

CORPORATE GOVERNANCE REPORT

Peace Mark (Holdings) Limited (the “Company”) is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders’ interest in general. The Board of Directors (the “Board”) and the senior management of the Company are committed to making sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising high caliber members, Board Committees and effective internal audit and sound systems of internal controls.

Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“Corporate Governance Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code on corporate governance practices. This report describes the Company’s corporate governance practices with specific reference to the Corporate Governance Code.

The Company has complied with the code provisions of the Corporate Governance Code for the year ended 31 March 2006 except the following deviations:

Code provision A.4.2 (the last sentence)

The code provision A.4.2. of the Corporate Governance Code (the last sentence) provides that every director (including directors appointed with specific terms) should be subject to retirement by rotation at least once every three years. According to Bye-law 87(1) of the Bye-laws of the Company then in effect before 26 August 2005, however, at each annual general meeting, one-third of the directors for the time being (if the number of Directors is not a multiple of three then the number nearest to three) shall retire from office by rotation provided that notwithstanding anything therein, 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 be retired in each year.

The Bye-laws of the Company constitutes a deviation from the last sentence of the code provision A.4.2 of the Corporate Governance Code. To comply with the last sentence of the code provision A.4.2 of the Corporate Governance Code, amendment to Bye-law 87(1) of the Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 26 August 2005.

Code provision A.4.2 (first sentence)

The code provision A.4.2 of the Corporate Governance Code (the first sentence) provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Paragraph 4(2) of Appendix 3 of the Listing Rules and the existing Bye-law 86(2) of the Bye-laws of the Company, however, require any director appointed by the Board to fill a casual vacancy to hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

The Bye-laws of the Company constitutes a deviation from the first sentence of the code provision A.4.2 of the Corporate Governance Code. The Company will put

forward at its forthcoming annual general meeting to be held in 25 August 2006 a proposal to amend the Bye-law 86(2) of the Bye-laws of the Company to comply with the first sentence of the code provision A.4.2 of the Corporate Governance Code.

Directors/Senior Management's Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding director's securities transactions. Having made specific enquiry of all directors of the Company, they have confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 March 2006.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for senior management of the Company in respect of their dealings in the securities of the Company.

Board of Directors

The Board is responsible for the management of the Company. Key responsibilities include formulation of

the Group's overall strategies, the setting of management targets and supervision of management performance. Both the Board and the management have clearly defined authorities under various internal control and checks-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objective and business development plans, monitoring the performance of the senior management and assuming responsibility for corporate governance. The management, under the leadership of the CEO, is responsible for implementing these strategies and plans.

All directors have full and timely access to all relevant information, including regular reports from the Board and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

The Board currently consists of 10 members. Among them, 5 are executive directors and 5 are independent non-executive directors.

Separation of Chairman and Chief Executive Office ("CEO")

The post of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same



Sponsorship of Corporate Governance Conference

CORPORATE GOVERNANCE REPORT

individual to ensure their independence, accountability and responsibility. The Chairman, Mr. Chau Cham Wong, Patrick, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The CEO, Mr. Leung Yung, supported by other board members and the senior management, is responsible for managing the Group's responsibilities, the businesses, implementation major strategies, making day-to-day decision and coordinating overall business operations.

Independent Non-Executive Directors

The Company has five independent non-executive directors. They are highly experienced professionals and business people with a broad range of expertise and experience in areas such as accounting, finance, legal and business. They ensure that the Board maintains high standards of financial and other mandatory reporting and provides adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole. The Company has received an annual written confirmation from each independent non-executive director to confirm his independence to the Company and accordingly, the Company considers all of the independent non-executive directors to be independent.

Each of the independent 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 term of three years, subject to the rotational retirement provision of the Bye-laws of the Company. The appointment shall terminate on the earlier of either (i) the date of expiry of the 3-year period, or (ii) the date on which the director ceases to be a director for any reasons pursuant to the Bye-laws of the Company or any other applicable laws.

Board Meetings

The Board held a total of five board meetings during the year ended 31 March 2006. Of these, two meetings were held to approve the 2005 final results and 2006 interim results of the Company; the other three meetings were held to consider financial and operating performances of the Group and corporate governance issues of the Company. The Chief Financial Officer and Company Secretary also attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

The attendance of individual directors during the year ended 31 March 2006 is set out in the table below. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

DIRECTOR	NO. OF BOARD MEETINGS ATTENDED/HELD IN FY2006	ATTENDANCE RATE
Executive Directors		
Mr. Chau Cham Wong, Patrick	5/5	100%
Mr. Leung Yung	5/5	100%
Mr. Tsang Kwong Chiu, Kevin	5/5	100%
Mr. Cheng Kwan Ling	5/5	100%
Mr. Man Kwok Keung	5/5	100%
Independent Non-executive Directors		
Mr. Kwok Ping Ki, Albert	5/5	100%
Ms. Susan So	2/5	40%
Mr. Tang Yat Kan	5/5	100%
Mr. Wong Yee Sui, Andrew	4/5	80%
Mr. Mak Siu Wing, Clifford	4/5	80%

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each board meeting. At least 14 day's notice of a regular board meeting is given to all directors to give them the opportunity to attend and all directors are given an opportunity to include matters in the agenda for meeting. Board papers are dispatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present their papers and to take any questions or address queries that

the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The proceedings of the Board at its meetings are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to directors to speak, express their views and share their concerns. Minutes of the Board meetings record in sufficient detail the matters considered by the Board and the decisions reached. The draft minutes of each Board meeting are sent to all the directors for comments within a reasonable time after the date on which the board meeting is held.

Chief Financial Officer ("CFO")

The CFO is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. The CFO is accountable to the Chairman of the Audit Committee and maintain regular communications with the external auditors. The CFO

also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management.

Company Secretary

The Company Secretary is responsible directly to the Board. All directors have easy access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The Company Secretary is also responsible for providing advices to the Board on directors' obligations on disclosure of interests in securities, disclosure requirements of notifiable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's Bye-laws.

The Company Secretary, being the primary channel of communications between the Company and the Stock Exchange of Hong Kong, also assists the Board to implement and strengthen corporate governance practices with a view to enhancing long term shareholders' value. In addition, on a timely basis, the Company Secretary will provide the directors with information, update and continuing professional development on legal, regulatory and other continuing

compliance obligations for being directors of a listed company.

Board Committees

To assist the Board in execution of its duties, the Board is supported by four board committees which consists of directors and members of senior management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are of no less exacting terms than those set out in the Corporate Governance Code.

(1) Audit Committee

The Audit Committee comprises 4 members and is chaired by Mr. Wong Yee Sui, Andrew. Other members are Mr. Mak Siu Wing, Clifford, Mr. Kwok Ping Ki, Albert and Mr. Tang Yat Kan. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting, legal and finance areas. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code.

CORPORATE GOVERNANCE REPORT

The Audit Committee provides advice and recommendations to the Board and oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors. Both the CFO, Company Secretary and the internal auditor are directly accountable to the Chairman of the Audit Committee.

During the year ended 31 March 2006, the Audit Committee met three times during the year with the senior management and the internal and external auditors. The work performed by the Audit Committee during the financial year included the followings:

- reviewed the annual report and result announcement for the year ended 31 March 2006;
- reviewed the interim report and interim results announcement for the six months ended 30 September 2005;
- reviewed the accounting principles and practices adopted by the Group and other financial reporting matters;
- reviewed the results of external audit and discussion with external auditors on any significant findings and audit issues;

- reviewed the external auditors' independence and report and the re-appointment of the external auditors at the 2006 annual general meeting;
- reviewed the internal audit plan and the internal audit reports;
- discussed the effectiveness of the systems of internal controls throughout the Group, including financial, operational and compliance controls, and risk management;
- considered and approved audit and non-audit services;
- reviewed all significant business affairs managed by the executive directors in particular on connected transactions.

Attendance of individual members at Audit Committee meetings:

NAME OF MEMBERS	NO. OF MEETINGS ATTENDED /HELD IN FY2006	ATTENDANCE RATE
Mr. Wong Yee Sui, Andrew (<i>Chairman</i>)	3/3	100%
Mr. Mak Siu Wing, Clifford	2/3	67%
Mr. Kwok Ping Ki, Albert	3/3	100%
Mr. Tang Yat Kan	3/3	100%

(2) Risk Management Committee

The Risk Management Committee comprises 3 members and is chaired by Mr. Mak Siu Wing, Clifford, an independent non-executive director of the Company. It provides independent support to the Board to review financial and financial-related matters as well as issues regarding the management and operations of the Company. Such reviews include but are not limited to the following: all financing transactions of the Group, issuance of shares and share repurchase; major contracts and variations; major investments, acquisitions and disposals, etc.

Attendance of individual members at Risk Management Committee meetings:

NAME OF MEMBERS	NO. OF MEETINGS ATTENDED /HELD IN FY2006	ATTENDANCE RATE
Mr. Mak Siu Wing, Clifford (<i>Chairman</i>)	2/3	67%
Mr. Wong Yee Sui, Andrew	3/3	100%
Mr. Tsang Kwong Chiu, Kevin	3/3	100%

(3) Nomination Committee

The Nomination Committee comprises 3 members, a majority of whom are independent non-executive directors. The committee is chaired by Mr. Kwok Ping Ki, Albert, an independent non-executive director of the Company and the other members are Ms. Susan So and Mr. Chau Cham

Wong, Patrick. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

During the financial year ended 31 March 2006, the work performed by the committee includes the following:

- review of the adequacy of the size, structure and composition of the Board
- consideration of the independence of the independent non-executive directors
- recommendation to the Board on relevant matters relating to the appointment and re-appointment of directors

All newly appointment of directors and re-nomination of directors for re-election at the annual general meeting are first considered by the Nomination Committee. The recommendations of the Nomination Committee will then be put to the Board for decision. Thereafter, all the directors are subject to re-election by shareholders at the annual general meeting pursuant to the Bye-laws of the Company. In considering the new appointment or re-nomination of directors, Nomination Committee will base its decision on criteria such as integrity, independent mindedness, experience,

skills and the ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

In August 2006, the Nomination Committee nominated and the Board recommended Mr. Man Kwok Keung and Mr. Kwok Ping Ki, Albert to retire at the 2006 annual general meeting and stand for re-appointment and Mr. Chau Cham Wong, Patrick and Mr. Leung Yung also offer themselves for re-election by shareholders of the Company at the 2006 annual general meeting.

Attendance of individual members at Nomination Committee meetings:

NAME OF MEMBERS	NO. OF MEETINGS ATTENDED / HELD IN FY2006	ATTENDANCE RATE
Mr. Kwok Ping Ki, Albert (<i>Chairman</i>)	3/3	100%
Ms. Susan So	1/3	33%
Mr. Chau Cham Wong, Patrick	3/3	100%

(4) Remuneration Committee

The Remuneration Committee comprises 3 members, a majority of whom are independent non-executive directors. The chairman of the committee is Mr. Tang Yat Kan, an independent non-executive director of the Company and other members are Ms. Susan So and Mr. Chau Cham Wong, Patrick.

The Remuneration Committee reviews and determines the directors' remuneration package and makes recommendations to the Board. The committee engaged independent professional advisers to review and give recommendations on the current position titles of the all directors and benchmark the remuneration levels of all directors with those prevailing in equivalent companies. The review taken into account factors such as the remuneration package paid by the comparable companies, job responsibilities and shareholders' return.

The Remuneration Committee met three times in 2006. The following is a summary of work performed by the Remuneration Committee:

- grant of share options to directors, employees and other eligible persons
- recommendation for Independent non-executive directors' fee for FY2007 to the Board for approval
- review and approval of the remuneration packages and service contracts for executive directors
- administration of the share option scheme, share incentive scheme

CORPORATE GOVERNANCE REPORT

The remuneration policy of the Company is to ensure the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees.

The key components of the Company's remuneration package include basic salary plus other allowance, bonus, mandatory provident fund and share options. Bonus is tied to the performance of individual employee and the Company. As a long-term incentive plan and with the aim at motivating employees in the continued pursuit of the Company's goal and objectives, the Company granted share options to subscribe for the shares of the Company to the employees of the Group based on their performance and contribution to the Company under share option scheme adopted on 24 January 2002.

Attendance of individual members at Remuneration Committee meetings:

NAME OF MEMBERS	NO. OF MEETINGS ATTENDED /HELD IN FY2006	ATTENDANCE RATE
Mr. Tang Yat Kan (<i>Chairman</i>)	3/3	100%
Ms. Susan So	1/3	33%
Mr. Chau Cham Wong, Patrick	3/3	100%

Internal control and internal audit

The Board is ultimately responsible for the Group's internal control system and, through the Audit Committee, has reviewed the effectiveness of the system. The Group's internal control system is designed to allow the Board to monitor the Group's overall financial position, to protect its assets and to prevent material financial misstatement of loss.

The Group's internal control framework includes the following:

- (1) To allow delegation of authority as well as to increase accountability, a clear organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Certain specific matters are not delegated and are subject to the Board's decision. These include, among others, the approval of annual and interim results, annual budgets, distribution of dividends, Board structure, and the Board's composition and succession.
- (2) Systems and procedures are set up to identify, measure, manage and control risks including but not limited to operational risk, accounting risk, interest rate risk and environmental risk

and compliance risk that may have an impact on the business of the Group. The Risk Management Committee also evaluates whether the Group's risk management is in line with the established strategies, policies and procedures of the Company.

- (3) In day-to-day income and expenditure arrangements, the Group has clear authority limits and has a sound system to ensure that its day-to-day operations meet the relevant regulations set by the Company.
- (4) In order to establish a sound system of internal controls to safeguard shareholders' interests and the Group's assets, the Company established an Internal Audit Department. The role of the internal auditor is to assist the Audit Committee to ensure that the Company maintains a sound system of internal controls by reviewing all aspects of the Group's activities and internal controls with unrestricted right of access, conducting comprehensive audits of the practices and procedures as well as income and expenditure, internal controls of all business units of the Group on a regular basis and conducting special reviews and investigations of areas of concern identified by management.

The internal auditor has unrestricted direct

access to the Audit Committee. The head of the Internal Audit Department reports directly to the Chairman of the Audit Committee, attends all Audit Committee meetings and brings appropriate matters identified during the course of audits to the Committee's attention. This reporting structure allows the Internal Audit Department to maintain its independence.

During the year, the internal auditor adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational and compliance controls. Audits were carried out on all significant business units in the Company. All internal audit reports are submitted to the Audit Committee for review and approval. The internal auditor's summary of findings and recommendations are discussed at the Audit Committee meetings.

The internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2006 have been completed. All areas of concern reported by the Internal Audit Department have been monitored by the management until

appropriate corrective measures are implemented.

The Company's internal auditor has conducted a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management during the year. All material non-compliance of failures in internal controls and recommendations for improvements have been reported to the Audit Committee. The Audit Committee also reviewed the effectiveness of the actions taken by the Management on the recommendations made by the internal auditor in this respect.

Auditors' remuneration

For the year ended 31 March 2006, the auditor's remuneration paid or payable in respect of the audit and other non-audit service provided by the auditors to the Group were as follows:

NATURE OF SERVICE	2006 AMOUNT HK'000
Audit service	2,122
Non-audit service	232
	2,354

Investor relations

The Company continues to promote and enhance investor relations and communications with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Press and analysts conferences are held subsequent to the final result announcements at which the executive directors are available to answer questions regarding the Group's operational and financial performances. Designated executive director and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

CORPORATE GOVERNANCE REPORT

Communication with Shareholders

The Company attaches great priority to communicate with shareholders and investors. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at www.peacemark.com

The Company regards the Annual General Meeting (“AGM”) as an important event as it provides an important opportunity for direct communications between the Board and the Company’s shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholder’s queries. All shareholders will be given at least 21 days’ notice of the AGM and they are encouraged to attend the AGM and other shareholders’ meetings.

Code of Conduct

To enhance the ethical standards of employees, the Company has employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. The employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.

Conclusion

The Company believes that corporate governance principles and practices must remain relevant in a changing world, thus it continues its ongoing effort to review its corporate governance practices from time to time so as to meet the changing circumstances. It will try its best to maintain, strengthen and improve the standard and quality of the Company’s corporate governance.