

Corporate Governance Report

Corporate Governance Practices

The Company is committed to maintaining and achieving the highest standards of corporate governance practices with an emphasis on a quality board, better transparency and effective accountability system in order to safeguard the interests of the shareholders and enhance the performance of the Group.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code and has complied with the Code throughout the year ended 31st March, 2006, with deviations from Code Provision A.4.1. as mentioned under “Non-executive Directors’ Term of Office” below.

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules as its own code. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standards as set out in the Model Code throughout the year ended 31st March, 2006.

Board of Directors

The board of directors (the “Board”) currently comprises seven directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The Company has three independent non-executive Directors representing more than 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. Biographical details of the Directors are set out on pages 16 to 17 of this annual report.

The principal duty of the Board is to ensure that the Company is properly managed in the interest of shareholders. The Board, led by the Chairman, is responsible for the formulation of strategies and policies, including an oversight of the management. Management is responsible for the day-to-day operations of the Group under the leadership of the executive Directors.

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The Board held 19 meetings during the year. The record of attendance of each Director is as follows:

Name of Director	Regular Board Meeting ⁽¹⁰⁾ Attended/Eligible to Attend	Special Board Meeting ⁽¹¹⁾ Attended/Eligible to Attend
Executive Directors		
Mr. Ng Chun For, Henry (<i>Chairman</i>) ⁽¹⁾	3/3	8/13
Mr. Ng Ian (<i>Chief Executive Officer</i>) ⁽²⁾⁽³⁾	3/3	12/13
Mr. Chan Kwai Ping, Albert ⁽⁴⁾	3/3	12/13
Mr. Chang Chung Wa, Eddie ⁽⁵⁾	1/1	2/2
Ms. Tang Kit Ching, Venus ⁽⁶⁾	1/1	1/2
Non-executive Director		
Mr. Mak Wah Chi ⁽⁷⁾	3/3	6/12
Independent non-executive Directors		
Mr. Cheng Yuk Wo ⁽⁸⁾	3/3	5/12
Mr. Ng Hoi Yue ⁽⁸⁾	3/3	6/12
Mr. Tsang Kwok Ming, Rock ⁽⁸⁾	3/3	6/12
Dr. Li Chi Kwong ⁽⁹⁾	1/1	1/2
Mr. Henry Fung ⁽⁹⁾	1/1	1/2
Prof. Pan Xiao Mei ⁽⁹⁾	1/1	1/2

Note:

⁽¹⁾ Appointed as an executive Director on 30th April, 2005 and Chairman on 21st May, 2005.

⁽²⁾ Appointed as an executive Director on 30th April, 2005 and Chief Executive Officer on 21st May, 2005.

⁽³⁾ Save as Mr. Ng Ian being son of Mr. Ng Chun For, Henry, there is no relationship, including financial, business, family or other material relevant relationship, among the members of the Board.

⁽⁴⁾ Appointed as an executive Director on 30th April, 2005.

⁽⁵⁾ Resigned as an executive Director and Chairman on 20th May, 2005.

⁽⁶⁾ Resigned as an executive Director on 20th May, 2005.

⁽⁷⁾ Appointed as a non-executive Director on 1st May, 2005.

⁽⁸⁾ Appointed as an independent non-executive Director on 1st May, 2005.

⁽⁹⁾ Resigned as an independent non-executive Director on 20th May, 2005.

⁽¹⁰⁾ Regular Board Meetings are attended to be a majority of the Directors in person.

⁽¹¹⁾ Special Board Meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention. Since the Special Board Meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive Directors attend.

Chairman and Chief Executive Officer

The positions of the Chairman (held by Mr. Ng Chun For, Henry) and the Chief Executive Officer (held by Mr. Ng Ian) are held by separate individuals with a view to maintaining an effective segregation of duties in respect of the management of the Board and the day-to-day management of the Group's business.

Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Non-executive Directors' Term of Office

Code provision A.4.1 of the Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. None of the existing non-executive Director and independent non-executive Directors of the Company are appointed for a specific term. However, in accordance with the Company's Bye-Laws, at each annual general meeting, one-third of the Directors shall retire from office by rotation and become eligible for re-election. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Remuneration Committee

The Remuneration Committee was established on 20th May, 2005 with written terms of reference. The Remuneration Committee currently comprises three members. It is chaired by Mr. Cheng Yuk Wo and other members of the Committee are Mr. Mak Wah Chi and Mr. Tsang Kwok Ming, Rock.

The Remuneration Committee will assist the Board to develop and administer a fair and transparent procedure for setting policy on the remuneration of Directors and senior management of the Company and for determining their remuneration packages and also responsible for the administration of the share option schemes adopted by the Company. Terms of reference of the Remuneration Committee are disclosed on the website of the Company.

Details of Director's emoluments on named basis for the year ended 31st March, 2006 are set out in note 9 to the consolidated financial statements.

The Remuneration Committee held two meetings during the year and the record of attendance of its members is as follows:

Name of member	Attended/ Eligible to Attend
Mr. Cheng Yuk Wo (<i>Independent Non-executive Director</i>) (<i>Chairman of Remuneration Committee</i>)	2/2
Mr. Mak Wah Chi (<i>Non-executive Director</i>)	2/2
Mr. Tsang Kwok Ming, Rock (<i>Independent Non-executive Director</i>)	2/2

During the year, the Remuneration Committee reviewed and made recommendation to the Board on the remuneration policies of the Group, grant of share options to executive Directors and the remuneration package of the Chief Executive Officer.

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Nomination of Directors

The Board has not established a nomination committee. According to the Bye-Laws of the Company, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Board reviews the structure, size and composition of the Board from time to time and makes recommendation on the appointment of Directors based on the background, experience and other business interests or character of the candidate. During the year, the Board held 2 meetings which dealt with matters regarding the nomination of Directors. The record of attendance of each Director at these 2 meetings is as follows:

Name of Director	Notes	Attended/ Eligible to Attend
Executive Directors		
Mr. Ng Chun For, Henry (<i>Chairman</i>)	(2)	1/1
Mr. Ng Ian (<i>Chief Executive Officer</i>)	(2)	1/1
Mr. Chan Kwai Ping, Albert	(2)	1/1
Mr. Chang Chung Wa, Eddie	(1)	1/1
Ms. Tang Kit Ching, Venus	(1)	1/1
Independent non-executive Directors		
Dr. Li Chi Kwong	(1)	1/1
Mr. Henry Fung	(1)	1/1
Prof. Pan Xiao Mei	(1)	1/1

Notes:

- (1) During the Board meeting held on 30th April, 2005, Mr. Chang Chung Wa, Eddie, Ms. Tang Kit Ching, Venus, Dr. Li Chi Kwong, Mr. Henry Fung and Professor Pan Xiao Mei considered the nomination of and resolved to appoint Mr. Ng Chun For, Henry, Mr. Ng Ian and Mr. Chan Kwai Ping, Albert as executive Directors of the Company.
- (2) During the Board meeting held on 1st May, 2005, Mr. Ng Chun For, Henry, Mr. Ng Ian and Mr. Chan Kwai Ping, Albert considered the nomination of and resolved to appoint Mr. Mak Wah Chi, Mr. Cheng Yuk Wo, Mr. Ng Hoi Yue and Mr. Tsang Kwok Ming, Rock as non-executive Directors of the Company. Details of their qualification and experience had been submitted to the Directors for consideration.

Auditors' Remuneration

The amount of fees charged by the external auditors generally depends on the scope and volume of the auditors' work. For the year ended 31st March, 2006, the external auditors' remuneration for audit service amounted to approximately HK\$300,000.

Audit Committee

The Company has established the Audit Committee on 23rd May, 2000. The Audit Committee currently comprises three members. It is chaired by Mr. Cheng Yuk Wo and the other members of the Committee are Mr. Mak Wah Chi and Mr. Ng Hoi Yue.

During the year, the terms of reference of the Audit Committee have been revised to include the duties specified in the Code. The revised terms of reference of the Audit Committee is disclosed on the Company's website. The principal duties of the Audit Committee include, among other things, oversight of the relationship with external auditors, review of the Group financial information and oversight of the Group's financial reporting system and internal control system.

During the year, the Audit Committee reviewed the annual report for the year ended 31st March, 2005 and the interim report for the six months ended 30th September, 2005, and reviewed the effectiveness of internal control of the Group. In addition, the Audit Committee considered and reviewed the annual report for the year ended 31st March, 2006 on 21st July, 2006, and proposed to the Board for their approval.

The Audit Committee held two committee meetings during the year and the record of attendance of its members is as follows:

Name of member	Attendance/ Number of meetings
Mr. Cheng Yuk Wo (<i>Independent Non-executive Director</i>) (<i>Chairman of Audit Committee</i>)	2/2
Mr. Mak Wah Chi (<i>Non-executive Director</i>)	2/2
Mr. Ng Hoi Yue (<i>Independent Non-executive Director</i>)	2/2

Internal Control

Internal control system, being an integral part of the Group's operations, is a process effected by the Board and management team to provide reasonable assurance on the effectiveness and efficiency of operations in achieving the established corporate objectives, safeguarding assets of the Group, providing reliable financial reporting, and complying with applicable laws and regulations.

The Board is responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the Audit Committee, it regularly reviews the effectiveness of the system.

Directors' Responsibility for Preparing Financial Statements

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

Auditors' Reporting Responsibilities

The reporting responsibilities of Horwath Hong Kong CPA Limited, the Auditors, are stated in the Auditors' Report on page 24 of the annual report.

Investor Relations and Communication with Shareholders

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars, the Company's website at www.henrygroup.hk and meetings with investors and analysts.