



# CORPORATE GOVERNANCE REPORT

The Company is committed to maintain good corporate governance standards and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “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”) during the financial year ended 31 March 2006.

During the year, the Company has amended its Bye-laws to ensure compliance with the code provisions A.4.2 of the Code. Details are set out as follows:

- Pursuant to code provision A.4.2 of the Code, every Director, including those appointed for a specific terms, should be subject to retirement by rotation at least once every three years. As amended, the Bye-laws require that one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

## BOARD OF DIRECTORS

### Composition

1. The Board currently comprises four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The Board includes a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercises independent judgement. Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to (i) bring an independent judgement at board meetings; (ii) take the lead where potential conflicts of interests arise; (iii) serve on board committees if invited; and (iv) scrutinise the Company’s performance.
2. At 31 March 2006, the Executive Directors were Mr. Kao Cheung Chong, Michael (Chairman), Mr. Kao Wai Ho, Francis (Deputy Chairman and Chief Executive Officer), Mr. Tse Chi Man, Terry and Mr. Yip Kar Hang, Raymond, the Non-executive Director was Mr. Lam Pak Kin, Philip and the Independent Non-executive Directors were Mr. Lai Chi Kin, Lawrence, Mr. Ng See Yuen and Mr. Oh Kok Chi. Save for the father and son relationship between Mr. Kao Cheung Chong, Michael (Chairman) and Mr. Kao Wai Ho, Francis (Deputy Chairman and Chief Executive Officer) and the interests of Mr. Kao Cheung Chong, Michael and Mr. Lam Pak Kin, Philip in certain associated corporations of the Group detailed in the section headed “Directors’ and Chief Executives’ Interests in Shares, Underlying Shares and Convertible Notes” on page 27 of this annual report, the Board members have no financial, business, family or other material/relevant relationships with each other. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors’ biographical information is set out in the section headed “Directors’ Profile” of this annual report.
3. Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(Continued)*

### Role and function

1. The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee and the Remuneration Committee. Further details of these committees are set out in this report.
2. The Board has at least four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in person or through other means of electronic communications in accordance with the Bye-laws. During the financial year ended 31st March 2006, the Directors have made active contribution to the affairs of the Group and 5 board meetings were held to consider, among other things, reviewing and approving the interim results and annual results of the Group. Details of Directors' attendance records in the year ended 31st March 2006 are as follows:

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	<b>Meetings attended/Eligible to attend</b>
<i>Executive Directors</i>	
Kao Cheung Chong, Michael ( <i>Chairman</i> )	5/5
Kao Wai Ho, Francis ( <i>Deputy Chairman and Chief Executive Officer</i> )	4/5
Tse Chi Man, Terry	4/5
Yip Kar Hang, Raymond	4/4
<i>Non-executive Director</i>	
Lam Pak Kin, Philip	5/5
<i>Independent Non-executive Directors</i>	
Lai Chi Kin, Lawrence	5/5
Ng See Yuen	5/5
Oh Kok Chi	5/5



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(Continued)*

### Role and function *(Continued)*

3. The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary. The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days notice of a regular board meeting is given and the Company aims at giving reasonable notice for all other board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a board meeting.
4. The Company Secretary is responsible for taking minutes of board and board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are open for inspection by any Director/committee member.
5. All Directors have access to the Company Secretary who is responsible for ensuring that board procedures are complied with and all applicable rules and regulations are followed.
6. The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.
7. If a Director holds a direct or indirect interest in a matter (including material transaction with connected persons), such interests shall be declared at the relevant board meeting and the relevant Director shall refrain from participating in the relevant discussion in the meeting.
8. Appropriate insurance cover on Directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(Continued)*

### Independent Non-executive Directors

1. Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. Two of the Independent Non-executive Directors have appropriate professional qualifications or accounting or related financial management expertise.
2. The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

### Appointments and re-election of Directors

1. Appointment of new Directors is a matter for consideration by the Board. The Board will review the profiles of the candidates and consider the appointment, re-nomination and retirement of Directors.
2. According to the Bye-laws, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such annual general meeting. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.
3. Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

1. The roles of Chairman and Chief Executive Officer are separate and are not performed by the same individual to reinforce their independence and accountability. The Chairman provides leadership for the Board and the Chief Executive Officer has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established and set out in writing.
2. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner.



# CORPORATE GOVERNANCE REPORT

## MODEL CODE FOR SECURITIES TRANSACTIONS

1. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules as a code of conduct of the Company for Directors’ securities transactions.
2. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions throughout the year ended 31st March 2006.
3. Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit to deal in shares of the Company during the black-out period.

## BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company’s affairs and to assist in the execution of the Board’s responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next board meeting.

### Executive Committee

1. The Executive Committee of the Board comprises all Executive Directors of the Company.
2. The Executive Committee meets as and when required to oversee the day-to-day operation of the Group and has all the general powers of the Board except those matters specifically reserved for the Board which are reviewed by the Board from time to time.

### Audit Committee

1. The Company has an Audit Committee whose principal duties include, amongst other things, (i) to oversee the relationship with the Company’s auditors; (ii) to review the interim and annual financial statements; and (iii) to review the Company’s financial reporting system and internal control procedures. In July 2005, the Board adopted new terms of reference as the terms of reference of the Audit Committee for compliance with the requirements of the Listing Rules.
2. At 31st March 2006, Mr. Oh Kok Chi, an Independent Non-executive Director of the Company, was the Chairman of the Audit Committee. The other members comprised the other two Independent Non-executive Directors, namely Mr. Lai Chi Kin, Lawrence and Mr. Ng See Yuen. None of the members of the Audit Committee are former partners of the auditors of the Company.



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEE *(Continued)*

### Audit Committee *(Continued)*

- During the financial year ended 31st March 2006, two meetings of the Audit Committee were held for, amongst other things, reviewing the final results of the Group for the financial year ended 31st March 2005 and the interim results of the Group for the six months ended 30th September 2005. The attendance of each member is as follows:

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	<b>Meetings attended/Eligible to attend</b>
Oh Kok Chi <i>(Chairman)</i>	2/2
Lai Chi Kin, Lawrence	2/2
Ng See Yuen	2/2

- The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.
- During the financial year ended 31st March 2006, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors.

### Remuneration Committee

- The Company established the Remuneration Committee in 1st August 2005 with specific written terms of reference which deal clearly with its authority and duties. The principal duties of the Remuneration Committee include (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group; (ii) to review and approve performance-based remuneration; (iii) to determine the specific remuneration packages of all Executive Directors and senior management and to make recommendation to the Board of the remuneration of Non-executive Directors; (iv) to review and approve the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and (v) to ensure that no Director or any of his associates is involved in deciding his own remuneration.
- At 31st March 2006, the Chairman of the Remuneration Committee was Mr. Lai Chi Kin, Lawrence, an Independent Non-executive Director of the Company. The other members comprised Independent Non-executive Director of the Company, Mr. Oh Kok Chi, and an Executive Director Mr. Tse Chi Man, Terry. The Independent Non-executive Directors of the Company constitute the majority of the committee.



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEE *(Continued)*

### Remuneration Committee *(Continued)*

3. During the financial year ended 31st March 2006, two meetings of the Remuneration Committee were held for reviewing the policies and matters pertaining to the remuneration of various Directors and senior executives of the Group. The attendance of each member is as follows:

	<b>Meetings attended/Eligible to attend</b>
Lai Chi Kin, Lawrence <i>(Chairman)</i>	2/2
Oh Kok Chi	2/2
Tse Chi Man, Terry	2/2

4. The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.
5. The remuneration policies for the Company as well as the Directors are set to align with market practices and to provide incentives for maximizing performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

## INTERNAL CONTROLS AND INTERNAL AUDIT

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times.

The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

Management has conducted regular reviews during the year on the effectiveness of the internal control system covering all material controls in area of financial, operational and compliance controls, various functions for risks management as well as physical and information systems security. The Chief Financial Officer ("CFO") has reported to the Audit Committee twice during the year, in conjunction with key findings identified by the external auditors, findings and actions or measures taken in addressing those internal controls. The Audit Committee in turn reports any material issues to the Board.



# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROLS AND INTERNAL AUDIT *(Continued)*

The Board, through the Audit Committee, also sets targets for and reviews plan and progress on continuous improvement work of the Company's internal control system with the CFO on a periodic basis.

There is currently no internal audit function within the Group that is separate and independent from the Group's finance team. The finance team assumes also responsibility for conducting regular review of internal control procedures, including accounting system and procedures. Although this arrangement can be improved, management is not concerned with the lack of segregation of duties having assumed the current organisational structure, lines of responsibility and authority of the management team and the risks associated with the operations of the Group. However, the management periodically reviews the need to set up an independent internal audit function and may appoint independent professionals to perform internal audit functions for the Group as need arises.

## AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

<b>Services rendered</b>	<b>Fee paid/payable</b>
	HK\$'000
Audit services	938
Non-audit services:	
Review on interim financial report	230
Taxation services	2,844

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosure required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditors of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 33 of this annual report.





# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS

1. To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and press announcements. All shareholders' communications are also available on the Company's website at [www.imagi.com.hk](http://www.imagi.com.hk).
2. The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditors are also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent board committee will also make an effort to attend to address shareholders' queries.
3. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.
4. Details of the poll voting procedures and rights of shareholders to demand a poll are included in the Company's circulars convening a general meeting. The Chairman of a general meeting also explains the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in the newspapers and on the Company's website.