appointment of Directors, structure, size and composition of the Board and to ensure fair and transparent procedures for the appointment and re-appointment of Directors.

The Nomination Committee comprises three members, a majority of whom are Independent Non-executive Directors.

Members of the Nomination Committee are:

Mr. Lee Shing See (*Chairman*)
Mr. Au Son Yiu
Mr. Kwok Yuk Chiu, Clement

The Nomination Committee 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. The decision of appointing a director must be approved by the Board.

During the year under review, the Nomination Committee convened one meeting, in which the appointment of Mr. Lee Shing See and Mr. Hui Chiu Chung as the Independent Non-executive Directors were considered and recommended to the Board for approval. The attendance of individual Directors at the committee meeting is set out in the table on page 22.

Audit Committee

The Company established an audit committee on 17 December 1998 with written terms of reference in compliance with the Code. The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. The primary duties of the Audit Committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of both the external audit and of internal controls and risk evaluation.

The Audit Committee comprises three Independent Non-executive Directors, one of whom possesses appropriate professional qualification, accounting or related financial management expertise as required under the Listing Rules.

Members of the Audit Committee are:

Mr. Chan Chiu Ying (*Chairman*)

Mr. Au Son Yiu

Mr. Hui Chiu Chung

During the year under review, two meetings were held by the Audit Committee. The attendance of individual Directors at the Committee meetings is set out in the table on page 22.

The following is a summary of work performed by the Audit Committee during the year under review:

- (i) review of the annual report and final results announcement for the year ended 31 March 2005, with a recommendation to the Board for approval;
- (ii) review of the external auditors' independence and report, with recommendation to the Board for the re-appointment of the external auditors at the 2005 annual general meeting of the Company; and
- (iii) review of the interim report and the interim results announcement for the six months ended 30 September 2005, with a recommendation to the Board for approval.

Auditors' Remuneration

For the year ended 31 March 2006, the auditors of the Company and its subsidiaries received approximately HK\$1.64 million for audit services (2005: approximately HK\$1.58 million) and approximately HK\$0.39 million for non-audit services (2005: approximately HK\$0.15 million).

The significant non-audit services covered by these fees include the following:

Nature of non-audit services	Fees paid (HK\$million)
Tax services	0.19
General offers	0.20

Directors' and auditors' responsibilities for accounts

Statements of the Directors' responsibilities for preparing the financial statements and the auditors of the Company about their reporting responsibilities are set out in the Auditors' Report of this annual report.

Internal Control

The Directors have revised and are satisfied with the effectiveness of internal controls system in the Group, including, in particular, financial, operational and compliance controls and risk management functions.

Investor Relations and Communication with Shareholders

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports of the Company are printed and sent to all Shareholders. Moreover, announcements, circulars and press releases of the Company are posted on the Company's corporate website www.chunwo.com. The Company's website provides email address, postal address, fax number and telephone number by which enquiries may be put to the Company's Board. Constantly being updated in a timely manner, the website also contains a wide range of additional information on the Group's business activities. The Company acknowledges that general meetings are good communication channel that members of the Board and committees are encouraged to attend the meetings.