



Corporate Governance Report

The Company are committed to maintaining a high standard of corporate governance. We firmly believe that to maintain a good, solid and sensible framework of corporate governance will ensure the Company to run its business in the best interests of its shareholders as a whole.

The Company adopted all the code provisions in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 of the rules governing the listing of securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices.

The Company has complied during the year ended 31st March, 2006 with the Code except code provision C.2 on internal control (which will be implemented for accounting periods commencing on or after 1st July, 2005) and the following:

1. Pursuant to code provision A.2.1, the roles of chairman and chief executive officer of an issuer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Lee Lap is currently the chairman and chief executive officer of the Group. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Lee Lap acting as both the chairman of the Board and also as the chief executive officer of the Group is acceptable and in the best interest of the Group. The Board will review this situation periodically.
2. Pursuant to code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company is subject to a private act called "The Termbay Industries International (Holdings) Limited Act 1991". Section 4(g) of the said Act provides that: "Notwithstanding anything contained in the Companies Act or rule of law to the contrary, the directors of the Company shall not be required to be elected at each annual general meeting, but shall (save for any chairman or managing director) be subject to retirement by rotation in such manner and at such frequency as the bye-laws may provide." Accordingly, the chairman and managing director of the Company may not be made subject to retirement by rotation.

In view of the above and paragraph 4.2 of the Code, the Company at the annual general meeting held on 19th August, 2005 amended its existing bye-laws to provide that every director of the Company, other than directors holding the office of chairman or managing director, shall be subject to retirement by rotation at least once every three years while directors holding the office of chairman or managing director shall be subject to re-election once every 3 years.

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BOARD OF DIRECTORS

The Board of Directors (the "Board") is charged with leading the Group in a responsible and effective manner. Each director has to carry out his/her duties in utmost good faith above and beyond any prevailing applicable laws and regulations and act in the best interests of the shareholders. The duties of the Board include establishing the strategic direction of the Group, setting objectives and monitoring the performance of the Group.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board of the Company consists of 3 executive directors, 3 independent non-executive directors and one non-executive director. Their brief biographical details are described on pages 13 and 14 of the Annual Report.

The independent non-executive directors, all of whom are independent of the management of the Company, are highly experienced professionals coming from a diversified industrial background. They ensure that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate check and balance to safeguard the interest of shareholders and the Company as a whole.

Each of the independent non-executive directors and non-executive director has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company from 30th September, 2004 to 31st December, 2006. The appointment shall terminate on the earlier of (i) 31st December, 2006, or (ii) the date on which the director ceases to be director for any reasons pursuant to the bye-laws of the Company or any other applicable laws.

The full Board meets no less than four times a year to review the financial and operating performance of the Group. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

There were six board meetings held in the financial year ended 31st March, 2006. The attendance record of each director is shown below. All business transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations.

Name of director	No. of board meeting attended
Mr. Lee Lap	6
Mdm. Leung Lai Ping	3
Mr. Wong Shiu Kee	6
Dr. Lee Tung Hai, Leo	3
Mr. Lee Ka Sze, Carmelo	4
Mr. Chan Siu Kang	3
Mr. Lo Yiu Hee	4

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), as the code of conduct regarding directors' securities transactions.

The Company have made specific enquiry of all directors that they have complied with the Model Code throughout the year ended 31st March, 2006.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for senior management of the Company in respect of their dealings in the securities of the Company.

BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

AUDIT COMMITTEE

The Audit Committee, which is chaired by Dr. Lee Tung Hai, Leo, has been established with defined terms of reference in alignment with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code of the Listing Rules. Other members are Mr. Lee Ka Sze Carmelo, Mr. Chan Siu Kang and Mr. Lo Yiu Hee.

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The Audit Committee meets no less than twice a year with the senior management. The role and function of the Audit Committee include: to review the accounting principles and practices adopted by the Group and other financial reporting matters, to assure the completeness, accuracy and fairness of the financial statements of the Group, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, and to review all significant business affairs managed by the executive directors in particular on connected transactions. The Audit Committee also provides advice and recommendations to the Board and oversees all matters relating to the external auditors, and it plays an important role in monitoring and safeguarding the independence of external auditors.

The Audit Committee met three times during the financial year ended 31st March, 2006. Set out below is the summary of work done during the year under review:

- to review the financial statements of the Group for the year ended 31st March, 2005 and for the six months ended 30th September, 2005;
- to discuss on the effectiveness of the internal control system;
- to review the auditors' statutory audit plan and the letters of representation; and
- to consider and approve the 2006 audit fees.


The attendance record of each member is shown below. All business transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations.

Name of audit committee member	No. of meeting attended
Dr. Lee Tung Hai, Leo	3
Mr. Lee Ka Sze, Carmelo	3
Mr. Chan Siu Kang	2
Mr. Lo Yiu Hee	3

REMUNERATION COMMITTEE

The Remuneration Committee, which is chaired by Mr. Lee Lap, has been established with defined terms of reference. Other members are Mr. Chan Siu Kang and Mr. Lo Yiu Hee.

The Company aims to design remuneration policies that attract and retain executives needed to run the Group successfully and to motivate executives to pursue appropriate growth strategies whilst taking into account performance of the individual. The remuneration should reflect performance, complexity and responsibility of the individual; and the remuneration package will be structured to include salary, bonus and share options scheme to provide incentives to directors and senior management to improve their individual performances.



The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive directors.

Set out below is the summary of work of the Remuneration Committee done during the year under review:

- to review the remuneration policy for the year ended 31st March, 2006;
- to review the remuneration of the executive directors and the independent non-executive directors and non-executive director; and
- to review the annual share option policy.

The Remuneration Committee meets once during the financial year ended 31st March, 2006 with the presence of all members of the Remuneration Committee.

OTHER INFORMATION

The Board of Directors has not established a nomination committee. According to the articles of association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board will take into consideration of the nominee's qualification, ability and potential contributions to the Company. There was no change of the composition of the Board during the year under review.

The Company had not established its own website. Full text of the terms of reference of Audit Committee and Remuneration Committee will be supplied upon request.

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AUDITORS' REMUNERATION

The remuneration in respect of services provided by Deloitte Touche Tohmatsu for the Group for the year ended 31st March, 2006 are analysed as follows:

	31st March, 2006 HK\$	31st March, 2005 HK\$
Audit service	400,000	343,000
Non audit services	109,000	91,000
	509,000	434,000

Note: The remuneration for non audit services mainly includes fee regarding the review of the interim financial report of the Group for the six months ended 30th September, 2005 amounted to HK\$88,000 (2005: HK\$72,000).

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the Chairman at the general meeting.

At the 2005 annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election of directors. The Chairman of the Board of Directors and members of Audit Committee and Remuneration Committee attended the 2005 Annual General Meeting to answer questions of shareholders.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities in preparing the financial statements. The statement of the auditors about their reporting responsibilities on the financial statements is set out in the Auditors' Report on page 29.

CONCLUSION

The Company strongly believes that the quality and standard of corporate governance reflects the quality of the management and the operations of the Group's business. Good corporate governance can safeguard the proper use of funds and effective allocation of resources and to protect shareholders' interests. The management wholeheartedly advocates of the good practice in corporate governance and will try our best to maintain, strengthen and improve the standard and quality of the Group's corporate governance.