

Corporate Governance Report



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Corporate Governance Report

Recognising the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Skyworth Digital Holdings Limited (the "Company") is committed to maintain a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practice on corporate governance, and to comply to the extent practicable, with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

COMPLIANCE WITH THE CODE

During the year ended 31 March 2006, the Company has complied with the code provisions in the Code, except for certain major deviations described below.

Code provision A.4.2

Under code provision A.4.2 of the Code, 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, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation and shall be eligible for re-election at each annual general meeting. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. The current bye-laws of the Company do not comply fully with the provisions of the Code.

However, the board of directors of the Company (the "Board") has resolved on 29 December 2005 to submit a proposal for amendments of the relevant bye-laws of the Company for approval by the shareholders in the forthcoming annual general meeting. The approval of the proposal will result in compliance with the Code that every director will be subject to retirement by rotation at least once every three years.

Code provision A.5.1

Under code provision A.5.1 of the Code, every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.

On 14 January 2005, the Company appointed three executive directors to the Board. These directors were senior management of the Company and its subsidiaries (the "Group") prior to their appointments as director of the Company, and accordingly, they had already possessed adequate understanding on the operations and business of the Group. The Company did not conduct a comprehensive, formal and tailored induction to these newly appointed directors on their responsibilities under applicable rules and regulatory requirements on the first occasion of their appointments and, as a result, does not fully comply with the provisions of the Code.



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Nonetheless, the Group has, on 17 January 2006, employed a reputable international legal firm to conduct a whole-day training session on directors' responsibilities and certain Listing Rules. The training was attended by the directors of the Company and the senior management of the Group, including the two additional executive directors who were subsequently appointed on 8 February 2006, for compliance with the Code.

KEY CORPORATE GOVERNANCE PRINCIPLES

Board of Directors

The Board is responsible for the leadership and control of, and promoting the success of the Group. This is achieved by the setting up of corporate and strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Group.

Board composition

As at the date of this report, the Board consists of ten members. Among them, six are executive directors, one is non-executive director and three are independent non-executive directors. Their names and their respective designation in the Board are identified below:

Executive directors:

Mr. Wang Dianfu

(Executive Chairman)

Mr. Zhang Xuebin

(Chief Executive Officer)

Ms. Ding Kai

Mr. Leung Chi Ching, Frederick

Ms. Lin Weiping

Mr. Yang Dongwen

Non-executive director:

Mr. Wong Wang Sang, Stephen

(Non-executive Chairman)

Independent non-executive directors:

Mr. So Hon Cheung, Stephen

Mr. Li Weibin

Mr. Xie Zhengcai

The biographies of the members of the Board are set out on pages 45 to 54 of this annual report. There are no relationships among the members of the Board that need to be brought to the attention of the shareholders of the Company, except that Mr. Wong Wang Sang, Stephen, the non-executive Chairman, is the spouse of Ms. Lin Weiping, the executive director.

Segregation of responsibilities of the Chairman and the Chief Executive Officer

The Board established clearly the division of responsibilities between the Chairman and the Chief Executive Officer of the Company with the purpose of ensuring a balance of power and authority within the Board. These two positions are held by different individuals.

The Executive Chairman, Mr. Wang Dianfu, is responsible for setting up the Group's objectives and strategies and ensuring that the Board is functioning properly and the Group is established with good corporate governance practices and procedures. Whereas the Chief Executive Officer, Mr. Zhang Xuebin, with the support from other members of the Board, the committees under the Board and the senior management, is responsible for managing the Group's business activities, including implementing major strategies set by the Board, making day-to-day operational decisions, and coordinating and



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monitoring overall business operations. Both the Executive Chairman and the Chief Executive Officer have extensive experience in the industry of consumer electronic products and corporate management.

Non-executive director

Mr. Wong Wang Sang, Stephen, is the only non-executive director of the Company. He is the founder of the Group and has more than 20 years experience in the industry of television products. His experience, expertise and skill in the industry facilitate the process in formulating the strategy of the Group.

Mr. Wong has entered into a service contract with the Company for a term of three years commencing from 1 April 2000. This service contract continues to be valid after the expiry of the aforesaid term unless terminated for cause by the Company or by Mr. Wong giving at least three months' prior written notice for termination. He is subject to the retirement and re-election provisions of the bye-laws of the Company under the service contract.

Independent non-executive directors

All of the three independent non-executive directors of the Company are experienced professionals with different expertise in accounting, legal and electronic technology. Their mix of skills and experience, and their independent view on matters of the Group provide constructive comments and suggestions to the Board, contributing to the proper functioning of the Board and safeguarding the interests of the shareholders in general and the Company as a whole.

The Board has received from each of the three independent non-executive directors a written

annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and is satisfied of their independence up to the date of this report and in accordance with the Listing Rules.

Each of the independent non-executive directors has acknowledged the appointment letter issued by the Company pursuant to which each of them is appointed for a service with the Company for a term of three years, subject to the retirement and re-election provisions of the bye-laws of the Company. This appointment continues to be valid within the three years period unless terminated for cause by the Company or by the independent non-executive director giving at least one month's prior written notice to terminate the service.

Appointment, re-election and removal of directors

A person may be appointed as a member of the Board at any time either by the shareholders in a general meeting or by the Board upon recommendation by the Nomination Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many directors should retire by rotation.

According to the bye-laws of the Company, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation and shall be eligible for re-election at each annual general meeting. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment.



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Board meetings

The Board had held a total of four regular board meetings during the year ended 31 March 2006, all of which were held at quarterly intervals. Of these, two meetings were held mainly for approving the 2004/05 final results and the 2005/06 interim results of the Company; the other two meetings were held to consider new investment opportunities and to review the strategic business directions, operating and financial performances, and other significant matters of the Group. The executive director, Mr. Leung Chi Ching, Frederick, also acted in the capacities as the Director of Finance and the Company Secretary, attended all of the board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial management.

Notices to board meetings are given to all directors at least 14 days prior to the meetings for the purpose of providing all directors with sufficient time to reschedule their business for the meetings, if necessary, and to propose matters to be included in the agenda for the meetings. In certain occasions when notices are not served at least 14 days before the meetings, acceptances of such short notices by all directors are obtained. An agenda and related documents are despatched to all directors at least 3 days before each of the meetings to ensure that the directors have sufficient time to review the related documents and be adequately prepared for the meeting.

Management of the Company has, from time to time, supplied to the Board relevant information, as well as reports relating to operational and financial performance of the Group, enabling the directors to make informed decisions. When directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known

to the Chairman prior to the meeting. Members of the management who are responsible for the preparation of the documents for discussion at the board meetings are usually invited to present the relevant documents and to take any questions or address queries that the directors may have on the documents. This enables the Board to perform a comprehensive and informed evaluation as part of the Board's decision making processes.

The proceedings of the Board at its meetings are conducted by the Chairman of the Company who is responsible to ensure that sufficient time is allocated for discussion and consideration of each item on the agenda and that equal opportunities are given to the directors to speak and express their views and share their concerns. At the board meetings, minutes are recorded in sufficient detail about the matters considered by the Board and the decisions reached, including any concerns raised by the directors. The minutes are made available to the directors within a reasonable time after the board meetings.

Apart from the board meetings mentioned above, the executive directors also held regular and ad hoc meetings to discuss affairs of the Group, mainly on operations and business issues, investment and performance evaluation, and management personnel appraisal, for subsequent reporting to the Board. During the year ended 31 March 2006, the executive directors held eleven meetings. These meetings were held and organised in a manner accepted by each of the executive directors.

To illustrate the attention given by the Board in overseeing the affairs of the Company, we set out below details of the directors' attendance at the regular board meetings and executive directors' meetings during the year ended 31 March 2006.



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Attendance record of individual members at board meetings and executive directors' meetings held during the year ended 31 March 2006

Name of director	Board meetings		Executive directors' meetings	
	Number of meetings attended/held	Attendance rate	Number of meetings attended/held	Attendance rate
Executive directors:				
Mr. Wang Dianfu (Executive Chairman)	4/4	100%	11/11	100%
Mr. Zhang Xuebin	4/4	100%	11/11	100%
Ms. Ding Kai	4/4	100%	10/11	91%
Mr. Leung Chi Ching, Frederick	4/4	100%	11/11	100%
Ms. Lin Weiping	N/A	N/A	2/2	100%
Mr. Yang Dongwen	N/A	N/A	2/2	100%
Non-executive director:				
Mr. Wong Wang Sang, Stephen (Non-executive Chairman)	4/4	100%	N/A	N/A
Independent non-executive directors:				
Mr. So Hon Cheung, Stephen	4/4	100%	N/A	N/A
Mr. Li Weibin	4/4	100%	N/A	N/A
Mr. Xie Zhengcai	4/4	100%	N/A	N/A

Note: Ms. Lin Weiping and Mr. Yang Dongwen were appointed as executive directors of the Company on 8 February 2006. Their attendance records for meetings shown above represented their attendance records since 8 February 2006 only.

Securities transactions of directors

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all directors of the Company, the Company received confirmation from all of the directors that they had complied with the

required standards set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 March 2006.

Board Committees

As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by four Board Committees, namely Executive Committee,



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Nomination Committee, Remuneration Committee and Audit Committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board. The terms of reference of the Nomination Committee, Remuneration Committee and Audit Committee are available on the Company's website through the link www.skyworth.com/investor. All committees are provided with sufficient resources to discharge their duties.

Executive Committee

An executive committee was established by the Board on 5 February 2005 (the "Executive Committee") with written terms of reference adopted on the same date. The Executive Committee currently comprises 15 members, including all executive directors of the Company.

The Executive Committee has been delegated with powers from the Board to deal with matters of the Group. The authority and major duties of the Executive Committee are summarised as follows:

- To establish strategic planning and financial budgets for Board approval
- To monitor daily business operations, including sales, productions, brand and product promotion and human resources capital, within the Group
- To review and approve management reports

- To evaluate investments opportunities for Board approval
- To monitor fund flows and evaluate cash management policies within the Group

The Executive Committee held monthly meetings during the year ended 31 March 2006. In these meetings, the Executive Committee reviewed and evaluated the monthly business performance of each major subsidiary within the Group, and discussed other business and operational matters. The Executive Committee also held two separate meetings during the year, in which they determined the financial budgets and business plan of the Group, evaluated potential investment opportunities, and determined human resources capital reorganisation and corporate reorganisation within the Group.

Nomination Committee

A nomination committee was set up under the auspices of the Board on 5 February 2005 (the "Nomination Committee") with written terms of reference adopted on 19 August 2005. The Nomination Committee currently comprises four members. The Chairman of the Nomination Committee is Mr. So Hon Cheung, Stephen and the other members are Mr. Li Weibin, Mr. Xie Zhengcai and Mr. Leung Chi Ching, Frederick. Except for Mr. Leung Chi Ching, Frederick is an executive director of the Company, the remaining three members are all independent non-executive directors.



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The terms of reference of the Nomination Committee are as follows:

- (1) To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes
- (2) To identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships
- (3) To assess the independence of independent non-executive directors

- (4) To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive Officer

In considering the new appointment of directors, the Nomination Committee make reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

The Nomination Committee held two meetings during the year ended 31 March 2006. The meetings were held to approve the terms of reference of the Nomination Committee, reviewed the composition of the Board and recommended the appointment of Ms. Lin Weiping and Mr. Yang Dongwen as executive directors to the Board.

Attendance record of individual members at meetings of the Nomination Committee held during the year ended 31 March 2006

Name of director	Number of meetings attended/held	Attendance rate
Independent non-executive directors:		
Mr. So Hon Cheung, Stephen (<i>Chairman</i>)	2/2	100%
Mr. Li Weibin	2/2	100%
Mr. Xie Zhengcai	2/2	100%
Executive director:		
Mr. Leung Chi Ching, Frederick	2/2	100%

Remuneration Committee

A remuneration committee was set up under the auspices of the Board on 5 February 2005 (the "Remuneration Committee") with written terms of reference adopted on 19 August 2005. The Remuneration Committee currently

comprises four members, three of whom are independent non-executive directors. The Chairman of the Nomination Committee is Mr. So Hon Cheung, Stephen and the other members are Mr. Li Weibin, Mr. Xie Zhengcai and Mr. Leung Chi Ching, Frederick.



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The terms of reference of the Remuneration Committee 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 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 of 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 remuneration 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 remuneration
- (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 arrangements 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 associates is involved in deciding his own remuneration and that, as regards the remuneration of a non-executive director who is a member of the Remuneration Committee, his remuneration should be determined by the other members of the Remuneration Committee

The Remuneration Committee held two meetings during the year ended 31 March 2006. The meetings were held to approve the terms of reference of the Remuneration Committee and to review the compensation and incentives package for certain newly appointed senior management of the Group. The Remuneration Committee had also reviewed the amount of bonus payable to executive directors of the Company for incentive payments on their performance for the year ended 31 March 2005. Up to the date of this report, the Remuneration Committee also reviewed the remuneration of the newly appointed executive directors of the Company, Ms. Lin Weiping and Mr. Yang Dongwen, and approved their remuneration.



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Attendance record of individual members at meetings of the Remuneration Committee held during the year ended 31 March 2006

Name of director	Number of meetings attended/held	Attendance rate
Independent non-executive directors:		
Mr. So Hon Cheung, Stephen (<i>Chairman</i>)	2/2	100%
Mr. Li Weibin	2/2	100%
Mr. Xie Zhengcai	2/2	100%
Executive director:		
Mr. Leung Chi Ching, Frederick	2/2	100%

Remuneration policy of the Group

The remuneration policy of the Group is designed to ensure remuneration offered to the directors or employees is appropriate for the corresponding duties performed, sufficiently compensated for the effort and time dedicated to the affairs of the Group, and competitive and effective in attracting, retaining and motivating employees. The key components of the Company's remuneration package include basic salary, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options granted under the share option schemes of the Company. Details of the share option schemes of the Company are set out in note 37 to the consolidated financial statements.

The emoluments payable to directors are determined with reference to the qualifications, experience and performance of the directors. They include incentive bonus primarily based on the results of the Group and share options granted under the share option schemes of the Company. The Remuneration Committee performs review on the emoluments of the

directors from time to time. No director, or any of his associates and executive, is involved in deciding his own emoluments.

Employees' remuneration packages are determined with reference to the qualifications and experience of individuals. The packages are reviewed annually and as required from time to time. The Group also continuously spends resources in training, retention and recruitment programs, and encouraging staff for self development and improvements. The Group uses the "key performance indicators", a methodical system, to monitor and evaluate the performance of managerial staff, aiming to achieve continuous improvements and correction of deficiencies by establishing a measurable benchmark.

The Board recognises that the future success of the Group depends on its ability to build up a team of high calibre professional managers as its human resource capital. The Group is fully committed to build up such human resource capital to enhance its assets for ensuring future growth.



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Audit Committee

The audit committee was established by the Board since the initial listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 6 April 2000 (the "Audit Committee"). The Audit Committee comprises three members, all of whom are independent non-executive directors. The Chairman of the Audit Committee is Mr. So Hon Cheung, Stephen and the other members are Mr. Li Weibin and Mr. Xie Zhengcai.

The Audit Committee has its written terms of reference adopted since its establishment and it was subsequently revised to comply with the Code. The terms of reference of the Audit Committee are available on the Company's website through the link www.skyworth.com/investor. The major duties of the Audit Committee are summarised as follows:

- To serve as a focal point for communication between directors, the external auditors and the Head of Risk Management
- To assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system
- To review the appointment of external auditors on an annual basis as well as to ensure continuing auditors' independence
- Reviewed the accounting principles and practices adopted by the Group and other financial reporting matters
- Reviewed and commented on the draft annual report and interim report of the Company
- Discussed with the external auditors on significant findings from their audit or review of the Group's financial statements and related issues
- Discussed on the Company's corporate governance practices
- Reviewed the terms of reference of the Audit Committee to conform to the Code
- Discussed the effectiveness of the systems of internal controls throughout the Group, including financial and operational controls
- Consider and approve the engagement of external auditors and the estimated audit fee for the year ended 31 March 2006
- Reviewed the working manual of the Risk Management Department and the nomination of the Head of Risk Management



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Attendance record of individual members at meetings of the Audit Committee held during the year ended 31 March 2006

Name of director	Number of meetings attended/held	Attendance rate
Independent non-executive directors:		
Mr. So Hon Cheung, Stephen (<i>Chairman</i>)	5/5	100%
Mr. Li Weibin	5/5	100%
Mr. Xie Zhengcai	4/5	80%

Independent Committee

On 8 December 2004, an independent committee ("Independent Committee") comprising Mr. Cheong Ying Chew, Henry and Mr. Ip Shing Hing was constituted, with Mr. Heng Kwoong Seng joining as an additional member on 9 December 2004, as a separate independent body from the Board of the Company. The Independent Committee is delegated with duties and power to deal with matters relating to, among others, risk management, corporate governance and safeguard and control of the assets of the Group.

The Independent Committee had held more than ten meetings with the Company and/or other professional parties since its formation to deal with matters of the Group in accordance with its terms of reference as follows:

- (1) To review and inquire into the accounts, records and affairs of the Group for the purpose of enabling the Group:
 - To manage and protect the Group against the risk and exposure of the Group
 - To monitor the continuation of normal operation of the Group

In view of or in connection with the Incident (as defined in note 43(a) to the consolidated financial statements of the Group for the year ended 31 March 2005 as set out in the Company's annual report 2005) as the Independent Committee may deem fit (the "Inquiry")

- (2) To review the corporate governance and finance control system of the Group (the "Review")
- (3) To appoint and engage a financial monitor as soon as possible to provide safeguard for and control over the assets of the Group on such terms as the Independent Committee may deem fit, until the completion of the Inquiry and the Review
- (4) To advise and make recommendation to the Group on the actions (if any) which shall be taken by the Group in accordance with the results of the Inquiry
- (5) To advise and make recommendation to the Group on the actions (if any) which shall be taken by the Group in accordance with the results of the Review



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- (6) To appoint, organise and delegate any of the power of the Independent Committee to any sub-committee of the Independent Committee, for the purpose of the Inquiry and the Review or any part thereof, including (without limitation) an independent audit committee
- (7) To appoint and engage a financial advisor to the Independent Committee and such other professionals as the Independent Committee may deem fit, to provide advice, assistance and support to the Independent Committee for and in the course of the Inquiry and the Review, on such terms as the Independent Committee may deem fit
- (8) Generally, to advise and make recommendation to the Group on any action which shall be taken by the Group to protect the interest of the Group in view of or in connection with the Incident

The Company appointed Grant Thornton ("Grant Thornton"), a firm of certified public accountants, in December 2004 as a finance monitor to provide assistance to the Independent Committee to safeguard and control the assets of the Group. Grant Thornton has been reporting, on a regular basis, their findings and recommendations on financial monitoring and internal control review to both the Company and the Independent Committee. On 24 April 2006, Grant Thornton issued the financial monitoring report (the "Financial Monitoring Report") to the Board and the Independent Committee.

Up to the date of this report, the Independent Committee reviewed the Financial Monitoring Report. Based on the findings and conclusions of the Financial Monitoring Report and other information available to the Independent Committee, the Independent Committee is in the process of finalising the conclusions of their work to the Company.

Accountability and Audit

The Board is accountable to the shareholders through proper financial reporting, regular internal control review and annual audit. These are the most efficient way in assessing the effectiveness of the Board in managing the business and affairs of the Group.

Financial reporting

The directors are responsible for overseeing the preparation of the annual financial statements which give a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the financial statements for the year ended 31 March 2006, the directors have:

- Approved the adoption of the applicable Hong Kong Financial Reporting Standards
- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that are prudent and reasonable, and ensure the financial statements are prepared on a going concern basis



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- Ensured the financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards

The Board recognises that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensible vision of the performance, position and prospects of the Group in all corporate communications.

Internal controls

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The system includes a defined management structure with specified limits of authority, to:

- Achieve business objectives and safeguard assets against unauthorised use or disposition
- Ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication
- Ensure compliance with the relevant legislation and regulations

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems,

and to ensure achievement of the Group's objectives.

Internal control framework

The internal control framework that the Board established in maintaining effective internal controls within the Group is as follows:

(1) Distinct organisational structure

To allow delegation of authority as well as to enhance accountability, a distinct organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Division/ Department heads are involved in preparing the strategic plan and the operation plan based on the corporate strategies and annual operational and financial targets determined by the Board. Both the strategic plan and the annual operating plan laid down the foundation for the preparation of the annual budgets, which identify and prioritize business opportunities with reference to the resources allocation.

During the year ended 31 March 2006, the Group has implemented a series of corporate reorganisation programmes in order to achieve a unit chain of command and improve the operation flow. With the continuous focus on the unit chain of command, the Group anticipates to attain better controls and effectively monitor the management, operational and financial processes.



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(2) Comprehensive management reporting

A comprehensive management reporting system is in place providing financial and operational performance measurement indicators to the management and relevant financial information for reporting and disclosure purposes. Variances between actual performances and targets are prepared, analysed and explained, and appropriate actions are taken, if necessary, to rectify the deficiencies noted. This helps the management of the Company to monitor the business operations and enables the Board to formulate a strategic plan in a timely and prudent manner.

(3) Regular risk assessment

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

(4) Regulated cash/treasury management

The Group maintains a sound system and a clear authority limits to ensure daily cash/

treasury operations meet the relevant rules and regulations established by the Group.

(5) Regular reviews by Risk Management Department and Internal Audit Department

On 29 December 2005, the Board resolved to appoint the Head of Risk Management of the Company with his major duty in overseeing the Risk Management Department established during the year.

The key function of the Risk Management Department is to provide an independent appraisal function to examine and evaluate operations, the system of internal control and risk management as a service to the Company and its subsidiaries. The Risk Management Department assists all levels of administrations in the achievement of the organisational goals and objectives by striving to provide a positive impact on:

- Efficiency and effectiveness of operating functions
- Reliability of financial reporting
- Status of implementation and effectiveness of the internal control policies and procedures
- Compliance with applicable laws and regulations



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The Risk Management Department also has a role to assist the Board and 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 of the Group
- Conducting comprehensive audits of income and expenditure, internal controls of all business units of the Group on a regular basis
- Conducting comprehensive audits of cash and operational management for various sales offices on a rotation basis with the support by the Internal Audit Department
- Conducting special reviews and investigations of areas of concern identified by the Board or the management

The Head of Risk Management has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. The Head of Risk Management is invited to attend the Audit Committee meetings and has the right to bring appropriate matters identified during the course of the risk assessment and the internal audits to the attention of the Audit Committee. This reporting structure allows the Risk Management Department to maintain its independence.

During the year and up to the date of this report, the work performed by the Risk Management Department includes:

- Reviewed the Code of Conduct of the Group for the purpose of unifying the ethical standards within the Group
- Reviewed and evaluated the operational flow, in particular on the efficiency of supply chain management and production planning, of the TV business unit for China market, the largest revenue contributor of the Group
- Partnered with Grant Thornton to perform an assessment on the corporate governance processes and internal controls of the Group
- Reported to the Audit Committee and the Board of the findings on the work performed

Internal control review by Grant Thornton

As mentioned earlier in the section above, the Company has, in December 2004, appointed Grant Thornton as a finance monitor to provide assistance to the Independent Committee to safeguard and control the assets of the Group. The scope of work of Grant Thornton includes, among others, reviewing the current internal control procedures of the Group by way of walk-through test and the additional internal control procedures in monitoring daily cash disbursements, inventory movements, extraordinary movements of funds and other major cash and/or assets transfer arrangements.



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Grant Thornton completed their field work on the review of the system of internal controls of the Company and its major subsidiaries for the period from 1 December 2004 to 31 December 2005. The Board has reviewed the Financial Monitoring Report issued by Grant Thornton. Based on the findings and recommendations on the internal control review performed and the rectification steps taken by the management on the internal control weaknesses identified, the Board carried out an assessment on the effectiveness of the material internal controls of the Group, including financial, operational and compliance controls and risk management, during the year. These internal control weaknesses, together with the recommendations provided by Grant Thornton and the rectifications carried out by the management, have been reported to the Audit Committee.

Internal audit plan

In March 2006, the Company, with the agreement of the Audit Committee, engaged Grant Thornton to perform an assessment of the governance processes of the Company and to perform an internal control review to identify and assess the critical risks that are reportable to the Company, and develop a three-year internal audit plan for separate evaluation on the mechanism of managing the risks identified.

The work performed by Grant Thornton was substantially completed at the end of June 2006 and the draft governance and risk assessment report and the draft three-year internal audit plan prepared by Grant Thornton were submitted for discussion to the Head of Risk Management and the Audit Committee.

The draft three-year internal audit plan was developed with reference to the significance and the likelihood of the risk identified. The Risk Management Department is committed to carry out internal audits in accordance with the final three-year internal audit plan, with alternation to the plan as and when appropriate and agreeable by the Audit Committee, and to report the progress and findings to the Audit Committee on a regular basis.

External auditors

The Group's external auditors are Deloitte Touche Tohmatsu. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. During the year ended 31 March 2006, the Audit Committee has considered and approved the engagement of Deloitte Touche Tohmatsu as auditors of the Group for the year ended 31 March 2006 and the corresponding audit fees estimation.



Corporate Governance Report

The auditors' remuneration paid or payable in respect of the audit and other non-audit services provided by the external auditors to the Group were as follows:

Nature of services	For the year ended 31 March,	
	2006	2005
	Amounts HK\$'000	Amounts HK\$'000
Audit service (including review of financial statements)	8,787	8,230
Tax related service	195	58
Total	8,982	8,288

Corporate Communication with Stakeholders

The Company has in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its stakeholders, including, inter alia, the general public, analysts, and the institutional and individual shareholders.

- The Company maintains a website on which comprehensive information about the Company and the Group, including the company structure, the management, the products and services provided and the news of the Group, were disclosed
- The Company establishes and maintains different communication channels with its stakeholders through the publication of annual and interim reports and press releases. To promote effective communication, the shareholders can receive corporate communication electronically via the Company's corporate website
- The annual general meeting provides a useful forum for the shareholders to exchange views with the Board. The Chairman as well as chairmen of the Audit, Nomination, and Remuneration Committees, or in their absence, members of the committees will be available to answer the questions raised by the shareholders
- Separate resolutions are proposed at general meetings for each substantial issue, including the election of individual director
- Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to the shareholders despatched 21 days prior to the date of the general meeting. The circular also includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election, and whether such candidates are considered to be independent
- The poll results are published in newspapers and on the Company's corporate website
- An analysis of substantial shareholders of the Company are set out on page 69 of this annual report
- Stakeholders may refer to the Corporate Information for important information on pages 167 and 168 of this annual report
- The Company publishes its own newspaper and magazine, which report up-to-date corporate strategy and business development of the Group, on a regular basis for internal circulation