

# CORPORATE GOVERNANCE REPORT

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## CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are increasingly important for maintaining and promoting the confidence of shareholders. The Company is committed to ensuring a high standard of corporate governance. The Board will review the corporate governance practices of the Company from time to time to ensure that they reflect the latest development and meet the expectations of the shareholders.

The Company has complied with the code provisions in the Code on Corporate Governance Practices (“the Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the year ended 31st March, 2006 except for Code provision C.2.1 on internal control (which will be implemented for accounting periods commencing on or after 1st July, 2005).

## BOARD OF DIRECTORS

The Board currently comprises four Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors. One of the Independent Non-Executive Directors has the appropriate professional accounting experience and expertise. Mrs. Cheong So Ka Wai, Patsy and Mrs. Fung So Ka Wah, Karen are the daughters and Mr. So Wah Sum, Conrad is the son of Madam So Chau Yim Ping, BBS, JP. The biographies of the directors are set out on pages 3 to 4 of the annual report.

The Board is responsible for establishing strategic direction, setting objectives and business plans and monitoring performance. The management is responsible for the day-to-day management and operation of their respective individual business units.

The Board has established a schedule of matters specifically reserved to the Board for its decisions and those reserved for the management. The Board reviews this schedule from time to time to ensure that it remains appropriate to the needs of the Company.

The chairman, Madam So Chau Yim Ping, BBS, JP, and the chief executive officer, Mr. Ho Hing Lim, Peter up to 19th May, 2006 and thereafter Mrs. Cheong So Ka Wai, Patsy as acting chief executive officer, have different roles. The chairman is responsible for the operation of the Board and the chief executive officer is responsible for managing the operations of the Group. Their functions have been clearly divided to ensure a balanced distribution of power and authority not concentrating on a single individual.

Each of the Independent Non-Executive Directors and Non-Executive Director has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a period of two years. The appointment shall terminate on the earlier of (i) the expiry date specified in the appointment letter, or (ii) the date on which the director ceases to be director for any reasons pursuant to the Bye-laws of the Company or any other applicable laws.

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The Company has received from each of the Independent Non-Executive Directors an annual confirmation in writing of his independence and is satisfied that each of them continues to be independent in accordance with the requirements of the Listing Rules.

The full Board meets no less than four times a year to review, inter alia, the financial and operation performance of the Group. Additional board meetings are held when necessary. Due notice and board papers are given to all directors prior to a meeting in accordance with the Listing Rules and the Code. The Board has established a procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expenses.

There were four regular board meetings and four additional board meetings (with the presence of Executive Directors only) held in the year ended 31st March, 2006. The attendance record of each director at the regular board meetings is shown below. All business transacted at the above meetings has been duly documented and is maintained in accordance with applicable laws and regulations.

<b>Directors</b>	<b>Attendance of regular board meetings</b>
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*Executive Directors:*

Madam So Chau Yim Ping, BBS, JP	4/4
Mrs. Cheong So Ka Wai, Patsy	4/4
Mrs. Fung So Ka Wah, Karen	4/4
Mr. So Wah Sum, Conard	3/4

*Non-Executive Director:*

Mr. Ting Woo Shou, Kenneth, SBS, JP	1/4
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*Independent Non-Executive Directors:*

Mr. Hui Yin Fat, O.B.E., JP	4/4
Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP	4/4
Mr. She Chiu Shun, Ernest	3/4

## REMUNERATION COMMITTEE

The Remuneration Committee, which is chaired by Madam So Chau Yim Ping, BBS, JP, has been established with defined terms of reference. Other members of the Remuneration Committee are Mr. Hui Yin Fat, O.B.E., JP, Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP and Mr. She Chiu Shun, Ernest.

The Company aims to design a remuneration policy that attracts and retains executives needed to run the Group successfully and to motivate executives to pursue appropriate growth strategies whilst taking into account the performance of the individuals. The remuneration should reflect, inter alia, the performance and responsibilities of the individuals; and the remuneration packages are structured to include salary, bonus and other benefits to provide incentives to directors and senior management to improve their individual performance.

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The role and function of the Remuneration Committee include the formulation and review of the recommendation to the Board on the remuneration policy as well as the determination of the specific remuneration packages of the executive directors and the senior management. No director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee met two times during the year ended 31st March, 2006 and the work carried out by the Remuneration Committee included the following:

- reviewed the remuneration policy; and
- reviewed the specific remuneration packages of the executive directors and the senior management for the year ended 31st March, 2006.

The attendance record of each member of the Remuneration Committee is shown below. All business transacted at the above meetings has been duly documented and is maintained in accordance with applicable laws and regulations.

<b>Remuneration Committee members</b>	<b>Attendance</b>
Madam So Chau Yim Ping, BBS, JP	2/2
Mr. Hui Yin Fat, O.B.E., JP	2/2
Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP	2/2
Mr. She Chiu Shun, Ernest	2/2

## **NOMINATION OF DIRECTORS**

The Board has not established a nomination committee. According to the Bye-laws of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board reviews the structure, size and composition of the Board from time to time and makes recommendations on the appointment of directors.

There was no change in directorship during the year ended 31st March, 2006 apart from the re-designation of Mrs. Cheong So Ka Wai, Pasty and Mrs. Fung So Ka Wah, Karen from Executive Directors to Non-Executive Directors on 23rd May, 2005. Subsequent to the year ended 31st March, 2006, the Board reviewed and approved the changes of directorship, namely the re-designation of Mrs. Cheong So Ka Wai, Pasty and Mrs. Fung So Ka Wah, Karen from Non-Executive Directors to Executive Directors, the resignation of Mr. Ho Hing Lim, Peter as chief executive officer and the appointment of Mrs. Cheong So Ka Wai, Patsy as acting chief executive officer on 19th May, 2006. Nomination was made by members of the Board based on the needs of the Company and the expertise and experience of the individual candidates. One board meeting was held on 19th May, 2006 to consider and approve the said changes of directorship with the presence of Madam So Chau Yim Ping, BBS, JP, Mrs. Cheong So Ka Wai, Pasty, Mrs. Fung So Ka Wah, Karen and Mr. So Wah Sum, Conrad.

## AUDIT COMMITTEE

The Audit Committee, which is chaired by Mr. She Chiu Shun, Ernest, has been established with defined terms of reference largely in alignment with the recommendations set out in “A Guide for Effective Audit Committees” issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Code. Other members of the Audit Committee are Mr. Hui Yin Fat, O.B.E. JP, Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP and Mr. Ting Woo Shou, Kenneth, SBS, JP. The Audit Committee reports directly to the Board.

The Audit Committee meets no less than twice a year with the senior management and the external auditors. The role and function of the Audit Committee include the review of the consolidated financial statements of the Company, the oversight of the financial reporting system and internal control procedures of the Group as well as the review of the Group’s relationship with the external auditors.

The Audit Committee met two times during the year ended 31st March, 2006 and the work carried out by the Audit Committee included the following:

- reviewed the consolidated financial statements of the Company for the year ended 31st March, 2005;
- reviewed the consolidated financial statements of the Company for the six months ended 30th September, 2005;
- reviewed and considered the terms of the continuing connected transactions entered into between the Group and certain companies controlled by Mr. Ting Woo Shou, Kenneth, SBS, JP or his family members. Given his conflict of interests in these transactions, Mr. Ting Woo Shou, Kenneth, SBS, JP abstained from all discussions relating to these transactions;
- discussed with the senior management and the external auditors major accounting, audit and internal control issues;
- reviewed the independence and objectivity of the external auditors;
- monitored the non-audit services undertaken by the external auditors, consisting of tax advisory and recruitment services; and
- reviewed and recommended to the Board on the re-appointment of the external auditors.

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The attendance record of each member of the Audit committee is shown below. All business transacted at the above meetings has been duly documented and is maintained in accordance with applicable laws and regulations.

<b>Audit Committee members</b>	<b>Attendance</b>
Mr. She Chiu Shun, Ernest	2/2
Mr. Hui Yin Fat, O.B.E., JP	2/2
Mr. Wong Wang Fat, Andrew, O.B.E. (Hon), JP	2/2
Mr. Ting Woo Shou, Kenneth, SBS, JP	1/2

## **AUDITORS' REMUNERATION**

During the year ended 31st March, 2006, the external auditors charged the Company HK\$1,140,000 for audit services and HK\$341,000 for non-audit services. The non-audit services undertaken by the external auditors consisted of tax advisory and recruitment services.

## **FINANCIAL REPORTING**

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Company and the Group. The consolidated financial statements of the Company have been prepared on a going concern basis notwithstanding the net current liabilities of the Group of approximately HK\$171 million at 31st March, 2006 and the breach of covenants relating to certain of the Group's banking facilities as disclosed on note 18 on pages 59 to 60 of the annual report. Subsequent to the year ended 31st March, 2006, the Group had obtained from the relevant banks waivers from complying with these covenants and the Group had also secured new additional banking facilities of HK\$66 million from three other banks. Accordingly the Board is of the opinion that, taking into account the continued support from the banks, the available banking facilities and the cash flows from the Group's operations, the Group will have sufficient resources to operate as a going concern and to meet its ongoing obligations and commitments.

The reporting responsibilities of the external auditors are set out in the auditors' report on pages 21 to 22 of the annual report.

## **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 the code of conduct of securities transactions by directors and has adopted similar guidelines on no less exacting terms than the Model Code for application to senior management and designated people who are likely to be in possession of unpublished price sensitive information of the Group. In response to specific enquiries made by the Company, all directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31st March, 2006.

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## SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide the Company's shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedure of voting by poll has been included in the circular of the Company accompanying notices convening general meetings and was read out by the chairman at the general meeting held in 2005.

At the 2005 annual general meeting, a separate resolution was also proposed by the chairman in respect of each separate issue, including the re-election of directors.

## CONCLUSION

The Board believes that the quality and standard of corporate governance reflects the quality of the management and the operations of the Group's business. Good corporate governance can safeguard the proper use of funds and effective allocation of resources as well as protecting shareholders' interests. The management wholeheartedly advocates good practice in corporate governance and will strive to maintain, strengthen and improve the standard and quality of the Company's corporate governance.