

Corporate Governance Report

The board of directors (the "Board") is committed to maintaining a good corporate governance. In light of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1 January 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report.

STATEMENT OF COMPLIANCE

Throughout the year ended 31 March 2006, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 of the Listing Rules except for the following deviations:

(a) Code provision A.4.2

The second part of this code provision stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the provisions of the Company's Bye-laws, at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third or such other manner or rotation as may be required by the Listing Rules (as modified from time to time) or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time) shall retire from office by rotation provided that notwithstanding anything herein, the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation in each year. To comply with this code provision, the Board proposed to amend the relevant provisions in the Bye-laws of the Company at the forthcoming annual general meeting of the Company, so that every director (whether appointed for specific terms or not) shall be subject to retirement by rotation at least once every three years.

(b) Code provisions B.1.4 and C.3.4

These code provisions stipulate that the remuneration committee and audit committee should make available their respective terms of reference, explaining their roles and the authority delegation to them by the Board. The terms of reference of the committees have been placed on the website of the Company.

(c) Code provision D.1.2

This code provision stipulates that an issuer should formalise the functions reserved to the Board and those delegated to management. This code provision has been complied in July 2006.

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DIRECTORS' SECURITIES TRANSACTIONS

On 20 July 2005, the Company has adopted its own Code for Securities Transactions by Directors (the "Code") on terms no less exacting the required standard set out in the Model Code for Securities by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules. All directors of the Company (the "Directors") have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard as set out in the Code and the Model Code during the year. No incident of non-compliance was noted by the Company to date for the year.

THE BOARD

During the year and up to the date of this report, the Board comprised the following Directors:

<i>Executive Directors:</i>	Mr. WU Chi Chiu (<i>Deputy Chairman and Chief Executive Officer</i>)	(appointed on 9 February 2006)
	Ms. FAN Wei	(appointed on 9 February 2006)
	Mr. Jeffrey WANG	(appointed on 9 February 2006)
	Mr. HAU Tung Ying (<i>Chairman</i>)	(re-designated as Non-executive Director on 6 March 2006)
	Mr. SHUI Ming Hua	(resigned on 6 March 2006)
	Dr. LI Bin	(resigned on 31 December 2005)
<i>Non-executive Directors:</i>	Mr. HAU Tung Ying (<i>Chairman</i>)	(re-designated from Executive Director on 6 March 2006 and resigned on 10 April 2006)
	Mr. LI Yi Sheng (<i>Deputy Chairman</i>)	(resigned on 6 March 2006)
<i>Independent Non-executive Directors:</i>	Mr. HUANG An Guo (<i>Chairman</i>)	(appointed as director on 9 February 2006 and as Chairman on 10 April 2006)
	Mr. LO Chi Ho, William	(appointed on 9 February 2006)
	Ms. WONG Fei Tat	(appointed on 9 February 2006)
	Mr. YIP Sam Lo	(resigned on 6 March 2006)
	Dr. HO Chung Tai, Raymond	(resigned on 6 March 2006)
	Mr. PANG Tsun Loy, Michael	(resigned on 6 March 2006)

During the year, the Board at all times complied with the requirements of Rules 3.10(1) and (2) of the Listing Rules for sufficient number and appropriate professional qualifications of Independent Non-executive Directors. As at the date of this report, the Board comprised six Directors, three of whom are Independent Non-executive Directors, representing half of the Board. Two of the Independent Non-executive Directors possess appropriate professional accounting qualifications and expertise. The brief biographical details of the Directors are set out on page 9.

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THE BOARD (continued)

The Company has received from each of the Independent Non-executive Directors an annual confirmation as regards their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

There is no relationship (including financial, business, family or other material relationship) among members of the Board and in particular, between the Chairman and the Chief Executive Officer.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors.

The Board is responsible for setting the strategic goals of the Company, providing high-level guidance and overseeing the management of the Company and directing its business strategy, with the ultimate aim to maximise the shareholder value and long-term success of the Company while the management is responsible for management and administrative functions on running day-to-day operations of the Company within the authority delegated by the Board. In addition, the Board has also established Board Committees and has delegated to these committees various responsibilities set out in their terms of reference respectively.

The Board held a total of six full Board meetings for the year ended 31 March 2006. The attendance of each Director is set out as follows:–

	Number of meetings attended/ Eligible to attend
Mr. HAU Tung Ying	6/6
Mr. SHUI Ming Hua	5/6
Dr. LI Bin	3/6
Mr. LI Yi Sheng	1/6
Mr. YIP Sam Lo	6/6
Dr. HO Chung Tai, Raymond	4/6
Mr. PANG Tsun Loy, Michael	6/6

During the year, Mr. Wu Chi Chiu, Ms. Fan Wei, Mr. Jeffrey Wang, Mr. Huang An Guo, Mr. Lo Chi Ho, William and Ms. Wong Fei Tat were appointed on 6 March 2006, and all such newly appointed Directors were not eligible to attend any of the said six full Board meetings.

There were ten additional Board meetings held and attended by certain Executive Directors during the year.

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THE BOARD (continued)

All businesses transacted at the Board meetings were well-documented. Minutes of the Board meetings are taken by the Company Secretary and are available to all Directors.

Apart from the said meetings, matters requiring Board approval were arranged by means of circulation of written resolutions of all Board members.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separated and performed by Mr. Huang An Guo and Mr. Wu Chi Chiu respectively.

The Chairman is responsible for the leadership of the Board to ensure effective implementation of various aspects of the Board's work for the Board to successfully discharge its overall responsibilities for the activities of the Company while the Chief Executive Officer is responsible for running the business of the Group and implementation of the strategies of the Group in achieving the overall objectives within the authority delegated by the Board. The responsibilities for each of the Chairman and the Chief Executive Officer which have been clearly defined and set out in writing were adopted on 20 July 2005 and reviewed on 12 July 2006 by the Board.

NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors were appointed for a fixed term of one year commencing from 9 February 2006 and they are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Bye-laws of the Company.

BOARD COMMITTEES

The Board has established three Board committees, including Remuneration Committee, Nomination Committee and Audit Committee to help with the discharge of its responsibilities.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee since June 2000 with specific written terms of reference as adopted on 20 July 2005 and reviewed on 12 July 2006 by the Board setting out its role and responsibilities.

The terms of reference of the Remuneration Committee have included the specific duties as set out in provision B.1.3 of the CG Code. The main duties are to review and endorse the Group's overall remuneration policy and structure for the remuneration of the Directors and senior management and to administer and oversee share options scheme of the Group. The Remuneration Committee ensures that no Directors are involved in deciding his/her own remuneration.

During the year, the remuneration of Directors was determined with reference to his / her experience, duties, responsibilities, workload and time devoted to the Group.

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REMUNERATION COMMITTEE (continued)

The Remuneration Committee held two meetings for the year ended 31 March 2006. The attendance of each member is set out as follows:-

	Number of meetings attended/ Eligible to attend
Mr. YIP Sam Lo (<i>Chairman</i>) (<i>resigned on 6 March 2006</i>)	2/2
Mr. LI Yi Sheng (<i>resigned on 24 October 2005</i>)	1/1
Mr. PANG Tsun Loy, Michael (<i>appointed on 20 July 2005 and resigned on 6 March 2006</i>)	1/1
Mr. SHUI Ming Hua (<i>resigned on 20 July 2005</i>)	1/1
Dr. LI Bin (<i>appointed on 20 July 2005 and resigned on 31 December 2005</i>)	0/1

With effect from 6 March 2006, the Remuneration Committee comprised all the Independent Non-executive Directors, namely Mr. Lo Chi Ho, William, Mr. Huang An Guo and Ms. Wong Fei Tat, and an Executive Director, namely Ms. Fan Wei. Mr. Lo Chi Ho, William is the Chairman of the Remuneration Committee. During the year, all such newly appointed members were not eligible to attend any of the said two meetings.

The work performed by the Remuneration Committee during the year included the following matters:

- (a) To review the remuneration policy of the Directors and senior management; and
- (b) To consider the emoluments for all Directors and senior management.

NOMINATION COMMITTEE

The Company has established a Nomination Committee in 20 July 2005 with specific written terms of reference as adopted on 20 July 2005 and reviewed on 12 July 2006 by the Board setting out its role and responsibilities.

The terms of reference of the Nomination Committee have included the specific duties as set out in provision A.4.5 of the CG Code. The main duties are to formulate and implement nomination policy and to identify individuals suitably qualified to become Board members.

The Nomination Committee did not hold any meetings during the year.

Subsequent to the resignation of Mr. Yip Sam Lo, Dr. Ho Chung Tai, Raymond and Mr. Pang Tsun Loy, Michael on 6 March 2006, the Nomination Committee comprised an Executive Director, namely Mr. Wu Chi Chiu, and two Independent Non-executive Directors, namely Mr. Huang An Guo and Mr. Lo Chi Ho, William. Mr. Wu Chi Chiu is the Chairman of the Nomination Committee.

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AUDITORS' REMUNERATION

For the year ended 31 March 2006, the Auditors' remuneration paid and payable in respect of the audit services and other non-audit services provided by the Auditors to the Group amounted to HK\$3,917,000 and HK\$725,000 respectively.

AUDIT COMMITTEE

The Company has established an Audit Committee since 26 September 1996 with specific written terms of reference as revised on 20 July 2005 and reviewed on 12 July 2006 by the Board setting out its role and responsibilities.

The terms of reference of the Audit Committee have included the specific duties as set out in provision C.3.3 of the CG Code. The main duties are to review and monitor the financial reporting, the financial and internal control, accounting policies and practices of the Company with the management and the auditors and to consider the appointment and resignation of the auditors and the auditors' remuneration.

The Audit Committee held four meetings during the year ended 31 March 2006. The attendance of each member is set out as follows:—

	Number of meetings attended/ Eligible to attend
Mr. YIP Sam Lo (<i>Chairman</i>) (<i>resigned on 6 March 2006</i>)	4/4
Mr. LI Yi Sheng (<i>resigned on 24 October 2005</i>)	1/2
Dr. HO Chung Tai, Raymond (<i>resigned on 6 March 2006</i>)	4/4
Mr. PANG Tsun Loy, Michael (<i>resigned on 6 March 2006</i>)	4/4

With effect from 6 March 2006, the Audit Committee comprised all the Independent Non-executive Directors, namely Mr. Lo Chi Ho, William, Mr. Huang An Guo and Ms. Wong Fei Tat. Mr. Lo Chi Ho, William is the Chairman of the Audit Committee. During the year, all such newly appointed members were not eligible to attend any of the said four meetings.

The work performed by the Audit Committee during the year included the following matters:

- (a) To review the financial statements for the year ended 31 March 2005 and for the six months ended 30 September 2005;
- (b) To review internal audit reports and internal audit plan;
- (c) To review the external auditors' audit plan and findings; and
- (d) To review the connected transaction incurred for the year ended 31 March 2005 and for the six months ended 30 September 2005.

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DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The respective responsibilities of the Directors and the Auditors of the Company for the financial statements to the shareholders are set out in page 31.

By Order of the Board

WU Chi Chiu

Director

Hong Kong, 12 July 2006