

## CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining and improving the quality of corporate governance so to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value.

In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules during the period under review, except for the certain deviation disclosed herein:

### BOARD OF DIRECTORS

The Board of Directors of the Company currently consists of six members: three executive directors, namely, Ms Zhou Liping, Ms Guan Mei, Mr Huang Flynn Xuxian; and three independent non-executive directors, namely, Mr Chan Wai Kwong, Peter, Mr Ngai Chi Yung and Mr Shea Chun Lok, Quadrant, who has the professional and accounting qualifications required by the Listing Rules. The function of the Board is to formulate corporate strategy and business development. The Board has met regularly during the year to approve acquisition and disposal, connected transactions, placing of shares and monitoring the financial performance of the Group in pursuit of its strategic goals. The chairmanship of the Board of the Company is elected at each Board meeting. Control and day to day operation of the Company is delegated to the Chief Executive Officer and the management of the Company.

There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship. The Company has received from each of its independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers the independence non-executive directors to be independent. According to the code provisions, the non-executive directors should be appointed for a specific term, subject to re-election. All directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles, and the terms of their appointment will be reviewed when they are due for re-election. As such, the Board considers that sufficient measures are in place to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Attendance records of individual directors during the year:

<b>Composition of the Board</b>	<b>Meetings Attended/Held</b>
Ms Zhou Liping	14/14
Ms Guan Mei	5/14
Mr. Huang Flynn Xuxian	3/14
Mr Shea Chun Lok, Quadrant	11/14
Mr Chan Yiu Kwong (resigned on 17th July, 2006)	5/14
Mr. Ngai Chi Yung	5/14
Mr Chan Wai Kwong, Peter (appointed on 17th July, 2006)	0/14

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code A.2.1 of CG Code provides, inter alia, that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Company does not officially have a position of Chief Executive Officer. However, Ms. Zhou Liping has been assuming the roles of both the Chairman and Chief Executive Officer of the Company. The Board intends to maintain this structure in the future as it believes that it would provide the Group with strong and consistent leadership and allow the Group's business operations, planning and decision making as well as execution of long-term business strategies to be carried out more effectively and efficiently. Nonetheless, the Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Code A.2.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the By-laws of the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors (the "Model Code"). Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions during the year.

## BOARD COMMITTEES

The Board has established two board committees to strengthen its functions and corporate governance practices, namely, Audit Committee and Remuneration Committee. The Audit Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.

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### AUDIT COMMITTEE

The Company's Audit Committee is composed of three independent non-executive directors, currently, Mr Shea Chun Lok, Quadrant (Chairman of the Audit Committee), Mr Chan Wai Kwong, Peter and Mr Ngai Chi Yung. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Audit Committee is responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements, any issues arising from the audit and any other auditors may wish to raise and review of the Company's internal control and risk management.

Summary of work done in the year: Reviewed the financial statements for the year ended 30th Jun 2005 and for the six months ended 31st December, 2005, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and the internal control system and risk management.

The Group's results for the year ended 30th June, 2006 have been reviewed by the Company's Audit Committee.

The Audit Committee held two meetings during the year with an attendance rate of 100%.

### REMUNERATION COMMITTEE

The Company's Remuneration Committee is composed of three independent non-executive directors, currently, Mr Shea Chun Lok, Quadrant, Mr Chan Wai Kwong, Peter (Chairman of the Remuneration Committee) and Mr Ngai Chi Yung. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Remuneration Committee is responsible of developing remuneration policies and in overseeing remuneration packages of the directors whether the emoluments offered are appropriate to the duties and performance of the respective individuals concerned. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration.

Summary of work done during the year: Reviewed and approved the remuneration of directors according to their respective responsibilities, expertise and performance. The Remuneration Committee held one meeting during the year with an attendance rate of 100%.

## AUDITORS' REMUNERATION

The Group was charged totaling approximately HK\$371,000 for auditing services by the auditors of the Group in respect of the year ended 30th June, 2006.

## INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions within an established framework.

## DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 30th June, 2006, the directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.