

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board" or "Directors") recognizes the importance and benefits of good corporate governance practices and has adopted certain corporate governance and disclosure practices aiming at a high level of transparency and accountability. The Company is committed to continuously improving its corporate governance practices as part of its own corporate culture.

1. CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions recommended in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the review period except for the deviations from the code provisions A.1.1, which stipulates that regular board meetings should be held at least four times a year, A.2.1, regarding separation of roles of chairman and chief executive officer and A.4.1, in respect of the terms of non-executive directors. Further explanations are set out below.

2. DIRECTORS

2.1. The Board

- (a) The primary objective of the Board is to enhance and protect long-term values of the shareholders as a whole. To this end, the Board assumes the responsibilities for leadership and control of the Company and oversees the businesses, strategic development, financial performance and corporate governance of the Group.
- (b) It also supervises executive management to whom the responsibility of managing the day-to-day operation of the Group is delegated.
- (c) Board members meet regularly to discuss strategies and business issues, including financial performance, of the Group.
- (d) Seven physical board meetings, including three physical regular meetings, were held during the year. The fourth regular meeting was held after the end of the financial year and thus could not meet the requirement as set out in code provision A.1.1 of the CG Code. Board members can attend meetings in person or through electronic communications means in accordance with the bye-laws of the Company ("Bye-laws").
- (e) With the supports of the Chief Financial Officer and the Company Secretary, all Directors are properly briefed on issues arising at Board meetings and receive adequate and timely information for making decisions.
- (f) Minutes of Board and Board committees meetings kept by the Company Secretary are sent to the Directors and committee members respectively for records and are open for inspection by the Directors.
- (g) Details of the attendance of the Directors at the physical regular meetings are set out in note 7 of this Corporate Governance Report ("CG Report").
- (h) The Company has arranged appropriate directors' and officers' liability insurance for the Directors and officers of the Company.

CORPORATE GOVERNANCE REPORT (Cont'd)

2. DIRECTORS (continued)

2.2. Board Composition

- (a) The Board currently comprises four Executive Directors, including Mr. Poon Chiu Kwok ("Mr. Poon") who was re-designated from an Independent Non-executive Director ("INED") to an Executive Director on 1 May 2006, and three INEDs, including Mr. Lee Luk Shiu ("Mr. Lee") who joined the Company as an INED on 1 May 2006. Over one-third of the Board was represented by INEDs throughout the year.
- (b) Together the Board has a diverse wealth of skills, expertise, experience and qualifications in the aspect of economic and business management, accounting and finance, securities and investment banking, legal and regulatory experience both in Hong Kong and the Mainland. More than one of the INEDs possess recognized professional qualification in accounting or related financial management expertise. This diversity of experiences and backgrounds enables the Board to enhance good corporate governance and performance standard and to bring in valuable contributions and advices for the development of the Group's businesses. Biographies of the Directors are set out on pages 6 to 7 of this annual report.
- (c) The Company has received, from each of the INEDs, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the INEDs are independent pursuant to the Listing Rules.

2.3. Chairman and Chief Executive Officer

- (a) Ms. Chu Lam Yiu, the controlling shareholder of the Company, is the Chairman of the Company and is in charge of the overall management of the Company.
- (b) The Directors meet regularly and whenever necessary to consider all key and appropriate issues in a timely manner and thus ensure the Board functions effectively and discharges its responsibilities.
- (c) After due consideration, the Board has not adopted the recommendation of the CG Code to have separate chairman and chief executive officer. The Board considers that existing structure would enable the Company to make and implement decisions promptly and efficiently, and believes that the balance of power and authority can be ensured as over one-third of the Board is represented by INEDs throughout the whole year.

2.4. Directors' Appointments and Re-election

- (a) At the annual general meeting of the Company held on 9 August 2005, amendments to the Bye-laws were approved pursuant to which every Director shall retire from office no later than the third annual general meeting of the Company since the last appointment or re-election of such Director.
- (b) Although INEDs are not appointed for a specific term, which deviates from the code provision A.4.1 of the CG Code, they are subject to retirement by rotation and re-election at the annual general meeting of the Company.
- (c) The Company has not established a nomination committee. New director is sought mainly through referrals or internal promotions. In evaluating whether an appointee is suitable to act as a Director, the Board will review the independence, experience and skills of the appointee as well as personal ethics, integrity and time commitment of the appointee. Appointment of a new Director requires the unanimous approval of the Board members. All directors appointed during the year are subject to re-election by shareholders at the forthcoming annual general meeting.

2. DIRECTORS (continued)

2.5. Responsibilities of Directors

- (a) The Directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate them in discharging their responsibilities.
- (b) INEDs take an active role in Board meetings and serve on the Board committees whenever invited.
- (c) The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors and relevant employees, as defined in the Listing Rules, of the Company. Having made specific enquiry of all Directors and relevant employees, all Directors and relevant employees confirmed they have complied with the required standard as set out in the Model Code.

2.6. Supply of and Access to Information

- (a) All Directors have full access to accurate, relevant and timely information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors.
- (b) Board members are supplied with agenda and comprehensive Board papers in respect of regular Board meetings at least three days before the intended date of meeting.

3. ACCOUNTABILITY AND AUDIT

3.1. Financial Reporting

- (a) The Board is responsible for the preparation and timely publication of financial statements. In preparing the financial statements, relevant statutory requirements have been complied, applicable accounting standards in force in Hong Kong have been adopted, appropriate accounting policies have been applied on a consistent basis, and reasonable and prudent judgments and estimates have been made.
- (b) The auditors have a primary responsibility for auditing and reporting on the financial statements and the Auditors' Report to the shareholders of the Company ("Shareholders") is set out on page 17 of this annual report.
- (c) Having assessed the liquidity risk of the Group and considered the effect of the redemption clause of the preference shares of the Company, the Board has continued to adopt the going concern basis in preparing the financial statements.

3.2. Audit Committee

- (a) The Audit Committee of the Company was established in June 2002 and currently comprises three INEDs, namely Mr. Mak Kin Kwong, Peter ("Mr. Mak"), Ms. Ma Yun Yan ("Ms. Ma") and Mr. Lee who was appointed on 1 May 2006. The Audit Committee possesses a wealth of experience and expertise including accounting profession, legal profession and regulatory experience both in Hong Kong and the Mainland. Mr. Poon has resigned as a member of the Audit Committee upon his re-designation as an Executive Director on 1 May 2006.

CORPORATE GOVERNANCE REPORT (Cont'd)

3. ACCOUNTABILITY AND AUDIT *(continued)*

3.2. Audit Committee *(continued)*

- (b) During the year, the Board reviewed the terms of reference of the Audit Committee and has made relevant amendments to accommodate the requirements of the CG Code, where appropriate.
- (c) The primary function of the Audit Committee is to review and supervise the Group's financial reporting system, internal control procedures and to maintain good and independent communications with the management as well as auditors of the Company.
- (d) In discharging its responsibility, the Audit Committee has performed the following work:
 - (i) reviewed the draft annual and interim financial statements and draft results announcements during the year;
 - (ii) reviewed, in conjunction with the auditors, the development of accounting standards and assessed their potential impacts on the Group's financial statements;
 - (iii) made recommendation with respect to the change of the auditors during the year.
- (e) The Audit Committee met twice during the year and the attendance record is set out in note 7 of this CG Report.

3.3. Auditors

- (a) Messrs. Deloitte Touche Tohmatsu ("DTT"), who were the auditors of the Company for the year ended 31 March 2005, resigned on 22 March 2006 as the Company and DTT could not reach a consensus on the audit fees for the year ended 31 March 2006. Both DTT and the Board confirmed that there was no disagreement between the Group and DTT. Messrs. PricewaterhouseCoopers were appointed as the auditors of the Company to fill the casual vacancy pursuant to a resolution passed at the special general meeting held on 18 April 2006.
- (b) During the year ended 31 March 2006, audit fees payable to the auditors amounted to HK\$350,000 (2005: HK\$263,000) and no other fees were paid/payable for non-audit services during the year (2005: HK\$80,000 for review of interim financial statements).

4. REMUNERATION OF DIRECTORS

- 4.1. The Remuneration Committee of the Company was established in July 2005 which comprises two INEDs, namely Mr. Mak, who is the Chairman of the Remuneration Committee, and Ms. Ma, who was appointed on 1 May 2006, and one Executive Director namely Mr. Chen Yong Chang. Mr. Poon was appointed as a member of the Remuneration Committee and resigned on 1 May 2006 upon his re-designation as an Executive Director.
- 4.2. The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of Executive Directors, and reviewing their specific remuneration package by reference to market conditions, performance of the Group and the individual and corporate goals and objectives as set by the Board from time to time.
- 4.3. The first meeting of the Remuneration Committee was held after the financial year end and the attendance record is set out in note 7 of this CG Report.
- 4.4. Details of the remuneration of each of the Directors are disclosed in note 8 to the financial statements.

5. DELEGATION BY THE BOARD

- 5.1. The day-to-day running of the Company is delegated to the department heads and divisional heads are responsible for different aspects of the Group's businesses.
- 5.2. The Company has maintained the Audit Committee and Remuneration Committee. Each of these committees has specific written terms of reference which deal clearly with their authority and duties. The chairmen of the committees will report the findings and recommendations to the Board after each meeting.

6. COMMUNICATION WITH SHAREHOLDERS

- 6.1. The annual general meeting enables the Shareholders to exchange views with the Board. The Chairman of the Company and the Chairman of Audit Committee have attended at the annual general meeting to be available to answer the questions of the Shareholders.
- 6.2. Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual Director.
- 6.3. The right to demand a poll was set out in the circulars to Shareholders dispatched during the year.

7. ATTENDANCE RECORD

Attendance records of Board regular meetings and Board committees meetings held during the year and up to the date of this report are as follows:

	Meetings attended/held during the year		Meetings attended/held after the year end and up to date of this report		
	Board Regular	Audit Committee	Board Regular	Audit Committee	Remuneration Committee
Executive Director					
Ms. Chu Lam Yiu (<i>Chairman</i>)	3/3	n/a	2/2	n/a	n/a
Mr. Chen Yong Chang	3/3	n/a	2/2	n/a	1/1
Mr. Poon Chiu Kwok ⁽¹⁾	3/3	2/2	2/2	n/a	n/a
Mr. Wang Guang Yu	3/3	n/a	1/2	n/a	n/a
INED					
Mr. Lee Luk Shiu ⁽²⁾	n/a	n/a	2/2	1/1	n/a
Ms. Ma Yun Yan	3/3	2/2	1/2	1/1	1/1
Mr. Mak Kin Kwong, Peter	2/3	2/2	2/2	1/1	1/1

Notes:

⁽¹⁾ Re-designated from INED to Executive Director on 1 May 2006.

⁽²⁾ Appointed on 1 May 2006.