

# CORPORATE GOVERNANCE

The Company is committed to implementing good corporate governance practices and emphasising on transparency and accountability to its shareholders and stakeholders. In the opinion of the Board, the Company has applied throughout the year ended 28 February 2006 with the Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviations as mentioned below.

## **Board of Directors**

The Board currently comprises seven members, four of them being Executive Directors, one Non-executive Director and two Independent Non-executive Directors. Subsequent to the re-designation of Dr. Lo Wing Yan, William, J.P. to an Executive Director, the Nomination Committee is currently under discussion with potential candidates. It will nominate to the Board and the Board will appoint the appropriate candidate to replace Dr. Lo as the Independent Non-executive Director, member of the Audit Committee and Remuneration Committee. Biographical details of the Directors are set out in "*Biographies of Directors and Senior Management Team*" on pages 33 to 35.

Throughout the year ended 28 February 2006, more than one-third of the Board is Independent Non-executive Directors. They come from diverse business and professional backgrounds and provide expertise advice in an objective manner. The Company has received annual written confirmation of independence from each of the Independent Non-executive Directors and considers that all Independent Non-executive Directors meet the independence guidelines as set out in the Listing Rules.

Non-executive and Independent Non-executive Directors are appointed for a one year specific term. Nomination Committee would review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board regarding the renewal of service term of the Non-executive and Independent Non-executive Directors. The Non-executive and Independent Non-executive Directors are subject to the re-election provisions laid down in the Company's Bye-laws.

The Company is fully aware that in order to reinforce their respective independence, accountability and responsibility, the role of the Chairman should be separated from that of the Chief Executive Officer. However, Mr. Sham Kar Wai currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operating of the Board which comprises experienced and high caliber individuals with a substantial member thereof being Non-executive Directors.

Under the Company's existing Bye-laws, all Directors, including those appointed for a specific term, are subject to retirement by rotation at least once every three years. In the 2005 Annual General Meeting held on 11 August 2005, the shareholders of the Company passed a resolution amending the Company's Bye-laws in order to comply with this provision. Prior to the amendment, the Chairman of the Board and/or the Managing Director of the Company were/was not, whilst holding such office, subject to retirement by rotation.

The Board has reserved for its decision and consideration issues in relation to strategic developments, substantial acquisitions and disposals, annual and interim results, directors' appointments and significant operational and financial matters. Implementation and execution of Board policies and strategies and daily administrative matters are delegated to the Executive Committee and the senior management team of the Company.

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant issues. 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. Comprehensive information on matters to be discussed at the Board meeting is supplied to the Directors in a timely manner to facilitate discussion and decision-making.

The Board has established four committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee to oversee particular aspects of the Company's affairs. Specific responsibilities of each Committee are described below. Save for the Executive Committee, all Committees are chaired by Independent Non-executive Directors. Executive Committee is comprised of the Chief Executive Officer and one Executive Director from time to time. All committees have defined terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules.

Appropriate liability insurance cover has been arranged since May 2005 to indemnify the Company's Directors for their liabilities arising out of corporate activities. The Company reviews the insurance coverage from time to time to ensure adequate coverage.

#### **Audit Committee**

The primary responsibility of the Audit Committee is to review the financial reporting process of the Group and its internal control system, and also to oversee the audit process and to perform other duties assigned by the Board. The Audit Committee should be comprised of three members, all Independent Non-executive Directors. Dr. Lo Wing Yan, William, J.P. was a member before his re-designation from an Independent Non-executive Director to an Executive Director of the Company on 24 May 2006. Currently, the Audit Committee is only comprised of two members, namely Mr. Chan Mo Po, Paul as Chairman and Mr. Wong Wai Ming. The Nomination Committee is currently under discussion with potential candidates and will nominate a suitable candidate to the Board to fill the casual vacancy caused by Dr. Lo's re-designation. All Committee members and ex-member possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met three times in the year ended 28 February 2006. The Committee has reviewed the audit plans and findings of external auditors, external auditors' independence, the accounting principles and practices of the Group, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters and made recommendations to the Company to improve the quality of financial information to be disclosed.

### Remuneration Committee

The Remuneration Committee is responsible for reviewing the remuneration packages of Executive Directors and senior management, including bonuses and options granted under the Share Option Scheme, to ensure that such remuneration is reasonable and not excessive. There should be three members in the Remuneration Committee, majority of which are Independent Non-executive Directors. Dr. Lo Wing Yan, William, J.P. was the Chairman and a member before his re-designation from an Independent Non-executive Director to an Executive Director of the Company on 24 May 2006. Currently, the Remuneration Committee is only comprised of two members, namely Mr. Wong Wai Ming and Mr. Sham Kar Wai. The Nomination Committee is currently under discussion with potential candidates and will nominate a suitable candidate to the Board to fill the casual vacancy caused by Dr. Lo's re-designation.

The Remuneration Committee met five times in the year ended 28 February 2006.

Remuneration policy of the Company is to enable the Company to retain and motivate employees (including Executive Directors) to meet corporate objectives. An Executive Director is not allowed to approve his own remuneration. The remuneration package of Executive Director includes basic salary, housing allowance, and discretionary bonus and share option. The directors' fee of Non-executive Directors is subject to annual assessment. Remuneration surveys conducted by independent consultants on companies operating in similar businesses are referred to when the Remuneration Committee is considering the remuneration packages of the Directors.

### Nomination Committee

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process. The Committee should identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships. There are three members in the Nomination Committee, Mr. Wong Wai Ming, being an Independent Non-executive Director acts as Chairman, and Mr. Sham Kar Wai and Mr. Chan Wai Mo, Alva are the Committee members. The Nomination Committee held one meeting during the year ended 28 February 2006 to nominate for the reappointment of Non-executive and Independent Non-executive Directors.

### Executive Committee

The Executive Committee was established to approve routine corporate administration matters from time to time delegated by the Board. The Executive Committee is comprised of the Chief Executive Officer and any one Executive Director from time to time. The Committee met 16 times in the year ended 28 February 2006.

Details of Directors' attendance of the Board and Committee meetings held during the year ended 28 February 2006 are set out as follows:-

|  | Board | Meeting Attended    |                 |                        | Nomination Committee |
|--|-------|---------------------|-----------------|------------------------|----------------------|
|  |       | Executive Committee | Audit Committee | Remuneration Committee |                      |
| <b>Executive Directors</b>                 |       |                     |                 |                        |                      |
| Mr. Sham Kar Wai (Note 1)                  | 5/5   | 16/16               |                 | 5/5                    | 1/1                  |
| Dr. Lo Wing Yan, William, J.P. (Note 2)    | 5/5   | N/A                 | 3/3             | 5/5                    |                      |
| Mr. Sham Kin Wai (Note 1)                  | 2/5   | 15/16               |                 |                        |                      |
| Mr. Chan Wai Mo, Alva                      | 5/5   | 4/16                |                 |                        | 1/1                  |
| <b>Non-executive Directors</b>             |       |                     |                 |                        |                      |
| Dr. Yeung Chun Kam, Charles, S.B.S., J.P.  | 0/5   |                     |                 |                        |                      |
| <b>Independent Non-executive Directors</b> |       |                     |                 |                        |                      |
| Mr. Chan Mo Po, Paul (Note 3)              | 5/5   |                     | 3/3             |                        |                      |
| Mr. Wong Wai Ming (Note 4)                 | 4/5   |                     | 3/3             | 5/5                    | 1/1                  |

Note 1: Mr. Sham Kar Wai and Mr. Sham Kin Wai are brothers

Note 2: Dr. Lo Wing Yan, William, J.P. was an Independent Non-executive Director, Chairman and member of Remuneration Committee and member of Audit Committee till 24 May 2006

Note 3: Chairman of Audit Committee

Note 4: Chairman of Nomination Committee

### **Accountability and Audit**

The Directors acknowledge their responsibility for preparing the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards.

The statements of the external auditors of the Company, PricewaterhouseCoopers, with regard to their reporting responsibilities on the Company's financial statements is set out in "*Auditors' Report*" on page 54.

During the year ended 28 February 2006, the fees paid or payable to PricewaterhouseCoopers were approximately HK\$1,160,000 and HK\$435,700 for audit services and non-audit services rendered to the Group respectively.

### **Internal Control**

The Company is committed to the identification, monitoring and management of risks associated with its business activities and has implemented control systems like clearly defined lines of responsibilities, cash management system, treasury and investment appraisal policies, budgeting and monitoring systems for performance measurement for business units, constant review of the Group's performance by the Board, etc. Financial, operational and compliance procedures are reviewed constantly to ensure effectiveness. Management meetings are held as and when required to address irregularities immediately. The Board communicates on a regular basis with the external auditors and the Audit Committee on risk exposure. During the year ended 28 February 2006, the Board has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries.

### **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 to the Listing Rules for securities transactions by the Directors. Employees who are likely to possess unpublished price-sensitive information of the Company are also subject to compliance with the same terms as the Model Code. Having made specific enquiry, all Directors have confirmed that throughout the year under review they have fully complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

### **Investor Relations**

The Company adheres to practices that promote and maintain transparency and fair disclosure. Management team communicates with research analysts and institutional investors and attends major investors' conferences and international non-deal road-shows in an on-going manner to provide comprehensive information on the Company's business strategy and developments. The Board meets research analysts and the press after results announcements to ensure ample reporting of the Company's performance. Press releases and webcasts are arranged for timely and non-selective dissemination of corporate news.

To enhance transparency and ease of retrieval of data, the Company is revamping its website to keep the shareholders and the public informed of the Company's latest announcements, publications and presentations.

### **Shareholders' Rights**

The general meetings of the Company are mediums for shareholders to have direct dialogue with the Board. The Chairman of the Board as well as Committee Chairmen and members are available to answer questions at the shareholders' meetings. External auditors also attend Annual General Meetings to address shareholders' enquiries.

Under the Company's Bye-laws, shareholders have right to demand a poll on any resolution at shareholders' meetings. The Company is committed to follow all statutory procedures as required when poll is taken.

Shareholders can send in their enquiries in writing to the Company Secretary at the Company's business address in Hong Kong. The Board seriously considers shareholders' enquiries and addresses accordingly. No shareholders' enquiry was received during the year ended 28 February 2006.