

Corporate Governance Report

Introduction

Subject to the deviations as disclosed in this report, the Company has applied with all requirements of the Code on Corporate Governance Practice (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

Key Corporate Governance Principles and the Company’s Practices

A.1 Board of Directors

The Board is responsible for leadership and control of the Company and oversees the Group’s business, strategic direction and performance. The management was delegated the authority and responsibility by the Board for the management of the Group.

Four board meetings were held for the year ended 2005 and the attendance was as follows:

Number of meeting	4	Attendance
Ms. Chen Wai Yuk (<i>Chairman</i>)	4/4	100%
Mr. Wang Shu (<i>Managing Director</i>)	4/4	100%
Miss Chen Wai Wah (<i>Executive Director</i>)	4/4	100%
Mr. Ho Hao Veng (re-designed from Independent Non-executive Director to Non-executive Director on 8 September 2005)	3/4	75%
Mr. Wei Tong Li (<i>Independent Non-executive Director</i>)	3/4	75%
Mr. Hui Chuen Fan, Matthew (<i>independent Non-executive Director</i>)	4/4	100%
Mr. Ang Siu Lun, Lawrence (appointed as independent Non-executive Director on 8 September 2005)	2/4	50%

All directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting.

Notice of at least 14 days was given of a regular board meeting. For all other board meeting, reasonable notice will be given.

All minutes of Board meetings are recorded in sufficient details of the matters considered by the board and decisions reached. Draft and final versions of minutes of Board meetings were sent to all directors for their comment and record respectively within 3 business days after the board meeting was held.



The Company has established the Policy on obtaining independent professional advice by directors to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

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 be discussed by a Board meeting actually held.

A.2 Chairman and Chief Executive Officer

The Board appointed Ms. Chen Wai Yuk as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

The Board appointed Mr. Wang Shu as the Managing Director, who was delegated with the overall management and corporate strategies as well as supervising the engineering and marketing functions of the Group.

A.3 Board Composition

The Board comprises three executive directors, being Ms. Chen Wai Yuk, Mr. Wang Shu and Ms. Chen Wai Wah, one non-executive director, being Mr. Ho Hao Veng and three independent non-executive directors, being Mr. Wei Tong Li, Mr. Hui Chuen Fan, Matthew and Mr. Ang Siu Lun, Lawrence. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the directors are shown on page 21 to 24 under the section of Directors and Senior Management.

All Directors are expressly identified by categories of executive directors, non-executive director and independent non-executive directors, in all corporate communications that disclose the names of Directors of the Company.

A.4 Appointments, Re-election and Removal

At each annual general meeting one third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.



Currently, all Directors appointed to fill casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. Every director (including the chairman and managing director), including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Chairman of a meeting and/or director who, individually or collectively, hold proxies in respect of the share representing 5% or more of the total voting rights shall demand a poll in certain circumstances where, on a show of hands, the meeting votes in the opposite manner to that instructed on those proxies. When 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 of resolutions or by a committee but a board meeting should be held. Moreover, the Company in general meeting shall have power by ordinary resolution to remove any Director before the expiration of his period of office. Thus, a special resolution will be proposed in the annual general meeting to be held on 23 May 2006 to amend the articles of association of the Company, since then the relevant requirement under the Corporate Governance Code will be fully complied.

According to the Articles of Association, Mr. Wang Shu, Mr. Ho Hao Veng and Mr. Ang Siu Lun, Lawrence will retire from office as Directors at the forthcoming annual general meeting and being eligible offer themselves for re-election.

The Directors from time to time identify individual suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether if he can add value to the management through his contributions in the relevant strategic business areas. In 2004 and 2005, the Board had nominated and appointed Mr. Hui Chuen Fan, Matthew and Mr. Ang Siu Lun, Lawrence as independent non-executive Directors. Before they were nominated for election, the Board had assessed their independence.

A.5 Responsibilities of Directors

Every newly appointed Director of the Company received an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and ongoing obligations to be observed by a director. In addition, the package includes materials on the operations and business of the Company. The management of the Company conducted briefing on their responsibilities and obligations under the laws and applicable regulations such as Listing Rules and Company Ordinance as was necessary.



The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2005.

A.6 Supply of and Access to Information

In respect of regular board and committee meetings, agendas and accompanying board papers were sent in full to all directors at least three days before the intended date of meetings.

The management and the Company Secretary assists the Chairman in establishing the meeting agenda and board papers, providing with adequate information in a timely manner to enable the board and committees in making decision to the matter being discussed in the meetings. Each Director may request inclusion of items in the agenda. The Board and each Director may separately and independently access to the issuer's senior management.

Minutes of the Board/committees meetings are kept by the Company Secretary and are open for inspection by Directors.

B.1 Remuneration of Directors and Senior Management

The Company had not established a Remuneration Committee and retained the functions to the Board. The Board considers the remuneration policy on Directors and Senior Management has already been determined by the Board in the present situation. In order to cope with the new standard of Corporate Governance Code, the Board proposes to set up a Remuneration Committee in coming May. The main objective of the remuneration policy is to ensure that the Group is able to attract, retain and motivate a high-calibre team which is essential to the success of the Group.

Details of the remuneration of Directors for the year ended 31 December 2005 are set out in the Page 56 of the Annual Report.

C.1. Financial reporting

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Management of the Company provides such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.



The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2005, the Directors have:

1. selected suitable accounting policies and applied them consistently;
2. approved adoption of all HKFRSs;
3. made judgments and estimates that are prudent and reasonable; and
4. prepared the accounts on the going concern basis.

Acknowledgement from the Directors of their responsibility for preparing the accounts has been received.

During 2005, audit fee amounted to approximately HK\$980,000 and non-audit related service fee was HK\$583,000.

A statement by the auditors about their reporting responsibilities is included in the page 30 of the 2005 Annual Report under the section Report of the Auditors.

The Company has announced its annual results in a timely manner after the end of the relevant period, as laid down in the Listing Rules.

C.2 Internal Controls

The Board is responsible for the Group's internal control system and has been reviewing the effectiveness of the system. Such evaluation covers all material controls, including financial, operational and compliance controls and risk management functions.

An Internal Audit Department has been set up. The department has unrestricted access to all aspects of the Group's internal control system and activities which are relevant to the area under review and prepares an annual audit plan which comprises of a series of individual audits and is subject to approval of the Audit Committee. In performing audit fieldwork, the department gathers information and evidence through observation and inspection to make reasonable assurance of the audit report, which is directly reported to the Chairman of the Audit Committee.

C.3 Audit Committee

The Audit Committee was established on 11 April 2002 with written terms of reference. The Board establishes formal and transparent arrangements for considering how it apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.



The members of the Audit Committee comprise non-executive director, Mr. Ho Hao Veng and three independent non-executive directors, Mr. Wei Tong Li, Mr. Hui Chuen Fan, Matthew and Mr. Ang Siu Lun, Lawrence. They does not have a former partner of the Company's existing audit firm. They are specialists and experts in different fields such as investment, securities, financial and electronics The Audit Committee assists the Board in providing an independent and objective review of the effectiveness of the financial reporting process, internal control and risk management system of the Group. It primarily aims to increase the Board's accountability, transparency and objectivity.

The Audit Committee has three meetings during the year. Full minutes of audit committee meetings will be kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings will be sent to all members of the committee for their comment and records respectively, within three business days after the meeting.

The Audit Committee has reviewed with the management and the Company's auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the financial statements for the year.

D.1 Delegation by the Board

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorized, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

There should be a clear division of responsibilities for committee with specific terms of reference. The Board has delegated the day-to-day responsibility to the executive management.

D.2 Board Committees

The Board has prescribed sufficiently clear terms of reference for the Audit Committee. The terms of reference of the Audit Committee require the committees to report back to the board on their decisions or recommendations.

E.1 Effective Communication

The Company endeavors to maintain good investor relationship with shareholders and potential investors by way of annual general meeting, publication of interim and annual reports, press releases on newspaper and the Company's website.



In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the Chairman of the meeting. The Chairman of the Board will attend the annual general meeting and to be available to answer questions at the annual general meeting.

E.2 Voting by Poll

The chairman of a meeting will ensure disclosure in the Company's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in the Listing Rules.

The chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting will demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting will disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

The Company will count all proxy votes and, except where a poll is required, the chairman of a meeting will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded.

The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

- a. the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and
- b. the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.