

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of Directors is committed to principles of corporate governance practices and procedures. The corporate governance principles of the Company emphasize transparency, accountability and independence.

The Group has adopted the Code Provisions set out in the Code of Corporate Governance Practices (“CGP”) as set out in Appendix 14 to the Listing Rules except for the following deviations: –

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer as Mr. Chan Ho Sing currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same individual provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

The Independent Non-executive Directors (“INEDs”) of the Company are not appointed for specific terms but are subject to retirement by rotation under Bye-law 87 of the Company’s Bye-laws.

DIRECTORS’ SECURITIES TRANSACTIONS

The Group has adopted the code of conducts regarding directors’ securities transactions as set out in the Model Code in Appendix 10 to the Listing Rules. Upon specific enquiry by the Company, all Directors have fully confirmed that they fully complied with the Model Code throughout the year.

BOARD OF DIRECTORS

The Board comprises a total of five Directors, with two Executive Directors and three INEDs. Two of the INEDs have appropriate professional qualifications, or accounting or related financial management expertise, which is required by the Listing Rules.

During the year, five regular Board meetings were held and the attendance of each director is set out as follows:

Name of director	Attendance in 2005
Chan Ho Sing	5/5
Ko Pak On	2/5
Li Sau Hung, Eddy	5/5
Lo Kwok Kwei, David	5/5
Mar, Selwyn	4/5

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Four regular Board meetings of the year 2005 were scheduled in advance to give all Directors an opportunity to attend and these meetings at approximately quarterly intervals. One of the Board meetings had been convened by the Chairman to discuss a discloseable transaction which was constituted and required to be disclosed under the Listing Rules. The Directors can attend meetings in persons or by means of a conference telephone or other communications equipment in accordance with Bye-law 116(2) of the Company's Bye-laws.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's long term and short term investments, business strategies and annual budgets; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed and approved by the Board before the execution. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and adequate and reliable information are given to the Board in a timely manner.

The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

Each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board composition will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business. The Directors' biographical information is set out on pages 12 to 13.

The Company Secretary shall convene the Board meetings on the request of any one director of the Company and 14 days' notice of Board meetings will be given to all Directors. The Board papers are tabled not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

The Senior Management is responsible for the daily operations of the Group under the leadership of the Chairman. The Senior Management of each business unit is responsible for the communication of company goal from top to bottom, the execution of company policies and the implementation of business strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Chan Ho Sing currently holds both positions of Chairman and Chief Executive Officer.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

There is no specific term of the appointment of INEDs. But are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Bye-laws of the Company. This deviates from the Code Provision A.4.1 on CGP which requires that INEDs be appointed for a specific terms subject to rotation and re-election by shareholders. The Board considers that this practice was fair and reasonable and does not intend to change the current practice at the moment.

According to Bye-law 87 of the Company's Bye-laws, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting. As there are five directors (excluding the Chairman of the Board of the Company), one-third of them shall retire subject to rotation, and barring unforeseen resignation/retirement during a year, each director is effectively appointed for an average term of not more than 3 years. Any director appointed to fill a casual vacancy or as an addition to the board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the Code Provision A.4.2 on CGP which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution to amend the Bye-laws to comply with the said code provision.

At the forthcoming Annual General Meeting, Mr. Ko Pak On and Dr. Li Sau Hung, Eddy will retire by rotation and, being eligible, will offer themselves for re-elections.

Mr. Ko Pak On has been serving the Board for more than three years. Mr. Ko has over thirty years of experience in the electronics industry. Dr. Li Sau Hung, Eddy has over twenty years of experience in the manufacturing industry. The Board appreciates their valuable advice given and contribution made in the past years and believes that their treasurable experience would be beneficial to the development of the Company. Mr. Ko and Dr. Li will be proposed for re-election.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

The Remuneration Committee was established on 22 March 2006. Prior to the establishment of the Remuneration Committee, all the remuneration matters relating to executive directors are discussed and approved by the Board. The members of the Remuneration Committee comprise Mr. Chan Ho Sing, Mr. Mar, Selwyn and Dr. Li Sau Hung, Eddy. During the year, the Board reviewed and approved the Directors' remuneration at the Board Meeting held on 19 April 2005. Mr. Chan is the Chairman of the Remuneration Committee.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee but will consider setting up one at an appropriate time. Currently all new appointments and re-appointments to the Board are subject to the concurrence of all Board members whose deliberations are based on the following criteria:

- Integrity
- Independent mindedness
- Possess core competencies that meet the current needs of the Company and complement the skills and competencies of the existing Directors on the Board
- Able to commit time and effort to carry out duties and responsibilities effectively
- A good track record of experience at a senior level in corporations/organisations
- Financially literate

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AUDIT COMMITTEE

The Audit Committee was established in 1999 to consider the appointment of auditors and audit fee, to discuss with the auditors the nature and scope of audit, to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. Its current members include:

Mar, Selwyn (*Chairman of the Audit Committee*)

Li Sau Hung, Eddy

Lo Kwok Kwei, David

All members of the Audit Committee are the INEDs of the Company. Two members have appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company.

The Audit Committee held five meetings during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of director	Attendance in 2005
Li Sau Hung, Eddy	5/5
Lo Kwok Kwei, David	5/5
Mar, Selwyn	4/5

The major duties of the Group's Audit Committee are as follows:

- (i) to consider the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal;
- (ii) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (iii) to review the half-year and annual financial statements before submission to the Board;
- (iv) to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- (v) to review the external auditor's management letter and management's response;
- (vi) to review the company's statement on internal control systems prior to endorsement by the Board; and
- (vii) to consider the major findings of internal investigations and management's response; and to consider other topics, as defined by the Board.

During the meetings held in the year, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2004 and for the six months ended 30 June 2005;
- (ii) reviewed the findings and recommendations of the Internal Audit on the operations and performance the Group;
- (iii) reviewed the accounting principles and practices adopted by the Group and ensured the Company to comply with the Listing Rules and other statutory compliance;
- (iv) reviewed the effectiveness of internal control system;
- (v) reviewed the external auditor's management letter and management's response;
- (vi) reviewed and recommended for approval by the board the 2005 audit scope and auditors' remuneration; and
- (vii) reviewed the connected transactions entered into the Group during the year.

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AUDITORS' REMUNERATION

For the year ended 31 December 2005, the remuneration paid to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable <i>HK\$'000</i>
Audit services	1,100
Non-audit services i.e. taxation	675
	1,775

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Each director acknowledges his responsibility for preparing the financial statements of the Group.

With the assistance of the Finance and Accounts Department which is under the supervision of the Chief Financial Officer/Qualified Accountant of the Company, the Board ensures the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the publication of the financial statements of the Group is in a timely manner.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 26.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (ii) updated and key information of the Group are available on the website of the Company, and (iii) the Company's website offers communication channel between the Company and its shareholders and investors.

INTERNAL CONTROL

The Board is responsible for maintaining effective and efficiency internal control system of the Group.

The Group's system of internal control includes a defined management structure with limits of authority, is designed to evaluate the Group's risk, achieve the division goals and business objectives, maintain proper accounting records for the provision of financial information for internal analysis or for publication, comply with relevant legislation and regulations.

Organizational Structure

The organization is divided into different functional divisions. The senior management of the divisions is responsible for monitoring the daily operations of the divisions and reports their duties to the Executive Directors of the Group.

Authority and Control

The Executive Directors and senior management are delegated with respective hierarchy of authorities in order to achieve short term organization goal and long term business strategies.

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Budgeting and Financial Reporting

Budgetary reports are prepared and are subject to the approval of the Executive Directors prior to being adopted. There are procedures for the estimate, analysis and approval of major investment and recurrent expenditure. Business performance reports against budgetary report are reviewed regularly by the Executive Directors and senior management.

Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Reviews and audits are carried out regularly to ensure that the preparation of financial statements is complied with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

Internal Audit

An internal audit department has been established to assist the Audit Committee to evaluate the Group's internal control systems and to monitor the Group's risk management framework.

Credit Control

The credit control team is responsible for recommendations on credit applications for customers within its discretionary powers, assisting the Executive Directors in formulating policy guidelines for the Group's credit control to minimise the risk of bad debt.

MANAGEMENT FUNCTIONS

It is the Group's policy to provide each newly appointed Director with a package of orientation materials setting out the duties and responsibilities of Directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company. Updates are provided to Directors when necessary to ensure that Directors are aware of the latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

Appropriate insurance cover on Directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance ("SFO") and other applicable laws, rules and regulations.