



CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited, except for the following deviations:

Code Provision A.2.1

This code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Char On Man currently assumes the roles of both the Chairman and the Chief Executive Officer of the Company. The Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decision as well as execution of long term business strategies. As such, it is beneficial to the business prospects of the Company.

Code Provision A.4.1 and A.4.2

The code A.4.1 and A.4.2 provide that (a) non-executive directors should be appointed for a specific term, subject to re-election and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company’s old bye-laws before 31 August 2005, (a) at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year and (b) any directors so appointed by the Board to fill a casual vacancy or as an addition to the existing Board should hold office until the next following annual general meeting, and shall be eligible for re-election at that meeting. As there are six directors, and one-third of them shall retire subject to rotation, hence barring unforeseen resignation/retirement during a year, each director is effectively appointed under an average term of 3 years.

To ensure full compliance with the CG Code, the shareholders of the Company has approved in the 2005 annual general meeting to amend the Company’s bye-laws which (a) one-third of the directors for the time being, or, if their number is not a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation, provided that every director (including those appointed for a specific term or holding office as chairman of the Board or managing director) shall be subject to retirement by rotation at least once every three years and (b) require that any director appointed by the Board to fill a casual vacancy or as an addition to the existing Board shall hold office until the first general meeting and shall be eligible for re-election at that meeting. Other than this, the appointment of independent non-executive directors will be amended to be appointed for a specific term of no more than three years, but shall be eligible for re-appointment upon retirement, when appropriate.

Code Provision D.2

This code provision stipulates a Board Committee should be formed with specific written terms of reference which deal clearly the committee’s authority and duties. In substance, all executive directors are members of the Board Committee and are assigned with specific roles and functions. To ensure full compliance with the CG Code, a Board Committee with specific written terms of reference which deal clearly with the committee’s authority and duties will be formed when appropriate.



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CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

Before 30 November, 2005, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. On 30 November 2005 the Company has adopted a new code of conduct regarding securities transactions by officers of the Group on terms no less exacting than the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company, the directors confirmed that they have complied with the required standard as set out in the Model Code throughout the financial year ended 31 March 2006.

BOARD OF DIRECTORS

Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Company and for the exercise of independent judgement.

The Board comprises the following directors:

Executive directors:

Mr. Char On Man (*Chairman and Managing Director*)

Ms. So Choi Hing, Stella

Mr. Li Wing Tak

Independent non-executive directors:

Mr. Woo, Michael

Mr. Ho Wai Chi, Paul

Mr. Chen Yeh Ming, Steve

There are no relationships among the member of the Board.

During the year ended 31 March 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from all its independent non-executive directors of their independence pursuant to the requirements of the Listing Rules. Although two independent non-executive directors, namely Mr. Woo, Michael and Mr. Ho Wai Chi, Paul, served the Board for more than nine years, the Board considers them to be independent since they have no business relationship to the Group.

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for providing leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies, internal control and risk management systems, material transactions, financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.



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Each director is normally able to seek for independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Executive Directors. The Executive Directors has the full support of the senior management to discharge their responsibilities.

Board and Board Committee Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operational performance, and considering and approving the overall strategies and policies of the Company.

During the year under review, 4 Board meetings and 4 Audit Committee meetings were held. The individual attendance records of each director at the meetings are set out below:

Name of Directors	Attendance of Meetings	
	Board	Audit Committee
Mr. Char On Man	4	4
Ms. So Choi Hing, Stella	4	4
Mr. Li Wing Tak	4	4
Mr. Woo, Michael	4	4
Mr. Ho Wai Chi, Paul	4	4
Mr. Chen Yeh Ming, Steve	3	3

Practices and Conduct of Meetings

All meeting schedules and draft agendas of Board and Board committee meetings are normally made available to directors' in advance. The Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members in advance.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

BOARD COMMITTEES

The Board has established 3 committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of the Remuneration and Nomination Committee are independent non-executive directors. All members of the Audit Committee are independent non-executive directors. The list of the chairman and members of the Remuneration Committee, the Nomination Committee and the Audit Committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek for independent professional advice in appropriate circumstances, at the Company's expenses.



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Remuneration Committee

The principal responsibilities of the Remuneration Committee include making recommendations to the Board of directors of the Company on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the specific remuneration packages of all executive directors and senior management of the Company by reference to corporate goals and objectives resolved by the Board of directors of the Company from time to time.

The Remuneration Committee met subsequent to the year ended 31 March 2006 and reviewed/discussed and recommended the remuneration packages of the executive directors and senior management for the financial year ending 31 March 2007 for the Board's consideration. The Committee also reviewed the adequacy of non-executive Directors' remuneration. An ordinary resolution will be proposed at the 2006 Annual General Meeting for Shareholders to consider and if though fit, approve the remuneration of each of the non-executive Directors.

Nomination Committee

The principal responsibilities of the Nomination Committee include making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, and reviewing the structure, size and composition of the Board on a regular basis, and making recommendations to the Board regarding any proposed changes.

There was no director newly appointed during the year ended 31 March 2006, hence no meeting was held. Subsequent to the year ended, meeting was held to discuss/review the re-appointment of 2 retiring executive directors. The Board recommended the re-appointment of these 2 directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular to be dispatched to the shareholders of the Company contains detailed information of these 2 directors standing for re-election.

Audit Committee

None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:-

- (a) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (b) To review the financial statements and reports and consider any significant or unusual items raised by external auditors before submission to the Board.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control systems and risk management system and associated procedures.

As mentioned above, the Audit Committee held 4 meetings during the year ended 31 March 2006 to review the financial results and reports, financial reporting and procedures, report on the Company's internal control and the re-appointment of the external auditors.

The Company's interim and annual results for the year ended 31 March 2006 have been reviewed by the Audit Committee. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.



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The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 17.

The remuneration of the external auditors of the Company in respect of audit services and tax services for the year ended 31 March 2006 are HK\$650,000 and HK\$48,000 respectively.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceeding of meetings. When voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

The general meetings of the Company provide an opportunity for dialogue and interaction between the shareholders and the Board. The Chairman of the Board and chairman of the Board committees or, in their absence, another member of the relevant committee, are normally available to answer questions at the annual general meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

To promote effective communication, the Company also maintains a website at www.pekingapparel.com.hk, where information and updates on the Company's developments and operations, financial information and other information are posted.