

## Corporate Governance Report

The Board of Directors and Management are committed to uphold a high standard of corporate governance with an aim to safeguard the interest of shareholders and the Company as a whole.

The Company has complied with all requirements set out in the Code on Corporate Governance Practices (the "Code") Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the review year, with deviations from certain Code provisions as explained below:

Under the 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. Relevant amendment to the Articles of Association of the Company to comply with Code provision A.4.2 had been proposed at the earliest opportunity after the announcement of the Code, and such amendment was approved by shareholders at the annual general meeting of the Company held on September 6, 2005.

Under the Code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company already set up its remuneration committee on July 12, 2005, comprising Mr. Benson Tung Wah Wing, Mr. Joseph Wong King Lam and Mr. Tony Chang Chung Kay. The majority of the members of the remuneration committee are independent non-executive directors.

### A. DIRECTORS

#### A.1 The Board

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. Every director is charged with acting in the best interest of the Company and contributing to the Company with their expertise and knowledge. The Board decides on overall Group strategies and monitors the Group's performance on behalf of the shareholders.

During the year ended March 31, 2006, the Board held five regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:

Name of director	Number of attendance
Mr. Benson Tung Wah Wing	5/5
Mr. Alan Lam Yiu On	5/5
Mr. Raymond Tung Wai Man	5/5
Mr. Tung Siu Wing	5/5
Mr. Kevin Lee Kwok Bun	5/5
Mr. Johnny Chang Tak Cheung	5/5
Mr. Tony Chang Chung Kay	5/5
Mr. Woo Kwong Hon	5/5
Mr. Joseph Wong King Lam	5/5

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To provide an opportunity to directors to include matters for discussion in the agenda, at least 14 days' notice of a Board meeting is normally given to all directors. Every director is entitled to have access to the advice and services of the company secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed. All minutes are kept by the company secretary and are open for inspection by any director with reasonably advance notice. Minutes of Board meetings and meetings of Board committees should record in sufficient detail the matters considered by the Board/Board Committees and decisions reached. Draft and final versions of minutes of Board meetings will be sent to all directors for their comments and records respectively within a reasonable time after the Board meeting is held.

Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any director. If a substantial shareholder or a director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

### A.2 Chairman and Managing Director

The positions of the Chairman and the Managing Director of the Company are currently held by separated individuals, with Mr. Benson Tung Wah Wing being the Chairman and Mr. Alan Lam Yiu On being the Managing Director. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. He also steers the Board and the Company towards corporate goals. The Managing Director is responsible for effective implementation of the overall strategies and initiatives adopted by the Board.

With the support of the Managing Director and the Company Secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis.

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### A.3 Board composition

The Board consists of three executive directors, two non-executive directors and four independent non-executive directors:

**Executive directors:**

Mr. Benson Tung Wah Wing (*Chairman*)  
Mr. Alan Lam Yiu On (*Managing Director*)  
Mr. Raymond Tung Wai Man

**Non-executive directors:**

Mr. Tung Siu Wing  
Mr. Kevin Lee Kwok Bun

**Independent non-executive directors:**

Mr. Johnny Chang Tak Cheung  
Mr. Tony Chang Chung Kay  
Mr. Woo Kwong Hon  
Mr. Joseph Wong King Lam

More than one-third of the Board are independent non-executive directors and each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Johnny Chang Tak Cheung is the uncle of Mr. Tony Chang Chung Kay. They declare the relationship does not affect their independence as they make decision independently and vote in their own accord. The Company considers that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

The relationship among members of the Board is disclosed in "Profile of Directors and Senior Management" of this annual report.

### A.4 Appointment, re-election and removal

In accordance with the Code and the Company's Articles of Association (after its amendment on September 6, 2005), all directors (including independent non-executive directors) are subject to retirement by rotation once every three years. Composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The directors' profile is set out on pages 11 to 14.

The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills, knowledge and experience appropriate for the requirements of the businesses of the Group. Since the full Board is involved in the appointment of new directors, the Company has not established a Nomination Committee. There was no meeting held for the nomination of directors during the year.

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### A.5 Responsibilities of directors

The directors are continually updated with the regulatory requirements, business activities and development of the Company to facilitate the discharge of their responsibilities. Through regular Board meetings, all directors are kept abreast of the conduct, business activities and development of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Confirmation has been sought from all directors that they have complied with the required standards set out in the Model Code throughout the year ended March 31, 2006. The Board has also adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

### A.6 Supply of and access to information

In respect of regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all directors at least 3 days before the intended date of a meeting.

The management has the obligation to supply the Board and the various Committees with adequate information in a timely manner to enable the members to make informed decisions. Each director has separate and independent access to the Company's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### B.1 The level and make-up of remuneration and disclosure

A Remuneration Committee was established by the Company in 2005. The Committee is chaired by Mr. Benson Tung Wah Wing and its majority members are independent non-executive directors. The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The director's emoluments are determined, among other things, by reference to his duties and responsibilities with the Company, his experience for the industry, prevailing market conditions and the Company's performance. The full terms of reference are available on the Company's website: <http://www.tungtex.com>

During the year ended March 31, 2006, the Remuneration Committee held two meetings, with attendance record as follows:

Name of member	Number of attendance
Mr. Benson Tung Wah Wing ( <i>Chairman</i> )	2/2
Mr. Tony Chang Chung Kay	2/2
Mr. Joseph Wong King Lam	2/2

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### C. ACCOUNTABILITY AND AUDIT

#### C.1 Financial reporting

The management provides such explanation and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. Meanwhile, 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. In preparing the financial statements for the year ended March 31, 2006, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable laws were complied with.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The Board has prepared the financial statements on a going concern basis.

The reporting responsibilities of external auditors of the Company are disclosed in "Auditors' Report".

#### C.2 Internal controls

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The system includes a defined management structure with limits of authority, safeguards its assets against unauthorized use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage the risks of failure in the Group's operational systems and in the achievement of the Group's objectives.

The Board periodically conducts review of the effectiveness of the system of internal controls, covering all material controls including financial, operational and compliance controls and risk management functions.

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### C.3 Audit Committee

The Audit Committee was established in 1999 and comprises the three independent non-executive directors. The Committee is chaired by Mr. Joseph Wong King Lam who possesses recognized professional qualifications in accounting and extensive experience in audit and accounting. The Audit Committee is to oversee the Group's financial reporting system and internal control procedures, and to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The full terms of reference are available on the Company's website: <http://www.tungtex.com>

During the year ended March 31, 2006 the Audit Committee held three meetings with attendance record as follows:

Name of member	Number of attendance
Mr. Joseph Wong King Lam ( <i>Chairman</i> )	3/3
Mr. Tony Chang Chung Kay	3/3
Mr. Woo Kwong Hon	3/3

At the meetings, the Audit Committee has reviewed the audited financial statements for the year ended March 31, 2006 and the interim accounts for six months ended September 30, 2005 respectively with senior management and the Company's external auditors. The Audit Committee has also reviewed the Group's accounting principles and practices, listing rules and statutory compliance, and financial reporting matters.

### C.4 Remuneration to the external auditors of the Company

The remuneration to the external auditors of the Company for the year ended March 31, 2006 is set out as follows:

Services rendered	Fee HK\$'000
Audit services	1,262
Non-audit services	
– taxation services	311
– review of interim financial statements	260

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### D. DELEGATION BY THE BOARD

#### D.1 Management functions

Executive directors are in charge of different business and functional divisions in accordance with their respective areas of expertise. The Board, led by the Chairman, is responsible for setting overall corporate strategies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. Supported by senior management members, the Managing Director is responsible for effective implementation of the Board's decisions and the day-to-day operations of the Group.

#### D.2 Board committees

Audit Committee and Remuneration Committee have been established to oversee specific aspects of the Company's affairs. Each of these committees has specific written terms of reference which deal clearly with their authority and duties.

### E. COMMUNICATION WITH SHAREHOLDERS

#### E.1 Effective communication

The Company discloses relevant information to shareholders through the Company's annual report and financial statements, the interim report, as well as the Annual General Meeting ("AGM"). The sections under "Chairman's Statement" and "Management Discussion and Analysis" of the annual reports facilitate the shareholders' understanding of the Company's activities. The AGM allows the directors to meet and communicate with shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

To further promote effective communication, the corporate website is maintained to disseminate Company announcements and other relevant financial and non-financial information electronically on a timely basis.

#### E.2 Voting by poll

The right to demand a poll was set out in the circular containing the notice of year 2005 annual general meeting. The Chairman of the AGM exercised his power under the Articles of Association of the Company to put each resolution set out in the notice to be voted by way of a poll.