

Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance, in compliance with the principles 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”).

(1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the Annual Report save for the deviations from code provisions A.4.1 and E.1.2.

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive Directors of the Company is appointed for a specific term. However, under the articles of association of the Company, all Directors of the Company are subject to retirement by rotation once every three years since their last election and retiring directors are eligible for re-election.

Code Provision E.1.2

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other commitments which must be attended to by the Chairman, the Chairman was not present at the annual general meeting of the Company held on 23rd December, 2005.

(2) DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a Code for Securities Transactions by Directors (the “Securities Code”) on terms no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Securities Code during the year ended 31st July, 2006.

(3) BOARD OF DIRECTORS

(3.1) The Board supervises the management of the business and affairs of the Company. The Board’s primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely, the Executive Committee, Audit Committee and Remuneration Committee. Specific responsibilities have been delegated to the above committees.

(3.2) The Board comprises four executive directors, namely, Mr. Lam Kin Ngok, Peter (Chairman), Mr. Lau Shu Yan, Julius (Chief Executive Officer), Mr. Tam Kin Man, Kraven and Mr. Cheung Wing Sum, Ambrose; two non-executive directors, namely, Mr. Lam Kin Ming and Madam U Po Chu, and three independent non-executive directors, namely, Mr. David Tang, Mr. Lam Bing Kwan and Mr. Leung Shu Yin, William.

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(3) BOARD OF DIRECTORS (continued)

(3.3) The Board met four times during the year ended 31st July, 2006. The attendance record of individual directors at these board meetings is set out in the following table:

Directors	Board Meetings	
	Held	Attended
Executive Directors		
Lam Kin Ngok, Peter (<i>Chairman</i>)	4	0
Lau Shu Yan, Julius (<i>Chief Executive Officer</i>)	4	3
Tam Kin Man, Kraven	4	3
Cheung Wing Sum, Ambrose	4	2
Non-Executive Directors		
Lam Kin Ming	4	1
U Po Chu	4	0
Independent Non-Executive Directors		
David Tang	4	3
Lam Bing Kwan	4	3
Leung Shu Yin, William	4	4

(3.4) The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules. All independent non-executive directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules

(3.5) Mr. Lam Kin Ngok, Peter, an executive director, is the son of Madam U Po Chu, and the younger brother of Mr. Lam Kin Ming, the latter two being non-executive directors.

Save as disclosed above and in the "Biographical Details of Directors and Senior Management" section of this Annual Report, none of the directors of the Company has any financial, business, family or other material/relevant relationships with one another.

(4) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of Chairman and Chief Executive Officer be separated and not performed by the same individual.

During the year under review, Mr. Lam Kin Ngok, Peter was the Chairman of the Company while Mr. Lau Shu Yan, Julius was appointed Chief Executive Officer of the Company on 1st November, 2005.

(5) NON-EXECUTIVE DIRECTORS

As explained in Paragraph (1) above, none of the existing non-executive directors of the Company is appointed for a specific term.

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(6) REMUNERATION COMMITTEE

- (6.1) The Board established a Remuneration Committee on 18th November, 2005, which comprises three independent non-executive Directors, namely, Messrs. Leung Shu Yin, William (Chairman), David Tang and Lam Bing Kwan, and Mr. Lee Po On.
- (6.2) The Remuneration Committee has been charged with the responsibility to recommend to the Board, in consultation with the Chairman of the Board and/or the Chief Executive Officer, on an appropriate policy and framework for all aspects of remuneration of all directors and senior management, including but not limited to directors' fee, salaries, allowances, bonuses, share options, benefits in kind and pension right, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.
- (6.3) The Remuneration Committee held one meeting on 10th November, 2006 to discuss remuneration-related matters. Messrs. Leung Shu Yin, William, Lam Bing Kwan and Lee Po On attended the aforesaid meeting.

(7) NOMINATION OF DIRECTORS

The Company has not established a nomination committee. Potential new directors will be recruited based on their skills, experience and expertise and the requirements of the Company at the relevant time. The process of identifying and selecting appropriate candidates for approval by the Board will be carried out by the executive directors of the Company.

(8) AUDITORS' REMUNERATION

The auditors of the Company, Ernst & Young, received audit fees amounting to HK\$2,080,000 for the year under review. The Company also engaged Ernst & Young at a remuneration of HK\$600,000 for issuance of certain letters of comfort and audited financial statements of certain subsidiaries in relation to the capital reduction exercise of the Company as detailed in note 36(a) to the financial statements.

(9) AUDIT COMMITTEE

- (9.1) the Board established an Audit committee on 31st March, 2000, which currently comprises the three independent non-executive Directors, namely, Messrs. David Tang (Chairman), Lam Bing Kwan and Leung Shu Yin, William.

The principal responsibilities of the Audit Committee include the monitoring of the integrity of the periodical financial statements of the Company and the review of significant financial reporting judgments contained in them before submission to the Board for approval.

The Company has complied with rule 3.21 of the Listing Rules in that one of the members of the Audit Committee possesses appropriate professional qualifications or accounting or related financial management experience.

- (9.2) The Audit Committee held two meetings during the year under review. All members of the Audit Committee, namely, Messrs. David Tang, Lam Bing Kwan and Leung Shu Yin, William, attended all the meetings.
- (9.3) The Audit Committee reviewed the half-yearly and annual results of the Company, and other matters related to the financial and accounting policies and practices of the Company.

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(10) FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries, in accordance with accounting principles generally accepted in Hong Kong.

The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the auditors contained in this Annual Report.

(11) INTERNAL CONTROL

During the year, the Board has engaged Horwath Risk Advisory Services Limited to perform internal audit functions and to assist the Board in reviewing the effectiveness of the internal control system of the Group. The periodic review will cover all material controls, including financial, operational and compliance controls and risk management functions of the Group.