

# Corporate Governance Report

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

For the year ended 30 June 2006, the Group has applied the principles of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with the code provision of the CG Code, except for the following aspects:

1. Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, both roles are being performed by Ms. Chan Yuk Foebe, the Chairman. In the opinion of Directors, given the scale of operation and the size of the Group, the present arrangement is beneficial to the Company and the shareholders as a whole.
2. Prior to 1 April 2006, certain independent non-executive directors of the Company were not appointed for a specific term but were subject to rotation and re-election at the annual general meeting in accordance with the Company's articles and association (the "Articles"). Since 1 April 2006, all independent non-executive directors of the Company are appointed for a specific term and the code provision A.4.1 has been fully complied with.

This report describes our Group's corporate governance practices applied throughout the year.

## THE BOARD OF DIRECTORS (THE "BOARD")

### Composition and Practices

The Board is responsible for overseeing the Group's strategic planning and development, and for determining the objectives, strategic and policies of the Group while delegating day-to-day operations of the Group to management. Beside, each member of the Board is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

As at 30 June 2006, the Board comprises six members including Ms. Chan Yuk, Foebe as the Chairman and Chief Executive, Mr. Peng Zhanrong, and Mr. Chiau Che Kong as executive Directors and Mr. Ma Wing Yun Bryan, Mr. Meng Fanxi and Mr. Yau Chung Hong as independent non-executive directors. Details of their respective experience and qualification are included in the "Biographical Details of Directors and Senior Management" section of this annual report.

## THE BOARD OF DIRECTORS (THE "BOARD") (Cont'd)

### Composition and Practices (Cont'd)

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounts and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. It is the opinion of the directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interest of the Company.

Besides, to the best knowledge of the Company, there is no material relationship, whether financial, operational, family, etc, among members of the Board.

All independent non-executive directors complied with the guidelines on independence set out under Rule 3.13 of the Listing Rules and have not violated any provision thereunder throughout the year. Amongst them, Mr. Ma Wing Yun, Bryan and Mr. Yau Chung Hong have the appropriate professional qualifications and accounting and related financial management expertise required under Rules 3.10(2).

### The Board Meeting

During the year ended 30 June 2006, 32 Board meetings have been held. The attendance of each director, on name basis and by category, at Board meetings and Board committee meetings during the year is set out below:

Directors	Number of meeting attended/ Number of meeting held		
	Board	Remuneration Committee	Audit Committee
<i>Executives Directors</i>			
Ms. Chan Yuk, Foebe (Chairman and Chief Executive officer)	29/29	1/1	–
Mr. Peng Zhanrong	14/29	–	–
Mr. Chiau Che Kong (appointed on 14 December 2005) <sup>#</sup>	22/22 <sup>#</sup>	–	–
Mr. Chu Ki (resigned on 14 December 2005) <sup>*</sup>	6/7 <sup>*</sup>	–	–
Mr. Wang Hailou (resigned on 12 January 2006) <sup>*</sup>	5/10 <sup>*</sup>	–	–
<i>Independent non-executive Directors</i>			
Mr. Ma Wing Yun, Byran	9/29	1/1	2/2
Mr. Yau Chung Hong	11/29	1/1	2/2
Mr. Meng Fanxi	8/29	–	2/2

\* indicates the number of Board meetings held before the resignation of Mr. Chu Ki/Mr. Wang Hailou

<sup>#</sup> indicates the number of Board meetings held after the appointment of Mr. Chiau Che Kong

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## THE BOARD OF DIRECTORS (THE "BOARD") (Cont'd)

### The Board Meeting (Cont'd)

Pursuant to the Articles, "meetings or extraordinary meetings of the Board may be convened by means of telephone or similar telecommunication facilities". Regular meetings of the Board were held during the year. Extra meetings were also held to cater for important matters arising from time to time. Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors/committee members at least three days before each meeting to keep the Directors apprised of the latest developments and financial position of the Company to enable them to make informed decisions.

Minutes of Board/committee meetings would be kept by the company secretary of the Company and shall open for inspection by Director. Where Directors have a material or conflict of interests in any transaction discussed in the Board/committee meetings would not be dealt with by way of written resolutions. The directors concerned could express views but would not be counted as part of the quorum shall abstain from voting on the relevant resolutions.

In addition, to facilitate the decision-making process, the directors are free to have access to the management for enquiries and to obtain further information, when required. The directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All directors have unrestricted access to the company secretary who is responsible for ensuring that the Board/committee procedures are complied with and for advising the Board/committee on compliance matters.

### Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession plan of directors.

Save as disclosed in the prior part of this report, all of the independent non-executive directors of the Company are appointed for a specific term. The term of office for Mr. Ma Wing Yun Bryan and Mr. Yau Chung Hong is three year with effect from 1 April 2006. The term of office for Mr. Meng Fanxi is one year with effect from 1 April 2006.

In accordance with the Articles, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession plan of directors and assessing the independence of independent non-executive directors.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. Ms. Chan Yuk, Foebe currently holds both positions. In the opinion of Directors, given the scale of operation and the size of the Group, the present arrangement is beneficial to the Company and the shareholders as a whole. The Board also believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership; allows for more effective planning and execution of long-term business strategies; and enhances the efficiency of decision-making process in response to the changing environment.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry with all directors, the Company confirmed that all the directors have complied with the code provisions set out in the Model Code throughout the year ended 30 June 2006.

## **BOARD COMMITTEES**

The Board has established two Board committees, namely the remuneration committee and the audit committee for overseeing particular aspects of affairs of the Company. These committees have been established with defined written terms of reference, as approved by the Board, which set out the Committee's major duties.

The Board committees are provided with sufficient resources to discharge their duties and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the expenses of the Company.

### **Audit Committee**

The Company set up an audit committee (the "Audit Committee") on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems. In accordance with the requirements of the GC Code, the terms of reference of the Audit Committee were revised on 21 October 2006 in terms substantially the same as the provisions set out in the GC Code.

The Audit Committee currently comprises the three independent non-executive directors of the Company, namely, Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Meng Fanxi and Mr. Yau Chung Hong, all of whom are not involved in the day-to-day management of the Company.

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## **BOARD COMMITTEES (Cont'd)**

### **Audit Committee (Cont'd)**

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the auditor's appointment, the auditor's remuneration and any matters relating to the termination of, the appointment of and the resignation of the auditors. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls, which involve regular reviews of the internal controls of various corporate structure and business processes on a continuous basis, and take into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditors and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 30 June 2006.

During the year, the Audit Committee has met two times together with the financial controller of the Company. Moreover, the Audit Committee also met one time with the external auditor. Please refer to the table set out in the section "The Board Meetings" of this report for the attendance record of individual Audit Committee members.

The Audit Committee has recommended to the Board that RSM Nelson Wheeler, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

### **Remuneration Committee**

A remuneration committee (the "Remuneration Committee") was established on 1 July 2005 with specific written terms of reference in compliance of the code provision in B.1 of the CG Code. The Remuneration Committee, currently comprises two independent non-executive directors, namely Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Yau Chung Hong, and one executive director, Ms. Chan Yuk Foebe.

The Remuneration Committee is responsible for advising the Board on the remuneration policy and framework for all remuneration of the Company's directors and senior management, as well as reviewing and determining the remuneration packages of directors and senior management, and approving the compensation to Directors and senior management on termination or dismissal. No director was involved in deciding his/her own remuneration.

## **BOARD COMMITTEES (Cont'd)**

### **Remuneration Committee (Cont'd)**

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has held its first meeting on 27 March 2006 to define its terms of reference, to review the existing remuneration packages of each director and senior managements of the Company, and to recommend the remuneration packages for each directors and senior managements of the Company. The attendance of each member of the Remuneration Committee, on named basis and by category, at committee meeting during the year is set out in the section "The Board Meetings" of this report above.

## **ACCOUNTABILITY AND AUDITOR'S REMUNERATION**

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 30 June 2006.

The statement of the external auditors of the Company about their responsibilities on the financial statements is set out in the "Report of the Auditors" section of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee in respect of the selection, appointment, resignation or dismissal of external auditors.

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## ACCOUNTABILITY AND AUDITOR'S REMUNERATION (Cont'd)

The remuneration paid to RSM Nelson Wheeler, the external auditor of the Company, and the nature of services are set out as follows:

Type of services provided by the external auditors	Fee paid/payable HK\$'000
Audit services:	
Audit of the annual financial statements	830
Non-audit services:	
Review of disclosure requirement for interim financial statements	50
Review of preliminary announcement of annual results	10
Total of non-audit services	60

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The internal audit department was set up on 15 May 2006, under the supervision of the Board, is in the process of conducting a review on the effectiveness of the internal control system of the Group and an independent evaluation to report on the adequacy and effectiveness of the Company's control, information system and operations. The review covers aspects of financial, operational and compliance and risk management control functions of the Company.

## **SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS**

The Company encourages two-way communications with both institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to shareholders of the Company.

Designated executive directors and senior management maintain regular dialogue with institutional investors and analysis to keep them abreast of the Company's developments. Enquires from investors are dealt with in an informative and timely manner. Investor may write directly to the Company at its principal place of businesses in Hong Kong for any inquiries.

At general meetings, the Chairman of the meetings raises separate resolutions for each effectively independent matter. The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board and the chairman of the Board Committees, or in their absence, other members of the respective Committees, are normally available to answer questions at the shareholders' meetings.

The detailed procedures for poll and for demanding a poll are set out in the circulars to shareholders.