

Corporate Governance Report

This corporate governance report is issued pursuant to Appendix 23 of Rules Governing the Listing of Securities in Hong Kong. The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

Corporate governance practices

The Company has complied with code provisions and, to certain extent, the recommended best practices of the Code on Corporate Governance Practices (the “**Code**”) which is set out in Appendix 14 to Rules Governing the Listing of Securities in Hong Kong throughout the year ended 31 March 2006.

The Board

The Board is responsible for preparing the accounts, and is accountable to shareholders for the overall activities and financial performance of the Group. The Board considers 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 with an appropriate consideration to materiality. As at 31 March 2006, the Board, having made appropriate enquiries, is 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 Board has prepared the financial statements of the Company on a going concern basis.

All Directors have full and timely access to all relevant information which is required for their discharge of their duties as directors. Induction programme has also been arranged for newly appointed Directors and opportunities to update and develop skills and knowledge are provided to them.

As at 31 March 2006, the Company’s Board is composed of six executive Directors, one non-executive Director and three independent non-executive Directors. There is no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

Each of the executive Directors and non-executive Directors entered into a service agreement with the Company. Each of these service agreements is for an initial term of 3 years renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term until terminated by either party for not less than three months’ prior written notice and is subject to retirement by rotation and re-election at least once every three years at annual general meeting pursuant to the Articles of Association.

The independent non-executive Directors are all experienced individuals with diversified industry expertise. Their mix of skills and experience is an important element in the proper functioning of the Board and in ensuring a high standard of financial and other mandatory reporting, as well as adequate checks and balances for safeguarding the interests of both the Group and its shareholders. As at 31 March 2006, the Board consists of three independent non-executive directors, representing nearly one-third of the Board. Each independent non-executive director entered into an appointment letter with the Company for a term of 2 years from the date of the appointment letter and is subject to retirement by rotation and re-election at least once every three years at annual general meeting pursuant to the Articles of Association thereafter. The Company has received written confirmation from each independent non-executive director of his independence to the Company. The Company considers all of them to be independent. One of the independent non-executive directors, Mr. Choi Tat Ying, Jacky has the requisite financial and accounting background.

The segregation of duties of the chairman of the Board and the chief executive officer ensures a clear distinction in the chairman's, who is an executive director, responsibility to oversee the functioning of the Board, and the chief executive officer's responsibility to manage the Group's business.

The company secretary is responsible to the Board and ensures that the Board complies with all applicable laws and regulations. The company secretary also keeps all minutes of meetings of the Board and the committee.

The Board meets regularly to discuss the operation and financial performance of the Group. Matters discussed in Board meetings include discussion of internal control procedures, continuing connected transactions, relevant announcement and circulars, annual and interim results of the Group, recommendation on directors' appointment and resignation. The Board members had met four times during the year:

Member of the Board	Number of meetings attended	Members' average attendance rate
Executive Directors:		
Ms. Lilly Huang	3	75%
Mr. Zhou Tian Bao	4	100%
Ms. Zhang Zhen Juan	4	100%
Mr. Yang Bin	4	100%
Mr. Dai Wei (appointed with effect from 27 September 2005)	2	100%
Mr. Chen Xiang Dong (appointed with effect from 27 September 2005)	2	100%
Non-Executive Director:		
Mr. Lee Cheuk Yin, Dannis (re-designated from an executive director to a non-executive director with effect from 19 August 2005)	4	100%
Independent Non-Executive Directors:		
Mr. Choi Tat Ying, Jacky	4	100%
Mr. Wu Chao Ying	4	100%
Ms. Zhang Xin, Cindy	4	100%

Pursuant to the Company's Articles of Association, all Directors are subject to retirement by rotation, and being eligible for re-election in the forthcoming annual general meeting.

Remuneration committee

The remuneration committee was established on 19 August 2005 in accordance with the requirements of the Code. The primary duties of the remuneration committee are to make recommendation to the Board the remuneration of executive Directors, senior management and the fees and emoluments of non-executive Directors.

The main elements of the Company's emolument policy are that no individual should determine his or her own remuneration, remuneration should reflect performance, complexity and responsibility of the individual, and the remuneration package will be structured to include salary, bonus and share options to provide incentives to Directors and senior management to improve their individual performance.

During the year, the committee reviewed the remuneration package of executive directors and recommended to the Board. As at 31 March 2006, the remuneration committee comprised of three independent non-executive Directors, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Wu Chao Ying, Ms. Zhang Xin, Cindy, and one non-executive Director, Mr. Lee Cheuk Yin, Dannis.

The remuneration committee met two times during the year, and the meetings were held on 30 August 2005 and 17 November 2005.

Member of the committee	Number of meetings attended	Members'
		average attendance rate
Mr. Choi Tat Ying, Jacky	2	100%
Mr. Wu Chao Ying	2	100%
Ms. Zhang Xin, Cindy	1	50%
Mr. Lee Cheuk Yin, Dannis	2	100%

Nomination committee

The nomination committee was established on 19 August 2005 in accordance with the recommendation of the Code. The primary duties of the nomination committee are to consider and assess the qualifications and character of candidates for directorships on the Board, if any. The recommendations of the nomination committee are then put forward for consideration and adoption by the Board. The selection of individuals to become directors is based on assessment of their professional qualifications and experience.

During the year, the committee reviewed the structure, size and composition of the Board and recommended to the Board in relation to appointments of two new Directors. As at 31 March 2006, the nomination committee comprised of one non-executive Director, Mr. Lee Cheuk Yin, Dannis (chairman) and three independent non-executive Directors, Mr. Choi Tat Ying, Jacky, Mr. Wu Chao Ying and Ms. Zhang Xin, Cindy.

The nomination committee met two times during the year, and the meetings were held on 30 August 2005 and 31 March 2006.

Member of the committee	Number of meetings attended	Members' average attendance rate
Mr. Lee Cheuk Yin, Dannis	2	100%
Mr. Choi Tat Ying, Jacky	2	100%
Mr. Wu Chao Ying	2	100%
Ms. Zhang Xin, Cindy	2	100%

Audit committee

The Company has established an audit committee in accordance with the requirements of the Code. The primary duties of the audit committee are to review and supervise the accounting principles and practices adopted by the Group, the financial reporting process and internal control systems of the Group. It also monitors the appointment and function of the Group's external auditor.

During the year, it reviewed the terms and conditions of the Company's connected transactions which took place during the year ended 31 March 2006, half-yearly and annual results of the Company, and discussed the Group's internal control system. As at 31 March 2006, the audit committee comprised of three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky, Mr. Wu Chao Ying and Ms. Zhang Xin, Cindy. The audit committee met two times during the year, and the meetings were held on 15 June 2005 and 17 November 2005.

Member of the committee	Number of meetings attended	Members' average attendance rate
Mr. Choi Tat Ying, Jacky	2	100%
Mr. Wu Chao Ying	2	100%
Ms. Zhang Xin, Cindy	1	50%

The audit committee held a meeting on 22 June 2006 to review the annual report of the Company for the year ended 31 March 2006 and to give opinion and advice to the Board of the Company.

External auditor

The external auditor of the Company is RSM Nelson Wheeler. Its non-audit functions to the Group, if any, were reviewed by the audit committee. The audit committee also considers in advance whether such non-audit functions would lead to any potential material conflict of interest.

During the year, the services provided by RSM Nelson Wheeler to the Group were as follows:

	RMB'000
Audit Service	869,010
Non-Audit Services	—

Internal control and risk management

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss. Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by directors. After having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors.

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company for the year ended 31 March 2006.

Investor relations

The Company uses two-way communication channels to account to shareholders and investors for the performance of the company. All the shareholders have 21 days' notice of annual general meeting at which directors are available to answer questions on the business. Extensive information about the Group's activities is provided in its Annual Report and Interim Report which are sent to shareholders and investors.

The Company conducts briefings with analysts and press to apprise them of the Group's operating results, business strategies and outlook right after reporting its interim or annual results. Highlights of the Company's operating performance are also released on a quarterly basis. Other than those regular updates, the Company issues announcements or press releases where appropriate to comply with the Listing Rules requirement or keep the public informed of the Company's latest development. In order to further enhance communication with the investment community, the Group's management holds regular roadshows, and participates actively in company visits and investors' conferences. It is also the third year that the Company arranges its own Auto-parts forum which is aimed at facilitating a deeper understanding of China's auto parts industry development among the investment community.