

# CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company (the “Board”) is pleased to present this Corporate Governance Report in the Company’s annual report for the year ended 31 March 2006.

Good corporate governance has always been recognized as vital to the Group’s success and to sustain development of the Group. The Company is committed to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

The Company has applied the principles 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 “Stock Exchange”) (the “Listing Rules”) and complied with most of the code provisions of the CG Code (the “Code Provisions”) save for (i) the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code; (ii) the Code Provision A.1.1 which requires that regular board meetings should be held at least four times a year; and (iii) the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer. The details of such deviation of the Code Provisions A.1.1 and A.2.1 will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:-

## **A. THE BOARD**

### **(1) Responsibilities**

The overall management of the Company’s business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee, the Chief Executive Officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any decision making or entering into any commitments on behalf of the Company.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Besides, all directors may seek independent professional advice in appropriate circumstances at the Company’s expenses, upon making request to the Board.

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## (2) Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. The Board comprises the following directors:-

### *Executive directors:*

Dr Lo Kou Hong, *Chairman of the Board and Executive Committee, Chief Executive Officer/ Managing Director and member of Remuneration Committee*

Ms Ko Lok Ping, Maria Genoveffa, *member of Executive Committee*

Mr Leung Tai Tsan, Charles, *member of Remuneration Committee & Executive Committee*

Mr Cheung Pui Keung, James, *member of Executive Committee*

### *Independent non-executive directors:*

Mr Cheng Kai Tai, Allen, *Chairman of Audit Committee and Remuneration Committee*

Mr Poon Kwok Kiu, *member of Audit Committee and Remuneration Committee*

Mr Chiu Wai Piu, *member of Audit Committee and Remuneration Committee*

Dr Lo Kou Hong is the husband of Ms Ko Lok Ping, Maria Genoveffa. Other than that, there is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

During the year ended 31 March 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from all the independent non-executive directors of their independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

### (3) Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the independent non-executive directors of the Company are appointed for a specific term. The term of office of Mr Cheng Kai Tai, Allen, Mr Poon Kwok Kiu and Mr Chiu Wai Piu is around 1 year up to the date of holding of the Company's 2006 annual general meeting.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

During the year ended 31 March 2006, the Board met once (with all the directors present) and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. In addition, the Company has adopted the Director Nomination Procedures which set out the procedures, process and criteria in nominating directors and re-election of the retiring directors of the Company.

In accordance with the Company's Articles of Association, Dr Lo Kou Hong, Mr Leung Tai Tsan, Charles and Mr Cheung Pui Keung, James shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of these directors standing for re-election at the forthcoming annual general meeting of the Company. Detailed information of such directors standing for re-election is contained in the Company's circular to be despatched to the shareholders of the Company.

### (4) Training and Continuing Development for Directors

Arrangements will be in place for providing to the directors a comprehensive, formal and tailored induction on the first occasion of his/her appointment and continuing briefing and professional development when and as necessary.

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## (5) Board Meetings

### *Number of Meetings and Directors' Attendance*

Code Provision A.1.1 stipulates that regular board meetings should be held at least four times a year. During the year ended 31 March 2006, the Board met five times of which two were regular Board meetings. The Board met regularly for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company as well as on an ad hoc basis, as required by business needs. The individual attendance record of each director at the Board meetings is set out below:-

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
Dr Lo Kou Hong	4/5
Ms Ko Lok Ping, Maria Genoveffa	5/5
Mr Leung Tai Tsan, Charles	5/5
Mr Cheung Pui Keung, James	5/5
Mr Cheng Kai Tai, Allen	2/5
Mr Poon Kwok Kiu	2/5
Mr Chiu Wai Piu	2/5

The Company will endeavour to hold at least 4 regular Board meetings, at approximately quarterly intervals, during the year ending 31 March 2007.

### *Practices and Conduct of Meetings*

Annual meeting schedules and draft agendas of the meetings of the Board and the Board committees are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Company Secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Though Dr Lo Kou Hong currently assumes the roles of both the Chairman and the Chief Executive Officer of the Company, the Board is of the view that this structure provides the Group with strong and consistent leadership and allows for effective and efficient business planning and decisions as well as execution of long-term business strategies.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

## C. BOARD COMMITTEES

The Board has established 3 Board Committees, namely, the Remuneration Committee, the Audit Committee and the Executive Committee, for overseeing particular aspects of the Company's affairs. All these Board Committees have been established with defined written terms of reference, as approved by the Board, which set out the committees' major duties. The terms of reference of the Board Committees are available to shareholders upon request and are posted on the Company's website at [www.losgroup.com](http://www.losgroup.com).

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### (1) Remuneration Committee

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall report to the Board about its recommendations on remuneration policy and structure and remuneration packages. The Remuneration Committee comprises the following members:

Mr Cheng Kai Tai, Allen (*Chairman of the Committee*)

Mr Poon Kwok Kiu

Mr Chiu Wai Piu

Dr Lo Kou Hong

Mr Leung Tai Tsan, Charles

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The main duties of the Remuneration Committee include the following:

- (a) 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 such policy;
- (b) 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;
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) 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;
- (e) 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;
- (f) to ensure that no director or any of his associates is involved in deciding his own remuneration; and
- (g) to advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under the Listing Rules.

During the year ended 31 March 2006, the committee members of the Remuneration Committee met once (with the presence of Mr Cheng Kai Tai, Allen, Mr Poon Kwok Kiu, Mr Chiu Wai Piu and Mr Leung Tai Tsan, Charles) and discussed the Company's remuneration policy and structure of the directors and senior management.

### (2) Audit Committee

The Audit Committee comprises the following three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

Mr Cheng Kai Tai, Allen (*Chairman of the Committee*)

Mr Poon Kwok Kiu

Mr Chiu Wai Piu

The main duties of the Audit Committee include the following:

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to consider any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standard;
- (c) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (d) to ensure co-ordination where more than one audit firm is involved;
- (e) to develop and implement policy on the engagement of an external auditor to supply non-audit services and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

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- (f) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (g) in regard to (f) above:
  - (i) members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant; and
  - (ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.
- (h) to review the Company's financial controls, internal control and risk management systems;
- (i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (k) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;



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- (l) to review the Group's financial and accounting policies and practices;
- (m) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) to report to the Board on the matters set out herein and, in particular, the matters required to be performed by the Audit Committee under the CG Code; and
- (p) to discuss problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss (in the absence of the management where necessary).

During the year ended 31 March 2006, the members of the Audit Committee met twice (with all the members present) and reviewed the financial results and reports for the year ended 31 March 2005 and for the six months ended 30 September 2005, financial reporting and compliance procedures, risk management review and processes and the appointment of the external auditors.

### **(3) Executive Committee**

The Executive Committee comprises all the executive directors of the Company, with Dr Lo Kou Hong acting as the Chairman. The main duties of the Executive Committee include the following:

- (a) To monitor the execution of the Company's strategic plans and operations of all business units of the Company;
- (b) To discuss and make decisions on matters relating to the management and operations of the Company;
- (c) To appoint and remove the operating management;
- (d) To approve any changes to the scope of the authority delegated to the operational management and the corporate management;
- (e) To approve any excess in authority delegated to the corporate and operating management;
- (f) To exercise the functions and responsibilities of the Board between its regular meetings; and
- (g) To review and discuss any other matters as may from time to time be delegated to it by the Board.

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### **D. MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the directors and the directors confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 March 2006.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

### **E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION**

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 29.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The remuneration of the external auditors of the Company in respect of audit services for the year ended 31 March 2006 amounted to HK\$430,000. The non-audit services provided by the Company's auditors to the Company for the year ended 31 March 2006 amounted to HK\$145,000 in aggregate, which covered the review of the Group's interim financial statements, issuance of Form A of the Group's Occupational Retirement Scheme and provision of tax compliance services.

### F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

Pursuant to the Company's Articles of Association, shareholders of the Company holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to convene an extraordinary general meeting for the transaction of any specific issues of the Company. Besides, the Company's Articles of Association contain the rights of shareholders and the procedures for demanding a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll procedures will be explained in the shareholders' meetings and the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board Committees, or in their absence, other members of the respective Committees, are normally available to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

As a channel to further promote effective communication, the Company also maintains a website at [www.losgroup.com](http://www.losgroup.com) where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.