

# Corporate Governance Report

The Company is committed to achieving high standard of corporate governance in order to safeguard the interest of its shareholders and stakeholders. Same as disclosed below, throughout the year ended 31 March 2006, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). This report describes the Company's corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

## Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors and senior management of the Company. Having made specific enquiry, all Directors confirmed that they have fully complied with the required standard of dealings set out therein throughout the year ended 31 March 2006.

## The Board

The Board is responsible for providing leadership and control of the Company and monitors the performance of the management. The Board focuses on the formulation of business strategy, policy and control. The Board delegates day-to-day operations of the Company to its executive Directors and senior management of the Group. The Board reviews and approves key matters affecting the Company's strategic policies, finances and shareholders, such as financial statements, dividend policy and major corporate activities. Decisions of the Board are communicated to the management through executive Directors who have attended Board meetings.

The Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. The names and brief biographies are set out on page 26 to page 27 of this report. The non-executive Directors are high calibre executives with diversified industry expertise and bring a wide range of skills and experience to the Company. One of the independent non-executive Directors possesses recognised professional qualifications in accounting. They bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board meetings. The Board considers that the three non-executive directors, representing one third of the Board, are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Board has received from each independent non-executive Director a written annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Mr. LEUNG Lun is the Chairman of the Board and Mr. LEUNG Chung Ming is the Managing Director. They are brothers. The Chairman provides leadership to the Board and is responsible for the overall strategic planning and corporate development. The Managing Director is responsible for policy making and corporate management of the Group in order to implement the strategies approved by the Board.



# Corporate Governance Report

Board meetings are scheduled at approximately quarterly intervals, and additional meetings will be held as and when required. All Directors have access to the advice and services of the Company Secretary and independent professional advice may be taken by the Directors as required. There were four regular Board meetings held during the year ended 31 March 2006 and the attendance of individual members of the Board at such regular meetings is set out below:

	<b>Attendance</b>
<b>Executive Directors</b>	
Mr LEUNG Lun	4/4
Mr LEUNG Chung Ming	4/4
Mr ZHONG Bing Quan	4/4
Ms CHENG Yun Tai	4/4
Mr WONG Andy, Tze On	4/4
<b>Non-executive Director</b>	
Mr KO Peter, Ping Wah	4/4
<b>Independent Non-executive Directors</b>	
Mr WONG Lam, O.B.E., J.P.	4/4
Mr YE Tian Liu	4/4
Mr LAI Yun Hung	4/4

Non-executive Directors are appointed for a specific term of three years.

The Company deviated from the CG Code in respect of the service term, rotation and re-election of Directors. Code provision A4.2 of the CG Code 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. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. To ensure compliance with the CG Code, at the annual general meeting of the Company to be held on 12 September 2006, the shareholders of the Company will approve by way of a special resolution, certain amendments to the article of association of the Company to bring the articles of association of the Company in line with certain provisions of the CG Code.



# Corporate Governance Report

## Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") in 2005. The Remuneration Committee comprises three independent non-executive directors, namely Mr WONG Lam, O.B.E., J.P., Mr YE Tian Liu and Mr LAI Yun Hung, a non-executive director Mr KO, Peter Ping Wah and two executive directors Mr LEUNG Lun and Mr LEUNG Chung Ming, Mr WONG Lam, O.B.E., J.P. is the chairman of the Remuneration Committee. The function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The fees of the non-executive directors are determined by the Board.

Up to the date of the Annual Report, one meeting of the Remuneration Committee has been held at which the Remuneration Committee reviewed the Company's remuneration policy and the remuneration package of the executive directors and senior management for the year ended 31 March 2006.

The Company adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. In order to attract, retain and motivate talented executives/employees to strive for future developments and expansion of the Company and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the executives/employees, a share option scheme was adopted by the Company in 2002. Details of the 2002 share option scheme are set out on page 23 to page 25 of this report.

## Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") in 2006. The Nomination Committee comprises three independent non-executive directors, namely Mr WONG Lam, O.B.E., J.P., Mr YE Tian Liu and Mr LAI Yun Hung, a non-executive director, namely Mr KO, Peter Ping Wah and two executive directors, namely Mr LEUNG Lun and Mr LEUNG Chung Ming. Mr LEUNG Lun is the chairman of the Nomination Committee. The function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

During the year ended 31 March 2006, there was no casual vacancy for Directors, nor any need to appoint new Director. Therefore, the Board did not have any meeting held to nominate any appointment of Director.



# Corporate Governance Report

## Audit Committee

The Company has established an audit committee (the "Audit Committee") in 2000. The Audit Committee comprises three independent non-executive directors, namely Mr WONG Lam, O.B.E., J.P., Mr YE Tian Liu and Mr LAI Yun Hung and a non-executive directors, namely Mr KO, Peter Ping Wah. Mr YE Tian Liu is the chairman of the Audit Committee. The function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes.

The Audit Committee annually assesses the appointment of the external auditors, taking into account the quality and rigor of the audit, the quality of the audit service provided, the auditing firm's quality control procedures, relationships between the external auditors and the Company, and the independence of the external auditors.

Three Audit Committee meetings were held during the year ended 31 March 2006. The attendance of each member of the Audit Committee in such meetings is set out as follows:

	<b>Attendance</b>
<b>Non-executive Director</b>	
Mr KO, Peter Ping Wah	3/3
<b>Independent Non-executive Directors</b>	
Mr WONG Lam, O.B.E., J.P.	2/3
Mr YE Tian Liu	3/3
Mr LAI Yun Hung	3/3

## Auditors' Remuneration

PricewaterhouseCoopers has been appointed or, as the case may be, re-appointed by the shareholders of the Company annually at the Company's annual general meeting as the Company's external auditors since 1997/98. During the year, the fees charged to the financial statements of the Company and its subsidiaries for PricewaterhouseCoopers's statutory audit amounted to approximately HK\$1.6 million (2004/05: HK\$ 1 million), in addition approximately HK\$ 0.8 million (2004/05: HK\$ 0.1 million) was charged for non-audit services. The non-audit services mainly consist of special audits and tax compliance. The cost of audit services of subsidiaries not performed by PricewaterhouseCoopers amounted to approximately HK\$ 0.4 million (2004/05: HK\$ 0.4 million).

## Financial Reporting

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 to prepare the financial statements as set out on pages 36 to 96. The statement of the external auditors about their reporting responsibilities on the financial statements is set out on page 35.



# Corporate Governance Report

## Internal Control

The Directors have the overall responsibility for internal control of the Group, including risk management, and sets appropriate policies having regard to the objectives of the Company. The Directors, through the Audit Committee, have continued to review the effectiveness of the Company's system of financial and non-financial controls. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits. The Audit Committee reviews the effectiveness of the internal control environment of the Group. It receives reports from the internal and external auditors, which include recommendation for improvement.

The Company has put in place an organisational structure with formal defined lines of responsibility and delegation of authority. There are also established procedures for planning, capital expenditure, treasury transactions, information and reporting systems, and for monitoring the Company's businesses and performance.

