

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors (the “Board”) of the Company believes that good corporate governance is not only in the interest of the Company and its shareholders as a whole, but also increasingly important for maintaining and promoting investor confidence. The Board is responsible for ensuring a high quality of corporate governance maintained. The Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the “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”) for the year ended 30 April 2006, except the following deviations:

1. Under Code Provision A.1.7, there should be procedure agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company’s expense.

In June 2005, the Board approved and adopted the normal procedure to be applied for written request from directors to seek independent professional advice at the Company’s expense.

2. Under Code Provision A.2.1, the division of responsibilities between the Chairman and chief executive officer should be clearly established and set out in writing.

In July 2005, the division of responsibilities between the Chairman and Managing Director of the Company was clearly established in writing.

3. Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

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

At the Annual General Meeting of the Company held on 23 September 2005 (“2005 AGM”), amendments to the Bye-laws of the Company were approved to require every director, including those appointed for a specific term, to be subject to retirement by rotation at least once every three years, or in any event, no later than the third annual general meeting of the Company after he was last elected or re-elected (i.e. the term of appointment of each director is effectively three years). The Company considers that sufficient measure has been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

4. Under Code Provision A.5.4, the Board should establish written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules for relevant employees in respect of their dealings in the securities of the Company.

Written guidelines incorporating certain crucial rules of the Model Code were established for relevant employees of the Group in respect of their dealings in the securities of the Company. In July 2005, a model code for securities transactions by relevant employees on no less exacting terms than the Model Code was adopted by the Board. Such code will be issued to relevant employees of the Group as and when appropriate.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES *(continued)*

5. Under Code Provisions B.1.4 and C.3.4, the Company should make available the terms of reference of the Remuneration Committee and the Audit Committee on its website respectively.

In August 2005, the terms of reference of the Remuneration Committee and the Audit Committee were posted on the Company's website.

6. Under Code Provision D.1.2, the Company should formalise the functions reserved to the Board and those delegated to the management.

In July 2005, the practice for the Board's functions and the delegation to the management was formalised.

7. Under Code Provision E.1.2, the Chairman of the Board should attend the annual general meeting.

The Chairman of the Board did not attend 2005 AGM due to illness. The Managing Director of the Company, who took the chair of 2005 AGM, and all other members of the Board (including the chairman of each of the Audit Committee and Remuneration Committee) attended the 2005 AGM to answer questions at 2005 AGM.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Following specific enquiry by the Company, all of the directors of the Company confirmed compliance with the required standard set out in the Model Code at the applicable times for the period from 1 May 2005 to 30 April 2006.

## BOARD OF DIRECTORS

The Board currently comprises four executive directors, namely Mr. Lam Wai Chun (Chairman), Ms. Tang Fung Kwan (Deputy Chairman and Managing Director), Mr. Chua You Sing and Ms. Li Hong; and four independent non-executive directors, namely Mr. Au Son Yiu, Dr. Tang Tin Sek, Mr. Lee Wing Kwan, Denis and Mr. Goh Gen Cheung (who joined the Board on 1 December 2005), representing half of the Board and including one with appropriate professional qualifications, accounting and related financial management expertise required under rule 3.10(2) of the Listing Rules. Prior to 1 December 2005, the number of independent non-executive directors represented more than one-third of the Board. The Company has received from each of the independent non-executive directors an annual written confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors are independent. To the best knowledge of the directors, the members of the Board have no financial, business, family or other material/relevant relationship with each other.

In accordance with the Company's Bye-laws, one-third of the directors shall retire from office by rotation at each annual general meeting and their re-election is subject to a vote of shareholders. Every director is subject to retirement by rotation at least once every three years no later than the third annual general meeting of the Company after he was last elected or re-elected.

# Corporate Governance Report

## BOARD OF DIRECTORS *(continued)*

The Board determines the objectives, strategies and policies of the Group. In addition, the Board monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the Managing Director and the management of the Group under the supervision of the executive directors of the Company. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, financial objectives, dividend policy, changes in accounting policies, material acquisition and disposal of assets, investments and capital projects, banking facilities, provision of guarantees and indemnities, determination and adoption of documents (including the publication of reports and statements to shareholders) that are required by the Company's constitutional documents, statutes and other applicable regulations and monitoring the compliance with corporate governance practices and applicable laws and regulations as well as the financial covenants imposed by banks.

With the support of the executive directors and the management of the Group, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate information, which are complete and reliable, in a timely manner. Each of the directors keeps abreast of his/her responsibility as a director of the Company and of the conduct, business activities and development of the Company. Important updates are provided to directors when necessary to ensure that they are aware of the business and regulatory environment in which the Group conducts its business.

The Board meets regularly to review the financial and operating performance of the Group each financial year. The directors may attend Board meetings in person or by way of telephone or other electronic means of communication in accordance with the Company's Bye-laws. During the year ended 30 April 2006, eight Board meetings were held and the individual attendance of each director is set out below:

<b>Directors</b>	<b>Number of meetings attended/held</b>
<b>Executive Directors</b>	
Lam Wai Chun ( <i>Chairman</i> )	8/8
Tang Fung Kwan ( <i>Deputy Chairman and Managing Director</i> )	8/8
Chua You Sing	8/8
Li Hong	7/8
<b>Independent Non-Executive Directors</b>	
Au Son Yiu	8/8
Tang Tin Sek	8/8
Lee Wing Kwan, Denis	8/8
Goh Gen Cheung ( <i>appointed on 1 December 2005</i> )	2/8*

\* The director attended the aforesaid meetings held after his appointment.

# Corporate Governance Report

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Lam Wai Chun is the Chairman of the Board and Ms. Tang Fung Kwan, the Deputy Chairman and Managing Director of the Company, is the chief executive officer described in Appendix 14 to the Listing Rules. The role of the Chairman and the Managing Director are segregated and not performed by the same individual. The primary role of the Chairman is responsible for the leadership of the Board and for ensuring that the Board functions effectively. Supported by the executive directors and the senior management, the primary role of the Managing Director is responsible for running the business of the Group and leading the management in implementing strategies approved by the Board. Their respective responsibilities are clearly established in writing.

## NON-EXECUTIVE DIRECTORS

All the four non-executive directors are independent and have not been appointed for a specific term, but are subject to retirement by rotation at annual general meetings at least once every three years in accordance with the Bye-laws of the Company. Amendments to the Bye-laws of the Company were approved at 2005 AGM to require every director to retire by rotation no later than the third annual general meeting of the Company after he was last elected or re-elected. This means that the specific term of appointment of a director cannot exceed three years.

## REMUNERATION OF DIRECTORS

The Board established a Remuneration Committee on 18 March 2005 with written terms of reference, which is available on the Company's website ([www.0759.com](http://www.0759.com)), dealing with the duties (containing the minimum specific duties as set out in the Code) and authority. The principal duties of the Remuneration Committee are to make recommendations to the Board on the Company's remuneration policy and structure for all remuneration and fees of directors of the Company and senior management of the Group, to determine the specific remuneration packages of all executive directors of the Company and senior management, including benefits in kind, pension rights and compensation payments, and to make recommendations to the Board of the remuneration of non-executive directors of the Company.

The Board, with the advice from the Remuneration Committee, formulated the employee emolument policy of the Group on the basis of their merit, qualification and competence. In determining the emolument of directors of the Company and senior management, the Remuneration Committee takes into consideration factors such as salaries or fees paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions elsewhere in the Group, desirability performance-based remuneration, the operating results of the Group, individual performance and prevailing market conditions. The director's fee of independent non-executive directors is subject to the approval of the Company's shareholders at the annual general meeting.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out under the section headed "Share option scheme" on page 29 to 30.

# Corporate Governance Report

## REMUNERATION OF DIRECTORS *(continued)*

During the year ended 30 April 2006, the work performed by the Remuneration Committee includes approving the remuneration (including the relevant service agreements and supplemental agreement, if any) of executive director and key executives, reviewing the structure of remuneration, remuneration policy and remuneration policy statement, approving the remuneration package and the limit of salary increase of the senior management and staff medical insurance plan offered to the executive directors and senior management, making recommendations to the Board of the directors' fees of independent non-executive directors and approving the establishment of staff training committee of a subsidiary. No director has taken part in any discussion about his/her own remuneration.

The Remuneration Committee currently comprises five members including one executive director, namely Ms. Tang Fung Kwan, and four independent non-executive directors, namely Mr. Au Son Yiu (Chairman of the Remuneration Committee), Dr. Tang Tin Sek, Mr. Lee Wing Kwan, Denis and Mr. Goh Gen Cheung.

During the year ended 30 April 2006, the Remuneration Committee met four times and the individual attendance of each member is set out below:

Members	Number of meetings attended/held
Au Son Yiu ( <i>Chairman</i> )	4/4
Tang Tin Sek	4/4
Lee Wing Kwan, Denis	4/4
Goh Gen Cheung ( <i>appointed on 1 December 2005</i> )	2/4*
Tang Fung Kwan	4/4

\* The member attended the aforesaid meetings held after his appointment.

## NOMINATION OF DIRECTORS

The Company has not set up a nomination committee for the time being. The Board reviews its composition to ensure the Board has a balance of knowledge and experience appropriate for the requirements of the business of the Group. The Board is responsible for selection and approval of candidates for appointment as directors to the Board. Candidates are sought through referral and internal promotion. Candidates to be nominated as directors of the Company are based on independence, qualification, knowledge, industry experience, personal skills, integrity, personal ethics and time commitment assessed by all the directors. During the year ended 30 April 2006, a Board meeting was held for the appointment of Mr. Goh Gen Cheung as new director proposed for its approval after the assessment of selection criteria made by all the directors. All the directors (except Ms. Li Hong), namely Mr. Lam Wai Chun, Ms. Tang Fung Kwan, Mr. Chua You Sing, Mr. Au Son Yiu, Dr. Tang Tin Sek and Mr. Lee Wing Kwan, Denis, attended the Board meeting.

## AUDITORS' REMUNERATION

During the year ended 30 April 2006, the fees paid/payable to the external auditors of the Company, PricewaterhouseCoopers, amounted to approximately HK\$1,150,000 for statutory audit services and approximately HK\$234,200 for non-audit services (comprising tax and other services) rendered to the Group.

# Corporate Governance Report

## AUDIT COMMITTEE

The Board established the Audit Committee in September 1999 with written terms of reference (containing the minimum specific duties as set out in the Code) is available on the Company's website ([www.0759.com](http://www.0759.com)). The Audit Committee currently comprises four independent non-executive directors, namely Dr. Tang Tin Sek (Chairman of the Audit Committee), Mr. Au Son Yiu, Mr. Lee Wing Kwan, Denis and Mr. Goh Gen Cheung. The Chairman of the Audit Committee has the appropriate professional qualifications and extensive experience in auditing and financial management matters. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the annual report of the Company for the year ended 30 April 2006.

The principal duties of the Audit Committee are to review and oversee the Group's financial reporting system, internal control procedures, risk management, internal and external audit functions, to review the Group's financial information and to oversee the relationship with external auditors.

Regular meetings have been held by the Audit Committee since its establishment. The Audit Committee meets at least twice a financial year under its terms of reference. During the year under review, the Audit Committee discharged its duties by reviewing the audit findings, system of internal control of the Group, internal audit schedule, internal audit report on the effectiveness of internal control, the independence and objectivity of the Company's external auditors and the financial reporting matters (including announcements, financial reports and accounts relating to the quarterly, interim and annual results of the Company before submission to the Board for approval, the accounting principles and practices adopted by the Group and compliance), approving the engagement letter and projected audit fee of the Company's external auditors and discussing with the Company's external auditors the nature and scope of the audit.

During the year ended 30 April 2006, the Audit Committee held six meetings and the individual attendance of each member is set out below:

<b>Members</b>	<b>Number of meetings attended/held</b>
Tang Tin Sek ( <i>Chairman</i> )	6/6
Au Son Yiu	6/6
Lee Wing Kwan, Denis	6/6
Goh Gen Cheung ( <i>appointed on 1 December 2005</i> )	2/6*

\* The member attended the aforesaid meetings held after his appointment.

# Corporate Governance Report

## INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The Board, through the Audit Committee, regularly reviews the findings of the internal audit report on the effectiveness of the internal control of the Group.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, provide reliable financial reporting and ensure compliance with applicable laws and regulations.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company acknowledge their responsibility for preparing the financial statements of the Group, which give a true and fair view and are prepared in accordance with statutory requirements and applicable accounting standards with appropriate accounting policies applied on consistent basis, and ensuring the publication of the Group's financial statements in a timely manner. The Company has been announcing and publishing quarterly financial results within 60 days after the end of the relevant quarter since its listing on The Stock Exchange of Hong Kong Limited.

After reasonable enquiries, the directors of the Company are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. Accordingly, the directors have continued to adopt the going concern basis in preparing the financial statements. The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's performance and prospects in financial reporting.

The responsibilities of the Company's external auditors with respect to financial reporting are set out in Report of the Auditors on page 40.