

In the opinion of the directors, the Company has complied with the code provision set out in the Code of Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) of the Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2006 except for the deviations from certain code provision of the CG Code which are as follows:–

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer shall be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing. The Company has only adopted written terms of reference in relation to the division of responsibilities between the Chairman and Chief Executive Officer on 28 September 2005. Furthermore, the Company has only separated the roles of Chairman and Chief Executive Officer on 28 September 2005 by retaining Cheng Chor Kit as the Chairman and appointing Chui Pak Shing as the Chief Executive Officer.

The non-executive directors of the Company were previously not appointed for specific terms as required by the code provision A.4.1. For the purposes of complying with the CG Code, the non-executive directors of the Company have been appointed for specific terms on 28 September 2005.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company has only set up the remuneration committee on 28 September 2005.

The Group is committed to maintain a high standard of corporate governance in order to provide transparency and protection of shareholders' interest.

#### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the “Model Code”). Having made specific enquiry of the Company's directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the accounting period covered by the annual report.

# GOVERNANCE REPORT

## BOARD OF DIRECTORS

As at 31 March 2006, the board of directors (the “Board”) comprised eight directors, including five executive directors and three independent non-executive directors. The biographical details of all directors of the Company are set out in the Report of the Directors under the “Biographical details in respect of Directors” section on pages 11 and 12.

The Board accepts that it is ultimately accountable and responsible for the performance and affairs of the Company. Although the Board bears overall responsibility for the Company, the management of the Company (including the executive directors) is the custodian and administrator of the day-to-day performance of the Company.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. The Board meetings are held at least four times a year at approximately quarterly interval. During the year, there were four full board meetings and all members of the Board had attended these meetings.

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The directors receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The Board has reserved for its decision or consideration matters covering corporate strategy, annual and interim results, directors’ appointment, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The directors confirm that the Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive directors to be independent.

The directors also confirmed that there was no connection amongst the directors that should be disclosed relating to finance, business, relation or other significant events or relevant matters.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

During the year under review, the Chairman of the Company was Cheng Chor Kit and the Chief Executive Officer of the Company was Chui Pak Shing.

### NON-EXECUTIVE DIRECTORS' TERM OF OFFICE

The non-executive directors of the Company have been appointed for specific terms on 28 September 2005.

Chung Chi Ping, Roy, Wong Chi Wai, Albert and Sun Kwai Yu, Vivian entered into service contracts with the Company for terms of one year commencing from 28 September 2005, subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws unless terminated by either party given not less than three month's notice in writing to the other party.

### REMUNERATION OF DIRECTORS

The Company has set up the remuneration committee with a particular responsibility to review the Company's remuneration policy for directors and members of the senior management. The remuneration committee currently comprises Chung Chi Ping, Roy (Chairman of the committee), Wong Chi Wai, Albert and Sun Kwai Yu, Vivian, the non-executive directors of the Company, and Cheng Chor Kit and Fung Wah Cheong, the two executive directors of the Company.

The directors' fees are subject to shareholders' approval at general meetings. Emoluments are determined by the remuneration committee with reference to the employee's duties, responsibilities and performance and the results of the Group.

The remuneration committee held one meeting during the year. During the meeting, the remuneration committee reviewed the fees payable to the directors for the 2005/06 financial year. All members of the remuneration committee had attended the meeting.

Information relating to the remuneration of each director for the year is set out in note 8 to the financial statements.

### NOMINATION COMMITTEE

The Nomination Committee was set up on 28 September 2005 with specific terms of reference. The nomination committee currently comprises Wong Chi Wai, Albert (Chairman of the committee), Chung Chi Ping, Roy and Sun Kwai Yu, Vivian, the non-executive directors of the Company, and Cheng Chor Kit and Fung Wah Cheong, the two executive directors of the Company. The nomination committee meets at least once each year.

The nomination committee is responsible for recommending to the Board all new appointments of directors.

The nomination committee considers the past performance and qualification of the candidates for directors, general market conditions and the Company's Bye-laws in selecting and recommending candidates for directorship during the year under review.

During the year, the nomination committee held one full committee meeting and all members of the committee had attended the meeting.

## GOVERNANCE REPORT

**NOMINATION COMMITTEE (continued)**

During the meeting, the nomination committee considered and resolved that all the existing directors shall be recommended to be retained by the Company. Further, in accordance with the Company's Bye-laws and as resolved by the nomination committee, Fung Wah Cheong, Wong Kin Chung and Chung Chi Ping, Roy will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

**AUDITORS' REMUNERATION**

During the year, the fees payable to Ernst & Young, the Company's external auditors, for audit services and taxation service totalled to HK\$918,000 (2005: HK\$818,000) and HK\$160,000 (2005: HK\$162,000), respectively.

**AUDIT COMMITTEE**

The Company has an audit committee with terms of reference revised to align with the provisions of the CG Code as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls.

As at the date of this report, the audit committee comprised Sun Kwai Yu, Vivian (Chairman of the committee), Chung Chi Ping, Roy and Wong Chi Wai, Albert, the three independent non-executive directors, and the Chairman of the audit committee has the required appropriate professional financial qualifications and experience.

During the year, the audit committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of audited accounts for the year ended 31 March 2005 and the interim financial report for the six months ended 30 September 2005.

The audit committee held two full committee meetings during the year and all members of the committee had attended the meetings.

**FINANCIAL REPORTING**

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

As at 31 March 2006, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on page 20.

### INTERNAL CONTROLS

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group achieve business objectives, safeguard assets against unauthorised use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure the compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives.