

CORPORATE GOVERNANCE REPORT

The Board of the Company acknowledges the importance and benefits of good corporate governance and strives to conduct its business in accordance with the Stock Exchange's guidelines for effective corporate governance emphasizing transparency, fairness, integrity and accountability.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2006 except for Code provision A.2.1 in respect of the role separation of the chairman and the chief executive officer and Code provision A.4.1 in respect of the service term of non-executive directors. This report sets out the Company's level of compliance with the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all the directors have confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 March 2006.

BOARD OF DIRECTORS

The Board currently comprises four executive directors and three independent non-executive directors (INED):

Executive Directors

Mr. CHENG Hop Fai (*Chairman*)
Mrs. CHENG Kwok Kwan Yuk
Ms. CHENG Pak Ming, Judy
Miss CHENG Pak Man, Anita

Independent Non-Executive Directors

Ms. KAN Lai Kuen, Alice
Mr. LAW Toe Ming
Mr. MARK Yiu Tong, William

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BOARD OF DIRECTORS (continued)

There were eight Board meetings held during the year ended 31 March 2006. Individual attendance of each of the Board members is as follows:

Name of Directors	Note	Attendance
Mr. CHENG Hop Fai		7/8
Mrs. CHENG Kwok Kwan Yuk	(i)	7/8
Ms. CHENG Pak Ming, Judy	(ii)	6/8
Mr. CHAN Ming Fai	(iii)	6/8
Miss CHENG Pak Man, Anita	(ii)	6/8
Ms. KAN Lai Kuen, Alice		7/8
Mr. LAW Toe Ming		7/8
Mr. MARK Yiu Tong, William		7/8

Notes:

- (i) Spouse of Mr. Cheng Hop Fai
- (ii) Children of Mr. Cheng Hop Fai and Mrs. Cheng Kwok Kwan Yuk
- (iii) Resigned as an executive director with effect from 1 April 2006

The members of the Board are experienced individuals, having a mix of core competencies in areas such as accounting and finance, business management, industry knowledge and marketing strategies. The directors are collectively responsible for formulating and implementing the Group's strategies and policies, monitoring the performance of the Group and reviewing the corporate governance process. The mix of professional skills and experience of the INEDs is an important element in the proper functioning of the Board. Their participation in Board and committee meetings brings independent judgment and helps to ensure that adequate checks and balances are provided and that the interests of all shareholders are taken into account. Directors have full access to appropriate business documents and information about the Group on a timely basis. The Directors can also obtain independent professional advice at the Group's expense if they require it. The Board delegates the day-to-day operation and administration to the management.

The Company has complied with rules 3.10(1) and (2) of the Listing Rules in maintaining at all times sufficient number of INED on the Board including an INED with professional accounting and financial qualifications. The Company considers all of the INEDs are independent and has received from each INED an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.

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ACCOUNTABILITY AND INTERNAL CONTROL

The directors acknowledge their responsibility for the preparation of financial statements that give a true and fair view of the Group's financial position and are in accordance with applicable accounting standards and statutory rules and guidelines. The financial statements are prepared on a going concern basis.

The Board recognizes its overall responsibility for the establishment, maintenance and review of a system of internal control that provides reasonable assurance on the reliability and integrity of financial and operational information, effective and efficient operations, safeguarding of assets and compliance with laws and regulations. The system of internal control is designed to manage rather than eliminate all risks of failure while its goal is to provide reasonable, not absolute, assurance regarding the achievement of organizational objectives.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 sets out that the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Cheng Hop Fai assumes the role of both the Chairman and the Managing Director of the Company. The Board considers that such arrangement will not result in undue concentration of power and is, at this stage, conducive to the efficient formulation and implementation of the Group's strategies thus allowing the Group to develop its business more effectively.

NON-EXECUTIVE DIRECTORS

Code provision A.4.1 sets out non-executive directors should be appointed for a specific term, subject to re-election. Ms. Kan Lai Kuen, Alice, an INED, was appointed for a term of three years commencing from 30 September 2004 and will continue thereafter until terminated by notice given by either party. Mr. Law Toe Ming and Mr. Mark Yiu Tong, William, both are INEDs, are not appointed for a specific term. This constitutes a deviation from Code provision A.4.1. However, all the directors of the Company are subject to retirement by rotation and re-election at annual general meetings of the Company at least once every three years in accordance with the Company's Bye-laws. In the opinion of the Board, this meets the objective of the Code.

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REMUNERATION OF DIRECTORS

To comply with Code provision B.1.1, the Company has established a Remuneration Committee comprising the three INEDs, namely Mr. Law Toe Ming (Chairman), Ms. Kan Lai Kuen, Alice and Mr. Mark Yiu Tong, William. The terms of reference of the Remuneration Committee are consistent with the Code provisions. The principal function of the remuneration committee is to make recommendations to the Board on the Company's policy and structure for the remuneration of directors and senior management.

During the year ended 31 March 2006, all members of the Remuneration Committee met once to review and make recommendation to the Board on the remuneration of the non-executive directors.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. New directors, being individuals who are suitably qualified and expected to make a positive contribution to the performance of the Board having regard to the individuals' skills, experience, professional knowledge and time commitments as well as the balance of skills and experience appropriate to the Company's business are identified by existing directors and submitted to the Board or shareholders for approval either to fill vacancies on the Board or to appoint additional directors.

AUDITORS' REMUNERATION

The remuneration payable in respect of the financial year ended 31 March 2006 for audit and non-audit services provided to the Group by the Company's auditors, Deloitte Touche Tohmatsu, is as follows:

	Amount in HKD'000
Audit Fees	408
Non-Audit Fees (principally for accounts review and taxation services)	199
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	607
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AUDIT COMMITTEE

The Company has established an audit committee since 1999 which is composed solely of the INEDs. The primary functions of the Audit Committee include:-

- (a) To make recommendations on the appointment, reappointment and removal of external auditors and to consider the terms of such appointments.
- (b) To develop and implement policies on the engagement of external auditors for non-audit services.
- (c) To monitor the integrity of the financial statements, annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Group's financial position.
- (d) To ensure that management has fulfilled its duty to maintain an effective internal control system.
- (e) To review the external auditor's management letter and any questions raised by the auditor to management, and management's response.

The Audit Committee met twice during the year ended 31 March 2006 and has reviewed together with senior management and the external auditors their respective audit findings, the interim and annual financial statements and the accounting principles and practices adopted by the Group. The Audit Committee recommended the Board to adopt the interim and annual report for 2005/06. Individual attendance of the members of the Audit Committee at such meetings is as follows:

	Attendance
Ms. Kan Lai Kuen, Alice (<i>Chairman</i>)	2/2
Mr. Law Toe Ming	2/2
Mr. Mark Yiu Tong, William	2/2