

## Corporate Governance Report

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions (the "Code") as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the year ended 31 March 2006, with the exception of the deviation in respect of the appointment term of non-executive directors as mentioned below.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors for the year ended 31 March 2006.

### BOARD OF DIRECTORS

The directors acknowledge their responsibilities for the preparation of financial statements, which shall give a true and fair view of the state of affairs of the Group. Details of the basis of preparation of financial statements are set out in note 2 to the financial statements. The Board is also responsible for formulating the Group's long-term strategy, determining and approving the Group's significant transactions and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. Other decisions are to be delegated to management. As at 31 March 2006, the Board comprised seven Directors, including three executive Directors — Mr. Li Kuo Hsing (the Chairman), Mr. Tong Hing Chi (the Chief Executive Officer) and Mr. Chau Kei Leung, one non-executive Director — Mr. Chan Ngan Piu and three independent non-executive Directors — Mr. Cheung Yui Kai, Warren, Ms. Wang Huarong and Mr. Cheung Ming Man. Biographies of the Directors are set out in pages 6 to 7.

There is no non-compliance with rules 3.10(1) and (2) of the Listing Rules and there is no relationship among members of the Board and no relationship among the members of the board.

Under code provision A4.1, non-executive directors should be appointed for specific term, There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with Bye-law of the Company. Accordingly the Company considers that sufficient measures have been taken to deal with the requirement in respect of the appointment terms of non-executive directors as required under the code provision.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

## Corporate Governance Report

### **BOARD OF DIRECTORS** *(Continued)*

During the year, all of the board members attended the two board meetings to approve the interim and annual results. All of the executive directors also held and attended three other board meetings.

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

Under the code provision A.2.1, the roles of chairman and chief executive officer are separate and are not performed by the same individual. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Chief Executive Officer, supported by the senior management, is responsible for managing the Group's responsibilities, the business, implementing major strategies, making day-to-day decisions and coordinating overall business operations.

### **NOMINATION OF DIRECTORS**

No nomination committee was established by the Company.

The Board is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or any additional director is considered necessary. The Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

During the year, no new director has been appointed.

### **BOARD COMMITTEES**

To assist the Board in discharge of its duties, the Board is supported by two board committees. 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.

#### **(1) Audit Committee**

The Company has established an audit committee with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the Audit Committee are (a) to review the Group's annual reports and interim reports; (b) to discuss and review with the auditors of the Company on the scope and findings of the audit; and (c) to supervise the financial reporting process and internal control procedures of the Group. The audit committee consists of all of the Company's independent non-executive directors, namely Mr. Cheung Yui Kai, Warren, Ms Wang Huarong and Mr. Cheung Ming Man. The chairman of the committee is Mr. Cheung Yui Kai, Warren.

The audit committee held two meetings during the year under review. Both of the meetings were attended by Mr. Cheung Yui Kai, Warren and Ms Wang Huarong.

## Corporate Governance Report

### BOARD COMMITTEES *(Continued)*

#### (1) **Audit Committee** *(Continued)*

The Group's unaudited interim results and annual audited results during the year ended 31 March 2006 have been reviewed by the audit committee, which is of opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

#### (2) **Remuneration Committee**

The Company has established the Remuneration Committee according to the relevant provisions of the Listing Rules with written terms of reference. Its primary duties are (a) make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management; and (b) establish a formal and transparent procedures for developing policy on such remuneration.

The remuneration committee consists of all of the Company's independent non-executive directors, namely Mr. Cheung Yui Kai, Warren, Ms Wang Huarong and Mr. Cheung Ming Man. The chairman of the committee is Mr. Cheung Yui Kai, Warren.

In July 2006, the Committee met to discuss the remuneration related matters. Mr. Cheung Yui Kai, Warren and Ms Wang Huarong attended the meeting. During the meeting, the performance and the remuneration of the executive directors were assessed and the policy of which was discussed and approved.

### AUDITORS' REMUNERATION

The statement by the auditors of the Company about their reporting responsibilities is set out in the auditors' report on page 23. An amount of approximately HK\$820,000 was charged to the Group's income statement for the year ended 31 March 2006. There was no significant non-audit service assignment undertaken by the external auditors during the year.