

## CORPORATE GOVERNANCE REPORT

The Group is committed to ensuring high standards of corporate governance in the interests of the shareholders and in maintaining high level of business ethics and corporate governance practices.

The Board supports the principles of corporate governance as stated in the Code on Corporate Governance Practices ("the CG Code"). Details of the CG Code are set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). Below is the Group's report on the application of the principles contained in the CG Code for the year under review. The Company has complied throughout the year ended 31 August 2006 with the Code Provisions except that, the division of responsibilities between the Chairman and Chief Executive Officer was set out in writing on 4 April 2006, despite that the Company has a practice of dividing the responsibilities between the Chairman and the Chief Executive Officer.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")**

The Company has adopted the Model Code of the Listing Rules as the code of conduct for securities transactions by directors of the Company (the "Company Code"). Having made specific enquiry of all directors, the Directors confirmed that they have complied with the required standards as set out in the Company Code throughout the year from 1 September 2005 to 31 August 2006. On 21 November 2005, the Company has also extended the Company Code for securities transactions by the senior management of the Company.

### **THE BOARD**

The Board is responsible to the shareholders for the management of the Group and has adopted a committee structure which enables the Board to concentrate its efforts on establishing the strategic direction of the Company, setting objectives of and monitoring the performance of the Management.

#### **Directors**

The Board currently comprises a total of 7 directors, with three executive directors, one non-executive director and three independent non-executive directors. In this respect, the Company complies with the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors.

The names and biographical details of the directors of the Company are given on pages 20 to 21 in the Profile of Directors and Senior Management. All directors served the Board throughout the financial year, with the exception of Mr Lai Ni Quiaque, who was appointed on 1 January 2006 replacing Ms Sio Veng Kuan, Corinna who resigned as a director with effect 1 January 2006.

The Company does not have a nomination committee or a formal written Board evaluation process for nomination of members to the Board. Generally, decisions on nominations for members to the Board would result from consultations among the Chairman, Chief Executive Officer and other Directors as they consider appropriate.

Every newly appointed director of the Company will receive a comprehensive, formal and tailored induction on the first occasion of his appointment to ensure that he has a proper understanding of the operations and business of the Company, and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

During the year under review, the Company has provided to its newly-appointed director with the title of Chief Financial Officer with a comprehensive, formal and tailored induction materials consisting of directors' duties under the rules and regulations in Hong Kong and Chief Financial Officer's duties under the relevant U.S. securities law and regulations.

#### **Appointment, re-election and removal of directors**

Pursuant to the Articles of Association of the Company, any director appointed by the Board in case of filling a casual vacancy or an addition to the existing Board shall hold office only until the next following general meeting of the Company, and shall be eligible for re-election.

At every annual general meeting, one third of the Directors shall retire from office and every of them (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The term of appointment of the non-executive directors of the Company is renewable every year subject to retirement by rotation at least once every three years.

During the period from 1 September 2005 to 31 August 2006, Ms Sio Veng Kuan, Corinna resigned as a director on 1 January 2006 to pursue her personal interests; and Mr Lai Ni Quiaque was appointed as a director of the Company by the Board to fill up her vacancy. For compliance with the provisions of the Articles of Association of the Company, Mr Lai will retire at the coming 2006 Annual General Meeting and, being eligible, will offer himself for re-election.

Furthermore, Mr Cheng Mo Chi, Moses and Dr Chan Kin Man shall retire by rotation at the coming 2006 Annual General Meeting and, being eligible, will offer themselves for re-election.

### **Composition and role**

In terms of the composition of the Board, the Board's preference is to maintain a smaller size for efficiency and to encourage active dialogue among the members. It believes that the balance between executive and non-executive directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

Pursuant to Rule 3.13 of the Listing Rules, each of the independent non-executive directors has made a written confirmation of independence and the Company is of the view that all the independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

The Board's principal focus is on the overall strategic direction, development and control of the Group. In support of this, the following functions are reserved to the Board:

- (i) Establishing the strategic direction of the Company;
- (ii) Setting the objectives of Management;
- (iii) Monitoring the performance of Management;
- (iv) Acting in the best interests of the Company and shareholders; and
- (v) Reviewing, considering and/or approving the annual budget, management results and performance update against annual budget, together with business report and presentations from Management.

The Board also delegates to the Management the functions of (1) implementing of the strategy and direction set by the Board; and (2) preparing the annual operating budget and presenting the same to the Board for approval.

The roles of the Chairman and the Chief Executive Officer are segregated. They are set out in written job descriptions, and were approved by the Board on 4 April 2006. The positions of the Chairman and Chief Executive Officer are held by separate individuals. Although Mr Wong Wai Kay, Ricky, Chairman of the Company, is a first cousin of Mr Cheung Chi Kin, Paul, Chief Executive Officer of the Company, the written job descriptions reinforce a segregation of duties in order that a balance of power and authority is achieved.

Other than the above, none of the members of the Board has any relationship (including financial, business, family or other material or relevant relationships) between each other.

### **Board Proceedings**

The Board meets regularly at approximately quarterly intervals. All Board members have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary. The Company Secretary will dispatch to all members of the Board the notice at least before 14 days of each of regular board meetings to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.

Representatives from Finance Department and Internal Audit Department would be invited whenever appropriate, reporting to the Board on their business including the operations, financial performance and internal audit progress. The Company Secretary also reports to the Board on the corporate governance issues, where necessary. These reports and the discussions at Board meetings enable all Board members to make informed decisions for the interests of the Company. The finalized agenda and full set of board papers were sent at least 3 days before the intended dates of the Board meetings.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that proper board procedures are followed and advising the Board on all corporate governance matters.

All the minutes of Board meetings are prepared by the Company Secretary with sufficient details of the matters considered by the Board and decisions reached, including any concerns raised by directors or dissenting views expressed. The draft minutes of board meetings are circulated to the Board members for comment and the final version of Board minutes are formally adopted at the subsequent meeting. Minutes of Board Meetings are kept by the Company Secretary and open for inspection by all Board members at the Company's registered office.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board met four times in this year, together with four written resolutions approved by all the members. The attendance of individual directors / member at these Board meetings and at two other board committees meetings (the Audit Committee and the Remuneration Committee) is set out in the following table:

	Meetings Attended/Held		
	Board meeting	Audit Committee meeting	Remuneration Committee meeting
<b>Executive Directors:</b>			
Mr Wong Wai Kay, Ricky (Chairman)	4/4	–	–
Mr Cheung Chi Kin, Paul (Chief Executive Officer)	3/4	–	–
Mr Lai Ni Quiaque <sup>#</sup> (Chief Financial Officer) (Appointed on 1 January 2006)	3/3	–	2/2
Ms Sio Veng Kuan, Corinna <sup>#</sup> (Resigned on 1 January 2006)	0/1	–	–
<b>Non-Executive Director:</b>			
Mr Cheng Mo Chi, Moses <sup>#</sup>	2/4	–	0/2
<b>Independent Non-Executive Directors:</b>			
Mr Lee Hon Ying, John <sup>*#</sup>	4/4	4/4	2/2
Dr Chan Kin Man <sup>*#</sup>	4/4	4/4	2/2
Mr Peh Jefferson Tun Lu <sup>*#</sup>	4/4	4/4	2/2
<b>Director, Human Resources</b>			
Ms Choy Mei Yuk, Mimi <sup>#</sup>	–	–	1/2

\* Audit Committee Member

# Remuneration Committee Member

### DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board, supported by the Finance Department, is responsible for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently. The Board acknowledges their responsibility for preparing the financial statements of the Company that they are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company as at the year ended 31 August 2006, and every profit and loss account of the Company shall give a true and fair view of the profit or loss of the Company for this financial year ended 31 August 2006.

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

The Company has purchased insurance to cover the Directors' and Officers' liability. The insurance policy covers the following major contracts: Directors' and Officers' Liability Contract; Company Reimbursement Contract; and Legal Representation Expenses Contract. Throughout the financial year 2006, no claim has been made against the directors and officers.

### BOARD COMMITTEES

#### Remuneration Committee

The Group's Remuneration Committee was established in August 2001. The Remuneration Committee comprises six members with three independent non-executive directors, the non-executive director, the chief financial officer and the Director, Human Resources. The terms of reference of the Committee as adopted by the Board are published on the Group's website. The Remuneration Committee's objectives are to:

- (i) Establish a formal, fair and transparent procedures for developing policy and structure of all remuneration of directors and senior management;

- (ii) Review and consider the Company's policy for remuneration of directors and senior management;
- (iii) Determine the remuneration packages of executive directors and senior management; and
- (iv) Recommend to the Board the remuneration of non-executive directors (whether independent or otherwise).

The main responsibilities of the Remuneration Committee are set out as follows:

- a. to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- b. to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kinds, pension rights, short and long term incentives and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;
- c. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- d. 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 Group;
- e. 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
- f. to ensure that no director or any of his associates is involved in deciding his own remuneration.

The remuneration of directors and senior management is determined with reference to the salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employee conditions elsewhere in the Company and desirability of performance-based remuneration.

The remuneration structure of the Company for its employees, including executive directors and senior management, comprises fixed salary, discretionary bonus and employer's contribution to pension scheme. Directors and employees also participate in bonus arrangements determined by the performance of the Group and the individual's performance. Details of the directors' remuneration are set out in Note 11 of the financial statements.

During this year, the Remuneration Committee met two times to discuss remuneration related matters together with one written resolutions approved by all committee members. Matters discussed included the followings:

- a. Reviewed and approved bonus payouts to the directors and senior management for the 2005 performance period;
- b. Reviewed and approved the remuneration packages of a new member as an executive director and senior management; and
- c. Reviewed and approved the share options granted to the executive directors and senior management under 2002 Share Option Scheme.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Audit Committee

The Group established its Audit Committee in March 1999. The Audit Committee comprises Mr Lee Hon Ying, John (the Chairman of the Audit Committee), Dr Chan Kin Man, Mr Peh Jefferson Tun Lu who are all independent non-executive directors of the Company.

The main responsibilities of the Audit Committee are to oversee the accounting and financial reporting processes of the Group and the audits of the Group's financial statements on behalf of the Board of Directors; and to review and discuss the internal audit plans and reports of the audit activities, examinations and results thereof of the internal audit department of the Company.

The Audit Committee is also directly responsible for the appointment, compensation, retention and oversight of the work of the Group's independent auditors (including resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Group. It shall have the resources and authority appropriate to discharge its responsibilities as required by the law, including the authority to engage independent counsel and other advisors as the Audit Committee deems necessary to carry out its duties.

For the year ended 31 August 2006, KPMG, the external auditor of the Company, and its subsidiaries received approximately HK\$2,143,000 (31 August 2005: HK\$1,467,000) for audit services and HK\$675,000 (31 August 2005: HK\$76,000) for non-audit services. The significant non-audit services covered by these fees include the following:

Nature of service	Fee paid HK\$
Professional fee on agreed upon procedures	675,000

The Audit Committee met four times in this year together with two written resolutions approved by all the committee members. The major works performed by the Committee from 1 September 2005 to 31 August 2006 included:

- a. Reviewed the Company's financial statements for the year ended 31 August 2005 and for the half year ended 28 February 2006;
- b. Reviewed the applicable revised accounting standards;
- c. Reviewed the internal audit progress, especially on the compliance of the Sarbanes-Oxley Act;
- d. Reviewed the external auditor's report on the review of the Company's interim financial report for the 6 months ended 28 February 2006 and the audit of the Company's consolidated financial statements for the year ended 31 August 2005; and
- e. Pre-approved the audit and non-audit services provided by KPMG, External Auditor of the Company.

Other than all the Audit Committee members, representatives of the external auditor, executive directors and representative of Internal Audit Department would be invited to attend the meetings for reporting and answering questions about their work whenever necessary.

The minutes of the Audit Committee meetings are prepared by the Company Secretary who acted as the secretary of the meetings with details of the matters considered by the committee members and decisions reached, including any concerns raised by the committee members or dissenting view expressed. The final version of the minutes are approved by the committee members at the subsequent meeting. The minutes are kept by Company Secretary and are open for inspection by the committee members at the Company's registered office. To enable the committee members making conversant decision, the agenda and the relevant meeting papers are dispatched at least one week before the meetings.

### INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. This system is designed to provide reasonable assurance on the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Internal Audit department conducts independent reviews on the Group's internal control on an on-going basis. The significant findings are reported to the Audit Committee at least twice every year and the corrective actions are taken by the relevant departments.

The internal control assessment shall be conducted with reference to the COSO framework (The Committee of Sponsoring Organization), namely, control environment, risk assessment, control activities, communication and monitoring. These include systems for identifying, monitoring and management of risks associated with its business activities as follows:

- A well-established organizational structure and operational risk assessment policy;

- Policies and procedures are designed for safeguarding corporate assets, maintaining proper accounting records and ensuring transactions are executed in accordance with management's authorization;
- 6-month rolling budget system for performance measurement and monitoring;
- Monthly management reports on the financial results and key operating statistics of each business segment are reviewed by Executive Directors. Regular meetings are held with the senior management of each business unit to review the actual performance against budget;
- A quarterly review of the Group's financial performance by the Board;
- Engagement of independent professionals and provision of appropriate trainings to ensure compliance with applicable laws and regulations;
- Self-Assessment Questionnaires are issued to business units for completion as a basis for evaluating their internal control environment and risks;
- The use of Information technology to build in automatic control in our computer systems; and
- Whistleblower policy is established to facilitate the reporting of any improper activities relating to fraud, questionable accounting or internal control matters.

For the year under review, the Directors considered the Group's internal control system is reasonably effective and adequate. The review covered all material controls including financial, operational and compliance controls and risk management functions.

To assist the continuous professional development of the management of the Company, a workshop on global best practices on internal control and how such control can improve operational performance of the Company was held in September 2006.

## **COMPANY POLICIES**

The Group has adopted a number of company policies to ensure good corporate governance practices and high standard of business conducts and ethics of the Group, including Company Policies and Procedures, Code of Business Conduct and Ethics and individual departmental charters. The Group will conduct and review regularly an evaluation of the adequacy of these Company policies.

## **INVESTOR RELATIONS**

The Group is committed to fostering productive and long-term relationships with shareholders and investors through open and prompt communication. The Group adopts a policy of disclosing relevant information to shareholders in a timely manner. The Group's annual general meeting allows the directors to meet and communicate with shareholders. For strengthening the communication with the shareholders and investors, Mr Wong Wai Kay, Ricky, Chairman of the Board and Mr Lee Hon Ying, John, Chairman of both the Audit Committee and Remuneration Committee attended the last Annual General Meeting on 29 December 2005.

Various channels are established to facilities transparency. Our Group website which contains corporate and financial information of the Group, interim and annual reports issued by the Group as well as recent development of the Group enable shareholders and investors to have timely and updated information of the Group.

During this year, the Board confirmed that there were no significant changes made in the Company's Articles of Association.

## **US SARBANES-OXLEY ACT 2002**

As the Company is listed on the Nasdaq Stock Market in the U.S., it is also bound by the provisions of the U.S. Sarbanes – Oxley Act 2002, which is a legislation seeking to enhance the transparency and accountability of companies in the areas of corporate governance and financial reporting.

The Group has been, and will continue its process of, reviewing its internal control systems and practices and implementing new requirements under this legislation in line with applicable compliance dates, in particular Section 404 of the Sarbanes – Oxley 2002 regarding the internal control over financial reporting.