

CORPORATE GOVERNANCE REPORT

The Company is committed to upholding good corporate governance. The Board considers effective corporate governance essential to protect shareholders' interests and enhance stakeholder value. During the year of 2005, the Board has spent considerable efforts to identify and formalize the appropriate corporate governance practices to ensure transparency, accountability and effective internal control.

The Company has complied throughout the year ended 31 December 2005 with the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") except for the following deviations.

Under CG Code provision A.4.1, non-executive directors should be appointed for a specific term. The non-executive director (excluding the independent non-executive directors) of the Company is not appointed for a specific term. The Board considers that non-compliance with Code A.4.1 is acceptable since he is subject to retirement by rotation under the requirements of the Bye-laws of the Company and the CG Code.

Under CG Code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. Bye-law 99 (as amended by Bye-law 182(vi)) of the Company's Bye-laws provides that one-third of the directors (other than Chairman or Managing Director) for the time being shall retire from office and shall be eligible for re-election at each annual general meeting. The Board considers that with eight directors and one-third of them being subject to retirement at every annual general meeting, all of them (apart from the Chairman or Managing Director) should be retired by rotation at least once every three years. In relation to the provision in the Bye-law that the Chairman or Managing Director shall not be subject to retirement by rotation, the Board considers that deviation from Code A.4.2 of the CG Code is acceptable due to the fact that Mr. Lam Po Kwai, Frankie, the Chairman of the Board and the Managing Director of the Group is the founder of the Group and is eligible to remain in such offices during his lifetime and does not need to be subject to retirement by rotation.

The Board of Directors

The Board's role is clearly defined as directing and supervising the affairs of the Group, establishing its strategic direction and setting objectives and business development plans to ensure appropriate business conduct and effective management of the highest quality. The management of the Company is responsible for the implementation of the strategies, objectives and plans determined by the Board. The Chairman of the Company is Mr. Lam Po Kwai, Frankie. The Chief Executive Officer is Ms. Wong Yau Ching, Maria. The role of the Chairman is clearly segregated from that of the Chief Executive Officer. The Chairman is responsible for managing and providing leadership to the Board. He ensures that the Group establishes sound corporate governance practices and procedures and encourages the Directors to make a full and active contribution to the affairs of the Board. The Chief Executive Officer is responsible for the day-to-day management of the business of the Group and maintaining the operational performance of the Group.

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The Board of Directors (Continued)

The Board is led by the Chairman and currently comprises four executive directors (one of whom is the Chairman) and four non-executive directors. Of the four non-executive directors, three of them are independent non-executive directors who represent more than one-third of the Board. The non-executive directors come from diverse business and professional background, providing valuable expertise and experience for promoting the best interests of the Group and its shareholders. Independent non-executive directors ensure the Board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received confirmation from each independent non-executive director about his independence under Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

All three independent non-executive directors are appointed for a term of two years and are subject to retirement and re-election in accordance with the Company's Bye-laws.

The Directors' biographical information is set out on page 5 to 6.

The Board meets regularly at least four times a year. For all such meetings, adequate and appropriate information, in the form of agenda, board papers and related materials, are prepared and provided to the directors prior to the scheduled dates for the Board meeting in a timely manner.

The Company held four full Board meetings in 2005. Individual attendance of each Director is set out below.

	Number of meetings attended
Chairman	
Mr. Lam Po Kwai, Frankie	4/4
Executive Directors	
Ms. Wong Yau Ching, Maria (<i>Chief Executive Officer</i>)	4/4
Ms. Lee Yuen Bing, Nina	4/4
Ms. So Man Yee, Katherine	4/4
Non-executive Director	
Ms. He Ling	3/4
Independent Non-executive Directors	
Mr. Au Son Yiu	4/4
Mr. Lee Johnson	4/4
Dr. Tang Tin Sek	4/4

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The Board of Directors (Continued)

To oversee particular aspects of the Group's affairs and to assist in the execution of its responsibilities, the Board has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee. Independent non-executive directors play an important role in these committees to ensure independent and objective views are expressed and to promote critical review and control.

Audit Committee

The Audit Committee currently comprises all three independent non-executive directors. The Committee is chaired by Dr. Tang Tin Sek, who is a certified public accountant with extensive experience in corporate finance, business advisory, auditing and financial management. The other members are Mr. Au Son Yiu and Mr. Lee Johnson. The Committee assists the Board in fulfilling its responsibility for reviewing the accounting principles and practices, auditing, internal control and regulatory compliance of the Group. It also reviewed the interim and final results of the Group prior to recommending them to the Board for approval. The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and have recently been updated to comply with the Corporate Governance Code.

In 2005, the Audit Committee held two meetings and had a 100 percent attendance rate.

The work of the Audit Committee during 2005 included:

- reviewing the Directors' Report and full year accounts for the year ended 31 December 2004 and the annual results announcement;
- reviewing the interim accounts for the six months ended 30 June 2005 and the interim results announcement; and
- reviewing the internal audit plan for 2005.

Remuneration Committee

The Remuneration Committee currently comprises four members including three independent non-executive directors and one executive director. It is chaired by Mr. Au Son Yiu. The other members are Mr. Lee Johnson, Dr. Tang Tin Sek and Mr. Lam Po Kwai, Frankie. The Committee assists the Board in achieving its objective of attracting, retaining and motivating people of the highest calibre and experience needed to develop and implement the Group's strategy taking into consideration its operations. The Committee is also responsible for the development and administration of a fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Group and for determining their remuneration packages. The Terms of reference of the Remuneration Committee have been revised with reference to the Corporate Governance Code.

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Remuneration Committee (Continued)

One committee meeting was held during 2005 year with an attendance rate of 100 percent.

The work of the Remuneration Committee during 2005 included:

- reviewing the Group's incentive schemes; and
- reviewing the Group's remuneration policy.

Nomination Committee

The Nomination Committee currently comprises four members including three independent non-executive directors and one executive director. It is chaired by Mr. Lee Johnson. The other members are Mr. Au Son Yiu, Dr. Tang Tin Sek and Mr. Lam Po Kwai, Frankie. The Committee assists the Board to fulfill its supervisory role over the Group in nominating new directors to the Board and assessing performance and skills of the Directors. The Terms of reference of the Nomination Committee have been revised with reference to the Corporate Governance Code.

One committee meeting was held during the year of 2005 with an attendance rate of 100%. It reviewed the composition of the Board and considered that there was no immediate need to make any change in relation to the Board membership.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of listed companies contained in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transaction by the directors of the Company (the "Code"). Specific enquiry of the directors of the Company has been made, and all directors confirmed that they had complied with the required standard as set out in the Code and the Model Code throughout the year ended 31st December, 2005.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 21.

Auditors' Remuneration

For the year ended 31st December 2005, the Auditors' of the Company received approximately HK\$1.2 million for audit services.

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Internal Control

The Board endeavours to establish a sound and effective internal control system to safeguard the Company's assets and shareholders' investment. An organizational structure with operating policies and procedures, lines of responsibility and delegated authority has been established. The management is delegated with respective levels of authority with regard to key corporate strategy and policy and contractual commitments. The Group's internal audit is currently carried out by a qualified accountant who reports directly to the Chairman and plays a major role in monitoring the internal governance of the Group. The qualified accountant has unrestricted access to review all aspects of the Group's activities and internal controls. It also conducts special audits of areas of concern identified by the Management or the Audit Committee. The Audit Committee has direct access to the qualified accountant freely without reference to the Chairman or the Management.

The Directors have conducted a review of the effectiveness of the system of internal control of the Group during the year of 2005. The review covered all materials controls, including financial, operational and compliance controls and risk management functions.

Communication with shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with shareholders and investors. Information on the Company's business activities and financial performance is disseminated through the distribution of press releases, announcements, interim and annual reports. As a further step to offer easily accessible corporate information to the public, the Company also maintains a website that provides information on the Group's establishment, financial performance and latest business developments. The annual general meeting of the Company also offers a valuable forum for the Board to communicate directly with shareholders who are encouraged to actively participate at such meeting.

Social Responsibility

The Group is committed to develop a common standard of business conduct for the manufacturing community to ensure a safe and healthy workplace, fair and ethical employment practices, and proper environmental protection measures.

The Group makes regular contributions in terms of financial and other supports to various charitable organizations. Employees are encouraged to have direct and active involvement in fund raising activities of the Caritas Fund Raising Bazaar, for the needs of society. Ms. Lee Yuen Bing, Nina, the executive director of the Company, also serves the community by taking up different roles and positions in charitable organizations and in the public sector.