

# Corporate Governance Report

## Corporate Governance Practices

The Board of Directors and the management of the Company recognize the importance and benefits of good corporate governance practices and have adopted certain corporate governance and disclosure practices aiming at a high level of transparency and accountability. The Company is committed to continuously improving its corporate governance practices as part of its own corporate culture.

The Company has complied with the code provisions set out in Appendix 14 of the Code on Corporate Governance Practices (the 'CG Code') under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2006 except for the deviations from the code provisions A.2.1 which requires separation of roles of chairman and chief executive officer and A.4.1 which stipulates that Non-executive Directors should be appointed for a specific term. Further explanations are set out below.

## The Board

The Board, headed by the Chairman, is responsible for the oversight of the management of the business and affairs of the Company with the objective of enhancing shareholder value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Board of the Company comprises a total of 8 Directors, with three Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. More than one-third of the Board is Independent Non-executive Directors and more than one of them have appropriate professional qualifications or accounting or related financial management expertise. The composition of the Board is shown on page 13 under the subject Board Meeting attendance records. Biographies of the Directors which include relationship among members of the Board are set out on pages 3 to 4 under the subject Biographical Information of Directors.

The Non-executive Directors bring a wide range of business, financial and legal expertise, experience and independent judgment to the Board. Through active participation in Board meetings, the Non-executive Directors make various contributions to the effective direction of the Company.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-executive Directors are independent in accordance with the Listing Rules.

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## The Board (Continued)

Prior to the amendment of the Company's Articles of Association on 12 August 2005, Non-executive Directors were not appointed for a specific term except that the Articles provided that one-third of the Directors should retire by rotation at the annual general meeting of the Company. This practice deviated from the requirement of the CG Code. After the amendment of the Company's Articles of Association, all the Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Articles of Association and code provision A.4.1 of the CG Code.

None of the Directors has entered or proposed to enter into any service contracts with the Company or its subsidiaries, and none of the Directors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Board meetings are held at least four times a year, where major issues are discussed and resolved. Additional Board meetings will be held when necessary. During the year, a total of four meetings were held, details of Directors' attendance records are as follows:—

Composition of the Board	Attended/Eligible to attend
<i>Executive Directors</i>	
Lu Sin ( <i>Chairman and Managing Director</i> )	4/4
Lui Chi Lung	3/4
Oen Min Tjin ( <i>Note 1</i> )	4/4
<i>Non-executive Directors</i>	
Lu Yong Lee	0/4
Lee Ka Sze, Carmelo	2/4
<i>Independent Non-executive Directors</i>	
Gan Khai Choon	3/4
Lam Ming Leung	4/4
Leung Man Chiu, Lawrence ( <i>Note 2</i> )	N/A

*Notes:*

(1) Re-designated from Independent Non-executive Director to Executive Director on 16 June 2006.

(2) Appointed on 16 June 2006.

Board members are supplied with agenda and comprehensive Board papers in respect of regular Board meetings at least three days before the intended date of meeting. Board minutes are sent to all Directors within a reasonable time after each Board meeting.

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## The Board (Continued)

All Directors have full access to accurate, relevant and timely information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors.

The Company has arranged appropriate directors' and officers' liability insurance for the Directors and officers of the Company.

## Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated. Mr. Lu Sin is the Chairman and the Chief Executive Officer of the Group. He is the founder and a substantial shareholder of the Group and has considerable industry experience. The Board considers this structure will not impair the balance of power and authority between the Board and the Management of the Group, and believes that the balance of power and authority can be ensured as over one-third of the Board is represented by Independent Non-executive Directors throughout the year.

## Remuneration and Nomination Committee

According to the CG Code, the Company shall set up a remuneration and nomination committee with a majority of the members being Independent Non-executive Directors. The existing Committee comprises the Chairman of the Company, Mr. Lu Sin, two Independent Non-executive Directors, namely Mr. Lam Ming Leung and Mr. Leung Man Chiu, Lawrence, who was appointed on 16 June 2006, and one Non-executive Director Mr. Lee Ka Sze, Carmelo. Mr. Oen Min Tjin was appointed as a member of the Committee on 30 June 2005 and resigned on 16 June 2006 upon his re-designation as an Executive Director.

The Remuneration and Nomination Committee is responsible for making recommendations to the Board on issues including new appointment and re-appointment of Directors and Senior management; review management succession planning for senior management of the Company; formulate and review remuneration policy and packages of all Directors and senior management; and review and approve compensation packages, roles and responsibilities and performance assessment of employees of the Group.

New directors are sought mainly through referrals or internal promotions. In evaluating whether an appointee is suitable to act as a director, the Board will review the independence, experience and skills of the appointee as well as personal ethics, integrity and time commitment of the appointee. The emoluments of Directors are based on the skill, knowledge and involvement in the Company's affairs of each Director and are determined by reference to the Company's performance and profitability.

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## Remuneration and Nomination Committee (Continued)

During the year, 2 meetings were held and the attendance records of individual members at Remuneration and Nomination Committee meeting during the year are as follows:–

Name	Attendance
Lu Sin	2/2
Lee Ka Sze, Carmelo	2/2
Lam Min Leung ( <i>Note 1</i> )	N/A
Oen Min Tjin	1/2
Leung Man Chiu, Lawrence ( <i>Note 1</i> )	N/A

*Note (1)* Appointed on 16 June 2006.

The Remuneration and Nomination Committee had considered the following proposals and made recommendation to the Board:–

- (a) appointment of Mr. Leung Man Chiu, Lawrence as Independent Non-executive Director;
- (b) re-designation of Mr. Oen Min Tjin as Independent Non-executive Director to Executive Director;
- (c) re-election of Mr. Lu Sin, Mr. Lui Chi Lung and Mr. Gan Khai Choon as directors of the Company to be proposed for shareholders' approval at the 2006 Annual General Meeting; and
- (d) assessed the independence of the Independent Non-executive Directors of the Company.

## Audit Committee

The existing Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Gan Khai Choon (Chairman of the Audit Committee), Mr. Lam Ming Leung and Mr. Leung Man Chiu, Lawrence, and one Non-executive Director Mr. Lee Ka Sze, Carmelo. Both Mr. Gan and Mr. Leung possessed appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules.

The principal duties of the Audit Committee include the review of the internal control system of the Group, review of half-yearly and annual reports and accounts, review and monitor the appointment of the auditors and their independence, monitor compliance with statutory and listing requirements, and to engage independent legal or other advisers as it determines necessary.

During the year, two meetings were held. All members of the Audit Committee attended the meetings. Minutes of the Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

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## Audit Committee (Continued)

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he ceases to be a partner of the auditing firm.

In discharging its responsibility, the Audit Committee has performed the following work during the year:

- (i) reviewed the draft annual and interim financial statements and draft results announcements during the year;
- (ii) reviewed, in conjunction with the auditors, the development of accounting standards and assessed their potential impacts on the Group's financial statements;
- (iii) approved the fees of auditors and scope of their audit;
- (iv) reviewed Compliance with the CG Code; and
- (v) reviewed the internal control report submitted by the management.

## Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors of the Company. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year.

## Auditors' Remuneration

Deloitte Touche Tohmatsu ("Deloitte") provided annual statutory services in respect of the Group's financial statements prepared under the Hong Kong Financial Reporting Standards. Deloitte also reviewed the 2006 unaudited interim financial report of the Group and provided taxation consultancy services for 2006. The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by Deloitte to the Group for the year ended 31 March 2005 and 2006:—

Nature of services	2006 HK\$	2005 HK\$
Review fee for interim results	100,000	85,000
Audit fee for final results	638,000	470,000
Taxation consultancy services fee	67,000	67,200
Total audit and non-audit services	<u>805,000</u>	<u>622,200</u>

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## Financial Reporting

The Directors acknowledge their responsibility for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## Internal Control

The Board has overall responsibility for the Group's system of internal controls. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group.

## Employees

As at 31 March 2006, the Group employed a total of 82 employees. The Group ensures that salaries of employees are maintained at competitive level and are reviewed annually with reference to the duties and performance of the employees and the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Group. The Group does not have any share option scheme for employees.

## Social Services

Active involvement in community services is one of our objects. We continue to take part in various social and charity events in the community and in schools, which include sponsoring the Hong Kong Synergy 24 Drum Competition organised by the Hong Kong Chinese Orchestra for the promotion of Chinese arts and culture; holding a blood donation day with the Hong Kong Red Cross; jointly organising waste recycling campaigns with the Friends of the Earth and eco-tour; supporting the "Skip-A-Meal" held by the World Vision Hong Kong; and visiting elderly service centres.

As a result of our efforts, we have been awarded the "Caring Company" logo by the Hong Kong Council of Social Service once again in recognition of our corporate citizenship and contribution to social development.

The Company has continued to implement the 5-S practice in order to create a safe and healthy workplace, and we have become a member of the Green Cross Group of the Occupational Safety and Health Council.

**Lu Sin**

*Chairman*

Hong Kong, 7 July 2006