

# Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance to balance the interests of shareholders, customers and employees. 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 (the “Listing Rules”) throughout the accounting year ended 20th February 2006, except for the deviations explained in the following relevant paragraphs.

## **Directors’ Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year under review.

## **Board of Directors**

The Board of Directors (the “Board”) is charged with leading the Company in a responsible and effective manner. The Board has adopted formal terms of reference, which detail its functions and responsibilities. Its main responsibilities include, but not limited to, approving the Company’s long-term objectives and commercial strategy, ensuring competent and prudent management, ensuring sound planning, ensuring the maintenance of an adequate system of internal control and the compliance with statutory and regulatory obligations. Directors, as members of the Board, jointly share responsibility for the proper direction and management of the Company. Daily operations and administration are delegated to the management.

As at the date of this report, the Board comprises seven members, consisting of three executive directors and four non-executive directors, out of which two are independent non-executive directors. The number of independent non-executive directors falls below the minimum number required under Rule 3.10(1) of the Listing Rules following the demise of Dr. Shao You Bao, an independent non-executive director, on 12th March 2006. The Company will make every effort to appoint a sufficient number of independent non-executive directors within the prescribed period.

The non-executive directors bring a wide range of expertise and knowledge in the banking and consumer finance sector to the Company. The independent non-executive directors are persons with extensive experience as well as academic and professional qualifications in the fields of banking and accounting. They provide valuable advice to the Board towards the effective discharge of its duties and responsibilities. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

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The Company has in place established Board process. Regular Board meetings are scheduled one year in advance and held at least four times a year, and, if necessary, additional meetings will be arranged. At least 14 days notice of all Board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The agenda and the accompanying Board materials are normally sent to all directors three days in advance of the Board meetings to facilitate informed discussion and decision-making. Member of the senior management are invited to attend Board meetings to make presentations or answer the Board's enquiries.

The Company Secretary is responsible for taking minutes of the Board and committee meetings, which will be sent to all directors for their comments within a reasonable time after each meeting. Minutes of Board and committee meetings are kept by the Company Secretary and will be opened for inspection by the directors upon request. All directors have access to the advice and services of the Company Secretary, and are allowed to seek external professional advice if so required. The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and maintain good corporate governance practice.

Newly appointed directors will be given an orientation package including key legal requirements and the Company's policies and guidelines. Executive directors and senior management will meet with the new directors to provide them with more detailed knowledge of the Company's business and operations.

During the year, five regular board meetings were held, and details of directors' attendance record are set out below:

<b>Name of director</b>	<b>Board meeting attended</b>
<i>Executive directors:</i>	
Masanori Kosaka ( <i>Managing Director</i> )	5/5
Lai Yuk Kwong	5/5
Koh Yik Kung	5/5
<i>Non-executive directors:</i>	
Yoshiki Mori ( <i>Chairman</i> )	1/5
Kazuhide Kamitani	0/5
Yoichi Kimura*	2/5
<i>Independent non-executive directors:</i>	
Shao You Bao**	5/5
Tsang Wing Hong	3/5
Wong Hin Wing	5/5

\* resigned on 26th April 2006

\*\* passed away on 12th March 2006

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## **Chairman and Chief Executive**

The Chairman and Managing Director of the Company are Mr. Yoshiki Mori and Mr. Masanori Kosaka. The roles of the Chairman and the Managing Director are segregated and assumed by two separate individuals who have no relationship with each other to ensure the power and authority are not concentrated in any one individual. The division of responsibilities between the Chairman and the Managing Director have been clearly established and set out in writing.

The Chairman is responsible for the effective running of the Board, while the Managing Director is delegated with the authorities to manage the business of the Company.

## **Appointment and Re-election of Directors**

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure for agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

The code provision A.4.1 of the Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The code provision A.4.2 of the Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. 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 non-executive directors are not appointed for a specific term and directors are not subject to retirement by rotation. However, all directors, including executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

The Company's Articles of Association provides that 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 annual general meeting, which constitutes a deviation from the first sentence of the code provision A.4.2. The Company will put forward at the forthcoming annual general meeting a proposal to amend the Company's Articles of Association to comply with the first sentence of the code provision A.4.2 of the Code.

The annual general meeting circular contains detailed information on re-election of directors including detailed biography of all directors standing for re-election to enable shareholders to make an informed decision on their election.

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## Remuneration Committee

The salary and annual incentive of the executive directors are determined by the Remuneration Committee. No director is involved in deciding his own remuneration.

As at the date of this report, the Remuneration Committee of the Company comprises one non-executive director and two independent non-executive directors, namely Mr. Yoshiki Mori, Mr. Tsang Wing Hong and Mr. Wong Hin Wing. The principal duties of the Remuneration Committee are to review and make recommendations to the Board for the individual remuneration packages for the executive directors and the senior management. The Remuneration Committee meets at least once a year, and its terms of reference are posted on the Company's website. The emoluments payable to the executive directors are decided with the objective to provide remuneration in form and amount, which will motivate and retain high calibre executives. Details of the directors' emoluments are set out in note 13 to the financial statements.

The Remuneration Committee held two meetings for the year ended 20th February 2006, during which the Committee determined the remuneration policy for the executive directors and senior management and reviewed the remuneration for the executive directors. Details of attendance record of members of the Remuneration Committee are set out below:

Name of member	Remuneration Committee meeting attended
Shao You Bao ( <i>Chairman</i> )	2/2
Yoshiki Mori	1/2
Yoichi Kimura	1/2
Tsang Wing Hong	1/2
Wong Hin Wing	2/2

## Audit Committee

As at the date of this report, the Audit Committee of the Company comprises one non-executive director and two independent non-executive directors, namely Mr. Yoshiki Mori, Mr. Tsang Wing Hong and Mr. Wong Hin Wing. Members of the Audit Committee possess appropriate professional qualifications or accounting or related financial management expertise. The principal duties of the Audit Committee include the review of the nature and scope of audit performed, the review of financial information of the Company, as well as the oversight of the Company's financial reporting system and internal control procedures. The Audit Committee will also discuss matters raised by external auditors to ensure that appropriate recommendations are implemented. The Audit Committee meets at least twice a year, and its terms of reference are posted on the Company's website.

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The Audit Committee held four meetings for the year ended 20th February 2006, and the meetings were attended by external auditors and the qualified accountant for the purposes of assessing and reviewing the scope of audit work, the Company's financial statements, the external auditors' audit plan, the Company's internal control and recommending to the Board the appointment of external auditors. Details of attendance record of members of the Audit Committee are set out below:

<b>Name of member</b>	<b>Audit Committee meeting attended</b>
Shao You Bao ( <i>Chairman</i> )	4/4
Yoshiki Mori	1/4
Yoichi Kimura	2/4
Tsang Wing Hong	2/4
Wong Hin Wing	4/4

## **Internal Control**

The Board and senior management are responsible for establishing, maintaining and operating a sound and effective internal control system to safeguard the shareholders' investment and the Company's assets. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operating systems and achievement of the Company's objectives.

The internal control system of the Company includes a defined management structure with specified limits of authority. The Board has clearly defined the authorities and key responsibilities of each division to ensure adequate checks and balances. The internal control system has been designed to safeguard the Company's assets against unauthorized use or disposition; to ensure the maintenance of proper accounting records for producing reliable financial information; and to ensure compliance with applicable laws, regulations and industry standard. Systems and procedures are laid down to identify, measure, manage and control different risks, including legal, credit, market, concentration, operational, environmental, behavioural and systematic risks that may have an impact on the consumer finance business in Hong Kong.

Division heads are involved in preparing the strategic plan in accordance with the corporate strategies to be pursued in the next three years for achieving the annual operating plan and operational targets. Based on the strategic plan, the annual operating plan and annual budget will be prepared and approved by the Board on an annual basis. The budget will be reviewed on a half-year basis with reference to the market situation, and the business and financial performance.

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The Company's internal audit function plays an important role in monitoring the Company's internal governance and strives to provide objective assurance to the Board that a sound internal control system is maintained and operated by the management in compliance with agreed processes and standards by performing periodic checking. Significant issues in the management letters from both internal and external auditors will be brought to the attention of the Audit Committee to ensure that prompt remedial action is taken. All recommendations will be properly followed up to ensure they are implemented within a reasonable period of time. Annual internal audit plan is designed with audit resources to focus on higher risk areas and submitted to the Audit Committee for review and approval.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report is sound and is sufficient to safeguard the interests of the shareholders, the customers, the employees and of the Company's assets.

## **Management of Risks**

### ***Credit risk management***

Credit risk is the risk associated with the possibility that a customer or counter-party in a transaction may default. It arises from the lending and derivatives undertaken by the Company.

In evaluating the credit associated with an individual or counter-party, financial strength and repayment ability are always the primary considerations. The Company has established policies and systems for the monitoring and control of credit risk. The Company's credit policy defines the credit extension criteria, credit approval and monitoring processes. The approval of credit card and loan transactions is delegated to the authorised personnel in head office and branch managers subject to the set limits. The Internal Audit Department is responsible for appraising the effectiveness of credit controls. The Company maintains a tight control on credit assessments and approvals and will continue to exercise a conservative and prudent policy in granting credit facilities in order to maintain a quality receivable portfolio.

### ***Market risk management***

Market risk is the risk associated with changes in interest rates, foreign exchange rates, equity prices and government policies; and the effect of such changes has on the Company's assets, liabilities and commitments, including both on and off balance sheet, thus causing profits and losses.

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The Company adopts a conservative view on exposure to market risk related financial instruments. The Company monitors its exposure to the market risk on a regular basis and will take appropriate actions to minimise its exposure to market risk.

The Company maintained a significant portion of its bank borrowings in long-term with fixed interest rates. Moreover, the Company transacted in market risk related financial instruments mainly for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

## ***Liquidity management***

The Company will ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund receivable growth and to generate reasonable returns from available funds. The balance between liquidity and profitability is carefully considered. The Accounts and Finance Division is responsible for the management of daily treasury operations, and to ensure availability of funds to settle card transactions, to fund receivable growth and to meet contractual financial commitments.

During the year, the Company closely monitors its liquidity position with adequate standby facilities being maintained to meet merchant settlement and receivable demand in the ordinary course of business.

## ***Capital management***

The Company's policy is to maintain a strong capital base to support the development of the Company's business. During the year, the Company relies principally on internally generated capital as well as credit card securitisation program and bank borrowings for the working capital. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

## **Accountability and Audit**

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and of the results and cash flow for that period. In preparing the accounts for the year ended 20th February 2006, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

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The Company has announced its annual and interim results in a timely manner within the limits of four months and three months respectively after the end of the relevant period, as laid down in the Listing Rules.

## Auditors' Remuneration

Deloitte Touche Tohmatsu has been reappointed as the Company's external auditors at the 2005 Annual General Meeting until the conclusion of the next Annual General Meeting.

During the year under review, a remuneration of HK\$1,600,000 was paid to Deloitte Touche Tohmatsu for the provision of audit services. In addition, the following remunerations were paid to Deloitte Touche Tohmatsu for the provision of non-audit related services to the Company:

<b>Services rendered</b>	<b>Fees HK\$'000</b>
Taxation compliance	310
Agreed upon procedures	90
Advisory services on financial reporting	180
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Total	580
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## Communication with Shareholders and Investors

The Board recognizes the importance of good communications with all shareholders. The Company establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports and press release. Such information is also available on the Company's website.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. Directors, senior management and external auditors make an effort to attend the annual general meeting to address shareholders' queries. Separate resolutions are proposed at general meetings on each substantially separate issue, including the re-election of directors. An annual general meeting circular is distributed to all shareholders together with the annual report at least 21 days before the annual general meeting. The circular sets out the procedures for demanding a poll and also includes relevant details of proposed resolutions, including biography of each director standing for re-election.



# *Corporate Governance Report*

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At the Company's 2005 Annual General Meeting, the Chairman of the Board did not attend the meeting but appointed the Managing Director to chair the meeting. This constitutes a deviation from the code provision E.1.2 of the Code, which provides that the chairman of the board should attend the annual general meeting. The Managing Director, who took the chair, together with majority of the members of the Board and the Chairman of the Audit and Remuneration Committees were present at the meeting to answer shareholders' questions. The Chairman of the meeting explained the procedures for demanding a poll at the commencement of the meeting. All the resolutions at the meeting were dealt with on a show of hands and the Chairman of the meeting also indicated to the meeting the level of proxies lodged on each resolution after it had been dealt with on a show of hands.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors. In addition, press conference and investors' presentation were held after the interim and final results announcements.