

# CORPORATE GOVERNANCE REPORT

## INTRODUCTION

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's goals. The corporate governance principles of the Company emphasize a quality board, sound internal control, transparency and accountability to all shareholders. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Listing Rules.

The board of directors (the "Board") has reviewed the Company's corporate governance practices and is of the opinion that the Company has met the provisions set out in the Code except that: (i) the roles of chairman and chief executive officer are not separate and are performed by the same individual, (ii) the non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election pursuant to the Company's articles of association (the "Articles"), and (iii) pursuant Rules 3.10 and 3.21 of the Listing Rules, the Board and Audit Committee must include at least one independent non-executive director who must have appropriate professional qualifications or accounting or related financial management expertise. The Company was unable to comply with these rules during the period when Mr. Wan Ngar Yin, David resigned on 30 March 2007 until the appointment of Mr. Tam Tak Wah on 11 June 2007.

## CORPORATE GOVERNANCE PRACTICES

Save as disclosed in this report, the Company has complied with the provisions of the Code. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximized. The Board has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Company to enhance their awareness of good corporate governance practices and keep them abreast of the latest development of the Listing Rules and other regulatory requirements.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

## BOARD OF DIRECTORS

The Board comprises five Directors, of whom two are executive Directors and three are independent non-executive Directors (the "INED"). The Board believes that as the number of INEDs exceeds the number of executive Directors, the composition of the Board is adequate to provide checks and balances that safeguard the interests of shareholders and the Group.

The INEDs provide the Group with different expertise and experience. Their participation in Board meetings could bring independent judgment on issues relating to the Group's strategy, internal control and performance to ensure the interests of the shareholders are taken into account.

The Company has received from each of the INEDs an annual confirmation of their independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

# CORPORATE GOVERNANCE REPORT

The Company has set out the respective functions and responsibilities reserved to the Board and those delegated to management. The Board delegated day-to-day operations of the Group to executive Directors and senior management while reserving certain key matters for its approval. The Board is responsible for approving and monitoring the Company's overall strategies and policies, overseeing the financial position of the Group, approving business plans, evaluating the performance of the Company and supervising the performance of the management.

Decisions of the Board are communicated to the management through executive Directors who have attended Board meetings.

The members of the Board during the year under review were:

## Executive Directors:

Cheung Keng Ching (*Chairman*)

Chou Mei

Chan Ching Kee, William (appointed on 25 October 2006 and resigned on 19 January 2007)

Chung Kam Fung, Kennis (appointed on 25 October 2006 and resigned on 26 March 2007)

## Independent Non-Executive Directors:

Lo Siu Tong, Alfred

Wong Lai Wah, Ada

Tam Tak Wah (appointed on 11 June 2007)

Wan Ngar Yin, David (resigned on 30 March 2007)

Brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section in the Report of the Directors on page 10 of this annual report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. During the year under review, 38 Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

| Directors                                  | Attendance |
|--|------------|
| <b>Executive Directors</b>                 |            |
| Cheung Keng Ching                          | 38/38      |
| Chou Mei                                   | 38/38      |
| Chan Ching Kee, William (resigned)         | 6/6        |
| Chung Kam Fung, Kennis (resigned)          | 25/27      |
| <b>Independent non-executive Directors</b> |            |
| Lo Siu Tong, Alfred                        | 12/38      |
| Tam Tak Wah                                | 0/0        |
| Wong Lai Wah, Ada                          | 13/38      |
| Wan Ngar Yin, David (resigned)             | 16/38      |

## CORPORATE GOVERNANCE REPORT

Under the code provision A4.1 of the Code, non-executive should be appointed for a specific term and subject to re-election. However, all of the INEDs have not been appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

Pursuant to the Rule 3.10 of the Listing Rules, the Board must include at least three independent non-executive directors and one of them must have appropriate professional qualifications or accounting or related financial management expertise. The Company was unable to comply with this rule during the period when Mr. Wan Ngar Yin, David resigned on 30 March 2007 until the appointment of Mr. Tam Tak Wah on 11 June 2007.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cheung Keng Ching has combined the role of chairman and chief executive officer. The Board considers that as Mr. Cheung is the founder of the Group, the appointment of Mr. Cheung as the chairman and chief executive officer of the Group is beneficial to the Group as he has in-depth understanding of the operation of the Group and considerable experience in the industry.

The Board considers that this structure will not impair the balance of power and authority between Board and the management of the Company. The balance of power and authority is ensured by the composition of the Board which comprises experienced and professional INEDs and experienced management team. Given the fact that Mr. Cheung is the founder of the Group, the Board considers that appointing Mr. Cheung as the chairman and chief executive officer will maximize the effectiveness of its operations. However, the Board will review the existing structure from time to time.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is responsible for the appointment of any potential new directors and the nomination of directors for re-election by shareholders at the annual general meeting of the Company. In accordance with the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or as an addition to the existing Board, whom is subject to retirement and re-election at the first annual general meeting after his appointment and shall then be eligible for re-election. Furthermore, every Director shall retire from office no later than the third annual general meeting after he was last elected or re-elected.

### REMUNERATION COMMITTEE

The Remuneration Committee was established in December 2005. The chairman of the committee was Mr. Cheung Keng Ching (executive Director) and other members included Mr. Wan Ngar Yin, David (resigned on 30 March 2007) and Mr. Lo Siu Tong, Alfred.

The Remuneration Committee is responsible for formulating and recommending the Board in relation to the remuneration policy, determining the remuneration of executive Directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme, other compensation-related issues and performance based remuneration.

# CORPORATE GOVERNANCE REPORT

Individual attendance of each remuneration committee member during the year under review is as follows:

| <b>Members</b>                                  | <b>Attendance</b> |
|---|-------------------|
| Cheung Keng Ching                               | 2/2               |
| Lo Siu Tong, Alfred                             | 2/2               |
| Wan Ngar Yin, David (resigned on 30 March 2007) | 2/2               |

The Remuneration Committee is provided with resources enabling it to discharge its duties including access to relevant and timely information, support of independent professional advice if and when necessary. During the year under review, the Remuneration Committee held two meetings. Regular meetings of the Remuneration Committee will be held to discuss remuneration and compensation related issues.

## AUDIT COMMITTEE

The Audit Committee comprises three INEDs of the Company, namely Mr. Tam Tak Wah (Chairman, appointed on 11 June 2007), Mr. Lo Siu Tong, Alfred and Ms. Wong Lai Wah, Ada. Mr. Wan Ngar Yin, David has been the chairman of the Audit Committee from 3 January 2006 until he resigned on 30 March 2007. The Committee is responsible for appointing external auditors, reviewing the Group's financial information and overseeing the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. Management of the Company provides the Board with all relevant information the Committee needs for it to discharge its responsibilities.

The Committee meets regularly to review financial reporting and internal control matters and has unrestricted access to the support of both the Company's management and auditors.

The Audit Committee held four meetings in the year under review, in which the committee reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters so as to ensure that an effective control environment is maintained.

Individual attendance of each audit committee member during the year under review is as follows:

| <b>Members</b>                                  | <b>Attendance</b> |
|---|-------------------|
| Lo Siu Tong, Alfred                             | 3/4               |
| Tam Tak Wah (appointed on 11 June 2007)         | 0/0               |
| Wan Ngar Yin, David (resigned on 30 March 2007) | 4/4               |
| Wong Lai Wah, Ada                               | 4/4               |

Pursuant to the Rule 3.21 of the Listing Rules, the Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise. The Company was unable to comply with this rule during the period when Mr. Wan Ngar Yin, David resigned on 30 March 2007 until the appointment of Mr. Tam Tak Wah on 11 June 2007.

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

During the year under review, total auditor's remuneration charged in relation to statutory audit work of the Group amounted to HK\$680,000 (2006: HK\$449,000) and non-audit services rendered amounted to HK\$Nil (2006: HK\$Nil).

During the year, Messrs HLB Hodgen Imprey Cheng resigned and Horwath Hong Kong CPA Limited was appointed as the auditor of the Company.

## NOMINATION OF DIRECTORS

The Board has the power to appoint Directors pursuant to the Articles. During the year ended 31 March 2007, the Board has appointed two (2) Directors to enhance the management functions.

## ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge that they are responsible for (i) preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group, and (ii) presenting a clear, balanced and understandable assessment of the Group's performance and prospects in the Company's annual and interim report, price-sensitive announcements and other financial disclosures required under the Listing Rules and such other matters as the regulators may request. Except for those stated in note 2 to the financial statements, the Board is not aware of any material uncertainties relating to the events or condition that might cast doubt upon the Company's ability to continue as a going concern. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Board has overall responsibility for monitoring the internal control of the Group and reviewing its effectiveness. The Board is committed to implement 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 internal control system within an established framework.

## INVESTORS RELATIONS

To foster effective communications, the Company provided all necessary information to its shareholders in its annual report, interim report and announcements. The Directors host annual general meeting each year to meet the shareholders so as to ensure that the shareholders' view is communicated to the Board. Directors will make efforts to attend the annual general meetings so that they could communicate with the shareholders and answer their questions.