

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company strives to attain and maintain the high standard of corporate governance as it believes that effective corporate governance are fundamental to enhancing shareholder value and safe guarding shareholder interests. The Company has accordingly adopted good corporate governance principles that emphasize a quality board of Directors (“the Board”), effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture.

The principles of corporate governance adopted by the Group emphasize a quality board, sound internal control, and transparency and accountability to all stakeholders.

Throughout the year ended 31st March, 2006, the Company has complied with the code provisions prescribed in the Code on Corporate Governance Practices (“CG Codes”) set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) except for the deviations from the Code Provisions A.4.1 and A.4.2 which are explained in the following relevant paragraphs.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (“the Code”). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Code for the year under review.

THE BOARD

Function and Composition of the Board

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board, led by the Chairman, Mr. Yeung Ming Bui, approves and monitors Group wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the Management. Management is responsible for the day-to-day operations of the Group under the leadership of the Group Managing Director.

At 31st March, 2006, the Board comprised ten Directors, including the Chairman, Group Managing Director, Group Finance Director, four Executive Directors and three Independent Non-executive Directors. Biographical details of the Directors are set out in the Directors and Senior Management Section on pages 7 to 8. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group.

Corporate Governance Report

THE BOARD *(Continued)*

Function and Composition of the Board *(Continued)*

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

Chairman and Chief Executive

The Role of the Chairman is separate from that of Group Managing Director. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman is responsible for providing leadership to, and overseeing the functions of, the Board to ensure that the Board acts in the best interest of the Group and the Board meetings are planned and conducted effectively. The Chairman is responsible for approving the agenda of each Board meeting, taking into account, where appropriate, matters proposed by Directors for inclusion in the agenda. With the support of Executive Director and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

The Group Managing Director, Mr. Yeung Him Kit, Dennis, is responsible for managing business of the Group, attending to the formulation and successful implementation of the Group policies and assuming full accountability to the Board for all Group operations. Acting as the principal manager of the Group's business, the Group Managing Director attends to developing strategic operating plans that reflect the long-term objectives and priorities established by the Board and is directly responsible for maintaining the operational performance of the Group. Working with the other Executive Directors and the executive management team of each core business divisions, he ensures that the Board is fully apprised of the funding requirements of the business of the Group and presents annual budgets to the Board for consideration and approval. With the assistance of the Group Finance Director, the Group Managing Director sees to it that the funding requirements of the business are met and he closely monitors the operating and financial results of the business against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three Independent Non-executive Directors representing nearly one-third of the Board of Directors. Among the three Independent Non-executive Directors, one of them have appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Corporate Governance Report

THE BOARD *(Continued)*

Independent Non-executive Directors *(Continued)*

The Company has received from each of the Independent Non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company based on such confirmation, considers Dr. Sun Ping Hsu, Samson, Dr. Li Sau Hung, Eddy and Mr. So Kai Lau, Peter to be independent.

Directors' Appointment, Re-election and Removal

Under the Code Provision A.4.1, Non-executive Directors should be appointed for a specific term, subject to re-election. However, the Independent Non-executive Directors were not appointed for a specific term but are subject to retirement by rotation in annual general meeting of the Company in accordance with the Bye-laws of the Company. The management of the Company considered that there is no imminent need to revise the letter of appointment of Independent Non-executive Directors by adding a specific term in the letter of appointment.

Under the Code Provision A.4.2, every Director, including those appointed for a specific term, should retire by rotation at least once every three years. However, according to the Bye-laws of the Company, any Director appointed by the Board either to fill a casual vacancy or as an additional Director shall hold office until the next following annual general meeting of the Company shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors of the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not exceeding one-third, shall retire from office by rotation provided that no Director holding office as Chairman and/or the office of Managing Director of the Company shall subject to retirement by rotation or to be taken into account in determining the number of Directors to retire. For these deviations, relevant amendments to the Bye-laws of the Company were proposed and approved by the shareholders at the annual general meeting of the Company held on 31st August, 2005 in order to comply with the CG Codes.

Board Meetings and Practices

The Board meets at least four times a year, and the Board will also meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meeting in advance of each Board meeting. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meeting of the Board to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meeting so that they may receive accurate, timely and clear information. All Directors have access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

Corporate Governance Report

THE BOARD *(Continued)*

Board Meetings and Practices *(Continued)*

Any Director wishing to do so in the furtherance of his or her duties, may take independent professional advice at the Company's expense. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at Board and Committee meetings, and through meeting with key members of the Management.

During the year ended 31st March, 2006, Board meetings and Directors attendance records for the meetings held are set out below:

	Directors' Attendance
<i>Executive Directors</i>	
Mr. Yeung Ming Bui ⁽¹⁾ — <i>Chairman</i>	6/6
Mr. Yeung Him Kit ⁽¹⁾ — <i>Group Managing Director</i>	6/6
Mr. Chan Che Kwong, William	6/6
Mr. Fung Kwong Yiu	4/6
Madam Yeung Man Yee, Shirley ⁽¹⁾	6/6
Mr. Lam Hing Lun, Alain — <i>Group Finance Director</i>	6/6
Mr. Choi Kwok Yum	2/6
<i>Non-Executive Directors</i>	
Dr. Sun Ping Hsu, Samson	4/6
Dr. Li Sau Hung, Eddy	4/6
Mr. So Kai Lau, Peter	4/6

Notes:

(1) Mr. Yeung Bing Bui is the father of Mr. Yeung Him Kit, Dennis and Madam Yeung Man Yee, Shirley.

ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Financial Statements and the Financial Reporting

The following statement, which set out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditors report on page 29 which acknowledge the reporting responsibilities of the Group's Auditors.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT *(Continued)*

Annual Report and Accounts

The Directors acknowledge their responsibility to prepare the Annual Report and Accounts. They are responsible for the preparation of financial statements of each financial year which give a true and fair view.

Accounting Policies

The Directors consider that in preparing the financial statements the Group uses appropriate accounting policies that are consistently applied, makes judgements and estimates that are reasonable and prudent, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group and enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going Concern

The Directors, having made appropriate enquires, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparation the financial statements.

Auditors' Remuneration

The Board is satisfied with Deloitte in respect of the audit fees they charged, the process and its effectiveness of the audit and has resolved to recommend their reappointment as the Company's external auditors at the forthcoming Annual General Meeting.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT *(Continued)*

Auditors' Remuneration *(Continued)*

During the financial year, the services provided by, and the associated remuneration paid to Deloitte were as follows:

	<i>HK\$'000</i>
Audit	1,400
Taxation	320
	<u>1,720</u>

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises all Independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The committee chaired by Dr. Sun Ping Hsu, Samson with Dr. Li Sau Hung, Eddy and Mr. So Kai Lau, Peter as members.

Under the term of reference of the Audit Committee, the Committee required, among other things, to oversee the relationship of the external auditors, review the Group's preliminary results, interim results and annual financial statements, monitor compliance with statutory and Listing Rules requirements, review the scope, extent and effectiveness of the activities of the Group's internal audit functions, engage independent legal or other advisers as it determines is necessary and perform investigations.

The terms of reference of the Audit Committee adopted by the Board are published on the Group's website.

During the year ended 31st March, 2006, 4 meetings were held. The attendance records for the audit committee meetings are set out below:

	Directors' Attendance
Members of the Audit Committee	
Dr. Sun Ping Hsu, Samson	4/4
Dr. Li Sau Hung, Eddy	4/4
Mr. So Kai Lau, Peter	4/4

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Financial Statements

The Audit committee meets and holds discussions with the Group Finance Director and other senior management of the Group on the Interim Report, Annual Report, interim and final results announcement. The Committee reviews and discusses the reports and representations of the management with a view of ensuring that the Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong. It also meets and hold discussions with the external auditors, Deloitte, to consider their reports on the scope and outcome of their independent review of the interim financial report and on their annual audit of the consolidated financial statements.

External Auditors

The committee reviews and monitors the external auditors' independence and objectively and the effectiveness of the audit process. The committee has received representation from Deloitte of their independence and objectively and holds meetings with Deloitte to discuss the scope of their audit, approve the fees thereon, and the scope and appropriate fees for any non-audit services requested to be provided by them. The Committee also makes recommendations to the Board on the appointment and retention of the external auditors.

The Group's policy regarding the engagement of Deloitte for various services listed below is as follows:

- Audit services — includes audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by external auditors.
- Audited related services — included services that would normally be provided by an external auditors but not generally included in audit fees, for example, audit of the Group's pension plans, due diligence and accounting advice related to mergers and acquisitions, internal control reviews of systems and/or process, issuance of special audit reports for tax purposes (if any). The external auditors are to be invited to undertake these services that they must or are best placed to undertake in their capacity as auditors.
- Taxation related services — includes all tax compliance and tax planning services except for those services which are provided in connection with the audit. The Group uses the services of the external auditors where they are best suited. All other significant taxation related work may be undertaken by other parties as appropriate.
- Others services — includes, for example audit or reviews of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial system consultations (if any). The external auditors are also permitted to assist management and the Group's internal auditors with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.
- General consulting services — the external auditors are not eligible to provide services involving general consulting work including accountancy services.

Corporate Governance Report

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Review of Risk Management and Internal Control

The Committee assists the Board in meeting its responsibilities an effective system of internal control. It reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. In addition, it discusses with the Group's internal auditors the work plan for their audit together with their resources requirements and consider the report to the Committee on the effectiveness of internal controls in the Group business operations.

These reviews and reports are taken into consideration by the Committee when it makes its recommendations to the Board for approval of the consolidated financial statements for the year.

Remuneration Committee

The Committee comprises three members, including two Independent Non-executive Directors, namely Dr. Sun Ping Hsu, Samson and Dr. Li Sau Hung, Eddy and a Managing Director, Mr. Yeung Him Kit, Dennis. Dr. Sun Ping Hsu, Samson is the chairman of the Committee. The Committee meets for the determination of the remuneration package of Directors and senior management of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters.

The responsibilities of the Remuneration Committee are to assist the Board in achieving its objectives of attracting, retaining and motivating people of the highest calibre and experience needed to shape and execute strategy across the Group substantial business operations. The Committee assists the Group in the administration of a fair and transparent procedure for setting remuneration policies including assessing the performance of Directors and senior executive of the Group and determining their remuneration packages. The terms of reference of the Committee adopted by the Board are published on the Group's Website.

The remuneration of Directors and senior executives is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and/or international companies prevailing market conditions. Directors and employees also participate in bonus arrangement determined in accordance with the performance of the Group and the individual's performance.

During the financial year ended 31st March, 2006, no remuneration committee meeting has held.

NOMINATION OF DIRECTORS

The Company has not established a nomination committee. However, Executive Directors identify potential new Directors and recommend to the Board for decision. The Board considers potential directorship based on the candidate's qualifications, business experience and suitability to the Company. During the financial year ended 31st March, 2006, no nomination meeting has held.

Corporate Governance Report

INTERNAL CONTROL AND GROUP RISK MANAGEMENT

Introduction

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks.

In meeting its responsibilities, the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including parameters of delegated authority, which provide a framework for the identification and management of risks. The Board also reviews and monitors the effectiveness of the systems of internal control to ensure that the policies and procedures in place are adequate. Reporting and reviewing activities include review by the Executive Directors and the Board and approval of detailed operational and financial reports, budgets and plans provided by the management of the business operations, review by the Board of actual results against budgets, review by the Audit Committee of the ongoing work of internal audit function and risk management function, as well as regular business review by Executive Directors and the executive management team of each core business division.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material mis-statement errors, losses or fraud.

Internal Control Environment

The Board is overall responsible for monitoring the operations of the business within the Group. Executive Directors are appointed to the Board of all material operating subsidiaries for monitoring of the operations of those companies, including attendance at Board meetings, review and approval of business strategies, budgets and plans, and setting of key business performance targets. The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies and similarly the management of each business is accountable for its conduct and performance.

The Group's internal control procedures include a system for reporting information to the executive management teams of each core business and the Executive Directors.

Business plans and budgets are prepared annually by the management of individual businesses and subject to review and approval by Executive Directors. Executive Directors review the differences to the budget and for approval. When setting budgets, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold regular meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant risk sensitivities and strategies. In addition, Group Finance Director and members of his finance team review monthly performance against budget and forecast, and to address accounting and finance related matters.

Corporate Governance Report

INTERNAL CONTROL AND GROUP RISK MANAGEMENT *(Continued)*

Internal Control Environment *(Continued)*

The Group Finance Director has established guidelines and procedures for approval and control of expenditures. Operating expenditures are subject to overall budget control and controlled within each business with approval level for such expenditures being set by reference to the level of responsibility of each executive officer. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment by the Group Finance Director or Executive Directors are required for unbudgeted expenditures and material expenditures within the approval budget. Reports of actual versus budgeted and approved expenditures are also regularly reviewed.

Internal audit department reporting to the Group Finance Director and Managing Director on regular basis and also directly to the Audit Committee if necessary, provides independent assurance as to the existence and the effectiveness of the risk management activities and controls in the Group's business operations. Using risk assessment methodology and taking into account the dynamics of the Group activities, internal audit derives its yearly audit plan which is reviewed by the Audit Committee, and reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objective are met. Internal audit is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and reporting its findings to the Group Finance Director, Group Managing Director and the Audit Committee as well as following up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained with the Group's external auditors so that both are aware of the significant factors which may affect their respective scopes of work.

Depending on the nature of business and risk exposure of individual business units, the scope of the work performed by the internal audit function includes financial and operations review, recurring and surprise audits, fraud investigation and productivity effectively reviews.

Reports from the external auditors on internal controls and relevant matters, if any, are presented to the Group Finance Director and the relevant management team. These reports are reviewed and the appropriate actions taken.

Group Risk Management

The Group Managing Director and the Group Finance Director have the responsibility of developing and implementing risk mitigation strategies including the deploying of insurance to transfer the financial impact of risks. The Group Finance Director is responsible for arranging appropriate insurance coverage.

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COMMUNICATION WITH INVESTORS AND SHAREHOLDERS

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. Therefore, the Board and the Group's senior Management maintain close communications with investors, analysts, fund managers and the media by various channels including interviews and meetings. The Group specially assigns Mr. Lam Hing Lun, Alain, Group Finance Director, being the contact person of investor relations to respond the requests of information and queries from the investors.

The Board also welcomes the view of shareholders on matters affecting the Group and encourages them to attend shareholders' meeting to communicate with the Board or Management directly.

SHAREHOLDER'S RIGHT

The Board committed to providing clear and full performance information of the Group to the shareholders through publication of interim and annual reports. In addition to dispatching circulars, notices, financial reports to shareholders, additional information is also available to the shareholders on the Group's website.

Shareholders are encouraged to attend all general meeting of the Company, such as the annual general meeting for which at least 21 days' notice is given and at which the Chairman and Directors are available to answer questions on the Group's business. All shareholders have statutory right to call for extraordinary general meeting and put forward agenda items for consideration by shareholders by sending to the Company Secretary at the registered office a written request for such general meeting together with the proposed agenda items. Financial and other information is made available on the Group's website, which is regularly updated.