

# Corporate Governance Report

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company is committed to maintain a high standard of corporate governance with a view to enhance the management of the Company as well as to preserve the interests of the shareholders as a whole. In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") during the financial year, except for the deviation from Code A.2.1 and Code A.4.1 of CG Code as described below in the sections of "Chairman and Chief Executive Officer" and "Appointments, Re-election and Removal of Directors".

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standard under the Model Code. Having made specific enquiry of all directors, the directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 March 2006.

## BOARD OF DIRECTORS

The Board comprises of three executive directors, namely Mr. Lum Chor Wah, Richard, Mr. Tang Hin Keung, Alfred and Mr. Pun Yuen Sang and three independent non-executive directors, namely Mr. Leung Chi Hung, Mr. Tsui Robert Che Kwong and Mr. Lam Allan Shu Cheuk. One of the independent non-executive directors possess appropriate professional accounting qualifications and financial management expertise. All of the independent non-executive directors have signed their respective confirmation letters to the Company confirming their independence as set out in rule 3.13. Biographical details of the directors are set out in the section of "Biographical Details of Directors" on pages 13 to 14. The Board possesses a balanced mix of skills and expertise which supports the continuing development of the Company.

All Directors have provided gravest concern, sufficient time and attention to all the significant issues and affairs of the Company and its subsidiaries (collectively the "Group"). Each Executive Director has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties have been carried out in an efficient and effective manner.

The Board is charged with the responsibility of setting corporate policy and overall strategy for the Group and providing effective oversight of the management of the Group's business affairs. The Board also monitors the financial performance and the internal controls of the Group's business operations. The management is responsible for the day-to-day operations of the Group. Mr. Lum Chor Wah, Richard is primarily responsible for the overall operation and management of the Group, while Mr. Pun Yuen Sang and Mr. Tang Hin Keung, Alfred are responsible for the business planning and strategic development of the Group.

# Corporate Governance Report (Continued)

## BOARD OF DIRECTORS (Continued)

### Chairman and Chief Executive Officer

Code A.2.1 of CG Code provides, inter alia, that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Company does not officially have a position of Chief Executive Officer. However, Mr. Lum Chor Wah, Richard has been assuming the roles of both the Chairman and Chief Executive Officer of the Company. In this regard, the Company has deviated from Code A.2.1 of CG Code. The Board intends to maintain this structure in the future as it believes that it would provide the Group with strong and consistent leadership and allow the Group's business operations, planning and decision making as well as execution of long-term business strategies to be carried out more effectively and efficiently. Nonetheless, the Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

## APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

In order to ensure full compliance with Code A.4.1 and A.4.2, a special resolution approving the amendments of the Bye-laws of the Company was duly passed on 24 August 2005 ("Bye-laws"). According to Bye-law 86(2) of the Bye-laws, a Director appointed by the Board to fill a casual vacancy shall hold office until the next general meeting and the Bye-law 87(1), every Directors (including the chairman and/or the managing director of the Company) shall be subject to retirement at least once every three years. Also according to Bye-law 90, a Director appointed to an office as managing Director, joint managing Director or Deputy managing Director shall also be subject to rotation, resignation and removal as the other Directors of the Company.

Three independent non-executive Directors, namely Mr. Leung Chi Hung, Mr. Tsui Robert Che Kwong and Mr. Lam Allan Shu Cheuk, as well as the executive Director Mr. Yeung Tony Ming Kwong, were re-elected as Directors of the Company at the 2005 AGM for a term of no more than three years and subject to retirement by rotation in accordance with the Bye-laws.

Mr. Lum Chor Wah, Richard and Mr. Pun Yuen Sang will retire at the forthcoming 2006 annual general meeting and will offer themselves for re-election. Their proposed term of office shall not be more than three years and is subject to retirement by rotation in accordance with the Bye-laws.

The independent non-executive Directors were not appointed for a specific term but 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.

## REMUNERATION COMMITTEE

A remuneration committee of the Company was established in 1 November 2005 and currently comprises two independent non-executive directors, Mr. Tsui Robert Che Kwong (Chairman) and Mr. Leung Chi Hung and an executive director, Mr. Pun Yuen Sang.

The Remuneration Committee is accountable to the Board and its primary role is to conduct annual review of the policy and structure for all remuneration of Directors and senior management and to make recommendations to the Board on such policy and structure and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also has the delegated responsibility to determine the remuneration packages of all executive Directors and senior management proposed by the human resources management and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee assists the Board to regularly review and formulate fair and competitive remuneration packages which attract, retain and motivate Directors and senior management of the quality required to run the Company successfully.

The Remuneration Committee meets at least once a year, with the attendance of representatives from the human resources department and the Company Secretary. The Remuneration Committee submits its written report to the Board after each Remuneration Committee Meeting, making recommendations of the Director's fee (including Audit Committee and Remuneration Committee members' fees) and other remuneration related matters.

The Directors' remuneration for the year ended 31 March 2006 is set out in note 23 to the financial statements.

The terms of reference of the Remuneration Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

## AUDIT COMMITTEE

The Audit Committee of the Company has been in place since 6 July 2002. It comprises three independent non-executive Directors, Mr. Leung Chi Hung as the Chairman and Mr. Tsui Robert Che Kwong and Mr. Lam Allan Shu Cheuk. None of the members of the Audit Committee is a member of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code.

The Audit Committee is accountable to the Board and its primary role is to assist the Board to monitor the Company's financial reporting process, to consider the nature and scope of audit reviews, to ensure the effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to and maintains an independent communication with the external Auditors and the management to ensure effective information exchange on all relevant financial accounting matters.

# Corporate Governance Report (Continued)

## AUDIT COMMITTEE (Continued)

During the financial year, the Audit Committee held two meetings, with attendance of the Financial Controller, Qualified Accountant and the Company Secretary. The Audit Committee submits its written report to the Board after each Audit Committee Meeting, drawing the Board's attention to important issues that the Board should be aware of, identifying any matters in respect of which it considers that action or improvement is needed and making appropriate recommendations.

In discharging its duties, the principal work performed by the Audit Committee during the year included the following:

- (i) Review of interim and annual financial statements of the Group, with a recommendation to the Board for approval, examination of significant matters relating to the external Auditors' interim review and annual audit, and review of the accounting policies and practices adopted by the Group;
- (ii) Review of new and/or revised accounting standards and practices applicable to the Group and their impacts to the Group;
- (iii) Review of internal control and risk management systems and assessment of their effectiveness to ensure that appropriate measures are in place to safeguard all significant assets and operations of the Group as well as to support continuous growth;
- (iv) Review of overall accounts receivables position of the Group and the effectiveness of credit control, and reinforcing education to the management and the operation units the importance of adherence to the established credit control measures;
- (v) Review of audit strategy, approach and methodologies and assessment of key audit risks with the external Auditors in the audit planning stage; and
- (vi) Report of the findings and making recommendation to the Board for improvement or implementation in respect of the above matters.

The terms of reference of the Audit Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

## Auditors' Remuneration

Fees for auditing services and non-auditing services provided by the external Auditors for the year ended 31 March 2006 are included in note 21 to the financial statements.

## NOMINATION COMMITTEE

Nomination Committee of the Company was established on 1 November 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

## NOMINATION COMMITTEE (Continued)

The members of the Nomination Committee comprised of two independent non-executive Directors and one executive Director of the Company. This Committee is chaired by Mr. Tsui Robert Che Kwong and the other members are Mr. Leung Chi Hung and Mr. Pun Yuen Sang.

The Nomination Committee is responsible for recommending to the Board all new appointments of Directors and senior executives of the Company. The Nomination Committee had considered the following proposal and made recommendation to the Board:

- Re-election of Mr. Lum Chor Wah, Richard and Mr. Pun Yuen Sang as Directors of the Company to be proposed for shareholders' approval at the 2006 Annual General Meeting.

The Nomination Committee has also assessed the independence of the Independent non-executive Directors of the Company.

The Nomination Committee is provided with sufficient resources, including the advice of professional firms, to discharge its duties, if necessary.

## BOARD AND BOARD COMMITTEE MEETINGS

The Board schedules regular Board Meetings in advance, at least four times a year at approximately quarterly intervals to give Directors the opportunity to participate actively. Directors are consulted for including matters in the agenda for regular Board Meetings. Special Board Meetings are convened as and when needed. Together with the Audit Committee and Remuneration Committee Meeting and Nomination Committee Meeting as aforesaid, it provides an effective framework for the Board and Board Committees to perform their works and discharge their duties. Minutes of Board and Board Committee Meetings are kept by the Company Secretary.

Details of individual Directors' attendance at the Board and Board Committee Meetings held in the year are set out in the following table:

Number of Meetings	Board Meetings (9)	Audit Committee Meetings (2)	Remuneration Committee Meeting (1)	Nomination Committee Meeting (1)
--------------------	--------------------	------------------------------	------------------------------------	----------------------------------

### *Executive Directors:*

Mr. Lum Chor Wah, Richard (Chairman)	9/9			
Mr. Tang Hin Keung, Alfred	6/9			
Mr. Pun Yuen Sang	9/9		1/1	1/1
Mr. Yeung Tony Ming Kwong*	3/9			

### *Independent Non-executive Directors:*

Mr. Leung Chi Hung	5/9	2/2	1/1	1/1
Mr. Tsui Robert Che Kwong	5/9	2/2	1/1	1/1
Mr. Lam Allan Shu Cheuk	4/9	2/2		

\* Mr. Yeung Tony Ming Kwong has resigned on 30 November 2005.

# Corporate Governance Report (Continued)

## FINANCIAL REPORTING

The Board is accountable to the shareholders and is committed to presenting comprehensive and timely information to the shareholders on assessment of the Company's performance, financial position and prospects.

### Directors' Responsibilities

The Directors acknowledge their responsibilities for preparing the financial statements of the Company, which give a true and fair view and comply with all applicable regulatory requirements and accounting standards. In preparing the financial statements for the year ended 31 March 2006, the Directors have selected appropriate accounting policies and applied them consistently, and made judgments and estimates that are prudent and reasonable. The Directors are not aware of any material uncertainties relating to events of conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31 March 2006. The Board has also conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries.

The Company has appointed a Qualified Accountant pursuant to Rule 3.24 of the Listing Rules with the designated responsibility to oversee the financial reporting procedures and internal controls and compliance with the requirements under the Listing Rules with regard to financial reporting and other accounting-related issues.

### Auditors' Responsibility

The external Auditors of the Company are HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants. A statement by the Auditors about their reporting responsibilities is included in the Report of the Auditors on the Company's financial statements on page 27.

## COMMUNICATIONS WITH SHAREHOLDERS

The Company recognises the importance of maintaining an on-going communication with shareholders to enable them to form their own judgment and to provide constructive feedback.

Our Directors are available at the Company's annual general meeting and extraordinary general meetings to answer questions and provide information which shareholders may enquire.

The Company has complied with the requirements of the Listing Rules and the Bye-Laws in respect of voting by poll and related matters.