



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICE

The Group is committed to ensuring high standard of corporate governance as the Directors believe it would improve effectiveness and efficiencies in the overall business performance of the Group such that the Group could become more competitive in markets and enhancing shareholders' value in consequence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure that all practices can be met with legal and statutory requirements. Throughout the year of 2005/06, the Group has complied with all applicable the Code Provisions in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"), except for the following rectified deviations:-

### Code provision

### Rectification

- |  |   |
|--|---|
| A.4.2 Every director should be subject to retirement by rotation at least once every three years.  | Relevant Bye-Laws of the Company was altered to such effect in pursuance with a special resolution passed at the annual general meeting of the Company on 22 August 2005. |
| A.5.4 The Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees, who are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities, in respect of their dealings in the securities of the Company. | Such written guidelines were established and distributed to the relevant employees in November 2005.  |



## Code provision

D.1.2 The Company should formalise the functions reserved to the Board and those delegated to management.

D.2.1 Where Board Committees are established, the Board should prescribe sufficiently clear terms of reference to enable such Committees to discharge their function properly.

## Rectification

Such functions have been formalised and set out in writing which was approved by the Board on 24 June 2005.

Remuneration Committee of the Company was established with written terms of reference approved by the Board on 24 June 2005.

Save for the above, the Company has been in compliance with the Code throughout the year.

## BOARD OF DIRECTORS

The Board currently comprises five executive and four non-executive directors whom three are independent as defined by the Stock Exchange. The biographical details are set out in the “Biographies of Directors and Senior Managements” section.

The Company has three independent non-executive Directors, representing one-third of the Board. At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All the independent non-executive Directors have signed the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules to confirm their independence.

Under the Company’s Bye-law, every director is subject to retirement by rotation at least once every three year.



## CORPORATE GOVERNANCE REPORT

The Board's primary responsibilities are to determine the overall strategies, monitor and control operating and financial performance and set appropriate policies to manage risks in pursuit of the groups' strategic objectives. Matters reserved for the Board are those affecting the Group's overall strategic policies, dividend policy, significant changes in accounting policies, material contracts and major investments. Day-to-day management of the Group's business is delegated to the executive director or officer in charge of each department. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. The Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request.

During the year 2005/06, the Group was seeking insurance cover to ensure our directors and senior management protected from any liability arising from the performance of their duties. An insurance policy on directors' and officers' liability was in force throughout the year under review.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The Group has a clear division of responsibilities for its top management and separates leadership structure where the role of Chairman, Mr. Tong Kai Lap is segregated from that of Chief Executive Officer, Mr. Ko Chi Keung. Mr. Wong Chun Keung was the Chief Executive Officer during the year of 2005/06 and Mr. Ko Chi Keung has taken up the post of Chief Executive Officer from Mr. Wong Chun Keung effective on 1 April 2006. Mr. Wong Chun Keung has been appointed as the Deputy Chairman of the Company at the same day. The Chairman is responsible for providing leadership for the Board, ensuring that good corporate governance practices and procedures are established and that the Board acts in the best interests of the Company. The Chief Executive Officer is responsible for the day-to-day business of the Group.

### **NON-EXECUTIVE DIRECTORS**

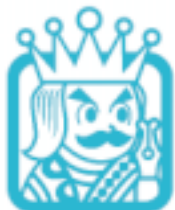
There are currently four non-executive Directors of whom three are independent. Under the Bye-law of the Company, every Director, including the non-executive and independent non-executive Directors, shall be subject to retirement by rotation at least every three years. This means that the specific term of appointment of a Director cannot exceed three years.



## MEETINGS AND ATTENDANCE

The Board meets regularly to review the financial and operating performance of the Group and approve business plan. Four Board meetings were held in 2005/06. Individual attendance of each director at the Board meetings, the Audit Committee meetings and Remuneration Committee meetings during 2005/06 is set out below:

Director	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
<i>Executive Director</i>			
Mr. Tong Kai Lap (Chairman of the Company)	4/4	N/A	1/1
Mr. Wan Siu Lun	4/4	N/A	N/A
Mr. Wong Chun Keung	4/4	N/A	N/A
Mr. Ko Chi Keung	4/4	N/A	1/1
Mr. Kwong Chi Tak	4/4	N/A	N/A
<i>Non-executive Director</i>			
Mr. Zhang Li Chen (appointed on 3 January 2006)	1/1	1/1	N/A
<i>Independent Non-executive Director</i>			
Mr. Ho Yiu Ming (Chairman of the Audit Committee)	4/4	3/3	1/1
Mr. Kwong Chi Keung (Chairman of the Remuneration Committee)	3/4	3/3	1/1
Mr. Ma Fung Kwok	4/4	2/3	0/1



## CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE

The Company established an Audit Committee in compliance with the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls and discussing with the external auditors for the nature and scope of audit. Written terms of reference of the Audit Committee were formulated and adopted in March 2005.

The Audit Committee comprises three independent non-executive Directors and one non-executive Director. The Chairman of the Audit Committee is an independent non-executive Director. Its current members include:

#### Independent non-executive Director

Mr. Ho Yiu Ming – *Chairman*

Mr. Kwong Chi Keung

Mr. Ma Fung Kwok

#### Non-executive Director

Mr. Zhang Li Chen

The Chairman of the Audit Committee, Mr. Ho Yiu Ming, has appropriate professional qualification in accounting and extensive experience in accounting and auditing matters. Senior management and auditors shall normally attend the meetings. The Audit Committee held three meetings in 2005/06 with satisfactory attendance rate for the purpose of discharging the aforesaid duties. The Group's annual report for the year ended 31 March 2006 has been reviewed by the Audit Committee.



## REMUNERATION COMMITTEE

According to the Code, the Company established the Remuneration Committee in March 2005. The principal role of the Remuneration Committee is to exercise the power of the Board to determine and review the remuneration package of individual directors and key executives, including salaries, bonuses and benefits in kind, considering factors such as time commitment and responsibilities of the Directors and key executive, employments conditions elsewhere in the Group and desirability of performance based remuneration so as to align management incentives with shareholders' interests. The Remuneration Committee is also considering all relevant remuneration data and market conditions in addition to considering the performance and responsibility of individual directors and officers by linking their compensation with performance and measure it against corporate goals.

The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about their proposals relating to remuneration of executive directors and have access to professional advice if considered necessary. After reviewing all relevant information, the Remuneration Committee made recommendations to the Board for the remuneration of the Directors and senior management.

The existing Remuneration Committee comprises three non-independent executive Directors and two executive Directors. Its current members include:

### Independent non-executive Director

Mr. Kwong Chi Keung – *Chairman*

Mr. Ho Yiu Ming

Mr. Ma Fung Kwok

### Executive Director

Mr. Tong Kai Lap

Mr. Ko Chi Keung

The Remuneration Committee met once in 2005/06 to review and approve directors' and senior managements' remuneration. The directors' fee paid to the non-executive and independent non-executive directors are subject to annual review and approval by the Remuneration Committee. The emoluments of each of the Directors of the Company for 2005/06 are set out in Note 14 to this Annual Report.



## CORPORATE GOVERNANCE REPORT

### NOMINATION OF DIRECTORS

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the needs of the business of the Company. Therefore, it has not established nomination committee for the time being. Candidates to be nominated as directors are those experienced, high calibre individuals. During the year, appointment of Mr. Zhang Li Chen as new Director is put to the full Board for approval. Thereafter, Mr. Zhang Li Chen as the new director is subject to election by shareholders at the first annual general meeting after his appointment.

All the non-executive Director and independent non-executive Directors are appointed for a specific term of two years and automatic renewed for one year and are required to retire and eligible for re-election at the annual general meeting of the Company in every three year in accordance with the Company's bye laws.

### AUDITOR'S REMUNERATION

Each year, the auditors are appointed by resolution of the Annual General Meeting and Directors are authorised to fix their remunerations for the auditing services.

The fee for audit and audit related services provided by Deloitte Touche Tohmatsu for the year ended 31 March 2006 approximately amounted to HK\$0.7 million (2005: HK\$0.8 million).

The auditors have not so far performed any significant non-auditing service. Should any non-auditing service be considered to be conducted by our auditors, the Audit committee would consider that based on the policy developed by them in this regard and would then make recommendations to the Board.

### COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that activities of the Board are efficient and effective by assisting the Chairman to prepare agenda for meeting and by preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner. With respect to the company secretarial function, the Company Secretary maintains formal minutes for Board and other meetings.



The Company Secretary is responsible for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publication and dissemination of annual reports and interim reports within the period laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notifications are made of directors' dealings in securities of the Group.

The Company Secretary also advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report of the Company.

In relation to connected transactions, advice from legal counsels is made to ensure that such transactions are handled in compliance with the Listing Rules. Detailed analysis is performed on all potential connected transactions for presentation to directors of relevant companies for their consideration in approving transactions.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the financial year.

## **INVESTOR RELATIONS AND SHAREHOLDERS RIGHTS**

To promote investor relations and communications, meetings with fund managers and potential investors are held frequently. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman and Directors are available to answer question on the Group's businesses at the meeting. Shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for considerations by shareholders. At any general meeting a resolution put to their vote of the meeting shall be decided on a show of hands unless a poll is demanded.





## CORPORATE GOVERNANCE REPORT

The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to dispatching circulars, notices, financial reports to shareholders, additional information is also available to shareholders from the Group's website.

### INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk. In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and put in place policies and procedures. The Company has not appointed an internal auditor. The internal controls are monitored and reviewed regularly by appropriate senior management so as to ensure that the categories of risks are managed effectively.

The executive management of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies. Business plans and budgets are prepared annually by the management of individual businesses and subject to review and approval by the Board. The Board is overall responsible for monitoring the operations of the business within the Group. Monitoring activities include the review and approval of business strategies, budgets, and plans, and the setting of key business performance targets. When setting budget and forecast, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

Periodical financial and operational meetings were held with the executive management review business performance against budgets and forecasts. The Board review quarterly management reports on the financial results and the key operating statistics of each business and hold quarterly meetings with executive management of business operations to review these reports. Operating expenditures are subject to overall budgetary control and are controlled within each business with approval levels for such expenditures being set by reference to each executive and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process.



The Group maintains a centralised cash management system for its subsidiary operations and the Group's finance department oversees the Group's cash position.

Reports from the external auditors on audit issues and relevant financial reporting matters, are to be presented to the Audit committee. These reports are reviewed and appropriate actions are taken.

## FINANCIAL REPORTING

The Board recognises its responsibility to prepare the Company's financial statements which give a true and fair view and are in accordance with Hong Kong Financial Reporting Standards and Accounting Standards and Interpretations (hereafter collectively referred to as "new HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are selected and applied consistently. Judgments and estimates made are prudent and reasonable. Hong Kong accounting standards have always broadly followed international accounting standards. The Group has changed some of its accounting policies following the adoption of the new and revised HKFRS which came into effect on 1 January 2005. The new and revised HKFRS have been adopted by the Group and are set out in the "Summary of Significant of Accounting Policies" of the Notes to the financial statements. The Directors use their best endeavours to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. The Directors, having made appropriate enquiries, 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.

The responsibilities of the auditors with respect to financial reporting are set out on pages 35 to 36 in the Report of the Auditors.