

The board of directors of the Company (the “Board”) is committed to achieving high standards of corporate governance by emphasising transparency, independence, accountability, responsibility and fairness. The Board strives to ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company and to enhance long-term shareholders’ value.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2007, the Company applied the principles of, and complied with, all the code provisions of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the following deviations. The Company took active steps to correct some of the deviations during the year. Nevertheless, none of the remaining deviations are considered by the Board to be material or inappropriate given the size, nature and circumstances of the Group.

Code provision A.2.1

Mr. Tse Wing Chiu, Ricky is the Chairman and Chief Executive Officer of the Company. The Board considers that the combination of the roles of Chairman and Chief Executive Officer will not impair the balance of power and authority between the Board and the management of the Company as the Board will meet regularly to consider major matters affecting the operations of the Group. The Board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently. As such, it is beneficial to the business prospects of the Group.

Code provision A.4.1

All the non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation no later than the third annual general meeting after they were last elected or re-elected pursuant to the Bye-laws of the Company.

Code provision A.4.2

According to the Special Act of the Company (the “Act”), no director holding the office of Chairman or Managing Director shall be subject to retirement by rotation as provided in the Bye-laws of the Company. As the Company is bound by the provisions of the Act, the Bye-laws of the Company cannot be amended to fully reflect the requirements of the Code.

Code provisions B.1.3(a) and (b)

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the Code provision B.1.3 except that the Remuneration Committee should make recommendations to the Board on the Company's policy and structure for all remuneration of "directors" only (as opposed to "directors and senior management" under the Code provision B.1.3(a)); and should "review" (as opposed to "determine" under the Code provision B.1.3(b)) and make recommendations to the Board on the remuneration packages of "executive directors" only (as opposed to "executive directors and senior management" under the Code provision B.1.3(b)) for the following reasons:

1. the Remuneration Committee comprises independent non-executive directors only who are not involved in the daily operation of the Group. They may not be industry skilled due to their different backgrounds and professions and may not be knowledgeable about the prevailing remuneration packages for directors and senior management in the industry where the Company is operating. The Remuneration Committee is thus not in a position to properly "determine" the remuneration of the executive directors and senior management;
2. the Remuneration Committee members are not in a position to properly evaluate the performance of senior management due to their limited time involved in the Company's business. The evaluation process is more effectively carried out by the executive directors who devote most of their active business time to the business and affairs of the Group; and
3. the executive directors may not be able to take good control of their subordinates if they are not directly involved in evaluating and determining their subordinates' remuneration. As a result, the efficiency and effectiveness of the Company's operations may be affected.

Code provisions B.1.4 and C.3.4

The terms of reference of the Audit Committee and the Remuneration Committee have been made available electronically since November 2006 when the Company's website was launched. These terms of reference are also available on request.

Code provision E.1.2

Mr. Kwong Jimmy Cheung Tim, the former chairman of the Remuneration Committee, was unable to attend the annual general meeting of the Company held on 18 August 2006 due to business reasons. The other members of the then Remuneration Committee including Mr. Kan Ka Hon and Mr. Lau Sin Ming were present to answer questions at the meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct in relation to directors' securities transactions. All directors of the Company have confirmed, following specific enquiry made by the Company, that they complied with the required standard set out in the Model Code throughout the year ended 31 March 2007.

BOARD OF DIRECTORS

The Board currently comprises six directors, with three executive directors and three independent non-executive directors. The composition of the Board during the year and up to the date of this report is set out as follows:

Executive directors:

Mr. Tse Wing Chiu, Ricky - *Chairman and Chief Executive Officer*

Ms. Lui Yuk Chu - *Deputy Chairman*

Mr. Kwong Jimmy Cheung Tim (re-designated from independent non-executive director to executive director on 2 April 2007)

Independent non-executive directors:

Mr. Kan Ka Hon

Mr. Lau Sin Ming

Mr. Foo Tak Ching (appointed on 2 April 2007)

The biographical details of the existing directors are set out in the "Biographical Details of Directors" on pages 8 and 9 of this annual report.

Throughout the year ended 31 March 2007, the Company complied with Rules 3.10(1) and 3.10(2) 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 Board has received from each independent non-executive director an annual confirmation of his independence and considers that all the independent non-executive directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board met four times during the year ended 31 March 2007. The individual attendance records of the directors at the Board meetings are as follows:

Name of directors	Number of meetings attended	Attendance rate
Executive directors		
Mr. Tse Wing Chiu, Ricky	4/4	100%
Ms. Lui Yuk Chu	4/4	100%
Independent non-executive directors		
Mr. Kan Ka Hon	4/4	100%
Mr. Kwong Jimmy Cheung Tim	4/4	100%
Mr. Lau Sin Ming	4/4	100%

The Board has reserved for its decision or consideration matters covering mainly the corporate strategy, board composition, material transactions and investments, risk management, internal control and other significant policies and financial matters. The Board has delegated responsibility for day-to-day management of the Group through the Chief Executive Officer down to the executive management. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in December 2005. Such arrangement will be reviewed periodically.

Chairman and Chief Executive Officer

Mr. Tse Wing Chiu, Ricky currently assumes the roles of both the Chairman and Chief Executive Officer of the Company. The reasons for the deviation from the Code provision A.2.1 are explained in the section headed "Corporate Governance Practices" above.

Retirement and re-election of directors

The Bye-laws of the Company provide that (1) every director (save and except for the Managing Director and Chairman) is required to retire by rotation at the annual general meeting no later than the third annual general meeting after he was last elected or re-elected and the directors to retire at every annual general meeting shall be decided by the Board; and (2) any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the Board) and shall then be eligible for re-election at the meeting.

Independent non-executive directors

All the independent non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, the Audit Committee and the Executive Committee with clearly defined written terms of reference. Each committee reports back to the Board on its decisions or recommendations after each meeting for further discussion and approval, unless there are legal or regulatory restrictions on its ability to do so.

Remuneration Committee

The Company has established a Remuneration Committee. The terms of reference of the Remuneration Committee are in compliance with the provisions set out in the Code, but with deviations from the Code provisions B.1.3(a) and (b). Details of such deviations are set out in the section headed "Corporate Governance Practices" above.

On 2 April 2007, Mr. Kwong Jimmy Cheung Tim resigned as a member and Chairman of the Remuneration Committee. Mr. Lau Sin Ming and Mr. Foo Tak Ching have been appointed as Chairman and a member of the Remuneration Committee respectively with effect from 2 April 2007.

The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Lau Sin Ming (Committee Chairman), Mr. Kan Ka Hon and Mr. Foo Tak Ching. 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; (ii) to make recommendations to the Board on the remuneration packages of all directors; (iii) to review and approve performance-based remuneration; and (iv) to ensure that no director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 March 2007, one Remuneration Committee meeting was held. The individual attendance records of the committee members are as follows:

Name of committee members	Number of meetings attended	Attendance rate
Mr. Kwong Jimmy Cheung Tim	1/1	100%
Mr. Kan Ka Hon	1/1	100%
Mr. Lau Sin Ming	1/1	100%

During the meeting, the Remuneration Committee reviewed and recommended the remuneration packages for each director of the Company for the year ended 31 March 2007 for the Board's approval.

The primary objective of the director remuneration policy is to attract, retain and motivate the Board members by providing fair reward for their contributions to the Group's performance. In this context, the remuneration policy is to set the overall remuneration package at a competitive level and in a form that permits additional remuneration to be earned for high performance over a sustained period. The directors' remuneration packages are determined with reference to the time commitment and responsibilities of individual directors, the Company's performance and the prevailing market conditions.

The main components of the executive directors' remuneration are director's fee, basic salary, benefits in kind, discretionary performance based bonus, retirement benefits and participation in the share option scheme adopted by the shareholders of the Company in June 2002 (the "Share Option Scheme").

The independent non-executive directors do not receive any discretionary bonus or other benefits from the Company. But each of them is entitled to a director's fee and is eligible for the Share Option Scheme subject to the approval of the shareholders of the Company.

During the year ended 31 March 2007, no director was involved in deciding his own remuneration.

Audit Committee

The Company has established an Audit Committee. The terms of reference of the Audit Committee are in compliance with the provisions set out in the Code.

On 2 April 2007, Mr. Kwong Jimmy Cheung Tim resigned as a member of the Audit Committee and Mr. Foo Tak Ching was appointed in his place.

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Committee Chairman), Mr. Lau Sin Ming and Mr. Foo Tak Ching. Executive directors, senior management, head of Accounts Department, Qualified Accountant, representatives of the external auditor of the Company (the "Auditor") or other persons will be invited to attend the meetings of the Audit Committee as and when required.

The principal duties of the Audit Committee include, (i) to oversee the relationship with the Auditor; (ii) to review the interim and annual financial statements before publication; and (iii) to oversee the Group's financial reporting system and internal control procedures.

During the year ended 31 March 2007, two Audit Committee meetings were held. The individual attendance records of the committee members are as follows:

Name of committee members	Number of meetings attended	Attendance rate
Mr. Kan Ka Hon	2/2	100%
Mr. Kwong Jimmy Cheung Tim	2/2	100%
Mr. Lau Sin Ming	2/2	100%

During the year ended 31 March 2007, the Audit Committee (i) reviewed the reports from the Auditor, accounting principles and practices adopted by the Group, management representation letters, and management's response in relation to the annual results for the year ended 31 March 2006 and the interim results for the six months ended 30 September 2006; and (ii) reviewed the financial reports for the year ended 31 March 2006 and for the six months ended 30 September 2006 and recommended the same to the Board for approval.

The Audit Committee has reviewed with the management and the Auditor the audited consolidated financial statements of the Company for the year ended 31 March 2007.

Executive Committee

On 2 April 2007, Mr. Kwong Jimmy Cheung Tim was appointed as a member of the Executive Committee.

The Executive Committee currently comprises all the executive directors of the Company, namely Mr. Tse Wing Chiu, Ricky (Committee Chairman), Ms. Lui Yuk Chu and Mr. Kwong Jimmy Cheung Tim. It meets as and when required between regular Board meetings of the Company, and operates as a general management committee under the direct authority of the Board. Within the parameters of authority delegated by the Board, the Executive Committee sees to the implementation of the Group's strategy set by the Board, monitors the Group's investment and trading performance, funding and financing requirements, and reviews the management performance.

AUDITOR'S REMUNERATION

For the year ended 31 March 2007, the Auditor received approximately HK\$726,000 for audit service and approximately HK\$324,000 for non-audit services related to interim review, preliminary announcement of results and ongoing connected transactions.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is empowered under the Company's Bye-laws to appoint any person as director either to fill a casual vacancy or as an addition to the Board.

A written director nomination policy was adopted by the Board in March 2006 with the intent to provide a set of guidelines for the effective functioning of the Company's director nomination process. The policy stipulates the criteria for identifying director candidates and the procedures for nomination, evaluation and assessment of candidates for directorship. The selection criteria are mainly based on their personal and professional integrity, independent mindedness, commitment to the Company, experience relevant to the Company's business as well as compliance with legal and regulatory requirements.

There was no change to the composition of the Board during the year ended 31 March 2007.

FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Group. With the assistance of the Accounts Department, the directors ensure that the preparation of the financial statements of the Group are in accordance with the statutory requirements and applicable accounting standards. The directors also ensure timely publication of the financial statements of the Group.

The statement of the Auditor regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 24.

The Auditor did not report for the year ended 31 March 2007 that there were any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective system of internal control of the Group to safeguard the shareholders' investment and the Group's assets, and reviewing its effectiveness.

The Group's internal control system, including a defined management structure with limits of authority and segregation of duties and periodic review by the Board of the operational and financial reports prepared by the management or the Auditor, is designed to safeguard assets against unauthorised use or disposition, ensure maintenance of proper accounting records for provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system aims to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Board has conducted a review of effectiveness of the system of internal control and risk management of the Group for the financial year ended 31 March 2007. Recommendations have been suggested to and adopted by the management of the Group in order to enhance its system of internal control and risk management functions.

COMMUNICATION WITH SHAREHOLDERS

The Company values the views of its shareholders and recognises their interests in the Group's strategy and performance. All shareholders are welcome to the annual general meeting of the Company, at which directors of the Company will be available to answer questions from shareholders. Communication is also provided through the annual reports, interim reports, announcements and circulars issued by the Company from time to time. Shareholders may also contact the Company in writing or visit the Company's website www.easyknitenterp.com for information about the Group and its activities.