

Corporate Governance Report

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), which became effective for the Group commencing the current fiscal year.

In the opinion of the directors, the Company substantially complied with the provisions of the Code throughout the year ended 30 June 2006, except for the appointment and retirement of directors as discussed below. The principal corporate governance principles and practices of the Company are summarised as follows:

RESPONSIBILITIES OF THE BOARD

The Board’s primary responsibilities include the formulation of long-term corporate strategy, policy decisions and overseeing the management of the Group’s operations. In addition, the Board evaluates the performance of the Group and assesses the achievement of targets periodically set by the Board. In carrying out its duties and projects, the Board delegates certain specific considerations to designated board committees and management task forces. The daily management, administration and operations of the Company are delegated to the Chief Executive Officer, Executive Directors and senior management with divisional heads responsible for different aspects of the business. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

All directors have full and timely access to all relevant information in discharging their duties, and in appropriate circumstances are normally granted right to seek independent professional advice at the Company’s expense.

COMPOSITION OF THE BOARD

The composition of the Board reflects the necessary balance of skills and experience necessary for effective leadership and independence in decision making. As at the date of this report, the Board comprises nine directors, whose biographical details are set out in the “Biographical Details of the Directors of the Company and Senior Management of the Group.” on page 25 and 26 of the Directors’ Report. Five of the directors are executive, namely, Mr. Ng Leung Ho Ms. Lee Ming Hin, Mr. Hu Xiaoming, Mr. Wang Weining and Mr. Ge Wen Hong, one non-executive director, namely Mr. Ng Leung Tung, and three independent non-executive directors, Mr. Zou Zi Ping, Mr. Lo Cheung Kin, and Mr. Zhu Jian Hong.

The Company has complied with Rules 3.10(1) and 3.12(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one of the independent non-executive directors have appropriate professional qualifications or accounting or related financial management expertise throughout the financial year ended 30 June 2006.

The Company has received annual confirmations from all independent non-executive directors that they did not have any business or financial interest with the Group and were independent as at 30 June 2006 in accordance with Rule 3.13 of the Listing Rules.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated and not exercised by the same individual. The Board has appointed Mr. Ng Leung Ho as Chairman of the Company and Ms. Lee Ming Hin as Chief Executive Officer of the Company. The Chairman is responsible for the corporate strategic planning and formulation of corporate policies for the Group, while the Chief Executive Officer is responsible for overseeing day-to-day management of the Group's business. The Board is of the opinion that the segregation of the two roles enhances the balance of power within the Company's corporate governance structure.

APPOINTMENT AND SUCCESSION PLANNING OF DIRECTORS

The Board as a whole is responsible for reviewing its composition, developing and formulating the relevant procedures for the nomination and appointment of Directors; and monitoring their succession. The Board's established policies include procedures for the appointment of directors nominated by the Company's shareholders. The existing Bye-laws of the Company empower the Board to appoint any person as Director either as an additional member or to fill a casual vacancy.

The term of office for each of the Executive Director is governed by service contract provisions. The Company's independent non-executive directors were not appointed for specific terms as required by code provision A.4.1 but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company. Commencing 25 October 2005, to comply with the Code provisions, revisions have been made to appoint the independent non-executive directors on the basis of specific terms of three years.

The existing Bye-laws of the Company provide that at each annual general meeting one-third of the directors for the time being, with the exception of the Chairman and Deputy Chairman, are subject to retirement by rotation. Apart from those who do not wish to offer themselves for re-election, the directors to retire shall include those who have been longest in office since last re-election. In addition, all directors appointed to fill a casual vacancy shall retire in the next annual general meeting but eligible for re-election. In order to bring the Bye-laws of the Company in line with the Code provisions, resolutions will be proposed at the forthcoming annual general meeting to seek shareholders' approval for the amendments of the Bye-laws of the Company in the order that all directors (including the Chairman and Deputy Chairman) are subject to retirement by rotation at least once every three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules in respect of securities dealing by directors. The Company has made specific enquiry to all directors of the Company in respect of securities dealing by the Directors that they have fully complied with the required standard set out in the Model Code throughout the financial year ended 30 June 2006.

Corporate Governance Report

REMUNERATION OF DIRECTORS

On 15 April 2005, the Company established a Remuneration Committee with terms of reference in accordance with the Code. The Remuneration Committee comprises the three independent non-executive directors of the Company. The principal responsibilities of the remuneration committee include making recommendation on the policy and structure for the remuneration of directors and senior management of the Company, the establishment of a formal and transparent procedure for developing such policy, and the review of specific remuneration packages of all executive directors and senior management of the Company by reference to corporate goals and objective resolved by the Board from time to time.

The principal elements of the executive directors' remuneration package include basic salary, benefit in kind, discretionary bonus, retirement benefits and participation in the share option scheme adopted by the shareholders of the Company in November 2001. The remuneration packages of the executive directors will be proposed by Chairman of the Group annually for the review and approval of the remuneration committee based on the following factors:

- a) the executive director's responsibilities and contribution;
- b) the executive director's individual performance;
- c) performance of the business unit(s) headed by the executive director; and
- d) performance of the Group as a whole.

The non-executive director and independent non-executive directors' remuneration includes directors fee and participation in the share option scheme, and subject to annual assessment and recommendation by the remuneration committee. The Board's authority to fix directors' remuneration was granted by the Company's shareholders at the Annual General Meeting.

The Remuneration Committee met once during the financial year ended 30 June 2006 and reviewed the existing remuneration policy and structure of the Company and remuneration packages of the Directors and senior management. Attendance of each member at the remuneration committee meeting is set out in the table under section "Meeting Attendance" of this report.

Corporate Governance Report

AUDIT COMMITTEE

The Company has established an Audit Committee, the terms of which are consistent with the provisions set out in the relevant section of the Code. The Audit Committee of the Company presently comprises the three independent non-executive directors, one of whom possesses the appropriate professional qualification or accounting or related financial management expertise. None of the members of the audit committee is a former partner of the Company's existing external auditors. The primary responsibilities of the Audit Committee include the followings:

- a) To review the Company's financial information including annual report and half-yearly report and the appropriateness of any significant financial reporting judgments contained therein;
- 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; and
- 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 Company's annual results for the year ended 30 June 2006 and interim results for the six months ended 31 December 2005 have been reviewed by the Audit Committee.

At the Company's annual general meeting held on 2 December 2005, the Company's shareholders had not passed the resolution regarding the re-appointment of RSM Nelson Wheeler as auditors of the Company. In subsequent special general meeting held at 17 March 2006, a resolution was passed to appoint Johnny Chan & Co. Limited as auditors of the Company to fill the causal vacancy arising. The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

During the year ended 30 June 2006, two meetings have been held by the audit committee. Attendance of each member at the audit committee meeting is set out in the table under section "Meeting Attendance" of this report.

Corporate Governance Report

MEETING ATTENDANCE

During the financial year ended 30 June 2006, four board meeting had been held for reviewing business performance, and considering and approving the overall strategies and policies of the Company. Attendance of each member, on a named basis, during the year ended 30 June 2006 is set out in the table below.

	Board Meetings	Remuneration Committee Meetings	Audit Committee Meetings
Mr. Ng Leung Ho	4/4	N/A	N/A
Ms. Lee Ming Hin	4/4	N/A	N/A
Mr. Wang Weining	2/4	N/A	N/A
Mr. Hu Xiaoming	3/4	N/A	N/A
Mr. Ge Wen Hong	0/4*	N/A	N/A
Mr. Ng Leung Tung	2/4	N/A	N/A
Mr. Lo Cheung Kin	2/4	1/1	2/2
Mr. Zou Zi Ping	1/4	1/1	2/2
Mr. Zhu Jian Hong	2/4	1/1	2/2

* Mr. Ge Wen Hong was appointed director on 18 May 2006 and therefore no meeting was attended during the financial year ended 30 June 2006.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledged that they are responsible for the preparation of the financial statements of the Group. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

The Statement of the external auditors of the Company about their responsibilities on the financial statements is set out in the Auditors' Report on page 34.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

AUDITORS' REMUNERATION

The remuneration in respect of audit and non-audit services provided by the external auditors for the financial year ended 30 June 2006 are HK\$800,000 and HK\$500,000 respectively.

Corporate Governance Report

INTERNAL CONTROL

The Board acknowledged that they are responsible for maintaining effective internal control system of the Group. Notwithstanding the Audit Committee reviews financial results and the overall internal control environment periodically, the directors design well defined management structure with limit of authority and segregation of duties, and ensure the whole operation system is compliance with the relevant regulation and legislation. The directors regularly review the management and financial reports, and ensure that the Company maintains a healthy financial position all the time.

During the financial year ended 30 June 2006, the Board conducted a review on the effectiveness of the Group's material internal controls, covering financial, operational, compliance and risk management functions. Based on the review undertaken, the Board is of the view that present internal control system of the Group is considered adequate. However, the Board shall remain open to suggestion for further improvement, including recommendation from the external auditors of any potential areas for improvement noted during the audit process.

COMMUNICATION WITH SHAREHOLDERS

The Company recognises that the importance of the communication with shareholders. In order to maintain and further enhance the investors' relationship with the Company's shareholders, the Company established various channels of communication with its shareholders:—

- 1) The annual general meeting provides a platform for shareholders to exchange views with the Board. The members of the Board and external auditors will attend the meeting. The Group encourages all shareholders to attend and raise any comment on performance of the Group. The Board is welcome to exchange views with the shareholders at the meeting.
- 2) The Company has regularly met with financial analysts, fund managers and potential investors during year ended 30 June 2006, in order to enhance the understanding the Group's operations and developments.
- 3) Information relates to Company's financial information is provided through publication of annual reports, announcements, circulars and press release.
- 4) The company will soon establish a corporate website which provides regularly updated company financial information and other corporate information.

Separate resolutions are proposed at shareholders' meeting on each substantial issue, including the election of individual director. 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 are explained at the beginning of the proceedings of meeting. Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange.