

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors is committed to maintaining high standard of corporate governance practices and procedures in fulfilling the responsibilities to shareholders. The Company has always recognised that the importance of the shareholder's transparency and accountability. It is the belief of the board that shareholders can maximise their benefits from good corporate governance.

The Group has adopted the Code Provisions set out in the Code ("Code") of Corporate Governance Practices ("CGP") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") as its own code of corporate governance practices. The Directors consider that the Company has complied with the new Code during the financial year ended 31 March 2006 except in certain circumstances where in the opinion of the Directors are unsuitable to be adopted by the Company at present. Details of such deviation are discussed later in the following:

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company does not have any officer with the title "chief executive officer". Mr. Hui Leung Wah assumes the role of both Chairman and Managing Director of the Company and he is in charge of the overall management of the Company. The Company does not have a separate Chairman and Managing Director as Mr. Hui Leung Wah currently holds both positions. The Board believes that the combination of the roles of chairman and chief executive officer can promote the efficient formulation and implementation of the strategies of the Company which will enable the Group to grasp business opportunities efficiently and promptly. The Board also maintains that through the supervision of its Board and its Independent Non-executive Directors (the "INED"), a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Accordingly, except for above mentioned Code Provision A.2.1, the Directors consider that the Company has complied with the code provisions set out in the Code of CGP.

BOARD OF DIRECTORS

Board Composition

The Board of Directors (the "Board") comprises a total of eight Directors. Three Executive Directors are Hui Leung Wah, who is also the chairman of the Board, Leung Shu Sum and Poon Sui Hong, two Non-executive Directors are Mario Pietribiasi and Massimiliano Tabacchi and three Independent Non-executive Directors are Poon Kwok Fai, Ronald, Tam Hok Lam, Tommy and Wong Chung Mat, Ben. One of the INEDs has appropriate professional qualifications, or accounting or related financial management expertise, which is in accordance with rules 3.10(1) and (2) of the Listing Rules.

Each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board composition will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business. The Directors' biographical information is set out on pages 8 to 9 to the annual report.

BOARD OF DIRECTORS (continued)

Appointment and Re-election

To comply with the Code Provision A.4.1 of the Code, the relevant resolutions have been proposed and approved by the shareholders at the annual general meeting of the Company held on 19 August 2005. The Non-executive Directors and the INED of the Company are appointed and elected by the shareholders of the Company at the 2005 annual general meeting of the Company for the specific terms that it shall not be more than three years from 19 August 2005, the date of the last annual general meeting. All Directors are subject to retirement by rotation and re-election in accordance with the provision of the Listing Rules and the Company's Bye-laws. The Board considers that with eight Directors and one-third of them being subject to retirement at each annual general meeting, all of the Directors should be retired by rotation at least once every three years. A retiring Director is eligible for re-election.

To comply with the Code Provision A.4.2 of the Code, the relevant amendment to Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 19 August 2005 whereby 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 of the Company shall be subject to retirement by rotation at least once every three years respectively.

At the forthcoming Annual General Meeting. Mr. Hui Leung Wah, Mr. Poon Sui Hong and Mr. Poon Kwok Fai, Ronald will retire by rotation and, being eligible, will offer themselves for re-elections by shareholders.

Duties of the Board

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and ensures good corporate governance practices of the Company. The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Directors meet regularly to review the financial performance and operational performance of the Company and to discuss and formulate the development plan of the Group. Daily operations and administration are delegated to the Executive Directors and management of the Group. The members of the Board are mostly professionally qualified and widely experienced personnel who bring in valuable contribution add different professional advices and consultancy for the development of the Company. They provide strong support towards the effective discharge of the duties and responsibilities of the Board. Every Director has access to board papers and related information; and has access to the services of the Company Secretary who updates the Board on corporate governance and regulatory frameworks.

The Chairman of the Board shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed and approved by the Board before the execution. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

BOARD OF DIRECTORS (continued)

Functions of the Board

During the financial year ended 31 March 2006, four regular quarterly Board meetings were held and the attendance of each director is set out as follows:

Name of director	Attendance in 2005/2006
<i>Executive Directors</i>	
Hui Leung Wah	4/4
Poon Sui Hong	2/4
Leung Shu Sum	4/4
<i>Non-executive Directors</i>	
Mario Pietribiasi	2/4
Massimiliano Tabacchi	1/4
<i>Independent Non-executive Directors</i>	
Poon Kwok Fai, Ronald	4/4
Tam Hok Lam, Tommy	4/4
Wong Chung Mat, Ben	4/4

Four regular Board meetings of the year ended 31 March 2006 were scheduled in advance to give all Directors and opportunity to attend and these meetings at approximately quarterly intervals. One of the Board meetings had been convened by the Chairman to discuss a discloseable transaction which was constituted and required to be disclosed under the Listing Rules. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and adequate and reliable information are given to the Board in a timely manner.

The Company Secretary shall convene the Board meetings on the request of any one director of the Company and 14 days' notice of Board meetings will be given to all Directors. The Board papers are tabled not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings. Minutes of the Board are kept by the Company Secretary and are open for inspection at any reasonable time by any Director.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and prevailing accounting standards with the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company. The Directors also ensure the timely publication of the financial statements of the Group. The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 25 to the annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the code of conducts regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. The Company, having made specific enquiry, confirms that all Directors complied throughout the year with the required standard set out in the Model Code and the Company's code of conduct regarding Director's securities transactions.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

The Company established the Remuneration Committee by the Board on 29 June 2005. Prior to the establishment of the Remuneration Committee, all the remuneration matters relating to executive directors are discussed and approved by the Board. The members of the Remuneration Committee comprise Mr. Poon Kwok Fai, Ronald, Mr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben. All members are the INED of the Company and Mr. Wong is a chairman of the Remuneration Committee. During the year, the meeting of the Remuneration Committee was held on 29 March 2006.

The attendance of each member is set out as follows:

Members	Number of Attendance
Poon Kwok Fai, Ronald	1/1
Tam Hok Lam, Tommy	1/1
Wong Chung Mat, Ben	1/1

Its terms of reference are summarised as follows:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management;
2. to review and determine the remuneration packages of all executive directors; and
3. to ensure that no director of any of his associates is involved in deciding his own remuneration.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION (continued)

The Remuneration Committee has reviewed and recommended to the Board on the remuneration policy and remuneration of the executive Directors, the remuneration of the INED and senior management, retirement schemes, the existing share option policy and the rewarding scheme for executive Directors and senior management. The Board reviewed and approved the Directors' remuneration at the Board Meeting held on 14 July 2006.

Details of the emoluments of Directors are set out in note 8 to the financial statements.

The terms of reference of the Remuneration Committee have been posted on the website of the Company.

NOMINATION COMMITTEE

The Company established the Remuneration Committee by the Board on 29 June 2005. The Nomination Committee currently comprises three members including three INED. Mr. Tam Hok Lam, Tommy is the chairman of the Nomination Committee. The other members are Mr. Poon Kwok Fai, Ronald and Mr. Wong Chung Mat, Ben. The Nomination Committee assists the Board to fulfill its supervisory role over the Group in nominating new directors to the Board and assessing the performance and skills of Directors. The terms of reference of the Nomination Committee have been posted on the website of the Company. Nomination Committee does not held any meeting during the financial year ended 31 March 2006.

AUDIT COMMITTEE

The Audit Committee was established in 1999 to consider the appointment of auditors and audit fee, to discuss with the auditors the nature and scope of audit, to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. Its current members comprise Mr. Poon Kwok Fai, Ronald, Mr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben. Mr. Poon Kwok Fai, Ronald is the chairman of the Audit Committee. All members of the Audit Committee are the INED. One of the members has appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company. The main duties of the Audit Committee are as follows:

1. To consider the appointment, reappointment and removal of the external auditors, and to approve the remuneration and the terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors of the Company;
2. To assess the independence of external auditors and discuss with the external auditors the nature and scope of audit;
3. To review interim and annual financial statements before approval of the Board;
4. To review the financial control, internal control, and risk management system of the Group and make recommendations to the Board; and
5. To review the external auditor's engagement letter and material queries raised by the auditors to management in respect of accounting records, financial control, internal control and response of management.

AUDIT COMMITTEE (continued)

The Audit Committee held two meetings during the year under review and one of the meeting was attended by external auditors. Full minute of the audit committee is kept by a duly appointed secretary of the audit committee and the copies of the minutes are sent to all members of the committee. The conclusions of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of director	Attendance in 2005/2006
Poon Kwok Fai, Ronald	2/2
Tam Hok Lam, Tommy	2/2
Wong Chung Mat, Ben	2/2

During the meetings held in the year, the Audit Committee had performed the following work:

1. To review with external auditors the accounting policies and the financial reports for the year ended 31 March 2006 and for the six months ended 30 September 2005 respectively;
2. To review the accounting principles and practices adopted by the Group and ensure the Company to comply with the Listing Rules and other statutory compliance;
3. To review the effectiveness of internal control system;
4. To review the external auditor's management letter and reports issued by external auditors;
5. To review and recommend for approval by the board the audit scope for the year ended 31 March 2006 and auditors' remuneration; and
6. To review and consider the connected transactions entered into the Group during the year.

The terms of reference of the Audit Committee have been posted on the Website of the Company.

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the remuneration paid to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable HK\$'000
Audit services	1,150
Non-audit services i.e. taxation	119
Total	<u>1,269</u>

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with all shareholders. The Company establishes different communication channels with shareholders and investors: (i) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (ii) updated and key information of the Group are available on the website of the Company, and (iii) the Company's website offers communication channel between the Company and its shareholders and investors.

The annual general meeting is a channel for the Chairman of the Board and the sub-committees of the Board to address concern of shareholders. At the annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue including re-election of directors and the Chairman demanded on a poll on all resolutions. The procedures for and the rights of shareholders for demanding a poll by the shareholders were incorporated in the circular dated 28 July 2006.

The Company has established dedicated personnel for liaison with investors and shareholders by answering their enquiries.

INTERNAL CONTROL

The Board acknowledges its responsibility in maintaining effective and sound internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times.

The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. The design of system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought. No material suspected frauds and irregularities, internal control deficiencies or infringement of relevant regulations and rules have come to the attention of Board to cause the Board to believe that the system of internal control is inadequate.