

The board of directors (the “Board”) is committed to maintaining a high standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors’ confidence and maximising shareholders’ returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply the increasing stringent regulatory requirements, and to fulfil its commitment to excellence in corporate governance.

The Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) came into effect on 1st January, 2005. The CG Code sets out two levels of corporate governance practices namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that a listed company is encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CG Code except for certain areas of non-compliance discussed later in this report.

BOARD OF DIRECTORS

The Board is charged with providing effective and responsible leadership for the Company. The directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders. The Board sets the Group’s overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointment, and dividend and accounting policies. Biographical details of the Directors of the Company as at the date of this report are set out on pages 34 to 36.

The Board comprises 7 Executive Directors and 3 Independent Non-Executive Directors. The full Board met four times during the year under review. The attendance of Directors at the Board Meetings and the Board Committees Meetings is set out in the table below:

Directors	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>			
Dr Chow Yei Ching (<i>Chairman and Managing Director</i>)	4/4		
Mr Kuok Hoi Sang (<i>Managing Director</i>)	4/4		2/2
Mr Fung Pak Kwan	4/4		
Mr Chow Vee Tsung, Oscar	3/4		1/2
Mr Tam Kwok Wing	3/4		
Mr Kan Ka Hon	4/4		
Mr Ho Chung Leung	4/4		
<i>Independent Non-Executive Directors</i>			
Mr Wong Wang Fat, Andrew (resigned on 31st March, 2006)	4/4	2/2	2/2
Dr Chow Ming Kuen, Joseph	4/4	2/2	2/2
Mr Li Kwok Heem, John	3/4	2/2	2/2
Mr Sun Kai Dah, George (appointed on 31st March, 2006)	Not Applicable	Not Applicable	Not Applicable

The Board members have no financial, business, family or other relationships with each other save for the father-son relationship between Dr Chow Yei Ching and Mr Chow Vee Tsung, Oscar. Each of the Independent Non-Executive Directors has confirmed in writing his independence to the Company pursuant to Rule 3.13 of the Listing Rules except that Mr Sun Kai Dah, George has confirmed his independence under Rule 3.13 (7) by the reason of his directorship with Chevalier (Travel Agency) Limited (“CTA”), a subsidiary of the Company, since 15th April, 2002. Nevertheless, he was not involved in the management of CTA, has neither received any remuneration from CTA nor has an office at CTA and attends work there. Since his appointment in 2002 with CTA, his involvement in CTA has been restricted to provide an independent overview and guidance on its financial standing and performance. He has been provided with the audited accounts of CTA on an annual basis for review and has asked to give comments and suggestions thereon. He has given remarks on the audited accounts of CTA generally, such as requesting its management to note the need of broadening revenue sources and exploring possible cost cutting measures. Except for this, he has no material direct involvement in the daily management and operation of CTA. In strict compliance with the use of words of the Listing Rules, he was re-designated as an Independent Non-Executive Director of CTA on 31st March, 2006.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Since the Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-Executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

In accordance with the Bye-Laws of the Company (the “Bye-Laws”), all Directors are subject to retirement by rotation and re-election at annual general meetings of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the annual general meeting or general meeting immediately following their appointments. Further, at each annual general meeting, one-third of the Directors, or, if their number is not a multiple of three, then the number nearest to but not less than one-third are required to retire from office by rotation and no later than the third annual general meeting since the last re-election or appointment of such Director. Currently, all Independent Non-Executive Directors are not appointed for a specific term.

Appointment and resignation of Independent Non-Executive Directors were considered at two separate Executive Committee meetings of the Company on 31st March, 2006 with the attendance of Dr Chow Yei Ching and Mr Kuok Hoi Sang in both meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same person. The Chairman and Managing Director of the Company is Dr Chow Yei Ching and the Group Managing Director is Mr Kuok Hoi Sang. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for overseeing the functioning of the Board while the Group Managing Director is responsible for managing the Group’s businesses.

AUDIT COMMITTEE

The Audit Committee was established in 1998 with written terms of reference and Mr Li Kwok Heem, John, an Independent Non-Executive Director of the Company, is the Chairman of the committee. He is a qualified accountant with extensive experience in financial reporting and controls. Other members include all other Independent Non-Executive Directors, namely, Dr Chow Ming Kuen, Joseph, Mr Sun Kai Dah, George (appointed on 31st March, 2006) and Mr Wong Wang Fat, Andrew (resigned on 31st March, 2006). The Audit Committee is responsible for the appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system, internal control procedures and risk management frameworks. It is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. Its terms of reference are accessible on the Company's website, <http://www.chevalier.com>.

The Audit Committee held two meetings during the year ended 31st March, 2006. At the meetings, it reviewed the connected transactions (if any), the interim accounts for the six months ended 30th September, 2005 and last year's final results for the year ended 31st March, 2005, and has reviewed with Management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls, financial reporting matters and risk management systems of the Group. The final results for the year ended 31st March, 2006 were reviewed by the Audit Committee in its meeting held on 21st July, 2006.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 10th March, 2005 with written terms of reference. Mr Wong Wang Fat, Andrew was the Chairman of the committee before his resignation on 31st March, 2006 and after then Dr Chow Ming Kuen, Joseph is the Chairman of the committee. Other members of the committee include Messrs Li Kwok Heem, John, Sun Kai Dah, George (appointed on 31st March, 2006), Kuok Hoi Sang and Chow Vee Tsung, Oscar. The Remuneration Committee is responsible for reviewing and determining the compensation and benefits of the Directors and senior management of the Company. Its terms of reference are accessible on the Company's website, <http://www.chevalier.com>.

The Remuneration Committee held two meetings during the year ended 31st March, 2006 to review the remuneration packages paid to Directors and Senior Management for the year ended 31st March, 2006.

MANAGEMENT COMMITTEE

The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's business to an Executive Committee which was established in 1991. Members of the Executive Committee comprise 7 Executive Directors, namely Dr Chow Yei Ching, Messrs Kuok Hoi Sang, Fung Pak Kwan, Chow Vee Tsung, Oscar, Tam Kwok Wing, Kan Ka Hon and Ho Chung Leung.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. During the year, the Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial, operational, compliance control and risk management functions for internal controls. The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Internal Audit Department plays a major role in monitoring the internal control of the Group and reports directly to the Chairman. It has unrestricted access to review all aspects of the Group's activities and internal controls. It also conducts special audits of areas of concern identified by Management or the Audit Committee. The Internal Audit Department adopts risk and control-based audit approach. All audited reports are circulated to the Audit Committee and key management. The Internal Audit Department is also responsible for following up the implementation of recommendations and corrective actions. The Audit Committee has free and direct access to the Head of Internal Audit Department without reference to the Chairman or Management.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Directors acknowledge that it is their responsibilities in preparing the financial statements for the year ended 31st March, 2006 on a going concern basis.

The Auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31st March, 2006 as set out in the Report of the Auditors on page 39.

AUDITORS' REMUNERATION

During the financial year ended 31st March, 2006, the fees paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:

Nature of services	Amount (HK\$'000)
Audit services	5,800
Non-audit services	
(i) Tax services	545
(ii) Other services	584

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules. Following a specific enquiry, each of the Directors confirmed that he has complied with the Model Code throughout the year.

SOCIAL RESPONSIBILITY

The Group is committed to being a successful and responsible corporate citizen. As such, we are committed not only to delivering quality products and services to our customers and strong and sustained financial performance to our shareholders. We are also committed to creating a positive impact in the communities where we conduct business. We aim to achieve this by, amongst others, support charitable organisations and causes; by ensuring that the workers producing our products are treated with fairness and respect; and at all times achieving our goals through environmentally friendly means.

INVESTOR AND SHAREHOLDER RELATIONS

The Group's senior management maintains close communications with investors, analysts, fund managers and the media by various channels including individual interviews and meetings. The Group also responds promptly to request for information and queries from the investors.

The Board also welcomes the views of shareholders on matters affecting the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or Management directly.

The Company provides extensive information of the Group timely to the shareholders and the public through the publication of interim and annual reports, circulars, notices and announcements. The financial and other information relating to the Group is disclosed on the Company's website at <http://www.chevalier.com>.