

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Code") was introduced to Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force for accounting periods commencing on or after January 1, 2005.

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board of Directors of the Company (the "Board") believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

In the opinion of the Board, the Company has complied with the code provisions in the Code during the year ended December 31, 2005.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted in December, 2005 a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the year.

To comply with the code provision A. 5.4 of the Code, the Company has also adopted in December, 2005 a code of conduct regarding securities transactions by relevant employees on no less exacting terms than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance was noted by the Company in 2005.

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BOARD OF DIRECTORS

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing the duties.

The Board is led by the Chairman and currently comprises seven Executive Directors and three Independent Non-executive Directors. The Directors of the Company during the year and up to the date of this Annual Report were:

Executive Directors

Mr. Fong Sou Lam (<i>Chairman</i>)	
Mr. Wan Wai Yung (<i>Managing Director</i>)	(<i>appointed on March 1, 2005</i>)
Mr. Fong Kwok Leung, Kevin	
Mr. Fong Kwok Chung, Bill	
Dr. Tsui Tak Ming, William	
Ms. Poon Hang Sim, Blanche	
Mr. Tsui Wai Keung	
Mr. Peter Rainer Philipp	(<i>appointed on April 11, 2005 and resigned on April 12, 2006</i>)
Mr. Cheuk Hon Kin, Kelvin	(<i>resigned on June 20, 2005</i>)
Mr. Mo Yiu Leung, Jerry	(<i>resigned on July 15, 2005</i>)
Mr. Lee Che Chiu	(<i>resigned on October 3, 2005</i>)

Independent Non-executive Directors

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

The biographical details of the existing Directors are listed in the section of "Directors and Senior Management Profile" in this Annual Report.

Save as Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill are the sons of Mr. Fong Sou Lam, there is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board and in particular, between the Chairman and the Managing Director. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations. Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company does not at present have any officer with the title of “chief executive officer” (“CEO”) but instead the duties of a CEO are performed by the Managing Director. In order to have a clear division between the management of the Board and the day-to-day management of the business operation of the Company, the role of the Chairman is separate from that of the Managing Director. The Chairman focuses on overall corporate development and strategic direction of the Group and provides leadership for the Board and oversees the efficient functioning of the Board. The Managing Director is responsible for all day-to-day corporate management matters as well as assisting the Chairman in planning and developing the Group’s strategy. Such division of responsibilities helps to reinforce their independence and to ensure a balance of power and authority.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(2) of the Listing Rules, Mr. Cheung Chiu Fan, one of the Independent Non-executive Directors, is a public auditor and has appropriate qualifications and accounting and related financial management expertise.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence. The Board considers that each Independent Non-executive Director is independent in character and judgement and that they all meet the specific independence criteria as required under Rule 3.13 of the Listing Rules. Moreover, all Independent Non-executive Directors are engaged on service contracts for a term of two years, subject to retirement by rotation and re-election in accordance with the provisions of the Bye-Laws of the Company.

The Independent Non-executive Directors are expressly identified in all of the Company’s publications such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

BOARD MEETING

The Board conducts meetings on a regular basis and on an ad hoc basis, as required by business needs. The Bye-Laws of the Company allows board meetings to be conducted by way of telephone or videoconference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. The Board held a total of four regular Board Meetings during the year under review. The attendance record of each Director at the Board Meetings is disclosed below in this report.

In the said Board Meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the board meetings and at least three days before the regular board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

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NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a Director, and approving and terminating the appointment of a Director. The Company has not set up a nomination committee for the time being.

The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional Director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a Director must be approved by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is empowered under the Company's Bye-Laws to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. A newly appointed Director must retire and be elected at the first annual general meeting after his/her appointment. According to the Bye-Laws of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to one-third) should retire from office by rotation, provided that the Chairman and Managing Director of the Company should not be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year.

During the year of 2005, Board Meetings were held to approve the appointment of Mr. Wan Wai Yung as Managing Director and the appointment of Mr. Peter Rainer Philipp as an additional Director, such appointments were subsequently approved by the shareholders of the Company in the 2005 annual general meeting.

In the spirit of good corporate governance practices, Mr. Fong Sou Lam who is the Chairman of the Board of the Company and Mr. Wan Wai Yung who is the Managing Director of the Company, will voluntarily retire from their office by rotation at the relevant annual general meetings of the Company notwithstanding that they are not required by the Bye-Laws to do so.

Mr. Fong Sou Lam, Mr. Tsui Wai Keung and Mr. Lui Chi Lung, Louis will retire from office by rotation under the Bye-Laws of the Company at the forthcoming annual general meeting, but all of them will be offering themselves for re-election at the same meeting.

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REMUNERATION COMMITTEE

In order to comply with the code provision B.1.1. of the Code, the Board has established a Remuneration Committee in December, 2005 with specific terms of reference which deal clearly with its authority and duties. The terms of reference have been posted on the Company's website (www.fongs.com).

The Remuneration Committee comprises the following five members, the majority of which are the Independent Non-executive Directors:

Mr. Fong Sou Lam (*Committee Chairman*)
Mr. Wan Wai Yung
Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

The Remuneration Committee's role is to make recommendations to the Board on the remuneration policy and structures for Directors of the Company and senior management of the Group and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of the shareholders. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain and motivate a high-calibre team which is essential to the success of the Company. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all Executive Directors and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. In particular, the Remuneration Committee is delegated with the specific task of ensuring that no Director is involved in deciding his own remuneration.

The Remuneration Committee shall meet as and when required to consider remuneration-related matters. As the Remuneration Committee was established in December, 2005, no meeting of the Remuneration Committee was held during the year under review.

Prior to the establishment of the Remuneration Committee, consistent with the principles applied in the past, the remunerations of the Directors and senior management were determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and the prevailing market conditions.

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AUDIT COMMITTEE

The Company established its Audit Committee in December, 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the Code, the terms of reference of the Audit Committee were revised in December, 2005 in terms substantially the same as the provisions set out in the Code. The revised terms of reference of the Audit Committee are available on the Company's website (www.fongs.com).

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. The Audit Committee also reviews the Company's internal audit plan, and submits relevant reports and recommendations to the Board on a regular basis.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Chiu Fan (Chairman of the Audit Committee), Mr. Lui Chi Lung, Louis and Dr. Yuen Ming Fai. The Audit Committee meets formally at least three times a year. The external auditors and the Executive Directors and senior management are invited to attend the meetings whenever it is considered appropriate or necessary. The Audit Committee held three meetings in 2005 and the individual attendance of members are set out below in this report.

In discharging its responsibilities, the Audit Committee had performed the following works during the year of 2005:

- (i) reviewed the interim and annual financial statements and the related results announcements;
- (ii) reviewed the change in accounting standards and assessment on potential impacts on the Group's financial statements;
- (iii) reviewed the continuing connected transactions and commented on the fairness and reasonableness of the transactions;
- (iv) reviewed the Group's internal control system and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and
- (v) made recommendation on the appointment or re-appointment on the external auditors and approved their terms of engagement.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Messrs. Deloitte Touche Tohmatsu be re-appointed as the Company's external auditors for 2006.

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ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2005

	Number of meetings attended/held	
	Board Meeting	Audit Committee Meeting
<i>Executive Directors</i>		
Mr. Fong Sou Lam	4/4	
Mr. Wan Wai Yung	2/4	
Mr. Fong Kwok Leung, Kevin	3/4	
Mr. Fong Kwok Chung, Bill	2/4	
Dr. Tsui Tak Ming, William	2/4	
Ms. Poon Hang Sim, Blanche	3/4	
Mr. Tsui Wai Keung	0/4	
<i>Independent Non-executive Directors</i>		
Mr. Cheung Chiu Fan	4/4	3/3
Mr. Lui Chi Lung, Louis	3/4	2/3
Dr. Yuen Ming Fai	4/4	3/3

In each of the above meetings, certain Directors were unable to attend the meeting(s) due to business trip or other commitment.

AUDITORS' REMUNERATION

During the year, Messrs. Deloitte Touche Tohmatsu, auditors of the Company (which for the purpose includes any entity under common control, ownership or management with the auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and non-audit services to the Group:

Audit services

Non-audit service- agreed-upon procedures for continuing connected transactions and results announcements

Non-audit service- tax advisory services

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK\$106,000.

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RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended December 31, 2005 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditors about their reporting responsibilities is set out in the Auditors' Report of this Annual Report.

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures of the Group. The management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

There is currently no internal audit function within the Group that is separate and independent from the Group's finance team. The finance team assumes also responsibility for conducting regular review of internal control procedures, including accounting system and procedures. Although this arrangement can be improved, management is not concerned with the lack of segregation of duties having assumed the current organizational structure, lines of responsibility and authority of the management team and the risks associated with the operations of the Group.

INVESTOR RELATIONS

During the year under review, the Company has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and annual report as well as voluntary press releases. Through the timely distribution of press releases, the Company has also kept the public abreast of its latest developments. Regular meetings and plant visits have been organized to enhance the investors' understanding of the Group's businesses and production operations.

The Company has set up a corporate website (www.fongs.com) at which relevant information including the latest development of the Group will be announced. The website offers the latest information regarding various aspects of the Group to investors and the public. The Company will improve the website in the future, making it an interactive communication platform between the Company and its investors.

For and on behalf of the Board

Fong Sou Lam

Chairman

Hong Kong, April 13, 2006.