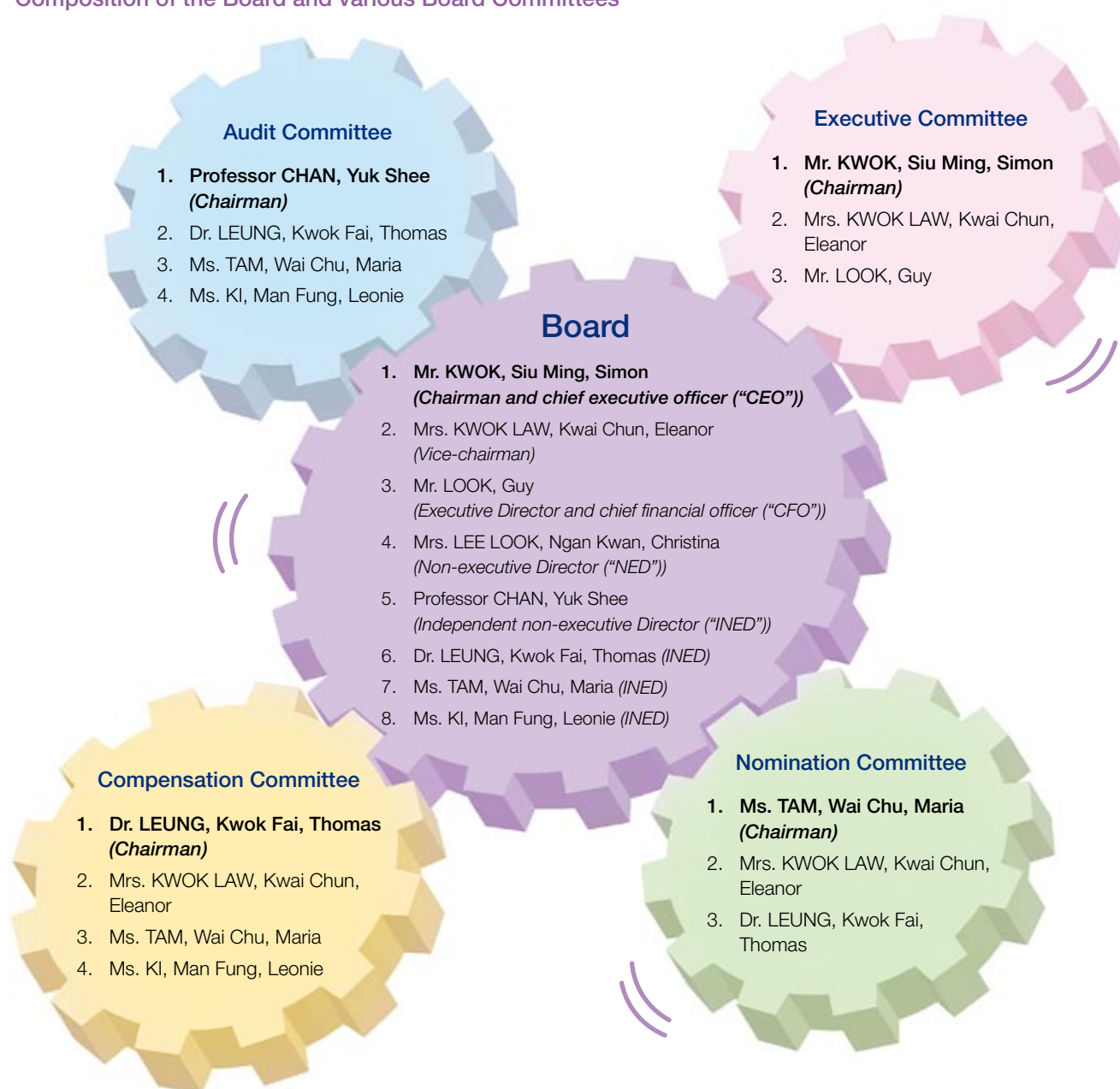


Gearing Up from Corporate Responsibility to Good Governance

Corporate responsibility embraces ethical behavior, transparency, respect for diverse stockholder groups and a commitment to create economic, social and environmental values

Composition of the Board and various Board Committees



Commitment in corporate governance

The Company is committed to good corporate governance principles and practices. The board ("Board") of directors ("Directors") appreciates that corporate responsibility initiatives can scale up their impact by linking to corporate governance frameworks and recognizes that it is essential to safeguard the interests of stockholders, customers and employees and uphold accountability, transparency and responsibility of the Company.

The Company has complied with the code provisions ("Code Provision(s)") in the Code on Corporate Governance Practices ("CG Code") set out in Appendix 14 of the Rules Governing Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 March 2008 except for deviation from the Code Provision A.2.1, particulars of which are set out below. With a view to monitoring and continuously improving its performance, the Company reviews its corporate governance practices from time to time and always aims to enhance its corporate governance practices to be in line with local and international practices.

A. Director

A.1. The Board

Principle

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Code ref.	Code provisions	Compliance	Remarks
A.1.1	Board meetings should be held at least 4 times a year at approximately quarterly intervals, involving active participation.	✓	The Board meets physically and regularly. Five Board meetings were held during the year ended 31 March 2008 and at least once quarterly. Summary of the Directors' Meeting attendance is set out in latter part of this section. The Directors attended the meetings in person or by telephone in accordance with the Company's articles of association ("Articles of Association"). The CEO and CFO of the Company were invited to attend certain Board committee meetings, and other senior management may from time to time be invited to attend Board meetings to make presentations or answer the Board's enquiries.
A.1.2	All directors should be given opportunity to include matters in the agenda for regular board meetings.	✓	Agendas for Board and Board committee meetings are sent to all Directors in advance and they are given opportunities with reasonable time to include relevant matters for discussion in the Board and Board committee meetings.
A.1.3	At least 14 days' notice should be given for regular board meetings.	✓	Timetable for regular Board meetings are scheduled well in advance to facilitate and maximize the attendance and participation of all Directors whilst reasonable notices are given for all other Board meetings.
A.1.4	Directors should have access to company secretary's advice and service.	✓	Directors have access to the advice and services of the company secretary of the Company ("Company Secretary") to ensure that Board procedures, and all applicable rules and regulations, are followed.

corporate governance report

A. Director (continued)

A.1. The Board (continued)

Code ref.	Code provisions	Compliance	Remarks
A.1.5	Board minutes and committee minutes should be kept by company secretary and open for inspection.	✓	Minutes of the Board meetings and Board committee meetings are kept by the Company Secretary and they are open for inspection at reasonable time upon reasonable notice by any Director.
A.1.6	Minutes should record sufficient detail, concerns raised and dissenting views and draft and final versions should be sent to directors for comments and record.	✓	Minutes of the Board and Board committee meetings record sufficient detail in matters considered by the Board and the Board committees and decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes of the Board and Board committee meetings were sent to all the relevant Directors for their comment and records respectively, in both cases within a reasonable time after the Board and Board committee meetings were held.
A.1.7	Upon reasonable request, there should be procedure agreed by the board to enable directors to seek independent professional advice at the Company's expenses.	✓	The Company established a guideline for Directors to obtain independent professional advice ("Independent Advice Guideline") to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/their duties to the Company pursuant to the Independent Advice Guideline.
A.1.8	If substantial shareholder or director has conflict of interest in a material matter, the matter should be dealt with by board meeting with independent non-executive directors with no material interest present.	✓	If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate Board committee is set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting shall be held, during which such Director must abstain from voting. INEDs who, and whose associates, have no material interest in the transaction shall be present at such Board meeting.

The business and affairs of the Company and its subsidiaries ("Group") shall be under the direction of and vest with the Board pursuant to the Articles of Association. The Board is elected by the shareholders and is the ultimate decision making body of the Group except for those matters reserved for shareholders. The Board accepts that it is ultimately accountable and responsible for the performance and affairs of the Group. However, while the Board retains oversight responsibility, certain of that authority is necessarily delegated by the Board to the management in order to enable the management to develop and implement the Company's strategic plans and annual operating plans, and to conduct the Company's day-to-day activities. The Board diligently monitors the management's performance in that regard but responsibility for conducting the Company's day-to-day operations rests with the management.

A. Director (continued)

A.1. The Board (continued)

The Board appointed four Board committees, namely executive committee, audit committee, compensation committee and nomination committee to oversee particular aspects of the Group's affairs. Compositions and responsibilities of these Board committees are set out in latter part of this report. The Company shall review the said delegation arrangements on a periodic basis to ensure that they remain appropriate to its needs. The Board and the Board committee work under well-established corporate governance practices and its terms of reference which reinforces the responsibilities of Directors in accordance with the requirements of the Listing Rules and other relevant statutory and regulatory requirements.

The Directors' attendance at the Board and Board committee meetings of the Company during the year ended 31 March 2008 is set out in the following table ("Meeting Attendance"):

Name of Directors	Board meeting	Executive committee meeting	Audit committee meeting	Compensation committee meeting
Executive Directors				
Mr. KWOK, Siu Ming, Simon	5	9	5 (Note 2)	1 (Note 3)
Mrs. KWOK LAW, Kwai Chun, Eleanor	5	8 (Note 1)	n/a	1
Mr. LOOK, Guy	5	8 (Note 1)	5 (Note 2)	n/a
Non-executive Director				
Mrs. LEE LOOK, Ngan Kwan, Christina	4	n/a	n/a	n/a
INEDs				
Professor CHAN, Yuk Shee	5	n/a	5	n/a
Dr. LEUNG, Kwok Fai, Thomas	4	n/a	4	1
Ms. TAM, Wai Chu, Maria	5	n/a	5	1
Ms. KI, Man Fung, Leonie	5	n/a	4	1
Total Meetings Held	5	9	5	1

Notes:

- (1) Mrs. KWOK LAW, Kwai Chun, Eleanor and Mr. LOOK, Guy were absent for the meetings on 1 December 2007 and 22 January 2008 respectively.
- (2) Mr. KWOK, Siu Ming, Simon and Mr. LOOK, Guy attended five audit committee meetings as invitees.
- (3) Mr. KWOK, Siu Ming, Simon attended the compensation committee meeting as an invitee.

corporate governance report

A. Director (continued)

A.2. Chairman and CEO

Principle

There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Code ref.	Code provisions	Compliance	Remarks
A.2.1	Roles of chairman and CEO should be separate, clearly established and set out in writing.	Please refer to remarks	<i>Considered reasons for deviation:–</i> Mr. KWOK, Siu Ming, Simon has been both the chairman and CEO of the Company whose responsibilities were clearly set out in writing and approved by the Board effective on 1 April 2005. Given the Group's current stage of development, the Board considers that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation. The Board shall nevertheless review the structure from time to time and it will consider the appropriate move to take should suitable circumstance arise.
A.2.2	Chairman should ensure directors are briefed on issues arising at board meetings.	✓	Pursuant to its terms of reference effective on 1 April 2005, the chairman shall ensure the Board address the major issues of the Company, and that these issues are presented in a manner which facilitates thorough discussion and the appropriate resolution and all Directors are properly briefed on issues arising at the Board meetings. He shall also ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner.
A.2.3	Chairman should ensure directors receive timely and adequate information.		

A. Director (continued)

A.3. Board composition

Principle

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgment. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

Code ref.	Code provisions	Compliance	Remarks
A.3.1	Independent non-executive directors should be expressly identified as such in all communications disclosing its names.	✓	<p>The INEDs are expressly identified in all corporate communications that disclose the names of the Directors.</p> <p>The Board currently comprises three executive Directors, namely Mr. KWOK, Siu Ming, Simon, Mrs. KWOK LAW, Kwai Chun, Eleanor and Mr. LOOK, Guy, and five NEDs in which four of them are INEDs, representing more than one-third of the Board. The INEDs are Professor CHAN, Yuk Shee, Dr. LEUNG, Kwok Fai, Thomas, Ms. TAM, Wai Chu, Maria and Ms. KI, Man Fung, Leonie who offer diversified expertise and serve to advise the Board and management on strategic development and provide checks and balances for safeguarding the interest of the shareholders and the Group as a whole. The Company has received an annual written confirmation from each of the INEDs that they have met all the independent guidelines set out in Rule 3.13 of the Listing Rules. Biographies with relevant relationships among members of the Board, if any, are shown on page 42 under the section "Biographical Details of Directors and Senior Management". Term of appointment of NEDs are shown on page 83 of the Report of the Directors.</p>

A.4. Appointments, re-election and removal

Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code ref.	Code provisions	Compliance	Remarks
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	✓	All the NEDs were appointed for a specific term, subject to re-election pursuant to the Articles of Association.

corporate governance report

A. Director (continued)

A.4. Appointments, re-election and removal (continued)

Code ref.	Code provisions	Compliance	Remarks
A.4.2	All directors should be appointed to fill casual vacancy subject to election by shareholders at the first general meeting; every director should be subject to retirement by rotation at least once every 3 years.	✓	<p>Relevant amendments to the Articles of Association were proposed by the Board and approved by shareholders of the Company at the annual general meeting ("AGM") held on 25 August 2005 that every Director shall be subject to retirement at least once every three years.</p> <p>Pursuant to Article 116 of the Articles of Association, Mr. KWOK, Siu Ming, Simon, Mrs. KWOK LAW, Kwai Chun, Eleanor and Mr. LOOK, Guy will retire by rotation at the AGM to be held on 28 August 2008 ("AGM 2008") and, being eligible, will offer themselves for re-election.</p> <p>Pursuant to the recommended best practice A.4.3 of the CG Code, the re-appointments of Professor CHAN, Yuk Shee and Dr. LEUNG, Kwok Fai, Thomas, who will serve as INEDs for more than nine years commencing from 1 November 2008 and 1 January 2009 respectively, shall also be subject to a separate resolution to be approved by shareholders in AGM 2008. Details are set out in (v) of the section "Beyond the Code Provisions" of this report.</p>

The Board had established a nomination committee on 31 March 2005, whose members are Ms. TAM, Wai Chu, Maria, being the chairman, Mrs. KWOK LAW, Kwai Chun, Eleanor and Dr. LEUNG, Kwok Fai, Thomas.

The terms of reference of the nomination committee which is made available on the website of the Group, has set out details of its role and functions, nomination procedures and the process and criteria adopted for selection and recommendation of candidates for directorship of the Company, summary of which is set out below.

The nomination committee is responsible for, inter alia:–

- (i) determining the policy for the nomination of Directors;
- (ii) reviewing the structure, size and composition (including the skills, knowledge and expertise) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- (iii) identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorship;
- (iv) assessing the independence of INEDs; and
- (v) making recommendations to the Board on the relevant matters relating to the appointment or re-appointment of Directors.

A. Director (continued)

A.4. Appointments, re-election and removal (continued)

When selecting and recommending candidates for directorship for the Board's consideration, the nomination committee shall review a potential candidate and consider various factors including but without limitation to:-

- (i) the skills, experience, expertise and personal qualities that will best complement the Board's effectiveness;
- (ii) the capability of the candidate to devote the necessary time and commitment to the role and this involves a consideration of matters such as other Board or executive appointments; and
- (iii) the potential conflicts of interest and independence.

During the year ended 31 March 2008, the nomination committee, by written resolution, reviewed and considered the re-appointments of Mrs. LEE LOOK, Ngan Kwan, Christina as NED and Ms. TAM, Wai Chu, Maria as INED and chairman of the nomination committee and member of audit and compensation committee and their re-appointments were recommended to, and subsequently approved by, the Board.

A.5. Responsibilities of Directors

Principle

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Code ref.	Code provisions	Compliance	Remarks
A.5.1	Every newly appointed director should receive a comprehensive, formal induction, and subsequent briefing and development as is necessary.	✓	<p>The Company has adopted policy on the induction ("Induction") for newly appointed Directors ("Induction Policy"). A comprehensive, formal and tailored Induction shall be provided by the senior management to familiarize the newly appointed Director with the Company's operations, business environment and plans, financial positions, his/her responsibilities under statute and common law, the Listing Rules, applicable legal and other regulatory requirements and business and governance policies respectively.</p> <p>Subsequent briefing and professional development shall be provided to the newly appointed Director as and when necessary.</p> <p>Update of the legal and regulatory changes and matters of relevance are sent to the Directors from time to time.</p>

corporate governance report

A. Director (continued)

A.5. Responsibilities of Directors (continued)

Code ref.	Code provisions	Compliance	Remarks
A.5.2	Functions of non-executive directors should include A.5.2 of the Code Provision in the CG Code.	✓	<p>The NEDs exercise their independent judgment and advise on future business direction and strategic plans of the Group.</p> <p>NEDs review the financial information and operational performance of the Group on a regular basis.</p> <p>INEDs are invited to serve on the audit, compensation and nomination committees of the Board.</p>
A.5.3	Directors should give sufficient time and attention to company's affairs.	✓	<p>Satisfactory attendance at the Board meetings was shown in the Meeting Attendance.</p> <p>The executive Directors have hands-on knowledge and expertise in operations and designated areas that they are responsible. With reference to their respective areas of expertise and experiences, the Directors contribute sufficient time as well as attention to the affairs of the Group.</p>
A.5.4	Directors must comply with model code for securities transaction by directors of listed issuers ("Model Code") in Appendix 10 of the Listing Rules, and the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in company's shares.	✓	<p>The Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code ("Company's Code"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's Code.</p>

A. Director (continued)

A.6. Supply of and access to information

Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code ref.	Code provisions	Compliance	Remarks
A.6.1	Agenda and board papers should be sent to directors at least 3 days before regular board meeting or committee meeting.	✓	In respect of regular Board meetings, and so far as practicable in all other cases, Board papers are dispatched to Board and Board committee members not less than 3 days or such other agreed period before Board or Board committee meetings.
A.6.2	Management should supply board and its committees with adequate information in timely manner. Each director should have separate and independent access to the issuer's senior management.	✓	<p>The qualified accountant and Company Secretary attended all regular Board meetings so as to attend to issues and enquiries in respect of corporate governance, statutory compliance and accounting and financial matters.</p> <p>Communication between the Directors and the senior management is a dynamic and interactive process. The qualified accountant and Company Secretary had also acted as coordinator and attended to the queries raised and clarification sought by the Directors as promptly and fully as possible and further supporting information and documents were provided to the Directors, as and when appropriate.</p>
A.6.3	All directors are entitled to have access to board papers and related materials.	✓	<p>Board papers and minutes are made available for inspection by the Directors and Board committee members.</p>

corporate governance report

B. Remuneration of Directors and senior management

B.1. The level and make-up remuneration and disclosure

Principle

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

Code ref.	Code provisions	Compliance	Remarks
B.1.1	Issuers should establish a remuneration committee, majority of whom shall be independent non-executive directors.	✓	Please refer to the section below.
B.1.2	Remuneration committee should consult chairman and/or CEO about proposals relating to remuneration of other executive directors.	✓	
B.1.3	Terms of reference of the remuneration committee should include B.1.3 of the Code Provision in the CG Code.	✓	
B.1.4	Remuneration committee should make available its terms of reference explaining its role and the authority delegated to it by the board.	✓	
B.1.5	Remuneration committee should be provided with sufficient resources to discharge its duties.	✓	

B. Remuneration of Directors and senior management (continued)

B.1. The level and make-up remuneration and disclosure (continued)

A compensation committee had been first formed in December 1999 and was then formally established in March 2000. There are four compensation committee members currently, namely Dr. LEUNG, Kwok Fai, Thomas, who presides as the chairman, Mrs. KWOK LAW, Kwai Chun, Eleanor, Ms. TAM, Wai Chu, Maria and Ms. KI, Man Fung, Leonie and the majority of whom are INEDs.

The role and authorities of the compensation committee, including those set out in B.1.3 of the Code Provision in the CG Code, were clearly set out in its terms of reference which are available at the Company's website and on request. Pursuant to its terms of reference, the compensation committee should be provided with sufficient resources to discharge its duties, including obtaining independent professional advice in appropriate circumstances as and when deemed necessary and fit pursuant to the Independent Advice Guideline adopted by the Company from time to time.

During the year ended 31 March 2008, the compensation committee, among others, reviewed and considered the discretionary performance bonus of the Group and the terms and conditions in the service agreement of chief operating officer including his remuneration package. The above were recommended to, and subsequently approved by, the Board. The compensation committee held a meeting on 25 June 2007, in which all compensation committee members attended, particulars of the meetings were set out in the Meeting Schedule. The chairman and CEO was invited to attend the compensation committee meeting for consultation of the above matters.

Emolument policy and long-term incentive plan

The Group provides competitive remuneration packages which consist of base compensation, incentives and fringe benefits for recruiting, retaining and motivating the experienced or potential personnel.

Generally base compensation forms a significant element of the remuneration packages. The Group pays a competitive base compensation with reference to the prevailing market conditions and the respective duties and responsibilities of the relevant employee(s).

Incentives are given in form of various kinds of bonus and an opportunity to participate in the Group's long-term success through its share option schemes adopted on 22 May 1997 and 29 August 2002 respectively ("Share Option Schemes"). Details of the Share Option Schemes are set out on page 76 of this annual report.

Fringe benefits like provident fund benefits, medical insurance, personal accident insurance, employee compensation and business travel insurance are also offered to the Group's employees.

With reference to the Directors' expertise and experience, duties and responsibilities, experience, industry standards, prevailing market conditions as well as the Group's performance, the Directors' emolument is recommended by the compensation committee and approved and determined by the Board. The emolument of Directors mainly consists of base compensation and share options, particulars of which are set out in the note 9 to the financial statements in this annual report.

corporate governance report

C. Accountability and audit

C.1. Financial Reporting

Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code ref.	Code provisions	Compliance	Remarks
C.1.1	Management should provide information to the board to enable the board to make informed assessment of financial situation.	✓	Please refer to the section below.
C.1.2	Directors should acknowledge responsibility for preparing accounts, on a going concern basis and there should be a statement by auditors about their reporting responsibilities in the auditors' report on the financial statements. The corporate governance report should contain sufficient information to enable investors to understand severity and significance of matters at hand.	✓	
C.1.3	Board should present a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements and other financial disclosures under the Listing Rules and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	✓	

C. Accountability and audit (continued)

C.1. Financial Reporting (continued)

Management shall provide explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put forward to the Board for approval. Directors are provided with financial information and relevant review and update on the Group's major business units on a quarterly basis.

The Directors acknowledged their responsibility for preparation of financial statements which give a true and fair view of the Group's state of affairs of the results and cashflow for the year.

With the assistance of the accounts department which is under the supervision of the CFO, the Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirement and applicable accounting standards. In preparing the financial statements for the year ended 31 March 2008, the Directors have:

- (i) approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
- (ii) selected and applied consistently appropriate accounting policies;
- (iii) made judgments and estimates that are prudent and reasonable; and
- (iv) prepared the financial statements on the going concern basis.

The Independent Auditors' Report on pages 89 to 90 of this annual report has set out the reporting responsibilities of PricewaterhouseCoopers ("PwC"), the auditors of the Company.

The Board recognizes the importance of good corporate governance and transparency and its accountability to shareholders. It shall present a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements and other financial disclosures of the Group as required under the Listing Rules, and shall report to regulators as well as to disclose information pursuant to the relevant statutory requirements. The Company announces its annual and interim results well before the prescribed period of four months after the financial year and three months after the end of first six months of the financial year respectively as required by the Listing Rules.

C.2. Internal controls

Principle

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code ref.	Code provisions	Compliance	Remarks
C.2.1	Directors should at least annually review effectiveness of the system of internal control of the Group and state so in corporate governance report.	✓	Please refer to the section below.

corporate governance report

C. Accountability and audit (continued)

C.2. Internal controls (continued)

Internal control and risk management

Recognizing that a well-designed system of internal control is crucial to safeguard the assets of the Group and to ensure the reliability of financial reporting as well as compliance with laws and regulations, the Group is committed to set up and maintain a sound and effective internal control system which is devised to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. The Board also acknowledges that it has overall responsibility for the Group's internal control, financial control and risk management system and shall monitor its effectiveness from time to time.

Internal control system

The Group has had in place an integrated framework of internal controls through the following major processes:

- (i) systems and procedures are in place to identify and measure risks on an ongoing basis. Senior management conducts annual risk assessment and monitors the progress of risk mitigation plans;
- (ii) an organization structure with defined lines of responsibility, proper segregation of duties and delegation of authority is devised;
- (iii) the Board reviews its strategic plans and objectives on an annual basis. The annual strategic plans lay down the basis for resources and financial budgeting;
- (iv) an effective accounting and information system is designed to ensure accurate and timely disclosure and reporting;
- (v) financial performance is analyzed against budget quarterly with variances being accounted for and appropriate actions are taken to rectify deficiencies; and
- (vi) the internal audit function conducts independent review to evaluate the adequacy and effectiveness of major controls over principal operations. Major findings and recommendations, if any, are reported to the audit committee on a quarterly basis.

Internal audit function

The Group has maintained an internal audit function that is responsible for assisting the Board in maintaining effective internal controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The internal audit function of the Group, which is independent of the management of the Company, reports directly to the audit committee quarterly and has access to the chairman of the audit committee, if appropriate.

During 2007, the Group has outsourced certain internal audit activities to an independent risk consulting firm which is not the auditor of any members of the Group ("Internal Control Consultants"). The Internal Control Consultants performed reviews of the Group's internal controls based on a risk-based annual audit plan approved by the audit committee.

The annual audit plan was arrived at using a risk-based approach to determine the priorities of the internal audit activities. The audit committee has the final authority to review and approve the annual audit plan and all major changes to the plan. In addition, special reviews may also be performed on areas of concern identified by management or the audit committee from time to time.

C. Accountability and audit (continued)

C.2. Internal controls (continued)

Risk assessment

During the year ended 31 March 2008, the Internal Control Consultants facilitated a comprehensive risk assessment exercise for the Group which covered the Group's operations in the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China ("PRC"), the PRC, Taiwan, Singapore and Malaysia.

In conducting the risk assessment, management embraces a "top-down" approach as recommended by the Committee of Sponsoring Organizations of the Treadway Commission. Management defined the objectives of the Group and the related risk categories impacting those objectives.

The Internal Control Consultants have conducted interviews with selected key members of management team to define the strategic objectives of the Group and to identify major updates in the risk profile of the Group resulted from the changing internal and external environment.

Risk assessment questionnaires were designed and circulated to the local management of each location as a means to identify any events impacting the achievement of the Group's objectives. Interviews have been arranged to further the Internal Control Consultants' understanding of each participant's views on risks encountered by the Group.

All participants were invited to join a risk assessment workshop to discuss the results of the questionnaires and interviews. Through facilitated discussion and anonymous voting mechanism, the key risks have been ranked in terms of significance and likelihood. Follow-up meetings with the designated risk owners have been arranged to discuss the risk mitigation plans with respect to each key risk identified.

The results have been presented to the Board and the audit committee to enhance the accountability and quality of the risk management process of the Group.

Internal control review

Internal control reviews were carried out in accordance with the risk-based audit plan and the specific requests by the audit committee and management. During the year ended 31 March 2008, the Internal Control Consultants have conducted reviews on major aspects of the Group's operations in Hong Kong, the PRC, Taiwan, Singapore, Malaysia and Thailand including the operations of the retail businesses, Phillip Wain and Sa Sa Beauty Plus.

Audit planning meetings were arranged with process owners to communicate the scope and approach of review prior to the commencement of each audit assignment. Audit work programs have been developed based on understanding of the operations obtained from interviews with management and review of policy documents. Through execution of the audit work programs, the Internal Control Consultants assessed the design effectiveness and operating effectiveness of the key controls associated with the process under review.

Findings and recommendations on internal control deficiencies were well communicated with management such that action plans were developed by management to address the issues identified. Post-audit reviews were also scheduled to ensure the action plans were executed as designed. Key findings of each internal control review assignment were reported to and reviewed by the audit committee quarterly.

In respect of the year ended 31 March 2008, the Board, through the audit committee, reviewed the effectiveness of the system of internal control of the Group and was satisfied that the Group had fully complied with the Code Provision on internal controls as set forth in the CG Code. The review covers all material controls, including financial, operational and compliance controls and risk management functions.

corporate governance report

C. Accountability and audit (continued)

C.3. Audit committee

Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

Code ref.	Code provisions	Compliance	Remarks
C.3.1	Minutes of audit committee meetings should be kept and sent to all members for comment and records within reasonable time.	✓	Pursuant to its terms of reference, minutes of audit committee meetings were kept and sent to all its committee members within reasonable time.
C.3.2	A former partner of the issuer's audit firm should not act as a member of the audit committee.	✓	All the current audit committee members are not former partner of the Company's existing auditing firm.
C.3.3	The terms of reference of audit committee should include terms set out pursuant to C.3.3 of the Code Provision in the CG Code.	✓	The terms of reference of the audit committee, which have included the role and authority delegated to it by the Board together with C.3.3 of the Code Provision, are available at the Group's website and on request.
C.3.4	Audit committee should make available its terms of reference.	✓	
C.3.5	In case of any disagreement between board and audit committee on selection, appointment, resignation or dismissal of external auditors, the issuer should state recommendation and reasons for difference in view in corporate governance report.	✓	The audit committee recommended, and the Board agreed, that the Company shall re-appoint PwC to be the Company's auditors and the recommendation will be put forward for the approval of shareholders at the AGM 2008.
C.3.6	Sufficient resources should be provided to the audit committee to discharge its duties.	✓	Pursuant to its terms of reference, the audit committee should be provided with sufficient resources, including advice of professional firms, to discharge its duties, if necessary.

C. Accountability and audit (continued)

C.3. Audit committee (continued)

The Company established an audit committee with written terms of reference on 13 October 1999. The current audit committee members are Professor CHAN, Yuk Shee who presides as chairman, Dr. LEUNG, Kwok Fai, Thomas, Ms. TAM, Wai Chu, Maria and Ms. KI, Man Fung, Leonie, all of whom are INEDs and at least one of whom possess the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The audit committee is responsible for, inter alia, reviewing and monitoring the relationship between the Company and its auditors, reviewing the financial information of the Company and overseeing the Company's financial controls, internal control and risk management systems. The audit committee members have met with external auditors and Internal Control Consultants and discussed the general scope of the audit works and reviewed the audit reports and the interim and annual accounts of the Group. During the year, the audit committee met privately with the external auditors, without the presence of the executive Directors of the Company, to discuss matters or issues arising from the audit and any other matters the external auditors may wish to raise.

There were five audit committee meetings held during the year ended 31 March 2008 and the chairman and CEO, CFO, other members of the senior management team and the external auditors of the Company were invited, as and when necessary, to join the discussion of the audit committee meetings. Particulars of the Board committee members' individual attendance and other details of the meetings were set out in the Meeting Attendance. The following is a summary of works performed by the audit committee during the year:

- (i) review of the annual budget and long-term plan of the Group and their execution plans;
- (ii) review of the Group's performance against budget on a quarterly basis;
- (iii) review of the Group's annual and interim results statements and the related result announcements and documents including the external auditors' reports and the letter of representation by the Company and other matters or issues raised by the external auditors;
- (iv) review of the development in accounting standards and its effects on the Group;
- (v) review of semi-annual summary of audit and non-audit services by external auditors;
- (vi) review of the relevant product policies of the Group;
- (vii) review of the independence of the external auditors and engagement of external auditors for audit and audit related services;
- (viii) review of the foreign currency and treasury policy of the Group and paper for going concern for the relevant period;
- (ix) review of the engagement of internal audit services by Internal Control Consultants including its scope, internal audit plan and fees;
- (x) review of quarterly internal audit reports and update by the internal auditors and Internal Control Consultants respectively in respect of the Group's internal control system and procedures, its effectiveness and the regular updates on key risk areas of financial control and post audit review.

corporate governance report

C. Accountability and audit (continued)

C.3. Audit committee (continued)

All issues raised by the audit committee were addressed and/or dealt with by the relevant senior management of the Company and the works, findings and recommendations of the audit committee were reported to the Board regularly.

During the year ended 31 March 2008, no issues brought to the attention of senior management and the Board was of sufficient importance to require disclosure in the annual report under the Listing Rules.

During the year ended 31 March 2008, the fees paid to the Company's external auditors amounted to approximately HK\$2,635,000, comprising the audit fees of HK\$1,922,000 and non-audit fees of HK\$713,000 respectively. The non-audit services consist mainly of tax advisory services, PRC review, tax and other advice on disposal of the Phillip Wain group.

For the purpose of achieving and maintaining high standards with regard to behaviour at work and in all its working practices, employee(s) may, in confidence, report serious concerns about malpractices or illegal acts that he/she become aware of pursuant to the whistle-blowing policy and procedure for the Group approved by the Board ("Whistle-blowing Policy"). The audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action pursuant to the Whistle-blowing Policy.

D. Delegation by the Board

D.1. Management functions

Principle

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code ref.	Code provisions	Compliance	Remarks
D.1.1	Board must give clear directions as to powers of management, particularly on delegation to management and matters required prior approval from the board.	✓	Please refer to the section below.
D.1.2	Company should formalize functions reserved to the board and functions delegated to management.	✓	

D. Delegation by the Board (continued)

D.1. Management functions (continued)

Pursuant to the terms of reference of the Board and management, the duties and types of decision to be taken by the Board include those relating to:-

- (i) set the objectives of the Board;
- (ii) establish the strategic direction of the Company;
- (iii) set the objectives of the management;
- (iv) monitor the performance of the management;
- (v) oversee the management of the Company's relationships with stockholders, such as customers, the community, interest groups and others who have a legitimate interest in the responsible conduct of the Group's business;
- (vi) ensure that a framework of prudent and effective controls is in place and to assess and manage risks of the Group;
- (vii) set the Company's values and standards;
- (viii) determine any matters involving a conflict of interest for a substantial shareholder or a director;
- (ix) determine material acquisitions and disposals of assets, investments, capitals projects, authority levels, major treasury policies, risk management policies and key human resources issues;
- (x) ensure the Company maintain sound and effective internal controls to safeguard the shareholders' investment and the Company's assets. Directors should at least annually conduct review of the effectiveness of the system of internal control of the Group and report to shareholders on the relevant findings in corporate governance report of the Company. The review shall cover all material controls, including financial, operational and compliance controls and risk management functions;
- (xi) consider and determine issues which are the responsibility of the Board pursuant to the Company's memorandum and Articles of Association and relevant laws and regulations in force from time to time under which the Group is governed; and
- (xii) delegate its power and authority to the relevant committee(s) of the Board in respect of the management and operation of the Company as and when appropriate.

The management, consisting of CEO, the executive committee of the Board along with other senior executives, shall be responsible for the implementation of the strategy and direction as determined by the Board from time to time. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and shareholders of the Company.

The Board delegates management and administrative functions to the management for their conduct of the day-to-day operations of the Company, effectively, legally and ethically. This requires that they are aware of the material risks and issues faced by the Company and that they carefully supervise the Company's financial reporting systems and processes.

corporate governance report

D. Delegation by the Board (continued)

D.1. Management functions (continued)

Responsibilities of the management include those relating to:-

- (i) provide a comprehensive, formal and tailored Induction upon the appointment of Directors, and subsequently such briefing and professional development as is necessary, to ensure that the Directors have a proper understanding of the operations and business of the Company;
- (ii) develop business and execution proposals in line with the objectives of, and with risks acceptable to, the Company for approval by the executive committee on behalf of the Board;
- (iii) prepare annual budget, long-term plan and implementation plan for review by the executive committee and approval by audit committee and/or the Board;
- (iv) provide in a timely manner with appropriate information in such form and of such quality as will enable the Directors to monitor the performance of the Company and make informed decisions;
- (v) develop and implement internal control procedures;
- (vi) develop the Group's staff policy;
- (vii) prepare materials and papers and draft resolutions on matters to be considered by the general meeting of shareholders or Board and present materials to the committees of the Board;
- (viii) manage risk in accordance with the direction of the Board from time to time;
- (ix) provide organizational and technical support of the activities of the Group;
- (x) determine the technical, financial, economic and pricing policies of the Group;
- (xi) determine policy and supervise improvements to accounting and administrative methods and adopt international accounting standards for the Group and its branch offices;
- (xii) determine the methods for planning, budgeting and financial control for the Group and its overseas offices;
- (xiii) determine security policies for the Group and its branch offices;
- (xiv) determine the procedure for allocating assets to Group companies and withdrawal of allocated assets from Group companies;
- (xv) determine the number of members of the collective executive bodies of overseas offices, appoint them, terminate their authority early and approve the regulations on overseas offices' collective executive bodies;
- (xvi) preliminarily approve candidates for the position of heads, deputy heads of and chief accountants of overseas and representative offices and relieve them of their duty;

D. Delegation by the Board (continued)

D.1. Management functions (continued)

- (xvii) approve overseas offices' budgets and amend such documents;
- (xviii) analyze the results of performance of the Group and compare against the budget and take appropriate actions to ensure performance in accordance with budget;
- (xix) report to the executive committee and the audit committee on the results of the performance of the Group;
- (xx) approve internal documents regulating matters within the authority of the management; and
- (xxi) handle such other matters that are delegated by the Board from time to time.

Executive committee

Being part of the management team, the executive committee had meetings on a regular basis. The members of the executive committee are Mr. KWOK, Siu Ming, Simon, who presides as the chairman, Mrs. KWOK LAW, Kwai Chun, Eleanor and Mr. LOOK, Guy. Particulars of the executive committee members' individual attendance and other details of the meetings were set out in the Meeting Attendance.

Management meetings

Executive committee and the management team meet regularly together to review, discuss and make decisions on financial and operational matters. During the year ended 31 March 2008, nine management meetings were held, and chaired by the chairman and CEO of the Company or delegate in his absence, which enhanced and strengthened departmental communications and co-operation within the Group.

D.2. Board committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with the Board committees' authority and duties.

Code ref.	Code provisions	Compliance	Remarks
D.2.1	Board committees should have clear terms of reference to enable such committees to discharge their functions properly.	✓	Please refer to terms of reference of the audit committee, compensation committee and nomination committee of the Company. Board committees report their findings, decisions and recommendations to the Board at the Board meetings.
D.2.2	Terms of reference of board committees should require such committees to report their decisions to the board.	✓	

corporate governance report

E. Communication with shareholders

E.1. Effective communication

Principle

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code ref.	Code provisions	Compliance	Remarks
E.1.1	A separate resolution at a general meeting on each substantially separate issue should be proposed by the chairman of that meeting.	✓	Separate resolutions are proposed at the AGM on each substantially separate issue, including election of individual Directors.
E.1.2	Chairman of the board should attend AGM and arrange for chairmen of audit, remuneration and nomination committees to attend and be available to answer questions.	✓	<p>The chairman of the Board attended the AGM held on 23 August 2007 ("AGM 2007") and the chairmen or another member of the relevant committee were available to answer question at the AGM 2007.</p> <p>The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communication (including but not limited to annual report, interim report, notice of meeting, circular and proxy form) required under the Listing Rules, and shareholders can select to receive such documents by electronic means; (ii) updated and key information of the Group is available on the Group's website; (iii) the Company's website offers a communication channel between the Group and its shareholders and investors; (iv) the AGM also provides a forum for shareholders to raise comments and exchange views with the Board; (v) regular press and analysts' conference are set up from time to time; (vi) the Company's branch share registrar deals with shareholders for all share registration and related matters, and (vii) corporate communications department of the Company handles enquiries from shareholders and investors generally.</p>

The last shareholders' meeting was the AGM 2007 which was held at the Island Shangri-la Hotel Hong Kong for approval of, among others, the general mandates to issue and purchase shares and the re-election of retiring directors. Particulars of major items considered in the AGM 2007 were set out in the circular of the Company dated 12 July 2007 ("Circular 2007"). The proposed resolutions by ordinary resolutions were passed by simple majority of the votes on show of hands in the AGM 2007.

Public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the total issued share capital of the Company was held by the public as at the date of this annual report.

E. Communication with shareholders (continued)

E.1. Effective communication (continued)

Investor relations

The Group is committed to fostering productive and long-term relationships with shareholders and investors through open and prompt communication. Various channels have been established to facilitate transparency. Key information on the Group, which is continuously updated (including a separate Corporate Governance section), results reports and webcasts of results presentations are available on our corporate website (www.sasa.com/corporate). In addition to the AGM in which shareholders can put questions to Directors about the Group's performance, press and analysts' conferences are held at least twice a year subsequent to the interim and final results announcements. At these conferences, our management team explains the Group's business performance and future direction. The Group also seeks opportunities to communicate its strategies to investors and the public through active participation at investors' conferences, regular meetings with fund managers and potential investors, as well as through press interviews and timely press releases. Other than individual meetings with analysts, institutional investors and fund managers, the Group also participated in various road shows and conferences during the year. These are summarised as follows:

Date	Event	Organiser	Location
March 2008	Asian Investment Conference	Credit Suisse	Hong Kong
January 2008	HK/China Retail Access Day	CLSA	Hong Kong
January 2008	Greater China Conference	UBS AG	Shanghai
December 2007	Road show	BNP Paribas Securities	Singapore
November 2007	Road show	BNP Paribas Securities	Hong Kong
October 2007	Greater China Investor Conference	Citigroup Global Markets	Macau
September 2007	Road show	Bear Stearns	New York & San Francisco
September 2007	Asia Pacific & Emerging Markets Equities Conference	JP Morgan	New York
September 2007	Road show	CIBC	Toronto & Montreal
July 2007	China/Hong Kong Consumer Corporate Day	BNP Paribas Securities	Singapore
June 2007	Road show	Lehman Brothers	Hong Kong
May 2007	Investor luncheon	CIMB-GK	Hong Kong
April 2007	Consumer Corporate Day	Deutsche Bank	London

corporate governance report

E. Communication with shareholders (continued)

E.2. Voting by poll

Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code ref.	Code provisions	Compliance	Remarks
E.2.1	Chairman of the meeting should disclose in circular procedures and rights to demand a poll.	✓	The procedures for demanding a poll by the shareholders were incorporated in the Circular 2007.
E.2.2	Chairman should count and indicate level of proxies lodged on each resolution, and the balance for and against the resolution.	✓	The chairman of the Board had duly performed the E.2.2 and E.2.3 of the Code Provisions in the AGM 2007. Tricor Abacus Limited, the branch share registrar of the Company, was appointed as scrutineers to monitor and count the votes cast in the AGM 2007.
E.2.3	Chairman should explain procedures for demanding and conducting a poll at the commencement of meeting.	✓	

Beyond the Code Provisions

With a view to continuously improving its corporate governance, transparency and accountability to its shareholders, the Group goes beyond the Code Provisions in the following aspects:-

- (i) the Company has arranged appropriate liability insurance cover, which is reviewed on an annual basis, for liabilities arising out of activities from being Directors and officers of the Group;
- (ii) the chairman of the Board has performed duties and responsibilities set out in A.2.4 and A.2.5 of the recommended best practices in the CG Code, including to ensure the Board works effectively and discharges its responsibilities, all key and appropriate issues are discussed by the Board in a timely manner etc., which were incorporated into the terms of reference for chairman effective on 1 April 2005;
- (iii) the INEDs appointed represent more than one-third of the Board;
- (iv) the Company established a nomination committee on 31 March 2005, in which two-third of its committee members are INEDs. The terms of reference of nomination committee adopted by the Board on 31 March 2005 deal clearly with the Board committee's authority and duties and incorporated all the duties set out in A.4.5 (a) to (d) of the recommended best practices in the CG Code. The terms of reference of the nomination committee with its role and authority delegated by the Board is made available on the Company's website and on request. Pursuant to its terms of reference, the nomination committee should be provided with sufficient resources;

E. Communication with shareholders (continued)

E.2. Voting by poll (continued)

- (v) Professor CHAN, Yuk Shee and Dr. LEUNG, Kwok Fai, Thomas had been appointed as INEDs since 1999 and 2000 respectively. Professor Chan's current three-year term of directorship commenced from 1 November 2005 to 31 October 2008 whilst Dr. Leung's current three-year term of directorship commenced from 1 January 2006 to 31 December 2008. The Board approved and offered to Professor Chan and Dr. Leung, following the recommendations of the nomination committee, and each of Professor Chan and Dr. Leung accepted to be re-appointed as INED for a further 3-year term commencing from 1 November 2008 to 31 October 2011 and 1 January 2009 to 31 December 2011 respectively. Pursuant to the provision A.4.3 of recommended best practices in the CG Code, the re-appointments of Professor Chan and Dr. Leung as INEDs, who shall serve for more than nine years commencing from 1 November 2008 and 1 January 2009 respectively, shall be subject to a separate shareholders' resolution to be approved by shareholders. The Board has set out in its circular to the shareholders dated 11 July 2008 the respective reasons they believe that Professor Chan and Dr. Leung continue to be independent and why they shall be elected;
- (vi) the NEDs, as equal Board members, give the Board and the relevant Board committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. All NEDs attended the AGM 2007 which facilitated them to develop a balanced understanding of the view of the shareholders;
- (vii) the NEDs have made a positive contribution to the development of the Group's strategy through independent, constructive and informed comments;
- (viii) the Company maintains an updated list of the Directors on the Company's website (www.sasa.com) identifying their role and function and whether they are INEDs;
- (ix) details of the last shareholders' meeting and major items considered, and particulars as to voting are set out in the section E. – communication with shareholders in this report; and
- (x) disclosure on division of responsibility between the Board and management is set out in the section A. – Directors in this report.