

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The board of directors of the Company (the “Board”) believes that effective corporate governance practices are essential to enhancing shareholders’ value and safeguarding shareholders’ interests.

CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of The Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) which came into effect on 1st January 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of various procedures and documentation which are detailed under the “Compliance with the CG Code” section in this report. The Company has applied the principles of and fully complied with the applicable code provisions of the CG Code during the year ended 31st March, 2006.

THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The Board has delegated the day-to-day responsibility to the management under the instruction/supervision of the Chief Executive Officer and various Board committees.

The Board currently comprises seven Directors and its composition is set out as follows:

Executive Directors:	Mr. Kan Shiu Cheong, Frederick (<i>Chairman</i>) Mr. Chan Hoi Lam (<i>Chief Executive Officer</i>) Mr. Yau Kang Nam Mr. Jiang Hai Qing
Independent Non-Executive Directors (“INEDs”):	Mr. Ng Sui Keung Professor Lai Kin Keung Mr. Yueh Yung Hsin

Biographical details of the Directors are set out in the “Board of Directors and Senior Management” section on pages 9 to 10.

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The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. During the year, four Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/eligible to attend
Executive Directors	
Mr. Kan Shiu Cheong, Frederick (<i>Chairman</i>)	4/4
Mr. Chan Hoi Lam (<i>Chief Executive Officer</i>)	4/4
Mr. Yau Kang Nam	4/4
Mr. Jiang Hai Qing	4/4
INEDs	
Mr. Ng Sui Keung	3/4
Professor Lai Kin Keung	4/4
Mr. Yueh Yung Hsin (appointed on 30th September, 2005)	3/3
Mr. Liu Ngai Wing (retired on 29th July, 2005)	1/1

NOMINATION OF DIRECTORS

In December 2005, the Board has established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The executive Director shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

During the year, the Board passed written resolution (which was signed by all members of the Board) on appointment of an INED.

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BOARD COMMITTEES

The Board has established two committees, namely the Remuneration Committee and Audit Committee, each of which has its specific written terms of reference which are made available on the Company's website.

Remuneration Committee

The Remuneration Committee was established in May 2002 and currently comprises five members. The Committee is chaired by the Chairman Mr. Kan Shiu Cheong, Frederick with Mr. Chan Hoi Lam, an executive Director and three INEDs, Mr. Ng Sui Keung, Professor Lai Kin Keung and Mr. Yueh Yung Hsin as members.

The major roles and functions of the Remuneration Committee are to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration of the executive Directors and senior management.

During the year, the Remuneration Committee passed three written resolutions (which were signed by all members of the Committee) on reviewing Directors' employment agreements, approving payment of discretionary bonuses to executive Directors and senior management. No individual Director is involved in deciding his own remuneration.

The remuneration of Directors and senior management is determined with reference to the performance and profitability of the Group as well as the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

Audit Committee

The Audit Committee was established in July 1999 and currently comprises three INEDs. The Committee is chaired by Mr. Ng Sui Keung with Professor Lai Kin Keung and Mr. Yueh Yung Hsin as members.

The major roles and functions of the Audit Committee are to oversee the relationship with the external auditors, review the Group's interim and annual financial statements, monitor the Group's financial reporting practices and internal control systems.

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During the year, two committee meetings were held and the attendance of each member is set out as follows:

	Number of Committee meetings attended/eligible to attend
Committee members	
Mr. Ng Sui Keung (<i>Chairman</i>)	2/2
Professor Lai Kin Keung	2/2
Mr. Yueh Yung Hsin (appointed on 30th September, 2005)	1/1
Mr. Liu Ngai Wing (retired on 29th July, 2005)	1/1

During the year, the Audit Committee discussed the internal control and financial reporting matters including the interim and annual financial statements before submission to the Board, reviewed the management letters from the external auditors in relation to the final audit of the Group and discussed the non-audit services provided by the external auditors.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standard set out in the Model Code throughout the year.

DIRECTORS’ RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare, with the support from Accounting Department, the financial statements for each financial year which give a true and fair view. The Directors consider that in preparing the financial statements the Group uses appropriate accounting policies that are consistently applied, makes judgments and estimates that are prudent, fair and reasonable and that all applicable accounting standards are followed. The Directors are also responsible for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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EXTERNAL AUDITORS' REMUNERATION AND REPORTING RESPONSIBILITIES

During the year, the remuneration paid/payable to the Company's external auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered for the Group	Fee paid/payable <i>HK\$000</i>
Audit services	940
Non-audit services (including taxation services, agreed upon procedure for preliminary announcement and connected parties transaction, profession services rendered in relation to rights issue and review of interim results)	<u>477</u>
Total:	<u>1,417</u>

The statement of the Company's external auditors regarding their reporting responsibilities is set out in the Report of the Auditors on page 28.

COMPLIANCE WITH THE CG CODE

The Company has fully complied with the applicable code provisions of the CG Code during the year by adopting and improving various procedures and documentation, details of which are set out below:

Code Provision A.1.7

This code provision stipulates that there should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the issuer's expense.

To comply with this code provision, the Board has established in December 2005 a procedure to enable its Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

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Code Provision A.2.1

This code provision stipulates that the roles of chairman and chief executive officer (“CEO”) should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The roles of the Chairman and the CEO of the Company are separate to reinforce their respective independence and accountability. The Chairman of the Company is Mr. Kan Shiu Cheong, Frederick who is primarily responsible for the leadership of the Board, while the CEO of the Company is Mr. Chan Hoi Lam, who is responsible for the Group’s overall operation and to execute the strategies formulated by the Board. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board in December 2005.

Code Provision A.4.1 and A.4.2

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A.4.2 stipulates 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, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Non-Executive Directors of the Company had no fixed term of office prior to September 2005, but are subject to retirement by rotation pursuant to the Bye-laws of the Company. To fully comply with the code provision A.4.1, the term of office of all the Non-Executive Directors of the Company was fixed in September 2005, but subject to the relevant provisions of the Bye-laws of the Company or other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure full compliance with the code provision A.4.2, relevant amendments to the Bye-laws of the Company were proposed and approved by the shareholders of the Company at its annual general meeting held on 29th July, 2005.

Code Provision A.5.4

This code provision stipulates that, inter alia, the board should establish written guidelines on no less exacting terms than the Model Code as set out in Appendix 10 of the Listing Rules for relevant employees in respect of their dealings in the securities of the issuer.

To comply with this code provision, the Company has established in December 2005 written guidelines for relevant employees in respect of their dealings in the securities of the Company.

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Code Provision B.1.4

This code provision stipulates that the remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

To comply with this code provision, the terms of reference of the remuneration committee of the Company have been placed on the Company's website in December 2005.

Code Provision C.3.3 and C.3.4

Code provision C.3.3 stipulates that the terms of reference of the audit committee should include at least the duties set out therein, and code provision C.3.4 stipulates that the audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

To comply with these code provisions, the terms of reference of the audit committee of the Company have been revised and placed on the Company's website in December 2005.

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 and should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.

The respective functions of the Board and management of the Company have been formalised and set out in writing, which were approved by the Board in December 2005. The Board will review the same once a year.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information are also made available on the Company's website.

Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 21 days' notice is given and at which the Chairman and Directors are available to answer questions on the Group's business.

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CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome and will take into account in the ongoing enhancement of our transparency.

On behalf of the Board

Kan Shiu Cheong, Frederick

Chairman

Hong Kong, 24th July, 2006