

## Corporate Governance Report

The Board of Directors (the “Board”) is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 March 2006.

Good corporate governance has always been recognized as vital to the Group’s success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of its business.

In November 2004, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) promulgated the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which sets out corporate governance principles (the “Principles”) and code provisions (the “Code Provisions”) with which listed issuers are expected to follow and comply.

The Company has applied the Principles as set out in the CG Code and complied with most of the Code Provisions save for (i) the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer and (ii) the Code Provision A.4.2 which requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The details of such deviation of the Code Provisions A.2.1 and A.4.2 will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:

### A. THE BOARD

#### (1) Responsibilities

The overall management of the Company’s business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board undertakes responsibility for decision making in major Company matters, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company’s expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

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### (2) Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board of the Company comprises the following directors:

#### *Executive directors:*

Mr. Chan Shu Kit, Chairman of the Board, Chief Executive Officer and member of the Remuneration Committee

Mr. Kung Wing Yiu, Deputy Chairman of the Board

Mr. Chan Ho Man

#### *Independent non-executive directors:*

Mr. Chan Ka Ling, Edmond, Chairman of the Audit Committee and the Remuneration Committee

Mr. Kung Fan Cheong, member of the Audit Committee and the Remuneration Committee

Mr. Lo Kin Cheung, member of the Audit Committee and the Remuneration Committee

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under “Biographical details of the directors” on pages 17 to 18.

During the year ended 31 March 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

### (3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the executive directors of the Company has entered into a service agreement with the Company on 1 April 2005 for a term of two years and is subject to retirement and re-election at each annual general meeting of the Company in accordance with the Bye-laws of the Company.

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Each of the independent non-executive directors of the Company has entered into a service agreement with the Company with effect from 1 April 2005 and is subject to retirement and re-election at each annual general meeting of the Company in accordance with the Bye-laws of the Company and the appointment shall be extended for a further period of calendar years, until 31 March 2007.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that 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 Bye-Laws deviate from Code Provision A.4.2 of the CG Code which provides that any director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The Board considers that it is not necessary for the directors so appointed to retire at the first general meeting.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Bye-laws, Mr. Chan Shu Kit, Mr. Kung Wing Yiu, Mr. Chan Ho Man, Mr. Kung Fan Cheong, Mr. Chan Ka Ling, Edmond and Mr. Lo Kin Cheung, shall retire and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 31 July 2006 contains detailed information of the directors standing for re-election.

#### **(4) Training for Directors**

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

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### (5) Board Meetings

#### *Number of Meetings and Directors' Attendance*

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 March 2006, 4 Full Board meetings, 1 Remuneration Committee meeting and 2 Audit Committee meetings were held. In addition, 12 Business meetings attended only by the executive directors of the Company were held.

The individual attendance record of each director at the meetings of the Full Board, Remuneration Committee, Audit Committee and Business during the year ended 31 March 2006 is set out below:

| Name of Directors    | Attendance/Number of Meetings |          |                        | Audit Committee |
|----------------------|-------------------------------|----------|------------------------|-----------------|
|                      | Full Board                    | Business | Remuneration Committee |                 |
| Chan Shu Kit         | 4/4                           | 12/12    | 1/1                    | N/A             |
| Kung Wing Yiu        | 2/4                           | 12/12    | N/A                    | N/A             |
| Chan Ho Man          | 3/4                           | 10/12    | N/A                    | N/A             |
| Kung Fan Cheong      | 4/4                           | N/A      | 1/1                    | 2/2             |
| Chan Ka Ling, Edmond | 4/4                           | N/A      | 1/1                    | 2/2             |
| Lo Kin Cheung        | 3/4                           | N/A      | 0/1                    | 2/2             |

#### *Practices and Conduct of Meetings*

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chairman/Chief Executive Officer, Financial Controller and Company Secretary attend all regular Full Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

### **B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Chan Shu Kit is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

### **C. BOARD COMMITTEES**

The Board has established 2 committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

#### **(1) Remuneration Committee**

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets in September for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman/the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31 March 2006 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

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### (2) Audit Committee

The Audit Committee comprises three independent non-executive directors (including two independent non-executive directors who possess the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the financial controller or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 March 2006 to review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 March 2006 has been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Audit Committee has the same view with the Board regarding the selection, appointment, resignation or dismissal of external auditors.

### D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 March 2006.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

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### **E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 20.

### **F. AUDITORS' REMUNERATION**

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 March 2006 amounted to HK\$680,000 and HK\$300,000, respectively.

### **G. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS**

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.