

## Corporate Governance Report

The Company and the management are committed to maintain a good corporate governance with an emphasis on the principles of transparency, accountability and independence to all shareholders. The Company believes that good corporate governance is an essence for a continual growth and enhancement of shareholders' value. The Company has applied the principles of and complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") which came into effect on 1 January 2005 throughout the year under review, except for certain deviations as specified with considered reasons of such deviations as explained below. The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

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

### THE BOARD

#### *Board Responsibilities*

The role of the board of directors (the "Board") is to set up the strategic goals, performance objectives and operational policies; establish a framework of prudent and effective controls which enables risk to be assessed and managed; delegate authorities to the management to manage and supervise the business of the Group; and ensure the management monitor performance against objectives being set.

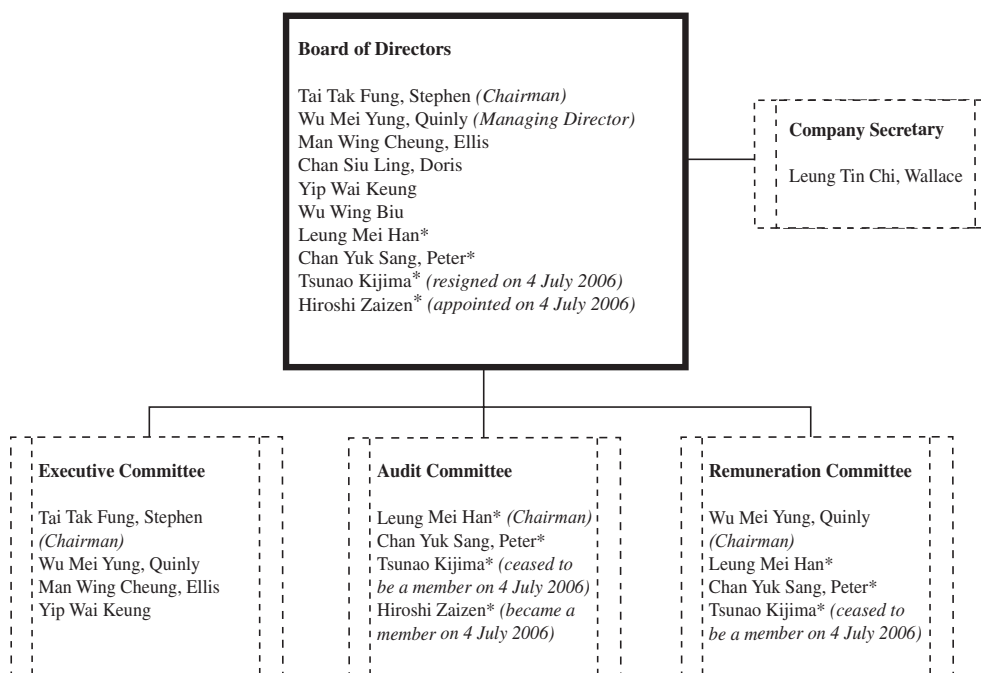
The Company has formalised a written guideline for the division of responsibilities between the Board and the management. Certain responsibilities or functions have been delegated by the Board to the management which include the day-to-day business operation of the Group, execution of corporate strategies, business and financial plans and budgets approved by the Board and preparation of annual and interim financial statements. The Board has reserved for its decisions matters of the Group covering the approval of significant changes in accounting or capital structure; approval of public announcements and the financial statements; approval of major acquisitions, disposals and major capital projects; approval of material borrowings and any issuing or buying back of equity securities; approval of the annual budget and setting of the dividend policy.

## Corporate Governance Report

### THE BOARD (continued)

#### Board Composition

As at 31 March 2006, the Board of the Company comprised 9 directors, of which 6 are executive directors and 3 are independent non-executive directors. Its composition is set out as follows:



\* *independent non-executive director*

# Corporate Governance Report

## THE BOARD (continued)

### Board Meeting

#### Number of Meetings and Directors' Attendance

The Board meets regularly throughout the year to discuss and formulate overall strategies for the Company, monitor financial performance and discuss the interim and annual results, as well as other significant matters.

The Board has convened five regular meetings during the year ended 31 March 2006 and the attendance record of each director is set out below:

Name of directors	No. of Board Meetings	No. of attendance	Average attendance rate (%)
<b>Executive directors</b>			
Tai Tak Fung, Stephen ( <i>Chairman</i> )	5	5	100%
Wu Mei Yung, Quinly ( <i>Managing Director</i> )	5	5	100%
Man Wing Cheung, Ellis	5	5	100%
Chan Siu Ling, Doris ( <i>Note 1</i> )	1	1	100%
Yip Wai Keung	5	4	80%
Wu Wing Biu	5	5	100%
<b>Independent non-executive directors</b>			
Leung Mei Han	5	5	100%
Chan Yuk Sang, Peter	5	4	80%
Tsunao Kijima ( <i>Note 2</i> )	5	0	0%
Chee Jing Yin ( <i>Note 3</i> )	0	0	0%
Hiroshi Zaizen ( <i>Note 4</i> )	N/A	N/A	N/A

## Corporate Governance Report

### THE BOARD (continued)

#### *Board Meeting (continued)*

#### **Number of Meetings and Directors' Attendance** (continued)

##### *Notes:*

1. Mdm. Chan Siu Ling, Doris has been appointed as executive director of the Company with effect from 24 January 2006.
2. Mr. Tsunao Kijima resigned as independent non-executive director of the Company with effect from 4 July 2006.
3. Mr. Chee Jing Yin has been appointed as independent non-executive director of the Company with effect from 27 February 2006 and resigned the position with effect from 7 March 2006.
4. Mr. Hiroshi Zaizen has been appointed as independent non-executive director of the Company with effect from 4 July 2006.

#### **Practices and Conduct of Meetings**

Notice of regular Board meetings are served to all directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

An agenda and accompanying Board papers together with all appropriate, complete and reliable information are sent to all directors or committee members at least 3 days before each Board meeting and each committee meeting to enable all directors or committee members to have full and timely access to the information in relation to the Company's business and make further enquiries where necessary. All directors are encouraged to take independent professional advice, at the Company's expense, upon the performance of their duties as and when deemed necessary. The Board and each director have separate and independent access to the senior management.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Draft minutes are normally circulated to directors for comment within a reasonable time frame after each meeting and the final version is open for directors' inspection.

## Corporate Governance Report

### THE BOARD (continued)

#### *Board Meeting (continued)*

#### **Practices and Conduct of Meetings (continued)**

If a substantial shareholder or a director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

#### *Directors' Independence and Relationship*

The Company has 3 independent non-executive directors, one of them possesses appropriate accounting and financial management expertise as required under the Rule 3.10(2) of the Listing Rules. The Company has received a written annual confirmation from each independent non-executive director of his/her independence and the Company considers the existing independent non-executive directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules up to the date of this Annual Report.

Biographical details and relevant relationships among the directors are set out in the “Profiles of Directors and Senior Management” section in the Report of the Directors of this Annual Report.

#### *Directors' Appointment and Re-election*

##### **Appointment**

The Board is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

## Corporate Governance Report

### THE BOARD (continued)

#### *Directors' Appointment and Re-election (continued)*

##### **Appointment** (continued)

Where vacancies on the Board exist, the Board will carry out the selection and recommendation of candidates for directorship of the Company by reference to the skills, experience, professional knowledge and personal integrity of the proposed candidates as well as other relevant statutory requirements.

Each newly appointed director receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

##### **Re-election**

In accordance with the Articles of Association of the Company which were amended with the approval of the shareholders at the annual general meeting of the Company held on 1 September 2005 (the "Articles of Association"), one-third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation for re-election by shareholders at the annual general meeting, such that every director is subject to retirement by rotation at least once every three years.

## Corporate Governance Report

### THE BOARD (continued)

#### *Directors' Appointment and Re-election (continued)*

##### **Re-election** (continued)

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Currently, all independent non-executive directors of the Company are not appointed for a specific term 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. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

The expected dates of retirement by rotation of the independent non-executive directors are set out below:

<b>Name of independent non-executive directors</b>	<b>Term of appointment</b>
Leung Mei Han	Until 2007 Annual General Meeting
Chan Yuk Sang, Peter	Until 2006 Annual General Meeting
Tsunao Kijima *	N/A
Hiroshi Zaizen *	Until 2006 Annual General Meeting

\* *Mr. Tsunao Kijima resigned as independent non-executive director of the Company and Mr. Hiroshi Zaizen has been appointed as independent non-executive director of the Company both with effect from 4 July 2006.*

Under the code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In accordance with the articles of association of the Company, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom appears and interval between the appointment made to fill casual vacancy and the immediate following annual general meeting is short.

## Corporate Governance Report

### THE BOARD (continued)

#### ***Roles of Chairman and Managing Director***

Currently, Dr. Tai Tak Fung, Stephen and Dr. Wu Mei Yung, Quinly hold the positions of Chairman and Managing Director, respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership for the Board and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the executive directors and senior management, the Managing Director is responsible for managing the Group's business, including implementation of objectives, policies and major strategies and initiatives adopted by the Board. She is also in charge of the Company's day-to-day operation in accordance with the instructions from the Board.

#### ***Board Committees***

The Board has established three committees, namely, the Executive Committee, the Audit Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

#### **Executive Committee**

The Executive Committee was established in July 2001 and all of its members are executive directors.

The main duties and responsibilities of the Executive Committee include approval and execution of corporate guarantees to be provided by the Company to individual bankers in respect of the banking facilities granted to any member of the Group, including wholly-owned subsidiaries, non-wholly-owned subsidiaries and associated corporations within the meaning of the Hong Kong Companies Ordinance.



## Corporate Governance Report

### THE BOARD (continued)

#### Audit Committee

The Audit Committee was established in July 2000 with specific written terms of reference which set out its role and function and all of its members are independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise. As at the date of this Annual Report, the Audit Committee comprises three independent non-executive directors, namely Mdm. Leung Mei Han (Chairman of the Audit Committee), Mr. Chan Yuk Sang, Peter and Mr. Hiroshi Zaizen.

The duties and responsibilities of the Audit Committee include, inter alia, the following:

#### *Relationship with the Company' auditors*

- (a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any question of resignation or dismissal of that auditors;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) to develop and implement policies on the engagement of external auditors to provide non-audit services;

#### *Review of financial information of the Company*

- (d) to monitor the integrity of the financial statements, review the annual and interim reports, and review significant financial reporting judgments contained in them before submission to the Board;

## Corporate Governance Report

### THE BOARD (continued)

#### Audit Committee (continued)

##### *Oversight of the Company's financial reporting system and internal control procedures*

- (e) to review financial controls, internal control and risk management systems;
- (f) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (g) to consider any finding of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (h) to ensure co-ordination between the internal and external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (i) to review the Group's financial and accounting policies and practices;
- (j) to review the external auditors' management letter, any material queries raised by the external auditors to the management in respect of the accounting records, financial statements or systems of control and management's response;
- (k) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (l) to report to the Board on all matters set out in the code provisions in relation to the Audit Committee contained in Appendix 14 of the Listing Rules; and
- (m) to consider any other topics, as defined by the Board.

The Audit Committee held two meetings during the year ended 31 March 2006 to review the accounting principles and practices adopted by the Group and discuss internal controls and financial reporting matters including a review of the interim financial statements for the six months ended 30 September 2005 and the financial statements for the year ended 31 March 2005 of the Group. The Audit Committee has also reviewed the financial statements for the year ended 31 March 2006 of the Group.

## Corporate Governance Report

### THE BOARD (continued)

#### Audit Committee (continued)

*Oversight of the Company's financial reporting system and internal control procedures (continued)*

The attendance record of each Audit Committee member during the year is set out below:

Name of the committee members	No. of Audit Committee Meetings	No. of attendance	Average attendance rate (%)
Leung Mei Han <i>(Chairman of the Audit Committee)</i>	2	2	100%
Chan Yuk Sang, Peter	2	2	100%
Tsunao Kijima <i>(Note 1)</i>	2	0	0%
Chee Jing Yin <i>(Note 2)</i>	0	0	0%
Hiroshi Zaizen <i>(Note 3)</i>	N/A	N/A	N/A

*Notes:*

1. Mr. Tsunao Kijima ceased to be a member of the Audit Committee with effect from 4 July 2006.
2. Mr. Chee Jing Yin has been appointed as a member of the Audit Committee with effect from 27 February 2006 and ceased to be a member with effect from 7 March 2006.
3. Mr. Hiroshi Zaizen has been appointed as a member of the Audit Committee with effect from 4 July 2006.

#### Remuneration Committee

The Remuneration Committee was established in September 2005 with specific written terms of reference which set out its role and function and is constituted by one executive director, namely Dr. Wu Mei Yung, Quinly (Chairman of the Committee) and 3 independent non-executive directors, namely Mdm. Leung Mei Han, Mr. Chan Yuk Sang, Peter and Mr. Tsunao Kijima who ceased to be a member with effect from 4 July 2006.

## Corporate Governance Report

### THE BOARD (continued)

#### Remuneration Committee (continued)

The duties and responsibilities of the Remuneration Committee include, inter alia, the following:

- (a) to review and consider the management recommendations and the Company's policy, procedures and structure for the remuneration and other remuneration related matters for directors and senior management to ensure there shall be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors;
- (b) to have the delegated responsibility to determine the specific remuneration package of all executive directors and senior management, and make recommendations to the Board on 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;
- (e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct;
- (f) to ensure that no director or any of his/her associates is involved in deciding his/her own remuneration; and
- (g) to advise shareholders on how to vote with respect to any service contracts of directors that requires shareholders' approval under the Listing Rules.

The Remuneration Committee had convened two meetings during the year to review, inter alia, the Group's remuneration policy and structure, and the remuneration of all directors for the year under review. Details of the emoluments of each director of the Company are set out on in note 8 to the financial statements.

## Corporate Governance Report

### THE BOARD (continued)

#### Remuneration Committee (continued)

The attendance record of each Remuneration Committee member during the year is set out below:

Name of the committee members	No. of Remuneration Committee Meetings	No. of attendance	Average attendance rate (%)
<b>Executive directors</b>			
Wu Mei Yung, Quinly <i>(Chairman of the Remuneration Committee)</i>	2	2	100%
<b>Independent non-executive directors</b>			
Leung Mei Han	2	2	100%
Chan Yuk Sang, Peter	2	2	100%
Tsunao Kijima <i>(Note)</i>	2	0	0%

*Note:* Mr. Tsunao Kijima ceased to be a member of the Remuneration Committee of the Company with effect from 4 July 2006.

### 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 Company’s code of conduct regarding securities transactions by directors of the Company (the “Code of Conduct”). Having made specific enquiry of all directors of the Company, the directors have confirmed that they have complied with the required standard set out in the Code of Conduct throughout the year ended 31 March 2006.

The Company has also established the Code for Securities Transaction by the Relevant Employees (the “Employees Code”) on no less exacting terms than the Model Code for securities transactions by the employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Code by the employees was noted by the Company.

## Corporate Governance Report

### ACCOUNTABILITY AND AUDIT

#### Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements that give a true and fair view of the Group's state of affairs. In preparing the financial statements for the year ended 31 March 2006, appropriate accounting principles and policies are selected and applied consistently; judgements and estimates made are appropriate and reasonable; and these financial statements have been prepared on a going concern basis.

The Board is also responsible for presenting a balanced, clear and understandable assessment extends to both annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules.

The management of the Company provides the Board with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval.

The responsibilities of the Company's external auditors, Messrs. Ernst & Young ("E&Y"), are set out in the Auditors' Report on page 45 of this Annual Report.

#### External Auditors' Remuneration

E&Y have been re-appointed as the Company's external auditors by shareholders at the 2005 annual general meeting until the conclusion of the next annual general meeting. They are primarily responsible for providing audit services in connection with the financial statements for the year ended 31 March 2006.

For the year ended 31 March 2006, E&Y received approximately HK\$1,592,000 (2005: HK\$1,160,000) for audit and related services and HK\$222,000 (2005: HK\$205,000) for other non-audit services which include the taxation services.

## Corporate Governance Report

### INTERNAL CONTROLS

The Board is responsible for the system of internal controls and reviewing its effectiveness. The system has been designed to manage the risk of failure to achieve corporate objectives rather than eliminating the risk of failure to achieve the business objective. Therefore, it can only provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to the management the implementation of the strategies and policies on internal controls and risk management adopted by the Board and the review of relevant financial, operational and compliance controls and risk management procedures.

The Board has reviewed the effectiveness of the Group internal controls and is generally satisfied as to their adequacy, based on the information furnished to it and on its own observations.

### COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's annual general meeting provides a good opportunity for the communication between the directors and the shareholders. The Chairman of the Board and Board committees actively participate in the annual general meeting and answer queries from the shareholders. Separate resolutions were proposed for each issue by the chairman at the annual general meeting. Notice of the annual general meeting together with related papers are sent to the shareholders at least 21 calendar days before the meeting, setting out details of each proposed resolution, voting procedures and other relevant information. The procedures for demanding and conducting a poll are explained during the meeting.