

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) is committed to achieving high standards of corporate governance by emphasising transparency, independence, accountability, responsibility and fairness. The Board strives to ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company and to enhance long-term shareholder value.

During the year ended 31 March 2006, the Company has applied the principles of the code provisions of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and has complied with all the code provisions of the Code except for the Code provision C.2 on internal controls (which will be implemented for accounting periods commencing on or after 1 July 2005) and the following deviations. The Company has taken active steps to correct some of the deviations during the year. Nevertheless, none of the deviations remained is considered by the Board to be material or inappropriate given the size, nature and circumstances of the Group.

### Code provision A.2.1

Mr. Tse Wing Chiu, Ricky was appointed as Vice President of the Company on 15 November 2005. He was re-designated from Vice President to President and appointed as Chief Executive Officer on 20 January 2006. The office of President is equivalent to that of the Chairman for the purpose of the Company’s Bye-laws and the Companies Act 1981 of Bermuda (as amended). The Board considers that the combination of the roles of President and Chief Executive Officer will not impair the balance of power and authority between the Board and the management of the Company as the Board will meet regularly to consider major matters affecting the operations of the Group. The Board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently. As such, it is beneficial to the business prospects of the Group.

### Code provision A.4.1

All the non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected pursuant to the Bye-laws of the Company.

### Code provision A.4.2

At the annual general meeting of the Company held on 23 August 2005, shareholders approved the amendments to the Company’s Bye-laws to the effect that 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 shall be subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected.

### Code provision A.5.4

Written guidelines in respect of dealings in securities of the Company by relevant employees were established by the Company on 5 May 2005. Such written guidelines will be issued to the relevant employees of the Group when occasion warrants.

### Code provisions B.1.1, B.1.3 and B.1.4

On 5 May 2005, the Remuneration Committee was established with written terms of reference on no less exacting terms than those set out in Code provision B.1.3. The terms of reference were revised in March 2006, resulting in deviations from the Code provisions B.1.3(a) and (b) of the Remuneration Committee's responsibilities to make recommendations to the Board on the issuer's policy and structure for all remuneration of directors and senior management and to determine the specific remuneration packages of all executive directors and senior management respectively. The terms of reference have been revised in such a way that the Remuneration Committee of the Company should make recommendations to the Board on the Company's policy and structure for all remuneration of "directors" only instead of "directors and senior management" and should "review" (as opposed to "determine") and make recommendations to the Board on the remuneration packages of "executive directors" only instead of "executive directors and senior management" for the following reasons:

1. the Remuneration Committee comprises independent non-executive directors only who are not involved in the daily operation of the Group. They may not be industry skilled due to their different backgrounds and professions and may not be knowledgeable about the prevailing remuneration packages for directors and senior management in the industry where the Company is operating. The Remuneration Committee is thus not in a position to properly "determine" the remuneration of the executive directors and senior management;
2. the Remuneration Committee members are not in a position to properly evaluate the performance of senior management due to their limited time involved in the Company's business. The evaluation process is more effectively carried out by the executive directors who devote all of their active business time to the business and affairs of the Group; and
3. the executive directors may not be able to take good control of their subordinates if they are not directly involved in evaluating and determining their subordinates' remuneration. As a result, the efficiency and effectiveness of the Company's operations may be affected.

The revised terms of reference of the Remuneration Committee have been placed on the Company website in March 2006.

### Code provisions C.3.3 and C.3.4

The terms of reference of the Audit Committee were revised on 5 May 2005 to comply with the Code provision C.3.3 and have been placed on the Company website since June 2005.

**Code provision D.1.2**

The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board on 16 December 2005. Such arrangements will be reviewed periodically.

**MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

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

**BOARD OF DIRECTORS**

The Board has reserved for its decision or consideration matters covering mainly the corporate strategy, board composition, material transactions and investments, risk management, internal control and other significant policies and financial matters. The Board has delegated responsibility for day-to-day management of the Group through the Chief Executive Officer down to the executive management. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in December 2005. Such arrangement will be reviewed periodically.

During the year, Mr. Tse Wing Chiu, Ricky was appointed as an executive director and Vice President of the Company on 15 November 2005. Mr. Tsang Yiu Kai, a former executive director and Vice President of the Company, resigned as an authorised representative of the Company on 15 November 2005 and all other positions (including Company Secretary and Qualified Accountant of the Company, a member and secretary of the Remuneration Committee and the Executive Committee and secretary of the Audit Committee) from the Company on 10 December 2005. Mr. Koon Wing Yee, a former executive director, President and Chief Executive Officer of the Company, resigned all his positions (including an authorised representative of the Company and a member and Chairman of the Remuneration Committee and the Executive Committee) from the Company on 20 January 2006. Mr. Tse Wing Chiu, Ricky was re-designated to President and appointed as Chief Executive Officer on 20 January 2006. Ms. Lui Yuk Chu was appointed as Vice President on 20 January 2006.

Currently, the Board comprises five directors, of which two are executive directors, namely Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu and three are independent non-executive directors, namely Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang. Biographical details of the directors are set out in the “Biographical Details of Directors and Senior Management” on pages 9 to 10 of this annual report.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one of the independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise throughout the financial year ended 31 March 2006.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has met four times during the year ended 31 March 2006. The individual attendance records of the directors at the Board meetings are as follows:

Name of Directors	Number of meetings attended	Attendance rate
<b>Executive Directors</b>		
Mr. Koon Wing Yee (resigned on 20 January 2006)	3/3	100%
Mr. Tsang Yiu Kai (resigned on 10 December 2005)	2/2	100%
Mr. Tse Wing Chiu, Ricky (appointed on 15 November 2005)	2/2	100%
Ms. Lui Yuk Chu	4/4	100%
<b>Independent Non-executive Directors</b>		
Mr. Wong Sui Wah, Michael	3/4	75%
Mr. Tsui Chun Kong	4/4	100%
Mr. Jong Koon Sang	4/4	100%

### President and Chief Executive Officer

Mr. Tse Wing Chiu, Ricky currently assumes the roles of both the President and Chief Executive Officer of the Company. The reasons for the deviation from the Code provision A.2.1 are explained in the section headed "Corporate Governance Practices" above.

### Retirement and re-election of directors

The Bye-laws of the Company provide that (1) every director is required to retire by rotation at the annual general meeting no later than the third annual meeting after he was last elected or re-elected and the directors to retire at every annual general meeting shall be decided by the Board; and (2) any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the Board) and shall then be eligible for re-election at the meeting.

### Independent non-executive directors

All the independent non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

The Company has received annual confirmation of independence from each of the three independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive directors are independent within the definition of the Listing Rules.

## BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, the Audit Committee and the Executive Committee with clearly defined written terms of reference. Each committee reports back to the Board on its decisions or recommendations after each meeting for further discussion and approval, unless there are legal or regulatory restrictions on its ability to do so.

### Remuneration Committee

The Company has established a Remuneration Committee. The terms of reference of the Remuneration Committee are in compliance with the provisions set out in the Code, but with deviations from the Code provisions B.1.3(a) and (b). Details of such deviations are set out in the section headed “Corporate Governance Practices” above.

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Tsui Chun Kong (Committee Chairman), Mr. Wong Sui Wah, Michael and Mr. Jong Koon Sang. It is principally responsible for making recommendations to the Board on the Company’s policy and structure for remuneration of directors and ensuring that no director or any of his associates is involved in deciding his own remuneration.

During the financial year ended 31 March 2006, one meeting has been held by the Remuneration Committee. The individual attendance records of the Committee members are as follows:

Name of Committee Members	Number of meetings attended	Attendance rate
Mr. Tsui Chun Kong	1/1	100%
Mr. Wong Sui Wah, Michael	0/1	0%
Mr. Jong Koon Sang	1/1	100%

During the meeting, the Remuneration Committee has reviewed and considered a director remuneration policy and proposed changes to its terms of reference adopted in May 2005, which were subsequently approved and adopted by the Board after its recommendation.

The primary objective of the director remuneration policy is to attract, retain and motivate the Board members by providing fair reward for their contributions to the Group’s performance. In this context, the remuneration policy is to set the overall remuneration package at a competitive level and in a form that permits additional remuneration to be earned for high performance over a sustained period. The directors’ remuneration packages are determined with reference to the packages paid by comparable listed companies, time commitment and responsibilities of individual directors, the Company’s performance and the prevailing market conditions.

The main components of the executive directors’ remuneration are director’s fee, basic salary, benefits in kind, discretionary performance based bonus, retirement benefits and participation in the share option scheme adopted by the shareholders of the Company in February 2002 (the “Share Option Scheme”).

The independent non-executive directors do not receive any discretionary bonus or other benefits from the Company. But each of them is entitled to a director’s fee and is eligible for the Share Option Scheme subject to the approval of the shareholders of the Company.

During the year ended 31 March 2006, no director has been involved in deciding his own remuneration.

### Audit Committee

The Company has established an Audit Committee. The terms of reference of the Audit Committee are in compliance with the provisions set out in the Code.

The Audit Committee comprises Mr. Wong Sui Wah, Michael (Committee Chairman), Mr. Tsui Chun Kong and Mr. Jong Koon Sang, all of whom are independent non-executive directors. Executive directors, senior management, head of Accounts Department, Qualified Accountant, representatives of the external auditors of the Company (the "Auditors") or other persons are invited to attend the meetings of the Audit Committee as and when required.

The Audit Committee is mainly responsible for assessing the Group's audit arrangements and the Group's system of internal controls, and to review the half-yearly and annual results before publication.

During the financial year ended 31 March 2006, two meetings have been held by the Audit Committee. The individual attendance records of the Committee members are as follows:

<b>Name of Committee Members</b>	<b>Number of meetings attended</b>	<b>Attendance rate</b>
Mr. Wong Sui Wah, Michael	1/2	50%
Mr. Tsui Chun Kong	2/2	100%
Mr. Jong Koon Sang	2/2	100%

The Audit Committee has reviewed with management and the Auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2005 and the audited consolidated financial statements for the year ended 31 March 2006, and with recommendation to the Board for approval.

### The Executive Committee

The Executive Committee comprises all the executive directors of the Company, namely Mr. Tse Wing Chiu, Ricky (Committee Chairman) and Ms. Lui Yuk Chu. It meets as and when required between regular Board meetings of the Company, and operates as a general management committee under the direct authority of the Board. Within the parameter of authority delegated by the Board, the Executive Committee sees to the implementation of Group strategy set by the Board, monitors the Group's investment and trading performance, funding and financing requirements, and reviews management performance.

### AUDITORS' REMUNERATION

For the year ended 31 March 2006, the Auditors received approximately HK\$689,000 for audit service and approximately HK\$2,953,000 for non-audit services related to the interim review, a very substantial disposal, merge and acquisition service and ongoing connected transactions.

### **NOMINATION OF DIRECTORS**

The Company does not have a nomination committee. The Board is empowered under the Company's Bye-laws to appoint any person as director either to fill a casual vacancy on or as an additional member of the Board.

A written director nomination policy was adopted by the Board in March 2006 with the intent to provide a set of guidelines for the effective functioning of the Company's director nomination process. The policy stipulates the criteria for identifying director candidates and the procedures for nomination, evaluation and assessment of candidates for directorship. The selection criteria are mainly based on their personal and professional integrity, independent mindedness, commitment to the Company, experience relevant to the Company's business as well as compliance with legal and regulatory requirements.

### **DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The directors acknowledge their responsibilities for preparing the financial statements of the Group. With the assistance of the Accounts Department which is under the supervision of the Qualified Accountant of the Company, the directors ensure the preparation of the financial statements of the Group are in accordance with the statutory requirements and applicable accounting standards. The directors also ensure the publication of the financial statements of the Group is in a timely manner.

The statement of the Auditors regarding their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 26.

### **COMMUNICATION WITH SHAREHOLDERS**

The Company values the views of shareholders and recognises their interests in the Group's strategy and performance. All shareholders are welcome to the annual general meeting of the Company, at which directors of the Board will be available to answer questions from shareholders. Communication is also provided through the annual reports, interim reports, press announcements and circulars issued by the Company from time to time. Shareholders may also contact the Company in writing or visit the Company website [www.easyknit.com](http://www.easyknit.com) for information about the Group and its activities.