

In view of the corporate governance practices, the Company has adopted a set of clear guidelines to explain its policies, practices and procedures which we aim to follow to ensure that our standards meets our shareholders' expectations. The Company has committed to maintain a high standard of corporate governance based on the principles of the code provisions set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") effective on 1 January 2005. The Company recognizes the maintenance of good corporate governance practices is essential to the growth of the Company and has complied with all the CG Code except for certain deviations that are discussed later in this report.

BOARD OF DIRECTORS

Composition

As at the date of this report, the board of directors ("Board") comprises seven directors ("Director(s)") of the Company of which four are executive Directors and three are independent non executive Directors. The members of Directors and Board Committee as at the date of this annual report are as follows:

Executive directors:

Chong Sing Yuen (*Chairman*)
Au Tat On (*Appointed on 12 May 2006*)
Chong Chun Hing (*Resigned on 12 May 2006*)
Chu Kiu Fat (*Resigned on 20 April 2006*)
Chong Chun Kwok, Piggy (*Resigned on 12 May 2006*)
Lu Xiao Dong (*Appointed on 12 May 2006*)
Wong Siu Keung, Joe

Independent non-executive directors:

Chan Ping Yim (*Resigned on 26 May 2006*)
Chan Shun (*Resigned on 18 August 2005*)
Cheng Kwok Hing, Andy
Yeung King Wah (*Appointed on 26 May 2006*)
Yeung Yuen Hei (*Appointed on 18 August 2005*)

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The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations. Decisions requiring the Board's approval include, among others, all matters of objective and strategic importance, corporate governance practices, changes in Board members, major transactions and investment commitments, annual budget and financial matters, all policy matters etc. The day-to-day management, administration and operation of the Company are delegated to senior management which is accountable to the Board for the implementation of the Group's overall strategies and coordination of overall business operations.

The Board members are fully committed to their roles and have always acted, individually and collectively, in the best interests of the Company and its shareholders at all times. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship amongst Directors. Biographical details of the Directors are set out on pages 5 to 6 under the section headed "Biographical Details of Directors" of this annual report.

During the year ended 31 March 2006, the Board held 19 regular Board meetings. The attendance of each member at the Board meetings is set out below:

Name	Number of meetings attended/Total
Executive directors:	
Chong Sing Yuen (<i>Chairman</i>)	10/19
Au Tat On (<i>Appointed on 12 May 2006</i>)	N/A
Chong Chun Hing (<i>Resigned on 12 May 2006</i>)	12/19
Chu Kiu Fat (<i>Resigned on 20 April 2006</i>)	18/19
Chong Chun Kwok, Piggy (<i>Resigned on 12 May 2006</i>)	19/19
Lu Xiao Dong (<i>Appointed on 12 May 2006</i>)	N/A
Wong Siu Keung, Joe	18/19
Independent non-executive directors:	
Chan Ping Yim (<i>Resigned on 26 May 2006</i>)	9/19
Chan Shun (<i>Resigned on 18 August 2005</i>)	2/11
Cheng Kwok Hing, Andy	1/19
Yeung King Wah (<i>Appointed on 26 May 2006</i>)	N/A
Yeung Yuen Hei (<i>Appointed on 18 August 2005</i>)	4/9

Chairman

The roles of the chairman of the Board and the chief executive officer (after resignation of Mr Chong Chun Kwok, Piggy in May 2006) of the Company have been performed by Mr Chong Sing Yuen. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Mr Chong Sing Yuen, being the Chairman of the Group since 1998, takes the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. He also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner with the assistance of the company secretary.

Executive Directors

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participations provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and one of them have appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors a confirmation of independence for the year pursuant to Rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

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Corporate Governance

During the year, the Company was in compliance with the CG Code, except for the deviation from the requirement of code provision A4.2 in respect of rotation of Directors.

The Company was passed the resolution in the Company's annual general meeting on 29 September 2005 that new Bye-Law of the Company was adopted, which requiring "at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to one-third but not less than one-third) shall retire from office by rotation so that each director shall be subject to retirement at least once every three years".

Upon the resignation of Mr Chong Chun Kwok, Piggy, chief executive officer of the Company on 12 May 2006, the Group do not have an officer titled chief executive officer. Mr Chong Sing Yuen is the Chairman of the Company and acts as chief executive officer of the Company, which is deviated from the requirement of the code provision A2. The Board considers that this structure is conducive with strong and consistent leadership, enabling the Company to respond promptly and efficiently. The Company will appoint chief executive officer if the appropriate candidate is found.

Audit Committee

The audit committee has been established by the Board. The audit committee currently comprises three independent non-executive Directors. The functions of the audit committee are:

- to make recommendations to the board concerning the appointment, reappointment, retention, evaluation and termination of compensation and overseeing the work of the Company's independent auditor;
- to approve all non-audit services to be provided by the Company's independent auditor;
- to approve the remuneration and terms of engagement of the Company's independent auditor;
- to review the relationships between the Company and the Company's independent auditor;
- to approve the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding two years;
- to review the Company's annual and interim financial statements, accounting policies and practices, the effectiveness of the Company's disclosure controls and procedures and developments in financial reporting practices and requirements;

- to review the Company's risk assessment and management policies;
- to review the adequacy and effectiveness of the Company's legal and regulatory compliance procedures; and
- to obtain and review reports from management and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

The new terms of the reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board.

During the year, the audit committee held 2 meetings, details of attendance are set out below:

Members	Number of meetings attended/Total
Chan Ping Yim (<i>Resigned on 26 May 2006</i>)	2/2
Chan Shun (<i>Resigned on 18 August 2005</i>)	0/1
Cheng Kwok Hing, Andy	2/2
Yeung King Wah (<i>Chairman</i>) (<i>Appointed on 26 May 2006</i>)	N/A
Yeung Yuen Hei (<i>Appointed on 18 August 2005</i>)	1/1

Remuneration and Nomination Committee

The remuneration and nomination committee have been established by the Board. The audit committee currently comprises one executive Director and three independent non-executive Directors. The functions of Remuneration and Nomination Committees are:

- to recommend to the board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- to determine the remuneration packages of all executive directors and senior management;
- to review and approve performance-based remuneration; and
- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of office or appointment.

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In addition, the Remuneration and Nomination Committee as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Where vacancies exist, the Remuneration and Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

For the avoidance of doubt, the Directors and their associates do not participate in decisions making relating to their own remuneration.

During the year, the remuneration and nomination committee held 1 meeting, details of attendance are set out below:

Members	Number of meetings attended/Total
Executive director:	
Chong Chun Kwok, Piggy (<i>Resigned on 12 May 2006</i>)	1/1
Chu Kiu Fat (<i>Resigned on 20 April 2006</i>)	1/1
Wong Siu Keung, Joe	N/A
Independent non-executive directors:	
Chan Ping Yim (<i>Resigned on 26 May 2006</i>)	1/1
Chan Shun (<i>Resigned on 18 August 2005</i>)	N/A
Cheng Kwok Hing, Andy	1/1
Yeung King Wah (<i>Chairman</i>) (<i>Appointed on 26 May 2006</i>)	N/A
Yeung Yuen Hei (<i>Appointed on 18 August 2005</i>)	1/1

DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Group for the year. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Auditors' Report on pages 29 and 30 of this annual report.

Internal Controls

The annual review requirement of the effectiveness of the Company's internal control system under the CG Code shall apply to the Company beginning its fiscal year ending 31 March 2007 as such code provision on internal control is to be implemented for the accounting period commencing on or after 1 July 2005.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, CCIF CPA Limited, for the year is set out as follows:

Services rendered	Fee paid/payable Approximately HK\$
Audit services (2005: approximately HK\$230,000)	290,000
Non-audit services (2005: approximately HK\$114,000)	15,000
Taxation services	—
Other services	—
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Total:	<u>305,000</u>

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COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communications with its shareholders and investors. To facilitate and enhance the relationships and communication, the Company has established, including but not limited to, the following various channels:

1. annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at annual general meetings to address shareholders' queries;
2. separate resolutions are proposed at general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in circulars to the shareholders to facilitate the enforcement of shareholders' rights;
3. interim and annual results are announced as early as possible so that the shareholders are kept informed of the Group's performance and operations; and
4. corporate website www.northern.com.hk contains extensive information and updates on the Company's business developments and operations, financial information and other information.