

# Corporate Governance Report

The Company is committed to promoting and maintaining a high standard of corporate governance as an essential component of effective management, healthy corporate culture, successful business and enhancement of shareholders' value and has introduced corporate governance practices appropriate to the conduct and growth of its business.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") and certain recommended best practices ("Recommended Best Practices") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions, except for the code provision C.2 on internal controls (which is applicable to the accounting periods commencing on or after 1 July 2005) and certain deviations as specified below.

The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code and wishes to highlight the importance of its Board of Directors ("Board") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

## THE BOARD

### Board 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.

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.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

## THE BOARD *(continued)*

### Board Responsibilities *(continued)*

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

### Composition of the Board

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises 11 members, consisting of 7 executive directors, 1 non-executive director and 3 independent non-executive directors.

The Board of the Company comprises the following directors:

#### Executive directors:

Mr. Zhu Lifu	<i>(Chairman)</i>
Mr. Gu Zengcai	<i>(Deputy Chairman) (Note 3)</i>
Mr. Huang Xin	<i>(Chief Executive Officer) (Appointed on 21 July 2006) (Note 1)</i>
Mr. Jin Tao	
Mr. Yu Huaguo	<i>(Note 2)</i>
Mr. Chen Yonglin	
Mr. Wu Hanqiu	

#### Non-executive director:

Mr. Liang Han

#### Independent non-executive directors:

Mr. Hui Chiu Chung  
Mr. Chu Yu Lin, David  
Mr. Albert Ho

## THE BOARD *(continued)*

### Composition of the Board *(continued)*

*Notes:*

1. Mr. Huang Xin has been appointed as executive director and Chief Executive Officer of the Company with effect from 21 July 2006.
2. Mr. Yu Huaguo has resigned from the offices of Deputy Chairman and Chief Executive Officer of the Company with effect from 21 July 2006. Mr Yu would remain as executive director of the Company.
3. Mr. Gu Zengcai has been appointed as Deputy Chairman of the Company on 24 August 2006.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under “Directors and Senior Management” on pages 12 to 17.

During the year ended 30 April 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 each independent non-executive director of his 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.

## THE BOARD *(continued)*

### **Appointment and Succession Planning of Directors**

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

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. The Company has deviated from this provision in that the Company's non-executive director and independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws.

The Company does not have a nomination committee and the role and function of such committee are performed by the Board.

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.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

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.

In accordance with the Company's Bye-laws 111 (A) and 115, Mr. Zhu Lifu, Mr. Huang Xin, Mr. Yu Huaguo, Mr. Wu Hanqiu, Mr. Liang Han and Mr. Hui Chiu Chung, directors of the Company, will retire and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Company will issue circular containing detailed information of the directors standing for re-election.

### **Training for Directors**

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

**THE BOARD** *(continued)***Board Meetings****Number of Meetings and Directors' Attendance**

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Name of directors	No. of Board meetings	No. of attendance	Average attendance rate (%)
<b>Executive directors</b>			
Zhu Lifu ( <i>Chairman</i> )	4	3	75%
Gu Zengcai ( <i>Deputy Chairman</i> ) [Note 2]	4	3	75%
Huang Xin ( <i>Chief Executive Officer</i> ) [Note 1]	N/A	N/A	N/A
Jin Tao	4	4	100%
Yu Huaguo	4	4	100%
Chen Yonglin	4	4	100%
Wu Hanqiu	4	4	100%
<b>Non-executive director</b>			
Liang Han	4	3	75%
<b>Independent non-executive directors</b>			
Hui Chiu Chung	4	3	75%
Chu Yu Lin, David	4	1	25%
Albert Ho	4	3	75%

## Notes:

1. Mr. Huang Xin has been appointed as executive director and Chief Executive Officer of the Company with effect from 21 July 2006.
2. Mr. Gu Zengcai has been appointed as Deputy Chairman of the Company on 24 August 2006.

Apart from regular Board meetings, meetings between the Chairman, executive directors and the non-executive directors were also held during the year and most of directors attended the meetings.

## THE BOARD *(continued)*

### Board Meetings *(continued)*

#### **Practices and Conduct of Meetings**

Annual meeting schedules and draft agenda of each meeting 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 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.

Mr. Yu Huaguo, as Chief Executive Officer during the year ended 30 April 2006, attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company. Mr. Yu has resigned from the office of Chief Executive Officer and Mr. Huang Xin has been appointed as new Chief Executive Officer both effective from 21 July 2006.

The Company Secretary 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 Bye-laws 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.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority and the roles of the chairman and chief executive officer have been separated and the division of responsibilities between the two have been set out in writing which was approved by the Board on 16 January 2006.

The positions of the Chairman and Chief Executive Officer are held by Mr. Zhu Lifu and Mr. Yu Huaguo respectively until Mr. Huang Xin replaced Mr. Yu as the Chief Executive Officer with effect from 21 July 2006. Their respective responsibilities are clearly defined and set out in writing.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER** *(continued)*

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

## **BOARD COMMITTEES**

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

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.

### **Remuneration Committee**

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee with specific written terms of reference was established on 16 January 2006 and comprises the Company's Non-executive director and Independent Non-executive directors, namely Mr. Liang Han, Mr. Hui Chiu Chung, Mr. Chu Yu Lin, David and Mr. Albert Ho together with Mr. Gu Zengcai as executive director.

Under code provision B.1.4, the Company should make available the terms of reference of the Remuneration Committee on request and by including the information on the Company's website. At present, the Company does not maintain a website. However, the terms of reference of the Remuneration Committee is available upon request.

## BOARD COMMITTEES *(continued)*

### Remuneration Committee *(continued)*

No meeting has been held during the year ended 30 April 2006 but a meeting of the Remuneration Committee has just held on 22 August 2006 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 in 2006. 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 consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

### Audit Committee

The Audit Committee comprises one Non-executive director and three Independent Non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise), namely Mr. Liang Han, Mr. Hui Chiu Chung, Mr. Chu Yu Lin, David and Mr. Albert Ho. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 30 April 2006 to review the financial results and reports, financial reporting and compliance procedures, and also the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The terms of reference of the Audit Committee of the Company were revised on 16 January 2006 to comply with the relevant code provision.

Under code provision C.3.4, the Company should make available the terms of reference of the Audit Committee on request and by including the information on the Company's website. At present, the Company does not maintain a website. However, the terms of reference of the Audit Committee is available upon request.



**BOARD COMMITTEE** *(continued)*

**Audit Committee** *(continued)*

The Company's annual results for the year ended 30 April 2006 has been reviewed by the Audit Committee.

The attendance record of the Audit Committee members during the year is set out below:

<b>Name of directors</b>	<b>No. of Audit Committee meetings</b>	<b>No. of attendance</b>	<b>Average attendance rate (%)</b>
<b>Non-executive director</b>			
Liang Han	2	2	100%
<b>Independent non-executive directors</b>			
Hui Chiu Chung	2	2	100%
Chu Yu Lin, David	2	0	0%
Albert Ho	2	2	100%

**MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 30 April 2006.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## 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 30 April 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on pages 37 to 38.

The Company engaged Ernst & Young as the Company's external auditors. Save as disclosed in note 6 to the financial statements for fees payable to Ernst & Young for audit services provided for the year ended 30 April 2006, other significant non-audit service assignments for the year include:

	<i>HK\$'000</i>
1. Review of 2005 interim results and issuance of SAS700 report	230
2. Taxation service	9
	239

## INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Company.

## SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

## SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS *(continued)*

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

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 the 2005 annual general meeting due to other business engagements. The Deputy Chairman and Managing Director of the Company and all other members of the Board (including the chairman of the Audit Committee) had attended the 2005 annual general meeting to answer questions during the meeting.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Board of Directors and members of the respective committees, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains 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.