



Corporate Governance Report

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Board strives to attain and maintain good corporate governance and transparency and believes it is important to enhancing the shareholders' value. The Company has complied with all the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("The Stock Exchange") (the "Listing Rules") throughout the year and upto the date of this report with certain deviations from the Code as elaborated below:

Chairman and chief executive officer

Provision A.2.1 of the Code requires the management of the Board and the day-to-day management of business be performed by separate individuals. The office of chief executive officer was vacated following the re-designation of the directorship of Mr. Kwok Kam Hoi on 1 August 2006. To maintain proper segregation of duties and balance of power and authority, different functions of the operation are now managed by respective members of the Board and senior management of the Group. The Executive Directors, without the Chairman, and the in-charge of all departments meet monthly for discussing and determining the business and operation issues.

Term of appointment of non-executive directors

Provision A.4.1 of the Code requires non-executive directors be appointed for a specific term, subject to re-election. The independent non-executive directors were not appointed with specific term until May 2006. The term of appointment of all independent non-executive directors are fixed at eighteen months and all independent non-executive directors will be subject to retirement by rotation, but be eligible for re-appointment, at least once every three years at the annual general meetings of the Company ("AGM") in accordance with the Company's Bye-laws.

Corporate Governance Report

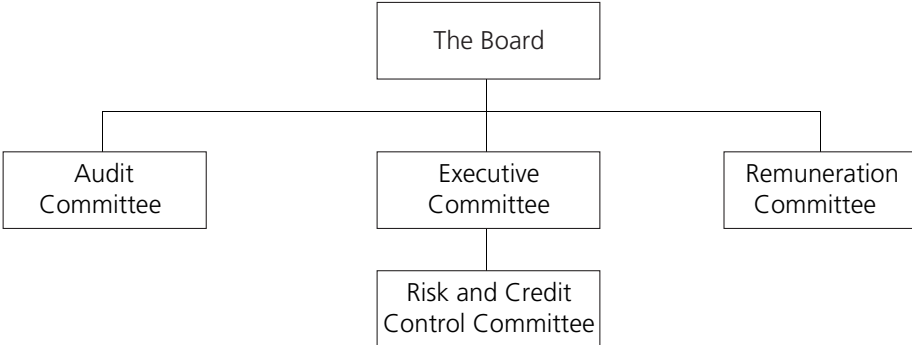
Retirement by rotation

Provision A.4.2 of the Code requires every director be subject to retirement by rotation at least once every three years. The Chairman is appointed for a term of two years, and is not subject to rotation or taken into account in determining the number of directors to retire in each AGM in accordance with the current Bye-laws of the Company. The Company has proposed to amend its Bye-laws to comply with this provision at the forthcoming AGM. The Chairman also volunteered to retire and, being eligible, offer himself for re-election at the forthcoming AGM.

THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board and Board Committee

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:





Corporate Governance Report

Composition of the Board

At the date of this Report, the Board comprised seven (7) directors, including four (4) executive directors and three (3) independent non-executive directors, namely:

Executive Directors:

Mr. Yip Man Fan, *Chairman*

Mr. Kwok Kam Hoi, *Deputy Chairman (resigned as Chief Executive on 1 August 2006)*

Mr. Tsunoyama Toru

Ms. Wong, Vicky Lai Ping (*appointed on 1 July 2006*)

Independent Non-executive Directors:

Mr. Lam, Andy Siu Wing, JP, *Chairman of the Audit Committee and the Remuneration Committee*

Mr. Ma, Andrew Chiu Cheung

Mr. Yu King Tin

The Board has a balance of skills and experience and the details of the biography of each director have been disclosed under the section "Directors and Senior Management". The Company has arranged appropriate directors and officers' insurance for their personal liability in their capacity as directors and officers of the Company.

Corporate Governance Report

Proceedings of Board meetings

The Board meets regularly with intervals of not more than four months for discussing and determining the strategies of the Group, setting directions and monitoring the performance of the Group. All directors are informed in writing for all regular meetings with proper notice period. The secretary of the Company (“Company Secretary”) is responsible to fix a day which fits most of the directors’ schedules. Agenda and materials for discussion in the meetings are circulated to all directors at least three days prior to the date of the regular meetings. Senior management may be invited to attend the meetings to make presentations and answer the Board’s enquiries. All draft and final minutes of each meeting are sent to all directors for comment within reasonable time after the meeting is held.



During the year, there were five full board meetings held with procedures fully complied with the Code and the attendance of each director is listed under the heading “Attendance Summary” below on a named basis.

Independence of Independent Non-executive Directors

The Company has received written confirmations from each independent non-executive director of his independence to the Group. The Company is in the opinion that all the independent non-executive directors were acting independently throughout the financial year.

Model Code of the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 (the “Model Code”) to the Listing Rules. The Company has made specific enquiry with each director and was confirmed that all directors have complied with the required standard set out in the Model Code throughout the financial year.



Corporate Governance Report

Nomination of Directors

The Company does not have a nomination committee. The Board is responsible for all matters relating to the appointment of directors, either to fill a casual vacancy or as an addition to the existing Board. Suitable candidates are proposed to the full Board for consideration of appointment. Any directors so appointed shall hold office only until the next AGM and shall then be re-elected at that meeting in accordance with the Bye-laws of the Company.

During the year, a full board meeting was held for the nomination and appointment of Ms. Wong, Vicky Lai Ping (“Ms. Wong”) as an executive director of the Company and Ms. Wong will, being eligible, offer herself for re-election at the forthcoming AGM.

Audit Committee

The Audit Committee comprises three (3) independent non-executive directors. The Board adopted clear terms of reference and will revise them from time to time as and when they think fit. All the independent non-executive directors are qualified accountants with extensive experience in financial management. The Audit Committee meets at least twice a year to discuss and review the internal control, the financial information and relevant matters with proceedings as for the Board meetings.

During the year, the Audit Committee has reviewed the results for the interim period ended 31 December 2005, the financial year ended 30 June 2006 and certain areas of the internal control procedures.

The Audit Committee recommended to engage Messrs. Moores Rowland Mazars (“Moores Rowland Mazars”) to fill the vacancy from the resignation of PricewaterhouseCoopers as the auditors of the Company on 20 December 2005. The Audit Committee has also approved terms and remuneration of Moores Rowland Mazars for the audit for the financial year under review.

The Audit Committee held four meetings during the year and the attendance of each member is listed under the heading “Attendance Summary” below on a named basis.



Corporate Governance Report

Remuneration Committee

The Remuneration Committee was composed of three (3) independent non-executive directors and two (2) executive directors during the financial year. On 1 July 2006, Ms. Wong, Vicky Lai Ping, an executive director, was appointed as a member of the Remuneration Committee as she is specialized in the human resources area. The responsibilities of the Remuneration Committee are clearly stated in the terms of reference, including but not limited to recommendations to the Board on the Company's policy and structure for the remuneration of all executive directors and senior management and the review and approval of their respective compensation package. The Remuneration Committee shall meet twice a year, the least.

During the financial year, the Remuneration Committee has reviewed and approved the remuneration package of all executive directors and senior management of the Group. The Remuneration Committee has also reviewed and approved the performance-based remuneration policy of the Company which is further elaborated under the Section "Management Discussion and Analysis" on pages 6 to 11.

The Remuneration Committee held five meetings in the year and the attendance of each member is listed under the heading "Attendance Summary" below on a named basis.

Executive Committee

The Executive Committee is composed of all executive directors, the general manager, the financial controller and the head of a major business division of the Company. Members of the Executive Committee are appointed by the Executive Directors for the establishment, implementation and review of strategies and policies to achieve the long-term and short-term business goals of the Group. The Executive Committee meets monthly and is accountable to the Board for the performance of all businesses.

Risk and Credit Control Committee ("RCCC")

RCCC is composed of two (2) executive directors, the general manager, the associate director of legal and compliance department, the financial controller of the Company and two (2) directors of a subsidiary of the Company. RCCC is responsible for establishing and reviewing credit policies and procedures to minimize the systematic and non-systematic credit and financial risks of the Group. RCCC is also responsible for assessing the risk of investments of trading and long-term purposes. RCCC meets regularly and reports to the Board from time to time.

Corporate Governance Report

Attendance Summary

The following table shows the attendance of each individual member of the Board and the respective board committees at the Board and the respective board committees meetings held during the financial year:

| Name of members of the Board/the respective Board Committees | Attendance/Number of meetings held | | | | |
|--|------------------------------------|-------------------------------|--------------------------------------|-----------------------------------|--|
| | Board meeting | Audit Committee meeting | Remuneration Committee meeting | Executive Committee meeting | Risk and Credit Control Committee meeting |
| <i>Executive Directors:</i> | | | | | |
| Yip Man Fan | 4/5 | N/A | N/A | 10/12 | N/A |
| Kwok Kam Hoi | 5/5 | N/A | 5/5 | 11/12 | 13/15 |
| Tsunoyama Toru | 5/5 | N/A | 5/5 | 10/12 | 13/15 |
| Lee, Edmund Kit Ming | 0/0 | N/A | N/A | N/A | 1/1 |
| <i>(Resigned on 7 July 2005)</i> | | | | | |
| <i>Independent Non-executive Directors:</i> | | | | | |
| Lam, Andy Siu Wing | 5/5 | 4/4 | 5/5 | N/A | N/A |
| Ma, Andrew Chiu Cheung | 5/5 | 4/4 | 5/5 | N/A | N/A |
| Yu King Tin | 4/5 | 3/4 | 4/5 | N/A | N/A |
| Sun Shuyi | 0/2 | N/A | N/A | N/A | N/A |
| <i>(Resigned on 3 March 2006)</i> | | | | | |



Corporate Governance Report

INTERNAL CONTROL

Internal audit function was assumed by the legal and compliance department during the financial year to review the system of internal control including financial, operational and compliance controls. Internal audit will be performed on the Group's major businesses on a rotation basis. Internal audit report is reported to the Audit Committee directly for review and consideration. Recommendations will also put forward to the Board for consideration and approval.

EXTERNAL AUDITORS

The Board acknowledges the responsibility for preparing the accounts which give a true and fair view. In preparing the accounts which give a true and fair view, appropriate accounting policies are selected and applied consistently and judgment and estimates were made prudently and reasonably on a going concern basis. It is the responsibility of the external auditors to form an independent opinion on the financial statements of the Group to be reported to the members of the Company.

Moore Rowland Mazars were appointed as the external auditor of the Group during the year to fill the vacancy left by PricewaterhouseCoopers. The fee for audit service for the year ended 30 June 2006 was HK\$760,000. No services were rendered by Moore Rowland Mazars other than the statutory audits during the financial year.