



Corporate Governance Report

This corporate governance report (the “CG Report”) presents the corporate governance matters during the period covering the financial year ended 31 March 2006 and up to the date of the annual report (the “Annual Report”) in which this CG Report is included (the “CG Period”) required to be disclosed under the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Listing Rules during the CG Period save for the deviations as disclosed in the CG Report. The directors of the Company will endeavour to ensure that the Company will comply with all the code provisions of the CG Code as soon as possible.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding directors’ securities transactions. Having made specific enquiry of all directors of the Company, the directors confirmed that they had complied with the requirements as set out in the Model Code throughout the CG Period.

BOARD OF DIRECTORS

The board comprises five executive directors, one non-executive director and three independent non-executive directors (the “Board”). The directors of the Company during the CG Period were:

Executive directors

Mr. Chan Boon Teong (*Chairman*)
Mr. Jiang Ming (*Vice Chairman & Managing Director*)
Mr. Tao Lin
Mr. Cheng Wing Bor
Mr. Lin Chen Hsin

Non-executive director

Mr. Zheng Hong Qing

Independent non-executive directors

Mr. Tang Lap Yan
Mr. Law Kin Ho
Mr. Wong Kai Cheong

The biographical details of the directors are set out on page 18 to 19 of the Annual Report. The Board possesses a balance of skill and experience which are appropriate for the business needs of the Group. The independent non-executive directors of the Company have the appropriate professional qualification and accounting and related financial management expertise as required under the Listing Rules. They provide a strong support towards the effective discharge of the duties and responsibilities of the Board. The Company will review the composition of the Board regularly to ensure that the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group’s business.

BOARD OF DIRECTORS (Continued)

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers the three independent non-executive directors to be independent.

The Board's primary functions are to set corporate policy and overall strategy for the Group's operations and to provide effective oversight of the management of the Group's business and affairs. Apart from its statutory responsibilities, the Board also approves major investments and corporate transactions such as issue of debt securities and shares of the Company etc., reviews the financial performance of the Group and evaluates the performance and compensation of senior management. These functions are either carried out directly by the Board or indirectly through committees established by the Board.

Board meetings are held from time to time as and when necessary to review and approve annual and interim results, to review the quarterly management accounts and to approve major investments and corporate transactions, which may take the form of physical presence of directors in a meeting, or conference by electronic means. The schedule for regular Board meetings which is four times a year at approximately quarterly intervals to review and approve annual and interim results and to review quarterly management accounts is tentatively set in advance annually. For regular Board meetings at least 14 days' notice of each regular meeting is given to all directors and agendas and accompanying board papers are sent not less than 3 days where possible before the date of Board meetings. All the minutes of Board meetings are kept by the company secretary of the Company and are freely accessible to by any director.

The Board meetings held and the attendance of directors during the CG period are set out below:

Directors	No. of meetings held/ No. of attendance
Mr. Chan Boon Teong (<i>Chairman of the Board</i>)	11/11
Mr. Jiang Ming	11/6
Mr. Tao Lin	11/5
Mr. Cheng Wing Bor	11/11
Mr. Lin Chen Hsin	11/10
Mr. Zheng Hong Qing	11/1
Mr. Tang Lap Yan	11/6
Mr. Law Kin Ho	11/6
Mr. Wong Kai Cheong	11/6

CHAIRMAN AND MANAGING DIRECTOR

The chairman is Mr. Chan Boon Teong and the managing director is Mr. Jiang Ming. There is a clear division of responsibilities between the chairman and the managing director in that the chairman bears primary responsibility for the effective functioning of the Board, which include formulating and monitoring the implementation of business strategies, while the managing director bears executive responsibility for the Group's day-to-day business operations and management.



Corporate Governance Report (Continued)

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Currently, the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's bye-laws.

The Board has discussed and reviewed the issue regarding appointment of the non-executive directors for a specific term so as to comply with the CG Code requirements and will fixed a specific term of appointment for each of the non-executive directors as soon as possible.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee.

The Board is empowered under the Company's bye-laws to appoint any person as a 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.

Currently, under the Company's bye-laws a newly appointed director must retire and be re-elected at the first annual general meeting after his appointment. At each annual general meeting, one-third of the directors (or, if their number is not a multiple of three, the number nearest to but not more than one-third, provided that the chairman of the Board and/or the managing director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year) shall retire from office by rotation. A retiring director shall be eligible for re-election.

To comply with the CG Code requirements, amendments to the Company's bye-laws will be proposed at the forth-coming annual general meeting that:

- (a) Any director appointed by the Board to fill a casual vacancy on the Board shall hold office only until the next following general meeting of the Company and any director appointed as an addition to the existing Board, subject to authorization by the members in general meeting, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting; and
- (b) At each annual general meeting one-third of the directors for the time being (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 provided that every director shall be subject to retirement by rotation at least once every three years.

REMUNERATION COMMITTEE

The Remuneration Committee was established with specific written terms of reference.

The Remuneration Committee's principal roles are to make recommendations to the Board on the remuneration policy and structure for directors and senior management and to review and determine the specific remuneration packages of all executive directors and senior management.

REMUNERATION COMMITTEE (Continued)

The members of the Remuneration Committee and their respective attendance of the Remuneration Committee meeting held during the CG period are as follows:

	No. of meetings held/ No. of attendance
Independent non-executive directors	
Mr. Tang Lap Yan (<i>Chairman of the Remuneration Committee</i>)	1/1
Mr. Law Kin Ho	1/1
Mr. Wong Kai Cheong	1/1
Executive directors	
Mr. Chan Boon Teong	1/1
Mr. Jiang Ming	1/0

The meeting of the Remuneration Committee held during the CG Period is mainly to review the remuneration policy and structure for directors and senior management.

The remuneration of directors and senior management will be reviewed and determined with reference to their duties and responsibilities with the Company and the Group, their skills and experience, their work performance, the Group's performance and the prevailing industry practice and market situation.

A remuneration package for executive directors and senior management will normally comprise basic salary and allowances, mandatory provident fund and medical insurance coverage benefits, performance related discretionary bonus and share options.

AUDIT COMMITTEE

The Audit Committee was established with specific written terms of reference which were revised in December 2005 to align with the CG Code requirements.

The Audit Committee's primary roles are to review the Group's financial reporting process, internal control system and corporate governance issues and to make relevant recommendations to the Board.

All the Audit Committee members are independent non-executive directors. The Audit Committee meetings held during the CG period, and the attendance of the members are as follows:-

	No. of meetings held/ No. of attendance
Independent non-executive directors	
Mr. Tang Lap Yan (<i>Chairman of the Audit Committee</i>)	6/6
Mr. Law Kin Ho	6/6
Mr. Wong Kai Cheong	6/6

Corporate Governance Report (Continued)

AUDIT COMMITTEE (Continued)

During the CG period, major tasks performed by the Audit Committee include:

- (i) reviewed the draft interim and annual financial statements for the six months ended 30 September 2005 and for the year ended 31 March 2006 and the related draft results announcements;
- (ii) reviewed the application of the new accounting standards promulgated by the Hong Kong Institute of Certified Accountants in the Group's financial statements;
- (iii) reviewed the Group's internal control system with management including review of the work done by the Group's internal audit function;
- (iv) reviewed the compliance matters with respect to corporate governance issues;
- (v) discussed and reviewed with the external auditors the auditors statutory audit plan; and
- (vi) reviewed and considered the audit fee of external auditors.

AUDITORS' REMUNERATION

For the financial year ended 31 March 2006, Ernst & Young, the external auditors of the Company, provided the following services to the Group and their respective fees charged are set out below:

Type of services	HK\$
Audit fee for the Group	1,600,000
Limited scope review of interim financial statements	135,000
Total	1,735,000

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors of the Company acknowledge their responsibility for preparing the financial statements. In preparing the financial statements for the year ended 31 March 2006, the directors have adopted suitable accounting policies which are pertinent to the Group's operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. A statement by the auditors about their reporting responsibilities is set out on page 32 of the Annual Report.

INTERNAL CONTROL

The Board recognises the importance of a sound and effective internal control system to the Group's business operations. As a routine procedure and part of the internal control system, during the CG period, the internal audit team of the Group had regularly conducted internal audits on the operating units and functions of the Group on a rotational basis. The internal audit procedures include a review and/or testing on the Group's significant internal control procedures over financial, operation, compliance and risk management functions. Findings and recommendations were reported to the Audit Committee. Improvement and reinforcement to the Group's internal control system were thus made as a continuing process.

SHAREHOLDER COMMUNICATION

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meetings, general meetings for specific businesses, annual reports, interim reports, notices, announcements and circulars. Annual reports, interim reports, notices, announcements and circulars are archived in the Company's investor relations website: <http://www.irasia.com/listco/hk/coastal> that can be freely accessed to. Furthermore, the access to the Company's investor relations website can also be made through the "investor relations" hyperlink in the Company's website: <http://www..coastal.com.cn>.