

(A) Corporate Governance Practices

During the year ended 31st March 2006, all those principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the “CG Code”) which became applicable to the company in respect of the year under review were applied by the company, and the relevant code provisions in the CG Code were met by the company, with the exception of certain deviations to be discussed below. The application of the relevant principles, and the reasons for the abovementioned deviations from the CG code provisions, are stated in the following sections.

(B) Directors’ Securities Transactions

The company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following enquiry by the company, that they have complied with the required standard set out in the Model Code throughout the year.

(C) Board of Directors

(i) Composition of the Board, number of Board meetings and Directors’ attendance

The company’s board has a balance of skills and experience and a balanced composition of executive and non-executive directors. The board comprises Mr David Pun Chan (Chairman), Mr William Wai Lim Lam and Mr Wing Sau Li as executive directors, Ms Ivy Sau Ching Chan as non-executive director and Mr Joseph Wing Siu Cheung, Mr Karl Chi Leung Kwok and Mr Benedict Cho Hung Woo as independent non-executive directors. Ms Ivy Sau Ching Chan is the sister of Mr David Pun Chan.

Four board meetings were held during the financial year ended 31st March 2006. The attendance of the directors are set out below:

Directors	Attendance at Meetings
David Pun Chan, <i>Chairman</i>	4
Ivy Sau Ching Chan	4
Joseph Wing Siu Cheung	2
Karl Chi Leung Kwok	2
William Wai Lim Lam	4
Wing Sau Li	4
Benedict Cho Hung Woo	4

Each director of the company has been appointed on the strength of his/her calibre, experience and stature, and his/her potential to contribute to the proper guidance of the group and its business. Apart from formal meetings, matters requiring board approval were arranged by means of circulation of written resolutions.

(ii) Operation of the Board

The company is headed by an effective board which takes decisions objectively in the interests of the company. The company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted an appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensive assessment of the group's performance, position and prospects. Where these changes are pertinent to the company or directors' disclosure obligations, the directors are either briefed during board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the group. Newly appointed directors receive briefings and materials on their legal and other responsibilities as a director and the role of the board. The company has also provided appropriate information in a timely manner to the directors to enable them to make an informed decision and to discharge their duties and responsibilities as directors of the company.

There is a clear division of responsibilities between the board and the management. The respective functions of the board and management of the company have been formalized and set out in writing which was approved by the board in June 2005. Decisions on important matters are specifically reserved to the board while decisions on the group's general operations are delegated to the management. Important matters include those affecting the group's strategic policies, major investment and funding decisions and major commitments relating to the group's operations.

The company has arranged appropriate insurance cover in respect of legal actions against its directors and officers. The board reviews the extent of this insurance annually.

(iii) Re-election of Directors

The board has proposed amendments to the company's Bye-law 84(2) (as stated in the Special Resolution) at the forthcoming Annual General Meeting in order to achieve compliance with code provision A.4.2, such that every director, including those appointed for a specific term (save for any chairman or managing director under the company's Private Act which was enacted in Bermuda in 1990), shall be subject to retirement by rotation at least once every three years.

Pursuant to section 4(g) of the Private Act of the company, any chairman or any managing director of the company shall not be subject to retirement by rotation under the Bye-laws. In the circumstances, any proposed amendments to the company's Bye-laws shall have to take into account the provisions set out in the Private Act, which the company is subject to.

(D) Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The company does not have a separate Chairman and Chief Executive Officer and Mr David Pun Chan currently holds both positions. The board considers that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the company's strategies to grasp business opportunities efficiently and promptly. Such arrangement, which has been adopted by many local and international corporations, enables the company to meet the rapidly changing business environment which needs quicker decision making to achieve business efficiency.

(E) Non-executive Directors

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

Non-executive directors of the company are not appointed for a specific term. However, they are subject to retirement by rotation and re-election at the annual general meeting of the company in accordance with the company's Bye-laws.

(F) Remuneration of Directors

The company has set up a Remuneration Committee consisting of a non-executive director and two other independent non-executive directors.

One Remuneration Committee meeting was held during the financial year ended 31st March 2006. Attendance of the Members is set out below:

Members	Attendance at Meeting
Karl Chi Leung Kwok, <i>Chairman of the Committee</i>	1
Ivy Sau Ching Chan	1
Benedict Cho Hung Woo	1

The terms of reference of the Remuneration Committee are aligned with the code provisions set out in the CG Code. Given below are the main duties of the Remuneration Committee:

- (a) to consider the company's policy and structure of all remuneration of directors and senior management;
- (b) to determine the specific remuneration packages of all executive directors and senior management;
- (c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
- (d) to review the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment; and
- (e) to review compensation arrangements relating to dismissal or removal of directors for misconduct.

The work performed by the Remuneration Committee for the financial year ended 31st March 2006 is summarized below:

- (a) review of the company's policy and structure for all remuneration of directors and senior management;
- (b) consideration of the emoluments for all directors and senior management; and
- (c) review of the level of fees for directors.

The basis of determining the emoluments payable to its directors and senior management by the company is by reference to individual duties and market practices. The basis of determining the directors' fees (2005: HK\$80,000 per annum for each director) is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors. The directors' fees are subject to approval from time to time by shareholders at annual general meetings of the company.

(G) Nomination of Directors

The company does not have a nomination committee as the role and function of such a committee are performed by the board.

The board is responsible for the formulation of nomination policies, making recommendations to shareholders on directors standing for re-election, providing sufficient biographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating appropriate persons to fill casual vacancies or as additions to the board. The Chairman from time to time reviews the composition of the board with particular regard to ensuring that there is an appropriate number of directors on the board independent of management. He also identifies and nominates qualified individuals for appointment as new directors of the company. New directors of the company will be appointed by the board. The board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments. Every new director is subject to retirement from the board at the annual general meeting of the company immediately following his or her appointment and may stand for re-election at the annual general meeting. During the year, no new members have been appointed to the board.

(H) Auditors' Remuneration

The fees in relation to the audit and other services provided by PricewaterhouseCoopers, the external auditors of the company, amounted to HK\$1.1 million and HK\$0.1 million respectively.

(I) Audit Committee

The company has set up an Audit Committee consisting of a non-executive director and three other independent non-executive directors.

Two Audit Committee meetings were held during the financial year ended 31st March 2006. Attendance of the Members is set out below:

Members	Attendance at Meetings
Karl Chi Leung Kwok, <i>Chairman of the Committee</i>	2
Ivy Sau Ching Chan	2
Joseph Wing Siu Cheung	2
Benedict Cho Hung Woo	2

The terms of reference of Audit Committee are aligned with the code provisions set out in the CG Code. Given below are the main duties of the Audit Committee:

- (a) to consider the appointment of the external auditors and any questions of resignation or dismissal;

- (b) to discuss with the external auditors before the audit commences, the nature and scope of the audit;
- (c) to review the half-year and annual financial statements before submission to the board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with stock exchange and legal requirements;
- (d) to discuss problems and reservations arising from the audits, and any matters the external auditors may wish to discuss; and
- (e) to review the audit program, and ensure co-ordination with external auditors, of the internal audit function.

The work performed by the Audit Committee for the financial year ended 31st March 2006 is summarized below:

- (a) review of the half-year and annual financial statements before submission to the board;
- (b) review of the internal audit findings and internal audit plan;
- (c) review of the external auditors' audit plan; and
- (d) making recommendation to the board on the re-appointment of external auditors.

(J) Directors' Responsibilities for the Financial Statements

The directors acknowledge their responsibilities for overseeing the preparation of the financial statements for each financial year which give a true and fair view of the state of affairs of the company. In preparing the financial statements for the year ended 31st March 2006, the directors have ensured the selection of suitable accounting policies and consistent application thereof; made judgments and estimates that are prudent and reasonable, stated the reasons for any significant departures from applicable accounting standards in Hong Kong and ensured the going concern basis of presentation has been applied.