

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company believes that good corporate governance is importance to the success of the Company. The Company is committed to attaining good standard of corporate governance practices in order to enhance shareholders' value and safeguard the interests of shareholders.

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31st March, 2006 except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the year ended 31st March, 2006.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic directions and financial performance. The management was delegated authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to the Remuneration Committee, the Audit Committee and Nomination Committee.

The Board currently consists of 3 executive directors and 3 independent non-executive directors. Their brief biographical details and the relationships among the members of the Board are set out in the "Biographical details of directors and senior management" on pages 10 to 12 of this Annual Report.

The Board holds four regular meetings a year to review the financial and operating performance of the Company. Apart from the regular Board meetings, the Board will meet on other occasion when required.

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During the financial year ended 31st March, 2006, four board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board during the year ended 31st March, 2006 is as follows:

	Number of board meetings attended
<i>Executive Directors</i>	
Mr. Chan King Hong, Edwin (<i>Chairman and Chief Executive Officer</i>)	4/4
Mr. Chan King Yuen, Stanley	4/4
Mr. Chan Wai Po, Rebecca	3/4
<i>Independent non-executive directors</i>	
Mr. Fong Pui Sheung, David	3/4
Ms. Chau Cynthia Sin Ha	3/4
Mr. Or Kam Chung, Janson	3/4

The Company has received from each of the independent non-executive directors an annual written confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors as independent.

All independent non-executive Directors of the Company are appointed for a specific term not exceeding three years and are subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with Company's articles of associations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Due to the small size of the existing management team, both the roles of the Chairman and Chief Executive Officer of the Company are currently played by Mr. Chan King Hong, Edwin. The Board is of the view that Mr. Chan King Hong, Edwin has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of the Group.

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OTHER COMMITTEES

There are three committees established under the Board, namely the Audit Committee, the Remuneration Committee and Nomination Committee.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David, Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson.

During the financial year ended 31st March, 2006, two audit committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
<i>Independent non-executive directors</i>	
Mr. Fong Pui Sheung, David (<i>Committee Chairman</i>)	2/2
Ms. Chau Cynthia Sin Ha	2/2
Mr. Or Kam Chung, Janson	2/2

The major roles and functions of the Audit Committee are as follow:

- To considering the appointment of the external auditor, the audit fee and any question of resignation or dismissal;
- To reviewing the interim and annual results of the Group;
- To discussing with external auditor before audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- To review the external auditor's management letter and management's response;
- To consider the major findings of internal investigations and management's response;
- To ensure that the Board will provide a timely response to the issue raised in the external auditor's management letter.

The Audit Committee has reviewed the Group's management the principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited financial statements and results of the Group for the six months ended 30th September, 2005 and audited financial statements and results of the Group for the year ended 31st March, 2006.

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AUDITORS' REMUNERATION

The remuneration for the audit and non-audit services provided by BDO McCabe Lo Limited to the Group during the year ended 31st March, 2006 was as follow:

Nature of services	Amount HK\$'000
Audit Services	390
Non-audit services	
- Tax services	40
- Other services	42
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Total:	<u>472</u>

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive directors Mr. Or Kam Chung Janson, Ms. Chau Cynthia Sin Ha, and Mr. Fong Pui Sheung David.

The Remuneration Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31st March, 2006, one remuneration committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
<i>Independent non-executive directors</i>	
Mr. Or Kam Chung, Janson (<i>Committee Chairman</i>)	1/1
Ms. Chau Cynthia Sin Ha	1/1
Mr. Fong Pui Sheung, David	1/1

The major roles and functions of the Remuneration Committee are as follow:

- to make recommendations to the board on the issuer's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

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- to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;
- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- to ensure that no director or any of his associates is involved in deciding his own remuneration.

NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive directors Ms. Chau Cynthia Sin Ha, Mr. Or Kam Chung Janson and Mr. Fong Pui Sheung David.

The Nomination Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31st March, 2006, one nomination committee meeting was held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
<i>Independent non-executive directors</i>	
Ms. Chau Cynthia Sin Ha (<i>Committee Chairman</i>)	1/1
Mr. Fong Pui Sheung, David	1/1
Mr. Or Kam Chung, Janson	1/1

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The major roles and functions of the Nomination Committee are as follow:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board when requested by the Chairman of the Company and to make recommendations to the Board after such review;
- to assess the suitability and qualification of candidates put forward by the chief executive officer and to become new board members and to report to the Board on their assessment;
- to assess the independence of Independent Non-Executive Directors, having regard to the requirements under the Listing Rules; and
- to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the timely publication of the financial statements of the Group.

The Directors' responsibilities in preparing financial statements and auditors' responsibilities are set out in the Auditors' Report on page 30 of this Annual Report.

CORPORATE COMMUNICATION

The Company communicates with its shareholders through publication of interim report and annual report in accordance with the Listing Rules. The Company welcomes shareholders to attend the general meetings and express their view. All directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditors are also required to be present to assist the directors in addressing any relevant queries by shareholders.