



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. The Company has applied the principal and complied with the requirements of the Code on Corporate Governance Practices (the “Code”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “SEHK”) save and except deviation as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

## DIRECTORS

### Directors’ Securities Transactions

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

### Board of Directors

The Board comprises:

Executive Directors	: Mr. Wong Chi Ming, Jeffry ( <i>Chairman</i> ) Ms. Lui Ching Han, Magda Mr. Chung Yuk Lun Mr. Yu Fei, Philip
Independent Non-Executive Directors	: Mr. Lee Pak Chung Mr. Chan Man Kiu Mr. Tam Ping Kuen, Daniel (appointed on 1 May 2006) Mr. Chen Nien Chong (retired on 1 May 2006)

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

# CORPORATE GOVERNANCE REPORT



## DIRECTORS (Continued)

### Board of Directors (Continued)

During the financial year ended 30 September 2006, a total of 15 Board meetings were held and the attendance of directors is set out as follows:

Name of director	Number of regular Board meetings attended in the financial year ended 30 September 2006	Attendance rate
Mr. Wong Chi Ming, Jeffry	4	100%
Ms. Lui Ching Han, Magda	4	100%
Mr. Chung Yuk Lun	4	100%
Mr. Yu Fei, Philip	4	100%
Mr. Lee Pak Chung	4	100%
Mr. Chan Man Kiu	4	100%
Mr. Tam Ping Kuen, Daniel	2	100%
		(during appointment period)
Mr. Chen Nien Chong	2	100%
		(during appointment period)

Some of the Board meetings for day-to-day operations of the Group were attended by executive directors and the attendance of executive directors is set out as follows:

Name of director	Number of other Board meetings attended in the financial year ended 30 September 2006	Attendance rate
Mr. Wong Chi Ming, Jeffry	11	100%
Ms. Lui Ching Han, Magda	4	36%
Mr. Chung Yuk Lun	7	64%
Mr. Yu Fei, Philip	8	73%

The Board is responsible for the types of decision:

- (a) formulation of operational the strategic direction of the Group;
- (b) monitoring the financial performance of the Group;
- (c) overseeing the performance of the management;
- (d) ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed; and
- (e) setting the Group's values and standards.

while daily operation and administration are delegated to the management.



## CORPORATE GOVERNANCE REPORT

### DIRECTORS (*Continued*)

#### Board of Directors (*Continued*)

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all directors and they can include matters for discussion in the agenda if they think fit. The agenda accompanying Board papers are sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents. Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wong Chi Ming, Jeffry (“Mr. Wong”) is the chairman of the Company and co-founder of the Company. Mr. Wong has extensive experience in the jewellery industry who is responsible for the overall strategic planning and policy making of the Group.

The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is monitored by the executive directors as well as the senior management.

The Board is of the view of that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting operation of the Company.

Ms. Lui Ching Han, Magda is the spouse of Mr. Wong.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each executive director is appointed for a specific term which is renewable automatically. All independent non-executive directors are appointed for a specific term which may be extended as each and the Company may agree but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company.

The current articles of association, which was adopted in the annual general meeting on 3 March 2006, provide that subject to the manner of retirement by rotation of directors as from time to time prescribed by the Listing Rules, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and that every director shall be subject to retirement by rotation at least once every 3 years.



## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Report of the Auditors. The responsibility of the external auditors is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditors about their reporting responsibility is set out in the Report of the Auditors.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system includes a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

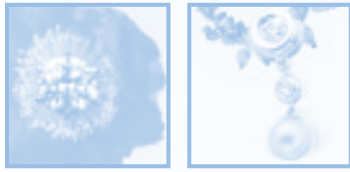
The Board reviews the effectiveness of the Group's material internal controls. Based on information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprising 3 independent non-executive directors. All of them have appropriate professional qualifications or accounting or related financial management expertise. Mr. Lee Pak Chung is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company.

According to the existing terms of reference of the Audit Committee, its major roles and functions are as follows:

- (a) to make recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;



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### AUDIT COMMITTEE (*Continued*)

- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- (c) to develop and implement policy on the engagement of the external auditors to provide non-audit services;
- (d) to monitor integrity of the interim and annual financial statements and interim and annual report and accounts, and to review significant financial reporting judgments contained in them;
- (e) to review the Company's financial controls, internal control and risk management systems;
- (f) to discuss with the management the system of internal control system;
- (g) to consider any findings or major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (h) to review the Group's financial and accounting policies and practices;
- (i) to review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (j) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (k) to report to the Board on the matters raised in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules;
- (l) to consider other topics within the duties mentioned above as requested from time to time by the Board;
- (m) to review arrangements by which employees of the Company may raise concerns about possible improprieties in financial reporting, internal control or other matters; and
- (n) to act as the key representatives body for overseeing the Company's relation with the external auditors.

# CORPORATE GOVERNANCE REPORT



## AUDIT COMMITTEE (Continued)

According to the current terms of reference, meeting of the Audit Committee shall be held at least twice a year. 2 meetings were held for the year ended 30 September 2006. The attendance of each member is set out as follows:

Name of director	Number of meetings attended in the financial year ended 30 September 2006	Attendance rate
Mr. Lee Pak Chung	2	100%
Mr. Chan Man Kiu	2	100%
Mr. Tam Ping Kuen, Daniel	1	100%
		(during appointment period)
Mr. Chen Nien Chong	1	100%
		(during appointment period)

At the meetings held during the year, in performing its duties in accordance with its terms of reference, the work performed by the Audit Committee included:

- (a) review and supervise the financial reporting process and internal control system of the Company and its subsidiaries; and
- (b) review the financial statements for the year ended 30 September 2005 and 6 months ended 31 March 2006 respectively with reference to the scope of the terms of reference.

## AUDITORS' REMUNERATION

During the financial year ended 30 September 2006, the remuneration paid or payable to the Company's auditors, Hopkins CPA Limited (formerly known as Messrs. Albert Lam & Co., Certified Public Accountants), for audit services amounted to HK\$1.2 million. There were no remuneration paid or payable to the Company's auditors for non-audit services.



## CORPORATE GOVERNANCE REPORT

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

#### REMUNERATION COMMITTEE

The remuneration committee of the Company (the “Remuneration Committee”) was established on 31 March 2006 comprising the 3 independent non-executive directors. Mr. Chan Man Kiu is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions are as follows:

- (a) to make recommendations to the Board on the Company’s policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;
- (c) to consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
- (d) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (e) 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 to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- (f) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- (g) to ensure that no director or any of his associates is involved in deciding his own remuneration.

Meeting of the Remuneration Committee shall be held at least once a year. A meeting was held during the year ended 30 September 2006. Various issues concerning the remuneration system of the Group were discussed.

# CORPORATE GOVERNANCE REPORT



## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (*Continued*)

### REMUNERATION COMMITTEE (*Continued*)

The attendance of each member is set out as follows:

<b>Name of director</b>	<b>Number of meetings attended in the financial year ended 30 September 2006</b>	<b>Attendance rate</b>
Mr. Chan Man Kiu	1	100%
Mr. Lee Pak Chung	1	100%
Mr. Tam Ping Kuen, Daniel	1	100%

The Company has adopted a share option scheme which became effective on 3 September 2002, which serves as an incentive to attract, retain and motivate staff. Details of the share option scheme are set out in note 23 to the financial statements. The emolument payable to directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee. Details of the directors' emolument are set out in note 8 to the financial statements.





# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) was established on 31 March 2006 comprising the 3 independent non-executive directors. Mr. Tam Ping Kuen, Daniel is currently the chairman of the Nomination Committee.

According to the terms of reference of the Nomination Committee, its major roles and functions are as follows:

- (a) review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individual nominated for directorships;
- (c) assess the independence of independent non-executive directors;
- (d) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman; and
- (e) other matters as may be delegated by the Board.

Meeting of the Nomination Committee shall be held at least once a year. A meeting was held during the year ended 30 September 2006. Issues concerning the appointment of directors were discussed.

The attendance of each member is set out as follows:

<b>Name of director</b>	<b>Number of meetings attended in the financial year ended 30 September 2006</b>	<b>Attendance rate</b>
Mr. Tam Ping Kuen, Daniel	1	100%
Mr. Lee Pak Chung	1	100%
Mr. Chan Man Kiu	1	100%