

Corporate Governance Report

Compliance of Corporate Governance Code

The Company has, throughout the year ended 31st March 2006, applied the principal and complied with the requirements of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "SEHK") save and except certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

Directors

Model Code For Securities Transactions By Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Company, having made specific enquiry with all directors, confirms that all directors have complied with the Model Code throughout the financial year ended 31st March 2006.

Directors and Directors' Independence

The Board of directors (the "Board") comprises:

Executive directors

Mr. KWOK Wing Leung, Andy	(appointed on 5th September 2005)
Mr. TSE Michael Nam	(appointed on 21st June 2006)
Mr. WANG Ling	(retired on 30th September 2005)
Mr. YEN Shiao Hua, Sheridan	(retired on 30th September 2005)

Non-executive directors

Mr. LUK Chung Po	(redesignated as non-executive director on 30th September 2005 from the post of executive director)
Mr. YEUNG Ting Lap, Derek Emory	(appointed on 30th September 2005)

Independent non-executive directors

Ms. CHIU Kam Hing, Kathy	(appointed on 21st June 2006)
Mr. HO Man Kin, Tony	(appointed on 31st March 2006)
Mr. LI Kar Fai, Peter	(appointed on 31st March 2006)
Mr. MA She Shing, Albert	(appointed on 5th September 2005)
Ms. SHUM Ching Yee, Jennifer	(appointed on 30th September 2005 & resigned on 31st March 2006)
Mr. WANG Jing Chen	(appointed on 5th September 2005 & resigned on 31st March 2006)
Mr. LI Ka Fai, David	(retired on 30th September 2005)
Mr. TANG Shun Lam	(resigned on 30th September 2005)
Mr. YUNG Ha Kuk, Victor	(retired on 30th September 2005)

The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to Rules 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent.

During the financial year ended 31st March 2006, 13 Board meetings and 1 Audit Committee meeting were held. Attendance by directors at Board meetings and Board Committee meetings is shown below:

Attendance Record for the Board and Board Committee Meetings During the Year	Board Meetings	Audit Committee Meetings
	Number of Attendance / Number of Meeting (Note)	
Executive directors		
Mr. KWOK Wing Leung, Andy	10/10	n/a
Mr. WANG Ling	0/3	n/a
Mr. YEN Shiao Hua, Sheridan	3/3	n/a
Non-executive directors		
Mr. LUK Chung Po	7/13	n/a
Mr. YEUNG Ting Lap, Derek Emory	5/10	1/1
Independent non-executive directors		
Mr. HO Man Kin, Tony	2/3	0/0
Mr. LI Kar Fai, Peter	2/3	0/0
Mr. MA She Shing, Albert	4/10	n/a
Ms. SHUM Ching Yee, Jennifer	6/8	1/1
Mr. WANG Jing Chen	0/8	0/1
Mr. LI Ka Fai, David	3/3	n/a
Mr. TANG Shun Lam	3/3	n/a
Mr. YUNG Ha Kuk, Victor	3/3	n/a

Note: The number of meetings during which each of the directors was eligible to attend is based on the date on which each of these directors was appointed by the Company.

Role and Function

While daily operation and administration are delegated to the management, the Board is responsible for the types of decision relating to the following aspects:

- Formulation of operational and strategic direction of the Group;
- Monitoring the financial performance of the Group;
- Overseeing the performance of the management;
- Ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed; and
- Setting the Company's values and standards.

The Board held meetings from time to time whenever necessary. Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting. The Board also ensures that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

The attendance record of individual Board meetings during the year is set out in the table on this page.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

The Separate Roles of Chairman and Chief Executive Officer

The Company does not have a separate chairman and chief executive officer and Mr. Kwok Wing Leung, Andy currently holds both positions. This constitutes a deviation from code provision A.2.1 of the Code. However, the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The Board also believes that the Company already has a strong corporate governance structure in place to ensure effective supervision of management. Such a structure provides many of the benefits of having a separate chairman and chief executive officer. The structure includes:

- Having the Audit Committee comprising a majority of independent non-executive directors;
- Having the Remuneration Committee comprising a majority of independent non-executive directors;
- Ensuring that independent non-executive directors have free and direct access to both Company's external auditors and independent professional advice where considered necessary.

The Board believes that these measures will ensure that our independent non-executive directors continue to effectively supervise the Group's management and to provide vigorous control of key issues relating to strategy, risk and integrity. The Board continually reviews the effectiveness of the Group's corporate governance structure to assess whether any changes, including the separation of the positions of chairman and chief executive officer, are necessary.

Appointment and Re-election of Directors

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. Some of the non-executive directors of the Company are 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 provision of the Company's Bye-laws (the "Bye-laws"). As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code. To further improve its corporate governance structure, the Company will try its best to procure any future appointment of non-executive director with a specific term and subject to retirement.

Under the Bye-laws, the chairman of the Board and the managing director are not subject to retirement by rotation. This practice deviates from the code provision A.4.2 which requires all directors appointed to fill casual vacancy be subject to re-election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the coming annual general meeting to amend the Bye-laws to comply with the said code provision.

Directors' Responsibility for Financial Statements

The directors acknowledge their responsibility in overseeing the preparation of the financial statements that give a true and fair view of the state of affairs of the Group. Having made appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future, and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements. With the assistance of the finance department, the directors ensure that the financial statements of the Group are being prepared, and published in a timely manner, in accordance with the applicable accounting standards and statutory requirements. The directors' statements of responsibility for the financial statements should be read in conjunction with – but distinguished from – the Auditors' Report on pages 31 to 32 of this Annual Report, which acknowledges the reporting responsibilities of the external auditors.

Remuneration Committee

A Remuneration Committee was established by the Company during the year under review to establish policies, review and determine the remuneration of the directors and the senior management. The Remuneration Committee comprises two independent non-executive directors namely Mr. Ho Man Kin, Tony (chairman) and Mr. Li Kar Fai, Peter, and one non-executive director namely Mr. Yeung Ting Lap, Derek Emory.

According to the terms of reference of the Remuneration Committee, its major roles and functions are as follows:

- (1) To make recommendations to the Board on the Group's policy and structure for all remuneration packages of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- (2) To have the delegated responsibility to determine the specific remuneration packages for all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remunerations.
- (3) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

- (4) To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.
- (5) To review and approve compensation arrangement relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
- (6) To ensure that no director or any of his associate is involved in deciding his own remuneration.

No Remuneration Committee meeting was held during the year. The first Remuneration Committee meeting was held in July 2006 to review and consider, amongst others, the remuneration policies of the Company and the directors' fee for the year 2006.

The remuneration policies for the Company as well as the directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

Internal Control and Risk Management

The Board is responsible for overseeing the internal control system of the Group.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfilment of the business objectives.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Board has conducted review of the effectiveness of its internal control system and is of the view that the internal control system adopted for the year ended 31st March 2006 is sound and is effective to safeguard the interests of the shareholders' investment and the Group's assets.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises two independent non-executive directors namely, Mr. Li Kar Fai, Peter (chairman) and Mr. Ho Man Kin, Tony, and one non-executive director namely Mr. Yeung Ting Lap, Derek Emory. Mr. Li Kar Fai, Peter, the chairman of the Audit Committee, has professional qualification and in-depth experience in accounting and corporate finance. No member of the Audit Committee is a member of the former or existing auditors of the Company.

According to the existing terms of reference of the Audit Committee, its major roles and functions are, amongst others, (i) to oversee the relationship with the Company's auditors; (ii) to review the interim and annual financial statements; and (iii) to review the Company's financial reporting system and internal control and risk management procedures.

The Audit Committee held one meeting during the year, which was attended by two audit committee members. The complete attendance record of individual committee members is set out in the table on page 16 of this report.

In performing its duties in accordance with its terms of reference, the Audit Committee reviewed and supervised the financial reporting process and internal control and risk management systems of the Group and reviewed the Group's financial statements for the relevant period with reference to the scope of the terms of reference. The Audit Committee also conducted discussion with external auditors on financial reporting and compliance and reported relevant matters to the Board.

Auditors

The financial reporting responsibilities of the auditors are set out on pages 31 to 32 of this annual report.

During the financial year ended 31st March 2006, the fees paid / payable to the external auditors (including Messrs. Pricewaterhouse Coopers and Deloitte Touche Tohmatsu) in respect of audit and non-audit services provided by the auditors to the Group were as follows:

Nature of services rendered	Fee paid/payable HK\$'000
Audit services	742
Non-audit services	371
	1,113

Corporate Communication / Investor Relations

The Code required the Company to have a dialogue with shareholders and the Board recognises the importance of maintaining effective communications with shareholders. Annual reports and interim reports provide shareholders with comprehensive information on the Group's operational and financial performances while general meetings offer a platform for shareholders to state and exchange views with the Board directly.

The management communicates continually with analysts and institutional investors and provides them up-to-date and comprehensive information regarding the Company's development. The Company practices timely dissemination of information including annual reports, interim reports, announcements and press releases, and is updated in a timely manner to ensure transparency.