

Corporate Governance Report

The Company is committed to building and maintaining high standards of corporate governance. Throughout the financial year ended 30 June 2006, the Company has applied the principles and complied with the requirements set out in 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 "Listing Rules") with the only deviation from code provision A.4.1 in respect of the service term of non-executive directors. Non-Executive Directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once in every three years.

In order to bring the Bye-laws of the Company in alignment with the provisions of the CG Code, certain amendments to the Bye-laws are proposed by the Directors for approval by shareholders at the forthcoming Annual General Meeting.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the CG Code.

The Board

Roles of Directors

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company. The principle roles of the Board are:

- to lay down the Group's objectives, strategies and policies;
- to monitor operating and financial performance; and
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board has delegated the day-to-day operation responsibility to the management under the supervision of the Chief Executive Officer and various Board committees.

Composition

The Board of Directors, which currently comprises 12 Directors, is responsible for supervising the management of the Group.

The presence of 10 Non-Executive Directors, of whom 4 are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

The Non-Executive Directors who offer diversified expertise and experience, contribute significantly to the important function of advising management on strategy and policy development. They also serve to ensure that the Board maintains high standards of financial and other mandatory reporting as well as to provide adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole.

Except for those relationships disclosed in the biographical details of the Directors set out on pages 39 to 42 of this Annual Report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules.

The Company maintains appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Appointment and re-election of Directors

All Directors, including the Chairman and the Chief Executive Officer, are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years.

Under the Company's Bye-laws, one-third of the Directors, who have served longest on the Board, must retire and be eligible for re-election at each annual general meeting. As such, no director has a term of appointment longer than three years. To further enhance accountability, any further re-appointment of an Independent Non-Executive Director who has served the Company's Board for more than 9 years will be subject to separate resolution to be approved by shareholders.

Directors appointed to fill casual vacancy shall hold office only until the first general meeting after their appointment, and shall be subject to re-election by shareholders.

Directors' duties

All Directors must keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. As such, briefings are provided and organised to ensure that the newly appointed Directors are familiar with the role of the Board, their legal and other duties and responsibilities as Director as well as the business and corporate governance practices of the Group. The Company Secretary will continuously update all Directors on latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance of the same by all Directors.

Chairman and Chief Executive Officer

In order to reinforce their respective independence, accountability and responsibility, and to avoid power being concentrated in any one individual, the role of the Chairman is separate from that of the Chief Executive Officer. The Chairman of the Group is Mr. Raymond Kwok Ping-luen and the Chief Executive Officer of the Group is Mr. Douglas Li. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Chief Executive Officer, supported by the Executive Director and senior management, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

Board process

With effect from the financial year commencing 1 July 2005, the Board of Directors meets regularly at least 4 times every year. The Directors participated in person or through electronic means of communication. At least 14 days notice of all board meetings were given to all Directors, who were given an opportunity to include matters in the agenda for discussion. The finalised agenda and accompanying board papers were sent to all Directors at least 3 days prior to the meeting.

During regular meetings of the Board, the Directors discuss the overall strategy as well as the operation and financial performance of the Group. The Board has reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, approval of major capital transactions and other significant operational and financial matters. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors can also seek independent professional advice in performing their duties at the Company's expense, if necessary.

The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the Board together with concerns raised and dissenting views expressed (if any). All minutes are open for inspection at any reasonable time on request by any Director.

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The Board held 4 regular meetings during the financial year ended 30 June 2006. Attendance of the individual Director at Board meetings held during the year is as follows:

Directors	Number of Board meetings attended
Executive Directors	
Mr. Douglas Li (<i>Chief Executive Officer</i>)	4/4
Mr. Patrick Chan Kai-lung	4/4
Non-Executive Directors	
Mr. Raymond Kwok Ping-luen (<i>Chairman</i>)	4/4
Mr. Ernest Lai Ho-kai	4/4
Mr. Michael Wong Yick-kam	4/4
Mr. Andrew So Sing-tak	3/4
Mr. Cheung Wing-yui	3/4
Mr. David Norman Prince	4/4
Independent Non-Executive Directors	
Mr. Eric Li Ka-cheung	4/4
Mr. Ng Leung-sing	4/4
Dr. Sachio Semmoto*	1/1
Mr. Yang Xiang-dong	2/4
Mr. Eric Gan Fock-kin**	2/3

* Retired as Director on 4 November 2005

** Appointed as Director on 1 December 2005

Board Committees

The Board has established the following committees with defined terms of reference, which are of no less exacting terms than those set out in the CG Code.

Board Supervisory Committee (the "BSC")

The Board has delegated the duties of overseeing management performance, monitoring execution of business plans and initiatives, and ensuring adherence to corporate objectives to the BSC. Members of the BSC are made up of the Chairman of the Board, the Chief Executive Officer, the Executive Director and senior executives of the Company. Non-Executive Directors are welcomed to join the BSC at their discretion.

The BSC meets regularly throughout the year on a monthly basis to review and monitor the overall strategy implementation as well as the business operation and financial performance of the Group and to properly inform the Board of the status of such operations and performance. BSC meetings are scheduled in advance to facilitate maximum attendance of Directors/members.

Remuneration Committee

The chairman of the Committee is Mr. Eric Li Ka-cheung, an Independent Non-Executive Director of the Company and other members include Mr. Ng Leung-sing and Mr. Andrew So Sing-tak, the majority being Independent Non-Executive Directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure and other compensation-related issues. The Committee consults with the Chairman and/or the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice if deemed necessary by the Committee. The Committee is also provided with other resources enabling it to discharge its duties. The specific terms of reference of the Remuneration Committee is available on request and also accessible on the Company's website.

Remuneration policy for Directors

The primary goal of the remuneration policy for executive directors and senior management is to enable the Company to retain and motivate executive directors and senior management by linking their compensation with performance as measured against corporate objectives.

The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus and share option. In determining guidelines for each compensation element, the Company will made reference to market remuneration surveys on companies operating in similar businesses.

The remuneration of non-executive directors, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard and recommendation will be made by the Committee for shareholders' approval at annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

Nomination Committee

The chairman of the Committee is Mr. Eric Gan Fock-kin, an Independent Non-Executive Director of the Company and other members include Mr. Ng Leung-sing and Mr. David Norman Prince, the majority being Independent Non-Executive Directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of directors and board succession. The Committee will also review the size, structure and composition of the Board. The Committee is provided with sufficient resources enabling it to discharge its duties. The specific terms of reference of the Nomination Committee is available on request and also accessible on the Company's website.

The Nomination Committee has reviewed and recommended the re-appointment of the retiring Directors for shareholders' approval at the forthcoming Annual General Meeting.

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities for ensuring compliance with the financial reporting obligations and corporate governance requirements as well as reviewing the effectiveness of the Company's system of internal control.

The Audit Committee, established in 1999, is currently chaired by Mr. Eric Li Ka-cheung, an Independent Non-Executive Director with professional accounting expertise, and the other members are Mr. Ng Leung-sing, Mr. Eric Gan Fock-kin and Mr. Michael Wong Yick-kam, with the majority being Independent Non-Executive Directors of the Company. The Committee members possess appropriate business or financial expertise and experience to provide relevant advice and recommendations to the Company.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the auditors' report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and remuneration of external auditors. Other duties of the Audit Committee are set out in its specific terms of reference, which is available on request and also accessible on the Company's website. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee met 2 times during the financial year ended 30 June 2006 to review with senior management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covered the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual accounts for the Board's approval).

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Attendance of the individual Director at Audit Committee meetings held during the year is as follows:

Directors	Number of meetings attended
Mr. Eric Li Ka-cheung (<i>Chairman</i>)	2/2
Mr. Ng Leung-sing	2/2
Mr. Michael Wong Yick-kam	2/2
Dr. Sachio Semmoto*	0/1
Mr. Eric Gan Fock-kin**	0/1

* Retired as Director on 4 November 2005

** Appointed as Director on 1 December 2005

The Audit Committee also held meetings on 8 and 17 August 2006 and reviewed the relevant financial statements as well as the internal audit reports of the Group for the year ended 30 June 2006. The Committee is content that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practice in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements.

External auditors' independence

In order to further enhance independent reporting by external auditors, part of the aforementioned meetings was attended only by the Committee members and external auditors in the absence of the management.

The nature and ratio of annual fees to external auditors for non-audit services and for audit services are subject to scrutiny by the Audit Committee. The provision of non-audit services by the external auditors requires prior approval of Audit Committee so as to ensure that the independence and objectivity of the external auditors will not be impaired. Details of the fees paid or payable to the auditors for the financial year ended 30 June 2006 are as follows:

	HK\$
Total audit fee	
- interim review and final audit	1,632,000
Other services	831,000
Total fees	2,463,000

The Committee received written confirmation from PricewaterhouseCoopers on their independence and objectivity as required under the Professional Ethics Statement 1.203A "Independence for Assurance Engagements" issued by the Hong Kong Institute of Certified Public Accountants before commencement of the annual audit of the Group's financial statements for the year ended 30 June 2006.

The Committee is satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and has recommended the Board to propose a resolution of their re-appointment as the Company's external auditors at the forthcoming Annual General Meeting.

Directors' and auditors' responsibilities for the accounts

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

The responsibilities of the auditors for the accounts are set out in the Auditors' Report on page 45 of this Annual Report.

Internal control

The Directors are responsible for the internal control of the Group and for reviewing its effectiveness.

The internal control system of the Group comprises a comprehensive organisational structure and delegation of authorities, with responsibilities of each business and operational units clearly defined and authorities assigned to individuals based on experience and business need.

Control procedures have been designed to safeguard assets against unauthorised use and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

The overall risk management functions of the Group are under the responsibility of the Operations Committee, comprising the Chief Executive Officer, Executive Director, Chief Technology Officer and heads of key business and operational units. There are established control procedures to identify, assess, control and report on each of the 4 major types of risks consisting of business and market risk, compliance risk, financial and treasury risk, and operational risk.

Internal audit plays an important role in the internal control framework. The Group has an internal audit team, staffed with 7 qualified professionals, which is an independent function reports directly to the Audit Committee and the Chief Executive Officer. The work of internal audit includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency and effectiveness reviews. Internal audit derives its annual audit plan using a risk assessment methodology and taking into account the business nature of the Group. The plan is reviewed and approved by the Audit Committee, who ensures that adequate resources are deployed and the plan objectives are adequate to cover major risks affecting the Group. In addition, there is regular dialogue with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

A review of the effectiveness of the Group's system of internal control covering all key controls, including financial, operational and compliance and risk management controls, is conducted annually. For the year ended 30 June 2006, internal audit conducted the review based on a framework which assesses the Group's internal control system against control environment, risk management and control and monitoring activities on all major business and operational processes. The examination consisted of enquiry, discussion and validation through observation and inspection. The result of the review has been reported to the Audit Committee and the Board, and areas of improvement have been identified and appropriate measures have been put in place to manage the risks.

With respect to procedures and internal controls for handling and dissemination of price-sensitive information, a strict prohibition on unauthorised use of confidential or insider information is included in the code of conduct of the Group. Employees who are privy or have access to unpublished price-sensitive information of the Group has also been notified on the adoption of the "Model Code for Securities Transactions by Senior Management and relevant Employees" by the Company in 2006 and on observing the restrictions pursuant to the Securities (Insider Dealing) Ordinance.

Compliance with Model Code for Securities Transactions

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code of conduct regarding directors' transactions in the securities of the Company. Similar code has also been adopted for relevant employees, who may be in possession of unpublished price-sensitive information, in dealing with the Company's securities. Upon specific enquiry, each Director had confirmed that during the year ended 30 June 2006, they had fully complied with the required standard set out in the Model Code regarding securities transactions and there was no event of non-compliance.

Investor relations

To manage its relationship with investment community, the Group meets regularly with the press and financial analysts and participates frequently in other conferences and presentations. The Company also communicates to its shareholders through announcements and annual and interim reports. All such reports and announcements can also be accessed via the Company's website. The Directors, Company Secretary or other appropriate members of senior management also respond to inquiries from shareholders and investment community promptly.