

**Corporate Governance Report****CORPORATE GOVERNANCE PRACTICES**

The board of directors of the Company (the "Board") is responsible for ensuring high standards of corporate governance are maintained and for accounting to shareholders. On 1st July, 2005, the Company has applied the principles and complied with all the applicable code provision 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 30th June, 2006, except for the following deviations:

**1. Code Provision A.2.1**

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company does not maintain the office of CEO, however, the day-to-day operation of the Group is managed by the chairman of the Company. Given the Group's current stage of development, the Board considers that vesting the roles of both chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation.

**2. Code Provision A.4.1**

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the Independent Non-Executive Directors and Non-Executive Director of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's Bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

**3. Code Provision B.1.4 and C.3.4**

Under note 1 to the code provisions B.1.4 and C.3.4 of the Code, the issuer should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on the issuer's website.

Since the Company has yet to establish its own website, the above requirement regarding provision of such information on website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

**CODE OF CONDUCT 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 of the Listing Rules for securities transactions by directors of the Company. All the directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 30th June, 2006. The Model Code also applies to other specified senior management of the Group.

**Corporate Governance Report****BOARD OF DIRECTORS**

The Board comprises of two Executive Directors, namely Mr. Lau Tung Hoi (Chairman and Managing Director) and Miss Yan Miu King (Deputy Chairman), three Independent Non-executive Directors, namely Mr. Man Mo Leung, Mr. Ho Yau Ming and Mr. Hung Kwok Keung, Keith and one Non-executive director namely Mr. Wu Wing Kit. The biographic details of the Board members are provided in the "Directors Profile" section of the annual report.

There is a clear division of responsibilities between the Board and the management. The Board is responsible for providing high-level guidance and effective oversight of the management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking, the Board is responsible for:

- Formulating the Group's long term strategy and monitoring the implementation thereof
- Recommending of interim and year end dividend
- Reviewing and approving the annual and interim reports
- Ensuring good corporate governance and compliance
- Monitoring the performance of the management
- Reviewing and approving any material acquisition and assets disposal

The Board authorises the management to carry out the strategies that have been approved.

The Board meets regularly at least four times a year and additional meetings or telephone conferences are convened as and when the Board considers necessary. During the year ended 30th June, 2006, four board meetings were held. Details of the Directors' attendance record in the year are as follows:

<b>Directors</b>	<b>Attendance/ Number of meetings held</b>
Mr. Lau Tung Hoi	4/4
Ms. Yau Miu King	4/4
Mr. Wu Wing Kit	4/4
Mr. Man Mo Leung	4/4
Mr. Ho Yau Ming	4/4
Mr. Hung Kwok Keung, Keith	4/4

The Board complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and one of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related finance management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

**Corporate Governance Report****CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company does not at present have any officer with the title of CEO but instead the duties of a CEO are performed by the Managing Director ("MD"). The positions of both Chairman and MD are currently held by Mr. Lau Tung Hoi. The Board believes that vesting the roles of both Chairman and MD in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. In addition, through the supervision of the Board which comprised of three independent non-executive directors, representing more than half of the board, the interests of the shareholders are adequately and fairly represented.

**APPOINTMENT AND RE-ELECTION OF DIRECTORS**

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

None of the existing non-executive directors (including independent non-executive directors) is appointed for a specific term. This constitutes a deviation from the Code. In accordance with the provisions of the Bye-laws of the Company, any director appointed by the Board during the year shall retire and submit themselves for re-election at the first general meeting immediately following his/her appointment. Further, at each annual general meeting, one-third of the directors for the time being, or if their number is not three or multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. At such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.

Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the next following annual general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Bye-laws of the Company, the Chairman or Managing Director is not subject to retirement by rotation or taken into account on determining the number of Directors to retire. This constitutes a deviation from the Code. As continuation is a key factor to the successful implementation of any long term business plans, the Board believes that, together with the reasons for deviation from Code Provision A.2.1, that the present arrangement is most beneficial to the Company and the Shareholders of the Company as a whole.

## Corporate Governance Report

### REMUNERATION OF DIRECTORS

The Company has established the Remuneration Committee in January 2006 with terms of reference substantially the same as those contained in paragraph B.1.3 of the Code. A majority of the members of the Remuneration Committee is independent non-executive directors and members of the Committee are listed as below.

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
6. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-caliber team which is essential to the success of the Company.

The Remuneration Committee will meet at least once each year. During the year under review, The Committee has not yet held any meeting and expected to have the first meeting before the end of 2006.

#### Committee member

Mr. Hung Kwok Keung, Keith	(Independent Non-executive Director & Chairman of the Remuneration Committee)
Mr. Man Mo Leung	(Independent Non-executive Director)
Mr. Ho Yau Ming	(Independent Non-executive Director)
Mr. Wu Wing Kit	(Non-executive Director)

### NOMINATION OF DIRECTORS

The Company has not established any nomination committee. The Board will identify individuals who are suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account of his/her experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

**Corporate Governance Report****AUDITORS' REMUNERATION**

For the year ended 30th June, 2006, the auditors of the Group, Messrs. Deloitte Touche Tohmatsu, received approximately HK\$460,000 for audit services and HK\$125,000 for tax and consultancy services.

**AUDIT COMMITTEE**

The Audit Committee was established in 1999 and comprises four members who are independent non-executive directors or non-executive director, all of them are not involved in the day-to-day management of the Company. The Audit Committee has adopted the same terms of reference, which describes the authority and duties of the Committee, as quoted under code provision C.3.3 of the Code.

The Audit Committee will meet at least twice each year. In 2006, the Audit Committee met twice considering the financial reporting matters, assessing changes in accounting policies and practices, discussing major judgmental area and compliance with applicable legal and accounting requirements and standards, discussing with the auditors of the Company on internal control. Details of Committee members and their attendance records are listed as below:

<b>Committee member</b>	<b>Attendance/ Number of meetings held</b>
Mr. Man Mo Leung (Independent Non-executive Director & Chairman of the Audit Committee)	2/2
Mr. Ho Yau Ming (Independent Non-executive Director)	2/2
Mr. Hung Kwok Keung, Keith (Independent Non-executive Director)	2/2
Mr. Wu Wing Kit (Non-executive Director)	2/2

**DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENT**

The Directors acknowledge their responsibility for (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements are in accordance with statutory requirements and applicable accounting standards and (ii) selecting suitable accounting policies and applying them consistently with the support of reasonable and prudent judgments and estimates.

The report of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out on page 20 of this Annual Report.

**INTERNAL CONTROL**

A sound and effective internal control system is important to safeguard the shareholders' investment and the Company's assets. During the year, the Board reviewed and satisfied the effectiveness of the internal control system of the Group including financial, operation, compliance controls and risk management functions.

On behalf of the Board

**LAU TUNG HOI**

*Chairman*

Hong Kong, 12th October, 2006