

Corporate Governance Report

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance, emphasizing transparency and accountability to the shareholders.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code on corporate governance practices. The Company has met the code provisions as set out in the Code during the year ended 31 March 2006 except code provision C.2 on internal control (which will be implemented for accounting period commencing on or after 1 July 2005) and the followings deviations:

- (1) The code provision A.4.2 of the Code (the last sentence) provides that, every director (including directors with specific terms) should be subject to retirement by rotation at least once every three years. According to Article 99 of the Articles of Association of the Company then in effect before 26 August 2005, at each annual general meeting, one-third of the directors for the time being or, of their number is not 3 or a multiple of three, the number nearest to one-third shall retire from office provided that notwithstanding anything therein, the Chairman of the Directors and the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

To comply with the code provision A.4.2 of the Code, amendments to Article 99 of the Articles of Association of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 26 August 2005.

- (2) The code provision E.1.2 of the Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Li Suiming, the Chairman of the Board who resides in Yunnan, was unable to attend the annual general meeting of the Company held on 26 August 2005 in Hong Kong.
- (3) The remuneration committee has not held any meeting during the financial year. The first meeting of the remuneration committee was held on 19 July 2006.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseas the businesses, strategic development, financial performance and corporate governance of the Group. The management is delegated with the powers and authorities for overseeing the day-to-day operation of the Group.

The Board currently comprises five executive directors, being Mr. Li Suiming (Chairman of the Board), Mr. Ma Pizhi (Managing Director), Mr. Li Guanglin, Mr. Fang Wen Quan and Mr. Liu Huijiang, and three independent non-executive directors (“INED”), being Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai. More than one of the INEDs have appropriate professional qualification in accounting or related financial management expertise. Save as disclosed in the biographical details of each director, there is no other relationship (including financial, business, family, or other material/relevant relationship) among members of the Board.

The term of office of each INED is for a period of two years until 31 December 2006, subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company. The Company has received annual confirmation of independence from the three INEDs in accordance with rule 3.13 of the Listing Rules.

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BOARD OF DIRECTORS *(Cont'd)*

The Board has established schedule of matters specifically reserves to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Board.

The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances to enable them to discharge their duties at the Company's expenses.

The Articles of the Company contain description of responsibility and operation procedure of the Board. The Board meets regularly to review the financial and operating performance of the Group. During the financial year ended 31 March 2006, the Board held four meetings. The attendance of the directors at the board meetings are as follows:

Directors	Note	Number of Attendance
Mr. Li Suiming (<i>Chairman</i>)		3/4
Mr. Ma Pizhi (<i>Managing director</i>)		4/4
Mr. Li Guanglin		3/4
Mr. Fang Wen Quan		3/4
Mr. Liu Huijiang	(i)	N/A
Mr. Cheng Hau Yan	(ii)	2/4
Ms. Dong Jianhua	(ii)	1/4
Mr. Li Hong	(ii)	1/4
Mr. Ho Wing Fun		1/4
Mr. Wu Wen Jing, Benjamin		1/4
Mr. Lam Yat Fai		2/4

Notes:

- (i) Appointed as executive director on 31 March 2006
- (ii) Resigned as executive director on 31 March 2006

CHAIRMAN AND MANAGING DIRECTOR

The Chairman of the Board is Mr. Li Suiming, and the Managing Director is Mr. Ma Pizhi. The Chairman's and the Managing Director's roles are separate and are clearly defined to ensure their independence, accountability and responsibility.

The Chairman provides leadership to the Board to ensure that the Board works effectively and discharges its responsibilities; and encourages and facilitates active contribution of directors to the Board's affairs and constructive relation between executive and non-executive directors.

The Managing Director, supported by other Board members and senior management, is responsible for managing the day-to-day business of the Company. He is also accountable to the Board for the coordination of overall business operations.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in September 2005. It comprises three independent non-executive directors of the Company, Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai and one executive director of the Company, Mr. Ma Pizhi (who is the Chairman of the remuneration committee).

The remuneration committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration to all directors and senior management of the Company and is delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all executive directors and senior management of the Company. The remuneration committee has not held any meeting during the year. The first meeting of the remuneration committee was held on 19 July 2006 to review and consider, inter alia, the remuneration policy, remuneration of the executive directors and independent non-executive directors and compensation of key management personnel.

NOMINATION OF DIRECTORS

The Company has not established a nomination committee. To maintain high quality of the Board with a balance of skills and experience, the Board will identify individuals suitably qualified to become directors when necessary. In evaluating whether an appointee is suitable to act as a director, the Board will consider the experience, qualification and other relevant factors. During the year, the Board considered and approved the appointment of Mr. Liu Huijiang as an executive director and also noted the resignation of Mr. Cheng Hau Yan, Ms. Dong Jianhua and Mr. Li Hong as executive directors. A meeting was held in March 2006, which were attended by Mr. Ma Pizhi and Mr. Cheng Hau Yan, to consider and approve the said changes of directorship.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the company, being Mr. Ho Wing Fun (Chairman), Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai.

The role and function of the audit committee include:

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.
- to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.
- to review the Company's financial controls, internal controls and risk management systems to ensure that management has discharged its duty to have an effective internal control system.

For the year ended 31 March 2006, the audit committee held two meetings. Details of individual attendance of its members are as follows:

Directors	Number of attendance
Mr. Ho Wing Fun (<i>Chairman</i>)	2/2
Mr. Wu Wen Jing, Benjamin	2/2
Mr. Lam Yat Fai	2/2

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AUDIT COMMITTEE *(Cont'd)*

The work performed by the audit committee during the year is listed below:

- review of the financial statements for the year ended 31 March 2005 and for the six months ended 30 September 2005.
- consider and approval of the remuneration and terms of engagement of the external auditors.
- review of the internal control and financial reporting matters of the Company.

AUDITORS' REMUNERATION

During the year, the Group was charged HK\$475,000 for audit services provided by the Company's auditors, Deloitte Touche Tohmatsu. No other fees were charged for non-audit services provided by the Company's auditors during the year.

FINANCIAL REPORTING AND INTERNAL CONTROL

The directors of the Company acknowledge that it is their responsibilities for preparing the financial statements. The directors of the Company consider that the Group's financial statements have been properly prepared in accordance with relevant regulations and applicable accounting principles. The directors of the Company 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. The statement of the auditors about their reporting responsibilities on the financial statements is set out in the Auditors' Report on page 17.

Pursuant to code provision C.2.1 of the Code, the Board should at least annually conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries. Under the transitional arrangement, the said code provision will be implemented for accounting period commencing on or after 1 July 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all the directors of the Company, they all confirm that they have complied with the Model Code throughout the year ended 31 March 2006.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept will informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedure for voting by poll has been included in the circulars of the Company accompanying notices convening general meeting and had been read out at the general meetings.

At the 2005 annual general meeting, a separate resolution was proposed by the chairman of the meeting in respect of each separate issue, including re-election of directors. In the absence of the Chairman of the Board, the Managing Director acted as chairman of the annual general meeting and together with other Directors and members of the Audit Committee and Remuneration Committee attended the 2005 annual general meeting to answer question raised by shareholders.