

Corporate Governance Report

CORPORATE GOVERNANCE REPORT

The board of directors (“Board”) is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance with emphasis on transparency, independence, accountability and responsibility. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Code on Corporate Governance Practices (“CGP Code”) issued by The Stock Exchange of Hong Kong Limited (“Stock Exchange”) in its Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) sets out two levels of corporate governance practices, namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CGP Code, save for the deviations discussed below.

BOARD OF DIRECTORS

The Board is charged with providing effective and responsible leadership for the Company. The directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board comprises five Executive Directors and three Independent Non-executive Directors. The Board has appointed served Board Committees to oversee different areas of the Company’s affairs. The composition of the Board and the Board Committees are given below and their respective responsibilities are discussed in this report.

The number of full Board Meetings and Committee Meetings attended by each Director during the year under review is set out in the following table. Figure in brackets indicates maximum number of meetings in the period in which the individual was a Board Member or Committee Member (as the case may be).

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Name of Director	Note	Full Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Executive Directors					
LAM Ping Kei (<i>Chairman & CEO</i>)		1/(4)	N/A	N/A	N/A
WONG Choi Fung		4/(4)	N/A	N/A	N/A
LAM Chu Ying		4/(4)	N/A	N/A	N/A
LAW Wai Fai	1	4/(4)	2/(2)	N/A	1/(1)
YEUNG Kwong Lun		4/(4)	N/A	N/A	N/A
Independent Non-executive Directors					
DENG Xiao Jun		3/(3)	2/(2)	1/(1)	1/(1)
SUN Tian Yan		3/(3)	1/(2)	1/(1)	1/(1)
KWAN Kai Ming	2	2/(3)	1/(2)	1/(1)	1/(1)
QUI Ji Zhi	3	0/(0)	0/(0)	0/(0)	0/(0)

Notes:

1. Attended as secretary of committee, except in Boarding meetings he played the dual roles as Director and Secretary
2. Resigned on 1st December 2005
3. Appointed on 1st December 2005

The Board members have no financial, business, family or other material/ relevant relationships with each other, save that Ms. Wong Choi Fung and Ms. Lam Chu Ying are respectively the wife and the sister of Mr. Lam Ping Kei. In the Board's opinion, these relationships do not affect the Directors' independent judgment and integrity in executing their roles and responsibilities.

Each of the Independent Non-executive Directors have confirmed in writing their independence from the Company in accordance with the guidelines on director independence of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 22 to 23 of this annual report. Given the composition of the Board and the skills, knowledge and expertise of the Director, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of emoluments of the Directors from the Group for the year are disclosed in Note 7 to the financial statements.

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APPOINTMENT AND RE-ELECTION OF DIRECTORS

The appointment of new Directors is recommended by the Nomination Committee. The Board will then take into account criteria such as expertise, experience, integrity and commitment when considering a new appointment.

In accordance with the Articles of Association of the Company ("Articles"), all Directors (except the Chairman, Deputy Chairman, Managing Director or Joint Managing Director) are subject to retirement by rotation and re-election at annual general meetings of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first annual general meeting immediately following their appointments. Further, at each annual general meeting, one-third of the Directors (excluding the Chairman Deputy Chairman, Managing Director or Joint Managing Director), or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third are required to retire from office. Out of the eight directors, seven of them (except the Chairman) are subject to retirement by rotation.

The existing Articles governing the retirement of Directors deviate from the CGP Code provisions in the following aspects: (i) unlike the other Directors, the Chairman, Deputy Chairman, Managing Director or Joint Managing Director is not subject to retirement by rotation; (ii) new Directors appointed to fill casual vacancies are subject to election by shareholders at the first annual general meeting instead of the first general meeting after their appointments; and (iii) the Directors who are subject to retirement by rotation are not explicitly subject to retirement at least once every three years. The Board will review the above-mentioned practice from time to time and consider amending the Articles when necessary.

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same person. Mr. Lam Ping Kei is the Chairman of the Board and also serves the function of a Chief Executive. The Board believes that the present arrangement enables the Company to make and implement decisions promptly, and thus achieve the Company's objectives efficiently and effectively in response to the changing environment. The Board also believes that the Company already has a strong corporate governance structure in place to ensure effective oversight of management. The Board will continually review the effectiveness of the Group's corporate governance structure to assess whether any changes are necessary.

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

Code provision A.4.1 requires that non-executive directors should be appointed for a specific term and subject to re-election.

Currently, all Independent Non-executive Directors have been appointed for a specific term of two years, except that Mr. Qiu Ji Zhi has no fixed term of office with the Company. All Independent Non-executive Directors including Mr. Qiu are subject to retirement by rotation in accordance with the Articles. As such, the Company considers that sufficient measures have been taken to serve the purpose of this code provision.

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AUDIT COMMITTEE

The Audit Committee comprises all of the three Independent Non-executive Directors and is chaired by Mr. Sun Tian Yan, who possesses extensive accounting experience in government and manufacturing sectors. It is responsible for appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. The Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to personnel, records and external auditors and senior management.

The Committee has specific written terms of reference which are of no less exacting terms than those stipulated in code provision. In 2005, the Audit Committee held two meetings. At the meetings, it reviewed the final results for the year ended 31st December 2004 and the interim accounts for the six months ended 30th June 2005 respectively. It also reviewed the Company's progress in implementing the corporate governance requirements as set out in the CGP Code.

REMUNERATION COMMITTEE

The Remuneration Committee, composed of all three Independent Non-executive Directors, is responsible for reviewing and determining the compensation and benefits of the Directors and senior management. The committee members elect one of them to take the chair at the commencement of each meeting.

The Committee has specific written terms of reference which are of no less exacting terms than those stipulated in code provision. Since its inception in June 2005, the Committee has held one meeting with full attendance.

NOMINATION COMMITTEE

The Nomination Committee, composed of all three Independent Non-executive Directors, is responsible for reviewing and making recommendation to the Board on matters relating to the Board structure and appointment and re-appointment of Directors. The committee members elect one of them to take the chair at the commencement of each meeting.

The Committee has specific written terms of reference which are of no less exacting terms than those stipulated in code provision. Since its inception in June 2005, the Committee has held one meeting with full attendance.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

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INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, safeguard its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to oversee the Group's operational systems for the achievement of the Group's business objectives.

AUDITORS' REMUNERATION

KLL Associates CPA Limited ("KLL") had been the auditors of the Company for three years until their practice merged with that of BDO McCabe Lo Limited ("BDO") in 2005. The Board appointed BDO as auditors of the Company immediately following the resignation of KLL on 23rd November 2005. BDO tendered resignation as auditors of the Company on 19th April 2006 due to their non-commitment to the reporting deadline as requested by the Company, in view of some unresolved issues and the need for additional time to complete the audit. Total auditors' remuneration paid to BDO in relation to statutory audit work of the Group amounted to HK\$200,000 (2004: HK\$350,000). Immediately following the resignation of BDO on 19th April 2006, Lo and Kwong C.P.A. Limited ("Lo and Kwong") was appointed as auditors of the Company. Total auditors' remuneration to Lo and Kwong in relation to statutory audit work of the Group amounted to HK\$500,000 (2004: Nil). No fee (2004: Nil) was paid for other non-audit services provided by the auditors for the Company and its subsidiaries during the year.

The responsibilities of the auditors with respect to financial reporting are set out in the section of "Report of the Auditors" on page 24.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the Period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

The Company is considering adopting a code of conduct governing securities transactions with terms no less exacting than that required by the Listing Rules by employees who may possess or have access to price sensitive information.

COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establishing effective communications with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its interim and annual reports.

The Company regards its Annual General Meeting as an opportunity for direct communications between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the Annual General Meeting to address shareholders' queries. The Company also responds to requests for information and queries from the shareholders and investors and welcomes the views of shareholders on matters affecting the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management direct.