

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors (the “Board”) of MEXAN LIMITED (the “Company”) is committed to practicing and achieving a high standard of corporate governance. The Board also believes that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Company and its subsidiaries (the “Group”).

In the opinion of the directors of the Company (“Directors” or individually, the “Director”), the Company has complied with all the applicable code provisions of 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 “Listing Rules”) for the year under review, except for the deviations as disclosed in this report.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Company’s code of conduct regarding directors’ securities transaction throughout the year.

BOARD OF DIRECTORS

The Directors during the year ended 31 March 2007 and up to the date of this report were:

Executive Directors

Lun Chi Yim (<i>Chairman</i>)	(appointed on 19 April 2007)
Lun Yiu Kay Edwin (<i>Managing Director</i>)	(appointed on 19 April 2007)
Ng Tze Ho Joseph	(appointed on 19 April 2007)
Lau Kan Shan	(resigned on 7 May 2007)
Tse On Kin	
Ching Yung	

Independent Non-Executive Directors

Tse Kwing Chuen	(appointed on 19 April 2007)
Ng Hung Sui Kenneth	(appointed on 19 April 2007)
Lam Yiu Pang Albert	(appointed on 19 April 2007)
Chan Wai Dune	
Lau Wai	
Tong Kwai Lai	

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BOARD OF DIRECTORS (continued)

As at the date of this report, the Board comprised eleven Directors, five of whom are Executive Directors (including the Chairman of the Board and the Managing Director) and six of whom are Independent Non-Executive Directors. Details of backgrounds and qualifications of each Director are set out on the section headed “Biographical Details of Directors and Senior Management” of this annual report.

The Board is responsible for the leadership and control of the Company and collectively responsible for promoting the success of the Company by directly and supervising the Company’s affairs. It also monitors overall strategic development of the Group, financial performance and the internal controls of the Group’s business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

Independent Non-Executive Directors serve the relevant function of bringing independent judgment on issues of strategy, policy, development, performance and risk management of the Group through their contributions in Board meetings. The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgment. The Company has received from each Independent Non-Executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

The Board meets at intervals to discuss the Group’s business development, operation and financial performance. Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend. All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the Board meetings. Minutes of Board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. To the best knowledge of the Directors, save as Mr. Lun Chi Yim, the Chairman of the Board, is the father of Mr. Lun Yiu Kay Edwin, Managing Director, there is no financial, business and family relationship among the members of the Board.

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BOARD OF DIRECTORS (continued)

For the year ended 31 March 2007, other than resolutions passed by means of resolutions in writing of Directors, the Board held five meetings. The following table shows the attendance records of individual Director at the meetings of the Board held for the year ended 31 March 2007:—

Directors' Attendance

	Number of Board meetings held during the Director's term of office during year ended 31 March 2007	Number of meeting(s) attended
<i>Executive Directors</i>		
Mr. Lau Kan Shan (<i>former Chairman</i>)	5	0
Mr. Tse On Kin (<i>former Managing Director</i>)	5	5
Ms. Ching Yung	5	5
<i>Independent Non-Executive Directors</i>		
Mr. Chan Wai Dune	5	5
Mr. Lau Wai	5	3
Mr. Tong Kwai Lai	5	2

CHAIRMAN AND MANAGING DIRECTOR

During the year ended 31 March 2007, the positions of the Chairman of the Board and Managing Director were held by Mr. Lau Kan Shan and Mr. Tse On Kin respectively. As at the date of this report, the positions of the Chairman of the Board and Managing Director are held by Mr. Lun Chi Yim and Mr. Lun Yiu Kay Edwin respectively. This segregation ensures that a clear distinction between the Chairman's responsibility to manage the Board and the Managing Director's responsibility to manage the Company's business. The respective responsibilities of the Chairman and the Managing Director are set out in an internal document entitled "Code of Corporate Governance".

Under the code provision E.1.2 of the CG Code, the Chairman should attend the annual general meeting. Mr. Lau Kan Shan, the Chairman of the Board during the year ended 31 March 2007, did not attend the annual general meeting of the Company held on 25 August 2006 due to other business engagement. Other executive directors were present at the annual general meeting to answer the shareholders' questions.

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NON-EXECUTIVE DIRECTORS

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. All Independent Non-Executive Directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws (the "Bye-laws"). As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in paragraph A.4.1 of the CG Code.

Under the code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in accordance with the Bye-laws, the Chairman and Managing Director are not subject to retirement by rotation or taken into account on determining the number of Directors to retire. This constitutes a deviation from code provision of A.4.2 of the CG Code. As continuation is a key factor to the successful implementation of business plans, the Board believes that the roles of the Chairman and Managing Director provide the Group with strong and consistent leadership and are beneficial to the Company especially in planning and execution of business strategies and also believes that the present arrangement is beneficial to the Company and the shareholders of the Company as a whole.

EXECUTIVE COMMITTEE

The Executive Committee was established with specific written terms of reference. The functions of the Executive Committee include dealing with all financial, commercial, business, legal, management and administration issues of the Company. For the year ended 31 March 2007, the Executive Committee comprised of three members, Mr. Lau Kan Shan, Mr. Tse On Kin and Ms. Ching Yung. All of them are executive directors at year end. As at the date of this report, the Executive Committee comprises of three executive directors, including Mr. Lun Chi Yim, Mr. Lun Yiu Kay Edwin and Mr. Ng Tze Ho Joseph. Mr. Lun Chi Yim is the chairman of the Executive Committee.

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REMUNERATION COMMITTEE

The Company has established a remuneration committee (the “Remuneration Committee”) with specific written terms of reference. In line with its terms of reference approved by the Board, the role and function of the Remuneration Committee is to review, discuss and approve the remuneration mechanism of the Directors and senior management of the Company and to establish and maintain a reasonable and competitive remuneration level in order to attract and retain the Directors and senior management. For the year ended 31 March 2007, the Remuneration Committee comprised three members, including the former Managing Director, Mr. Tse On Kin and two Independent Non-Executive Directors, Mr. Chan Wai Dune and Mr. Lau Wai. Mr. Tse On Kin is the former chairman of the Remuneration Committee. As at the date of this report, the Remuneration Committee comprises three members, including the Managing Director and two Independent Non-Executive Directors. Mr. Lun Yiu Kay Edwin is the chairman of the Remuneration Committee and the other two members are Mr. Ng Hung Sui Kenneth and Mr. Lam Yiu Pang Albert.

The Remuneration Committee convened one meeting for the year ended 31 March 2007. The remuneration of the Directors was discussed at the meeting. During the year under review, the Remuneration Committee reviewed and adjusted the fringe benefits of individual Director. The emoluments of the Directors are based on their respective responsibilities and their involvement in the Group’s affairs and are determined by reference to the Group’s business condition and the prevailing market practice. Under the policy, a Director is not allowed to approve his/her remuneration. Mr. Tse On Kin did not attend the meeting of the Remuneration Committee of the Company held on 31 January 2007 due to the above-mentioned policy.

During the year, one Remuneration Committee meeting was held and the individual attendance of each member is set out below:

Name of Members	Number of Attendance
Mr. Tse On Kin (<i>former Chairman</i>)	0/1
Mr. Chan Wai Dune	1/1
Mr. Lau Wai	1/1

To comply with the code provision B.1.4 of the CG Code, the terms of reference of the Remuneration Committee are included on the Company’s website and also available on request.

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AUDIT COMMITTEE

The Audit Committee was established in March 1999. At the date of this report, the Audit Committee comprises of three members, including Mr. Chan Wai Dune, Mr. Lau Wai and Mr. Tong Kwai Lai. All of them are Independent Non-Executive Directors. The chairman of the Audit Committee is Mr. Lau Wai. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

The Audit Committee's functions include:

- reviewing and monitoring financial reporting and the reporting judgment contained in them; and
- reviewing financial and internal controls, accounting policies and practices with management, internal and external auditors.

Summary of work done for the year ended 31 March 2007:—

- review of final results and draft audited financial statements for the year ended 31 March 2006; and
- review of interim results and draft unaudited financial statements for the six months ended 30 September 2006.

During the year, two Audit Committee meetings were held, all of which were attended by the external auditor, Horwath Hong Kong CPA Limited ("Horwath"). The individual attendance of each member is set out below:

Name of Members	Number of Attendance
Mr. Chan Wai Dune	2/2
Mr. Lau Wai	2/2
Mr. Tong Kwai Lai	0/2

The Audit Committee has also reviewed with Horwath the audited financial statements for the year ended 31 March 2007 and has also discussed auditing, internal controls and financial reporting matters of the Group.

To comply with the code provision C.3.4 of the CG Code, the terms of reference of the Audit Committee are included on the Company's website and also available on request.

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NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. During the year under review, the Company has not established a nomination committee with specific written terms of reference which deal clearly with its authority and duties. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his/her qualifications, experience and background. During the year under review, there was no change in Directors and accordingly, no meeting was held by the Board for nomination of new director.

AUDITORS' REMUNERATION

Horwath is the auditor of the Company. During the year ended 31 March 2007, the fees charged to the financial statements of the Company and its subsidiaries for Horwath's statutory audit amounted to HK\$393,500, in addition approximately HK\$1,082,300 was charged for non-audit services. The non-audit services mainly consist of special audits and tax compliance. The cost of audit services of subsidiaries not performed by Horwath amounted to approximately HK\$156,500.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the financial statements for the year ended 31 March 2007, the Directors ensured that the financial statements are in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the financial statements on a going concern basis. The Directors are also responsible for the timely publication of the financial statements of the Group.

The statement of the auditor of the Company, Horwath, about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" section of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquires, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.



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INTERNAL CONTROLS

The Board is responsible for maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the assets of the Group. During the year ended 31 March 2007, the Company has adopted the internal control manual. The internal control manual covering all material functions, including financial, operational, compliance controls and risk management.

During the year under review, the Board has not conducted a review of the effectiveness of the system of internal control of the Group as the Company has just adopted the internal control manual in the current year. The Board will conduct the annual review of the effectiveness of the internal control system in the coming year so as to comply with the code provision C.2.1 of the CG Code.