

## Corporate Governance Report

The Group recognises the importance in maintaining high standards of corporate governance and believes that good corporate governance is fundamental to enhancing the confidence of the investors and minimising our exposure to risks.

### CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of 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 ("Listing Rules") throughout the year ended 31 March 2006, with the exception of the following deviations:

1. **Code Provision A.1.1**

Under code provision A.1.1, board meetings should be held at least 4 times a year at approximately quarterly intervals. However, during the financial year ended 31 March 2006, only 2 full board meetings were held. In order to comply with the code provision, the Board has already scheduled 4 regular meetings for the financial year ending 31 March 2007.

2. **Code Provision A.4.2**

Under code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company's existing bye-laws provide that the chairman or managing director is exempt from retirement. In order to comply with the code provision, the Company has proposed to amend its bye-laws at the forthcoming annual general meeting to remove such exemption granted to the chairman or managing director.

3. **Code Provision B.1.1**

Under code provision B.1.1, a remuneration committee should be established with specific written terms of reference and consisting of a majority of independent non-executive directors. The Company had not had a remuneration committee until on 16 December 2005, the Board approved the establishment of its Remuneration Committee. Further information on the Company's Remuneration Committee is given under "Remuneration Committee" below.

### BOARD OF DIRECTORS

The Board is now made up of seven Directors including four Executive Directors and three Independent Non-executive Directors. The Board has a balance of skills and experience appropriate for the requirements of the Group's business. All Directors have separate and independent access to the advice and services of the senior management and the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

## Corporate Governance Report

### BOARD OF DIRECTORS (Continued)

Independent Non-executive Directors are appointed for a fixed specific term. The Company confirmed that it has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and they are considered to be independent.

The types of decisions which are to be taken by the Board include those relating to:

- setting the strategic plans and directions, and financial objectives of the Group;
- monitoring the performance of the management;
- implementing and monitoring an effective framework of internal controls and risk management;
- ensuring that the Company has good corporate governance and is in compliance with applicable laws and regulations.

Responsibilities over day-to-day operations are delegated to the management under the leadership of the Executive Directors.

The Board meets regularly to review the overall strategy and to monitor the operation as well as the financial performance of the Group. For all of the Board meetings, proper and sufficient notices, adequate information including agenda and accompanying board papers are supplied and sent to all Directors in reasonable time.

### Directors' Attendance at Board and Committee Meetings for Year 2005/06

	<b>Board</b>	<b>Audit Committee</b>
<b>Executive Directors</b>		
Mr. Ngai Chun Hung	2/2	N/A
Mr. Yau Kwok Fai	2/2	N/A
Mr. Shek Yu Ming Joseph	2/2	N/A
Mr. Li Chi Pong	2/2	N/A
<b>Independent Non-Executive Directors</b>		
Professor Ko Jan Ming	2/2	2/2
Mr. Ip Kwok Him, GBS, JP	2/2	2/2
Mr. Fung Pui Cheung, Eugene	2/2	2/2

## Corporate Governance Report

### **APPOINTMENT OF DIRECTORS**

Pursuant to the Company's existing bye-laws, all directors (including those appointed for a specific term) except the chairman and/or managing director are subject to retirement by rotation and re-election at each annual general meeting at least once every three years. In addition, directors appointed during the year as an addition to the Board or to fill a casual vacancy on the Board are subject to retirement and election by shareholders at the first annual general meeting following their appointment.

The Company has proposed to amend its bye-laws at the forthcoming annual general meeting to (i) remove the exemption from rotational retirement granted to the chairman or managing director; and (ii) require that directors appointed during the year be subject to retirement and election by shareholders at the first general meeting instead of first annual general meeting following their appointment.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The roles of Chairman and Chief Executive Officer (CEO) of the Company are separately performed by Mr. Ngai Chun Hung and Mr. Yau Kwok Fai respectively. Mr. Ngai Chun Hung and Mr. Yau Kwok Fai are brothers-in-law.

This segregation ensures a clear division of the Chairman's responsibilities for the management of the Board and the CEO's responsibilities for the day-to-day management of the Company's business.

The Chairman is responsible for providing leadership for the Board, and ensuring that all Directors are properly briefed on issues arising at board meetings and that Directors receive adequate, complete and reliable information in a timely manner. The Chairman has an additional or casting vote in the event of an equality of votes on any matter to be decided by the Board.

The CEO is appointed by the Board and is responsible for providing leadership for the management, implementing and reporting to the Board on the Group's strategy, overseeing the day-to-day operations of the Group and providing all such information to the Board as is necessary to enable the Board to monitor the performance of the management.

### **AUDIT COMMITTEE**

The Company's Audit Committee was established on 8 September 2000 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The Audit Committee's terms of reference are available on the Company's website.

## Corporate Governance Report

### **AUDIT COMMITTEE** (Continued)

The Audit Committee is now made up of three Independent Non-executive Directors, namely Professor Ko Jan Ming, Mr. Ip Kwok Him, GBS, JP, and Mr. Fung Pui Cheung, Eugene. Professor Ko Jan Ming is currently the chairman of the Audit Committee. Mr. Fung Pui Cheung, Eugene is a certified public accountant and possesses the appropriate accounting qualifications and experiences in financial matters.

The Audit Committee holds regular meetings at least twice a year to review the Company's annual and interim reports and accounts. The Audit Committee meets with the Company's external auditors at least once a year to review the Company's annual report and accounts.

### **REMUNERATION COMMITTEE**

The Company's Remuneration Committee was established on 16 December 2005 with written terms of reference and consists of a majority of Independent Non-executive Directors. The purpose of the Remuneration Committee is to set policy on executive directors' remuneration and for fixing remuneration packages for all directors. The Remuneration Committee's terms of reference are available on the Company's website.

The Remuneration Committee is now made up of three Independent Non-executive Directors, namely Professor Ko Jan Ming, Mr. Ip Kwok Him, GBS, JP, and Mr. Fung Pui Cheung, Eugene, and one Executive Director, namely Mr. Yau Kwok Fai. Professor Ko Jan Ming is currently the chairman of the Remuneration Committee.

The Remuneration Committee held its first meeting on 28 April 2006 with full attendance except Mr. Fung Pui Cheung, Eugene, and, at that meeting, reviewed the remuneration of Executive Directors in respect of the financial year ending 31 March 2007 and made recommendations to the Board.

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding the Directors' securities transactions. Following specific enquiry made by the Company, the Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 March 2006.

### **DIRECTORS' INTERESTS**

Full details of the Directors' interests in the shares of the Company are set out in the Report of the Directors on page 30.

## Corporate Governance Report

### AUDITORS' REMUNERATION

For the year ended 31 March 2006, the remuneration of the Company's external auditors, Ernst & Young (including any entity that is under common control, ownership or management with the external auditors), is set out below:

	HK\$'000
Audit services	1,200
Non-audit services:	
Taxation services	65
Review on major transactions in compliance with Listing Rules	150

### COMMUNICATIONS WITH SHAREHOLDERS

The Company endeavours to maintain a high level of transparency in communication with shareholders and investors in general. The various channels via which the Company communicates with its shareholders include interim and annual reports, information on the Stock Exchange's and the Company's websites, and general meetings.

Shareholders are encouraged to attend the Company's general meetings where the Chairman and the Executive Directors of the Board are available to answer questions. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors.

### SHAREHOLDERS' RIGHTS

The Company's bye-laws provide that shareholders holding not less than one-tenth of the Company's paid-up capital carrying voting rights have at all times the right to request the Board to call a special general meeting to discuss specified business transactions. The Board is required to call such meeting within two months after the deposit of a written notice by such shareholders.

Procedures for demanding a poll are included in the circular to shareholders despatched together with the annual report.

### RESPONSIBILITY STATEMENT IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 March 2006, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year.

The external auditors of the Company acknowledge their reporting responsibilities in their auditors' report on the financial statements for the year ended 31 March 2006 as set out in the Report of the Auditors on page 34.