



## *Corporate Governance Report*

The Company acknowledges the importance of good corporate governance practices and believes that they are essential to the development of the Group and safeguard the interests of shareholders.

The Code on Corporate Governance Practices (the “CG Code”) issued by the Stock Exchange came into effect on 1 January 2005. For the year ended 31 March 2006, the Company was in compliance with the CG Code except for the following:

1. The non-executive directors (“NEDs”) and independent non-executive directors (“INEDs”) are not appointed with specific term as required by code provision A.4.1, but their appointments are determinable by either party with at least one month written notice in advance. The Board considers the one-month notice period for termination of NEDs’ and INEDs’ contracts provided adequate protection to either party and would not impose undue pressure of possible compensation liable by the Group for the termination. Besides, NEDs and INEDs are also subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company.
2. A special resolution was passed in the annual general meeting held on 8 September 2005 to amend the Bye-laws whereby all directors including the chairman and managing director of the Company who were previously exempted are now subject to retirement by rotation and re-election.
3. The Board is in the opinion that the establishment of a remuneration committee as required by code provision B.1.1 is not justified after consideration of the size of the Group and the associated costs involved.

### **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of The Directors, the Company confirmed that they all have complied with the required standard as set out in the Model Code during the year ended 31 March 2006.

### **THE BOARD**

The Board comprises the chairman, the deputy-chairman, the managing director, 2 executive directors, 2 NEDs and 3 INEDs. The managing director of the Company serves the same capacity as the chief executive officer.

The Board is collectively accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group’s businesses, formulating strategic directions, setting objectives and business development plans, and monitoring the performance of both the financial results and the senior management.



### THE BOARD (Continued)

The INEDs serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Each of the INED has confirmed in his annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and on this basis, the Company considers such directors to be independent. The INEDs are explicitly identified in all corporate communications.

All Directors have distinguished themselves in their field of expertise so as to give a balance of skills, knowledge and experience required for the running of an effective board. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operation of its businesses to its executive directors and senior management. Biographical details and responsibilities of each board member and senior management are set out from page 11 to page 13 of this report. Except for the family relationship of Mr. Chan Wai Cheung, Glenn, Mr. Chan Ka Shun, Raymond, Mr. Chan Ka Lai, Joseph and Mrs. Chan King Catherine, there is no other relationship (including financial, business, family or other material relationship) among members of the Board.

Regular board meetings are held at approximately quarterly intervals and involve the active participation of Directors, either in person or through other electronic means of communications. The individual attendance of each director is set out below:

	<b>Number of meetings attended</b>
<i>Executive directors</i>	
Mr. Chan Wai Cheung, Glenn ( <i>Chairman</i> )	4/4
Mr. Shum Wing Hon ( <i>Deputy-Chairman</i> )	4/4
Mrs. Chan Wong Man Li, Carrina ( <i>Managing Director</i> )	4/4
Mr. Chan Ka Shun, Raymond	4/4
Mr. Wong Chung Pui, Billy	4/4
<i>Non-executive directors</i>	
Mr. Chan Ka Lai, Joseph	4/4
Mrs. Chan King Catherine	4/4
<i>Independent non-executive directors</i>	
Dr. Cheung Wai Lam, William	4/4
Dr. Ho Sai Wah, David	4/4
Mr. Bingley Wong	4/4



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### **NOMINATION OF DIRECTORS**

According to the Bye-laws of the Company, the Board has the power to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The nomination should be taken into consideration of the nominee's qualification, ability and potential contributions to the Company. Since the full Board is involved in the appointment of new directors, the Company has not established a Nomination Committee. During the year, the Board considered that there was no immediate need to make any change in relation to its membership.

### **TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS**

According to the Bye-laws of the Company, one-third of the directors for the time being (or, if their number is not a multiple of 3, the number nearest to but not greater than one-third) should retire from office by rotation at each annual general meeting of the Company. Further, any director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and would then be eligible for re-election at that meeting. The NEDs and INEDs of the Company had no fixed term of office but their appointment are determinable by either party with at least one month written notice in advance, as well as subject to the aforesaid retirement from office on a rotational basis.

### **AUDIT COMMITTEE**

The Audit Committee has been established since 2000 and comprises 3 INEDs, namely Dr. Cheung Wai Lam, William (Committee Chairman), Dr. Ho Sai Wah, David and Mr. Bingley Wong and one NED, Mr. Chan Ka Lai, Joseph as committee members. Mr. Bingley Wong possesses extensive experience in accounting and financial matters.

The Audit Committee is accountable to the Board and its principal duties include the review and supervision of the financial reporting process and internal controls system of the Group. The terms of reference of the Audit Committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board on July 2005 and is posted on the Company's website.

During the year ended 31 March 2006, the Audit Committee held 2 meetings. The Audit Committee reviewed the accounting policies and practices adopted by the Group and discussed auditing, the internal controls system and financial reporting matters. It also reviewed the financial statements of the Company, the Company's annual and interim reports, the management letter from the auditors of the Company and the connected transactions entered into by the Group.



**AUDIT COMMITTEE** *(Continued)*

The individual attendance of each committee member is set out below:

	<b>Number of meetings attended</b>
<i>Independent non-executive directors</i>	
Dr. Cheung Wai Lam, William ( <i>Committee Chairman</i> )	2/2
Dr. Ho Sai Wah, David	2/2
Mr. Bingley Wong	2/2
<i>Non-executive directors</i>	
Mr. Chan Ka Lai, Joseph	2/2

**DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors acknowledge their responsibility to prepare financial statements that give a true and fair view of the state of affairs of the Group and of the results and cash flows for each financial period. The statements of the Company's auditors about their reporting responsibilities on financial statements are set out in the Auditors' Report on page 28.

**AUDITORS' REMUNERATION**

The remuneration paid to the Company's auditor, PricewaterhouseCoopers, and its affiliated firms, for services rendered is broken down below:

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Audit fee	746,468	657,825
Non-audit service fees	215,930	80,261



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### **INTERNAL CONTROL**

The Board is responsible for maintaining a sound and effective system of internal controls and for reviewing its effectiveness through the Audit Committee. The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group in achieving its business objectives, safeguarding its assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

Pursuant to the code provision C.2.1, the Board should at least annually conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries and report to shareholders that they have done so in this report. Under the transitional arrangement, the said code provision will be implemented for accounting period commencing 1 April 2006.

The Board will make reference to the principles outlined in Internal Control and Risk Management – A Basic Framework issued by the Hong Kong Institute of Certified Public Accountants in conducting the annual review of internal controls.