

Corporate Governance Report

The Board of Directors of the Company (the “Board”) is pleased to present the Corporate Governance Report of the Company for the nine months ended 31 December 2006.

COMMITMENT TO CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance practices which are essential for sustainable development and growth of the Group, enhancing corporate performance and accountability as well as shareholder value. The Board sets appropriate policies and oversees their implementation both in the affairs of the Board and throughout the Group.

The Company has applied the Principles and complied with all the Code Provisions of the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the nine months ended 31 December 2006 except for the deviations from Code Provisions A.4.1 and A.4.2, which are explained below.

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To ensure a balance of power and authority, the positions of the Chairman of the Board and Chief Executive Officer are held by Mr. Lo Hong Sui, Vincent and Mr. Wong Yuet Leung, Frankie respectively. Their respective responsibilities are clearly defined.

The Chairman is responsible for leading the Board in setting the overall strategy and making major development decisions of the Group and monitoring their implementation, to ensure value creation for shareholders. He takes part in cultivating cordial relationships with strategic associates of the Group and creating a favourable environment for the development of the Group’s businesses. As leader of the Board, the Chairman also assesses the development needs of the Board as a whole with a view to building its effectiveness as a team and developing the knowledge and expertise of individual Board members and future leaders of the Group.

The Chief Executive Officer is responsible for leading the operations of the Group’s businesses to achieve their business and financial targets, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board, including the building of a strong corporate culture within the Group.

THE BOARD

Responsibilities

The Group's corporate governance emphasizes a practical management of its affairs with high standards of integrity and transparency.

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs and overseeing the achievement of the plans to enhance shareholder value. All Directors are expected to take decisions objectively in the interests of the Company.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, upon making request to the Board.

The Board reserves for its decision all major aspects of the Company's affairs, including the approval and monitoring of all policy matters, overall strategies, resulting business plans (inclusive of annual budgets) and their implementation, internal control and risk management systems, material transactions (in particular those which may involve conflicts of interest), financial information, major capital expenditure, appointment of Directors and other significant financial and operational matters.

All operational decisions are delegated to the Executive Directors led by the Chief Executive Officer. The day-to-day management, administration and operation of the Company are delegated to the management. The delegated functions and work tasks are periodically reviewed. The Board will give clear directions to the management as to their powers of management, and circumstances where management should report back. Approval has to be obtained from the Board prior to any decision being made or any commitments being entered into on behalf of the Company that are outside the limits of the operational authority delegated by the Board.

The management has an obligation to supply to the Board and its committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The Board and each Director have separate and independent access to the management. The Board has arranged for appropriate insurance cover for the Directors.

Composition

The Board currently comprises nine members - the Chairman and four other Executive Directors, one Non-executive Director and three Independent Non-executive Directors:

Executive Directors:

Mr. Lo Hong Sui, Vincent (*Chairman of the Board and member of Executive Committee and Remuneration Committee*)

Mr. Choi Yuk Keung, Lawrence (*Vice-chairman of the Board and chairman of Executive Committee*)

Mr. Wong Yuet Leung, Frankie (*Chief Executive Officer and member of Executive Committee*)

Mr. Wong Fook Lam, Raymond (*member of Executive Committee*)

Mrs. Lowe Hoh Wai Wan, Vivien (*member of Executive Committee*)

Non-executive Director:

Professor Michael John Enright (*member of Audit Committee and Remuneration Committee*)

Independent Non-executive Directors:

Mr. Anthony Griffiths (*chairman of Audit Committee and Remuneration Committee*)

Mr. Cheng Mo Chi, Moses (*member of Audit Committee and Remuneration Committee*)

Professor K.C. Chan (*member of Audit Committee and Remuneration Committee*)

None of the members of the Board is related to one another.

During the nine months ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Independent Non-executive Directors are considered by the Board to be independent of management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the Non-executive Director and Independent Non-executive Directors brings his own relevant expertise to the Board and its deliberations.

The Board encourages target-based performance and innovation to achieve the Group's strategies and plans.

Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

Code Provision A.4.1 of the CG Code stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. 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 Bye-laws of the Company. Under Code Provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Directors of the Company retire not strictly under Code Provision A.4.2, but in accordance with the Bye-laws which stipulate that one-third of the Directors of the Company, except the Chairman and the Chief Executive Officer, shall retire from office by rotation at each annual general meeting.

The Board considers that all Directors (save for the Chairman and the Chief Executive Officer) are subject to retirement and re-election on a periodic basis under the Bye-laws. The Board also considers that the continuity of leadership is important for the stability and growth of the Company and that both the Chairman and the Chief Executive Officer should not be subject to retirement or hold office for a limited term.

The Board 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.

The Board reviews from time to time its own structure, size and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company. Where vacancies on the Board exist, the Chairman 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. External recruitment agencies may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Bye-laws, Mr. Anthony Griffiths and Professor Michael John Enright shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The Board recommends the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting.

Training and Continuing Development for Directors

The Chairman has assessed the development needs of the Board as a whole, with a view to building its effectiveness as a team and assisting in the development of individual skills, knowledge and expertise.

Arrangements have been made to provide each new Director a comprehensive, formal and specific induction on the first occasion of his/her appointment and continuing briefing and professional development when necessary.

Board Meetings

Number of Meetings and Directors' Attendance

The Board met regularly during the period as well as on an ad hoc basis, as required by business needs. As a result of the change of financial year end, the Board met only three times during the nine-month period ended 31 December 2006. Among these three meetings, the Board met twice to approve the final results for the year ended 31 March 2006 and the interim results for the six months ended 30 September 2006 respectively. The attendance of the Directors at the regular Board meetings is set out in the table on page 35.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to the Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep them apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the management whenever necessary.

The Company Secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to all Directors for comment within a reasonable time after each meeting and the final version is open for inspection by the Directors.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings to approve transactions in which such Directors or any of their associates have a material interest.

BOARD COMMITTEES

The Board has set up four main Board Committees, namely, the Audit Committee, the Remuneration Committee, the Executive Committee and the Strategy Committee, for overseeing particular aspects of the Company's affairs. Pursuant to a resolution passed by the Board, the Strategy Committee has been merged with the Executive Committee during the period.

Each of these three Committees has been established with defined written terms of reference, approved by the Board, which set out the Committee's major duties. These terms of reference are available to shareholders upon request and can also be found on the Company's website.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Meeting Attendance

The individual attendance record of each Director at the meetings of the Board, Audit Committee, Remuneration Committee and Executive Committee during the nine months ended 31 December 2006 is set out below:

Name of Directors	Attendance/Number of Meetings during the nine months ended 31 December 2006			
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Executive Committee Meetings
Mr. Lo Hong Sui, Vincent	2/3	N/A	3/4	6/8
Mr. Choi Yuk Keung, Lawrence	3/3	N/A	N/A	8/8
Mr. Wong Yuet Leung, Frankie	3/3	N/A	N/A	8/8
Mr. Wong Fook Lam, Raymond	3/3	N/A	N/A	8/8
Mrs. Lowe Hoh Wai Wan, Vivien	3/3	N/A	N/A	7/8
Professor Michael John Enright	3/3	2/3	2/4	N/A
Mr. Anthony Griffiths	3/3	3/3	4/4	N/A
Mr. Cheng Mo Chi, Moses	2/3	2/3	2/4	N/A
Professor K.C. Chan	3/3	2/3	3/4	N/A

Mr. Wong Ying Wai, Wilfred and Mr. Wong Hak Wood, Louis resigned as Directors of the Company on 1 June 2006. No board meeting was scheduled during the period from 1 April 2006 up to the date of their resignation. Mr. Wong Ying Wai, Wilfred attended meetings of the Executive Committee twice during the period before his resignation.

1. Audit Committee

Composition of the Committee

Mr. Anthony Griffiths (Chairman of the Committee)
Mr. Cheng Mo Chi, Moses
Professor K.C. Chan
Professor Michael John Enright

Except Professor Michael John Enright who is a Non-executive Director, the Committee members are the Independent Non-executive Directors of the Company, with the Chairman having the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

Role and duties

Under the terms of reference of the Audit Committee, the principal responsibilities of the Audit Committee include review of the Group's financial statements and the effectiveness of internal control systems. The Audit Committee also oversees the engagement of external auditor and reviews its independence as well as the effectiveness of the audit process. The terms of reference of the Audit Committee, which include the specific duties as set out in the CG Code, are available on the Company's website.

Work performed during the nine months ended 31 December 2006

The Audit Committee met 3 times during the nine months ended 31 December 2006. The Directors' attendance at the meetings held is set out in the table on page 35. A separate report prepared by the Audit Committee which summarizes its work performed during the period is set out on pages 41 and 42.

2. Remuneration Committee

Composition of the Committee

Mr. Anthony Griffiths (Chairman of the Committee)
Professor K.C. Chan
Mr. Cheng Mo Chi, Moses
Professor Michael John Enright
Mr. Lo Hong Sui, Vincent

Except Mr. Lo Hong Sui, Vincent who is the Chairman of the Board and Professor Michael John Enright who is a Non-executive Director, the Committee members are the Independent Non-executive Directors of the Company. Each member is sufficiently experienced and is appropriately skilled in the issues of determining Board remuneration in public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

Role and duties

Pursuant to the terms of reference of the Remuneration Committee, the main duties of the Remuneration Committee are:

- (a) to make recommendation to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- (b) to determine, review and approve the specific remuneration packages of all Executive Directors and senior management, taking into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration; and
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The terms of reference of the Remuneration Committee, which include the specific duties as set out in the CG Code, are available on the Company's website.

Work performed during the nine months ended 31 December 2006

The Remuneration Committee met 4 times during the nine months ended 31 December 2006. The Directors' attendance at the meetings held is set out in the table on page 35. A separate report prepared by the Remuneration Committee which summarises its work performed during the period is set out on pages 43 to 47.

3. Executive Committee

Composition of the Committee

The members of the Executive Committee comprise all the Executive Directors of the Company and a number of key executives of the Group. Following the resignation of Mr. Wong Ying Wai, Wilfred as an Executive Director of the Company on 1 June 2006, Mr. Choi Yuk Keung, Lawrence has been appointed as the Chairman of the Committee in place of Mr. Wong Ying Wai, Wilfred.

Role and duties

The main duties of the Executive Committee are:

- (a) to monitor the macro business environment and market trends with respect to the current and potential business areas of the Group;
- (b) to evaluate and set the business strategies for ensuring the long-term growth and competitiveness of the core businesses of the Group;
- (c) to formulate corporate development strategies and plan and allocate resources, human, financial and otherwise, for execution;
- (d) to review the execution of approved strategies and business plans;
- (e) to review and approve acquisitions and disposals of assets in the ordinary course of business with investment costs/net book values not exceeding HK\$25 million for any single transaction or a series of related transactions, other than notifiable transactions and connected transactions as defined by the Listing Rules;
- (f) to review the operating performance and financial position of the Company and its strategic business units on a monthly basis; and
- (g) to implement the decisions taken by the Board.

Work performed during the nine months ended 31 December 2006

During the nine months ended 31 December 2006, the Executive Committee held eight meetings at approximately monthly intervals. The Directors' attendance at the eight meetings held is set out in the table on page 35. The work performed by the Executive Committee during the period covered the matters set out in the Committee's terms of reference, including mainly the review of the Group's operating performance against the budget and the monitoring of the development and progress of various projects and joint ventures. The financial and operating performances of each business unit are reviewed on a monthly basis.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the nine months ended 31 December 2006.

The Company has also established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company or the Company's securities.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements of the Company for the nine months ended 31 December 2006.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 66.

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

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the nine months ended 31 December 2006 amounted to HK\$3.95 million and HK\$3.0 million respectively. The costs incurred for the non-audit services represented professional fees of HK\$1.8 million in connection with the Company's issue of the HK\$930 million zero coupon convertible bonds, and fees totalling HK\$1.2 million for other professional services with respect to corporate risk management and review of interim accounts.

INTERNAL CONTROL

The Board has overall responsibility for the maintenance of sound and effective internal control systems within the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures.

The Board has entrusted the Audit Committee with the responsibility for reviewing the internal control systems of the Group which include financial, operational and compliance controls and risk management functions. Procedures have been set up, inter alia, for safeguarding assets against unauthorized use or disposition, control over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and in publications. Management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Board has conducted a review of the Company's internal control systems for the nine months ended 31 December 2006, including financial, operational and compliance controls and risk management functions and assessed the effectiveness of internal control systems by considering the work performed by the Audit Committee, executive management, external consultants and internal auditors. During the period, the Audit Committee employed external consultants to review the Group's systems and policies for assessing and taking action to mitigate the impact of the different types of risk in its various operations as part of the Committee's ongoing review of the adequacy of the Group's internal controls. A report was received with recommendations to the management for adoption of measures to enhance the risk management systems, anti-fraud program and compliance management.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

Pursuant to the Bye-laws of the Company, shareholders of the Company holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to convene a special general meeting for the transaction of any specific issues in respect of the business of the Company. In addition, the Bye-laws contain the rights of shareholders and the procedures for demanding a poll for voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of shareholders' meetings. In the event that poll voting is conducted, the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the shareholders' meetings.

Any enquiries by shareholders requiring the Board's attention can be sent in writing to the Company Secretary at the Company's principal place of business in Hong Kong.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at www.shuion.com where the Company's announcements, business developments and operations, financial information, corporate governance practices and other information are posted.