

REPORT OF THE CORPORATE GOVERNANCE

The Company has adopted most of the code provisions as stated in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Board is committed to comply with the CG Code to the extent that the Board considers it to be applicable to the Company and practical.

The corporate governance principles of the Group emphasis an effective Board, sound internal controls, appropriate independence policy, and transparency and accountability to all shareholders of the Company. The Company had complied with the CG Code throughout the year ended 30 September 2006 with the following deviations:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title of “chief executive officer” but the Chairman of the Board, Mr. Cai Zhenrong, provides overall leadership for the Board and takes the lead to ensure the Board acts in the best interest of the Group. The daily management of the Group’s business is shared among the executive directors of the Company. The Group will endeavour to ensure that there is a clear division of these responsibilities at the board level to maintain a balance of power and authority.

Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive directors of the Company, namely Ms. Choy So Yuk, Mr. Lawrence Gonzaga and Mr. Wong Siu Hong 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 Company’s articles of association.

Code Provision E.1.2

Under code provision E.1.2 of the CG Code, the Chairman of the Board should attend, and the Chairman of the Audit and Remuneration Committees should be able to answer questions at, the annual general meeting of the Company. The Chairman of the Board and the Chairman of the Audit and Remuneration Committees were unable to attend the annual general meeting of the Company held on 24 February 2006 in person due to business engagement, but the Chairman of the Board has already delegated to one of the executive directors of the Company to chair the meeting on his behalf and be available to answer questions on behalf of the Audit and Remuneration Committees.

The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company’s governance policies in order to ensure that such policies may meet the general rules and standards required by the Stock Exchange.

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The key corporate governance principles and practices of the Company are summarized as follows:

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules. Having made specific enquiry by the Company, all directors have confirmed their compliance with the required standard set out in the Model Code during the year ended 30 September 2006.

BOARD

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The directors are responsible for leadership and control of the Group.

A) Board Composition

The Board currently comprises six executive directors and three independent non-executive directors, serving the important function of guiding the management.

The Board members for the year ended 30 September 2006 were:—

Executive directors

Mr. Cai Zhenrong (*Chairman*)
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo
Mr. Choi Wing Toon
Mr. Mak Shiu Chung, Godfrey

Independent non-executive directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk
Mr. Wong Siu Hong

The biographical details of all directors and the relationships among them are set out in “Directors’ Biographies” on pages 24 to 25 of the annual report. Save as disclosed in the section of “Directors’ Biographies”, none of the directors of the Company has any financial, business, family or other material or relevant relationships among members of the Board.

B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group’s expense, ensuring that Board procedures, and all applicable rules and regulations, are followed.

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The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the senior management to discharge its responsibilities.

Appropriate insurance cover for the directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group is being arranged by the Company.

C) Meeting Records

There were 6 Board meetings held for the year ended 30 September 2006. The following was an attendance record of the Board meetings held by the Board:

Board Members	Attendance at meetings held for the year ended 30 September 2006
<i>Executive Directors</i>	
Mr. Cai Zhenrong (<i>Chairman</i>)	1/6
Mr. Cai Zhenyao	1/6
Mr. Cai Zhenying	0/6
Mr. Cai Yangbo	6/6
Mr. Choi Wing Toon	6/6
Mr. Mak Shiu Chung, Godfrey	5/6
<i>Independent Non-executive Directors</i>	
Mr. Lawrence Gonzaga	2/6
Ms. Choy So Yuk	1/6
Mr. Wong Siu Hong	1/6

D) Independent Non-executive Directors

During the year ended 30 September 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive directors are independent.

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The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman is Mr. Cai Zhenrong while the Company does not at present have any officer with the title of “chief executive officer”.

The chairman’s responsibility is to manage the Board and the roles of the chief executive officer have been performed collectively by all the executive directors, including the chairman, of the Company.

The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company’s policies and strategies.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company does not have a Nomination Committee as the role and function of such a committee are performed by the Board. The Board is responsible for the formulation of nomination policies, making recommendations to shareholders on directors of the Company standing for re-election, providing sufficient biographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating directors to fill casual vacancies.

The Chairman may in conjunction with the other directors from time to time review the composition of the Board with particular regard to ensuring there is an appropriate number of directors on the Board independent of management. The Board also may identify and nominate qualified individuals for appointment as new directors of the Company. During the year under review, no meeting was held by the Board for nomination of new director.

The independent non-executive directors are not appointed for specific term. Under the articles of association of the Company, all directors (including directors and independent non-executive directors) are subject to retirement by rotation at least once every three years.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:—

- Audit Committee
- Remuneration Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

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A) Audit Committee

The Company has established an Audit Committee. It currently consists of three independent non-executive directors.

Composition of Audit Committee members

Mr. Lawrence Gonzaga (*Chairman*)

Ms. Choy So Yuk

Mr. Wong Siu Hong

Role and function

The Audit Committee is mainly responsible for:

- i. to discuss with the external auditors before the audit commences and the nature and scope of audit;
- ii. to review the draft Company's annual and interim accounts before submission to, and providing advice and comments to the Board;
- iii. to review the external auditors' management letter and to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal;
- iv. to discuss problems and reservations arising from the annual and interim accounts and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and
- v. to assess the risk environment and review internal control report of the Group.

Meeting Record

The Audit Committee met twice during the year, particular in reviewing the interim and annual results, and the internal control of the Group. The following was an attendance record of the of the Audit Committee meetings for the year ended 30 September 2006:

Audit Committee Members	Attendance at meetings held for the year ended 30 September 2006
Mr. Lawrence Gonzaga (<i>Chairman</i>)	2/2
Ms. Choy So Yuk	1/2
Mr. Wong Siu Hong	2/2

During the year ended 30 September 2006, the Audit Committee has discussed the auditing and financial reporting matters, the internal control and risk management systems; and the annual and interim accounts.

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B) Remuneration Committee

The Remuneration Committee was established in January 2006. It currently consists of three independent non-executive directors.

Composition of Remuneration Committee members

Mr. Lawrence Gonzaga (*Chairman*)

Ms. Choy So Yuk

Mr. Wong Siu Hong

Role and function

The Remuneration Committee is mainly responsible for:

- i. making recommendations to the Board on issues including review management succession planning for senior management of the Company;
- ii. formulating and reviewing remuneration policy and packages of all directors and senior management; and
- iii. reviewing and approving compensation packages to executive directors and senior management in accordance with relevant contractual terms or otherwise fair and not excessive for the Company.

Meeting Record

The Remuneration Committee met once during the year. The following was an attendance record of the of the remuneration committee meeting for the year ended 30 September 2006:

Remuneration Committee Members	Attendance at meetings held for the year ended 30 September 2006
Mr. Lawrence Gonzaga (<i>Chairman</i>)	1/1
Ms. Choy So Yuk	1/1
Mr. Wong Siu Hong	1/1

During the year ended 30 September 2006, the Remuneration Committee has reviewed the remuneration package of the Board members and the senior management of the Company.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on going dialogue with shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings by sending the notice of meeting, circular and proxy form.

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Any registered shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:—

Hotline no.: 2549 0669

By post: Room 2107, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

AUDITORS' REMUNERATION

During the year ended 30 September 2006, the remuneration paid and payable to the auditors of the Company, RSM Nelson Wheeler, for the provision of the Group's audit services and taxation services were HK\$1,460,000 and HK\$5,000 respectively.

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible of the financial statements 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 audited financial statements for the year ended 30 September 2006, the directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and on a going concern basis.

The responsibilities of the auditors to the shareholders are to form an independent opinion, based on their audit, on those financial statements and their opinion on the consolidated financial statements of the Group for the year ended 30 September 2006 is set out in "Independent Auditor's Report " on pages 26 to 27 of the annual report.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its principal subsidiaries with no material issues noted.

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INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.