

# Corporate Governance Report

The Board of Directors of the Company (the “Board”) is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 March 2006.

Good corporate governance has always been recognized as vital to the Group’s success and to sustain development of the Group. The Company is committed to a good standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

In November 2004, The Stock Exchange of Hong Kong Limited (“Stock Exchange”) promulgated the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) which sets out corporate governance principles (the “Principles”) and code provisions (the “Code Provisions”) with which listed issuers are expected to follow and comply.

The Company has applied the Principles as set out in the CG Code and complied with all the Code Provisions save for the Code Provision A.1.1 which stipulates that regular board meetings should be held at least four times a year. In respect of the financial year ended 31 March 2006, three regular Board meetings were held. Such deviation will be mentioned below.

The key corporate governance principles and practices of the Company are summarised as follows:

## A. THE BOARD

### (1) Responsibilities

The overall management of the Company’s business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs and overseeing the achievement of the plans to enhance shareholder value. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and development, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors, annual budget and other significant financial and operational matters.

**A. THE BOARD** (continued)

**(1) Responsibilities** (continued)

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director may not rely purely on information supplied and should make further enquiries where necessary and is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

Every operational decision is delegated to the executive directors. The day-to-day management, administration and operation of the Company are delegated to the management. The delegated functions and work tasks are periodically reviewed. The Board will give clear directions to the management as to their powers of management, and circumstances where management should report back. Approval has to be obtained from the Board prior to any decision making or entering into any commitments on behalf of the Company.

Management has an obligation to supply the Board and its committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions.

The Board and each director should have separate and independent access to the management.

**(2) Composition**

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises eight members, consisting of five executive directors and three independent non-executive directors. The Company has met the recommended best practice under the CG Code for having at least one-third of the Board members being independent non-executive directors.

## A. THE BOARD (continued)

### (2) Composition (continued)

The Board composition, by category of directors, is as follows:

*Executive directors:*

Mr. Lau Kwai (*Chairman of the Board and member of executive committee*)

Mr. Lau Chung Yim (*Chief Executive Officer, Managing Director,  
Chairman of executive committee and member of remuneration committee*)

Mr. Lau Chung Hung (*member of executive committee*)

Mr. Lau Hing Hai (*member of executive committee*)

Ms. Lau May Wah (*member of executive committee*)

*Independent non-executive directors:*

Mr. Chang Tso Tung Stephen (*chairman of audit committee and member of remuneration committee*)

Mr. Kwok Kwan Hung (*chairman of remuneration committee and member of audit committee*)

Mr. Leung Hon Ming (*member of audit committee*)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Mr. Lau Kwai is the father of Mr. Lau Chung Yim, Mr. Lau Chung Hung, Mr. Lau Hing Hai and Ms. Lau May Wah. Apart from that, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

During the year ended 31 March 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with two independent non-executive directors possessing appropriate professional qualifications, accounting and related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

**A. THE BOARD** (continued)

**(3) Appointment and Succession Planning of Directors**

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the executive directors of the Company is engaged on a service contract with the Company. All the independent non-executive directors of the Company have been appointed for a fixed term of office up to the date of holding of the Company's 2008 annual general meeting. Besides, all the Company's directors are subject to retirement by rotation at the Company's annual general meeting in accordance with the Bye-laws of the Company at least once every three years and are eligible for re-election. In addition, any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

**A. THE BOARD** (continued)

**(3) Appointment and Succession Planning of Directors** (continued)

For the year ended 31 March 2006, the Board met once (with the presence of Mr. Lau Kwai, Mr. Lau Chung Yim, Mr. Lau Hing Hai, Ms. Lau May Wah, Mr. Kwok Kwan Hung and Mr. Chang Tso Tung Stephen) for reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company and for adoption of the director nomination procedures.

In accordance with the Company's Bye-laws, Mr. Lau Kwai, Mr. Lau Chung Yim, Mr. Lau Hing Hai and Mr. Leung Hon Ming shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The Board recommended the re-appointment of these four directors standing for re-election.

The Company's circular to be despatched to the shareholders of the Company contains detailed information of such directors standing for re-election.

**(4) Training for Directors**

In case there is any newly appointed director, each newly appointed director will receive a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

**A. THE BOARD** (continued)

**(5) Board and Board Committee Meetings**

*Number of Meetings and Directors' Attendance*

The Code Provision A.1.1 stipulates that regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

In respect of the financial year ended 31 March 2006, 5 Board meetings (three of which were regular Board meetings), 2 audit committee meetings and 1 remuneration committee meeting were held. The individual attendance record of each director at such meetings of the Board, audit committee, and remuneration committee is set out below:

Name of Directors	Attendance of Meetings		
	Board	Audit committee	Remuneration committee
LAU Kwai	4	N/A	N/A
LAU Chung Yim	5	N/A	1
LAU Chung Hung	0	N/A	N/A
LAU Hing Hai	3	N/A	N/A
LAU May Wah	3	N/A	N/A
CHANG Tso Tung Stephen	3	2	1
KWOK Kwan Hung	3	2	1
LEUNG Hon Ming	1	1	N/A

The Company will endeavour to hold at least 4 regular Board meetings during the year ending 31 March 2007 for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company in order to comply with the Code Provision A.1.1.

*Practices and Conduct of Meetings*

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

**A. THE BOARD** (continued)

**(5) Board and Board Committee Meetings** (continued)

*Practices and Conduct of Meetings* (continued)

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the management whenever necessary.

The company secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Chief Executive Officer, qualified accountant and company secretary of the Company attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer of the Company are held by Mr. Lau Kwai and Mr. Lau Chung Yim respectively. Their respective responsibilities are clearly defined.

The Chairman of the Board is responsible for leading the Board in establishing and monitoring the implementation of strategies and plans to create value for shareholders. The Chairman assesses the development needs of the Board as a whole, with a view to building its effectiveness as a team and assists in the development of individual skills, knowledge and expertise.

The Chief Executive Officer is responsible for managing the operation of the Group's business, proposing strategies to the Board and the effective implementation of the strategies and policies adopted by the Board.

## C. BOARD COMMITTEES

The Board has established 3 committees, namely, the audit committee, remuneration committee and executive committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The compositions of the above 3 Board committees are set out below. They are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.



## C. BOARD COMMITTEES (CONTINUED)

### (1) Audit committee

The audit committee comprises the three independent non-executive directors, namely Mr. Chang Tso Tung Stephen (chairman of the committee), Mr. Kwok Kwan Hung and Mr. Leung Hon Ming (with Mr. Chang and Mr. Kwok possessing the appropriate professional qualifications, accounting and related financial management expertise). The company secretary of the Company acts as the secretary of the audit committee.

One of the members of the audit committee, Mr. Chang Tso Tung Stephen is a former partner of the Company's existing external auditors. He retired as partner in December 2003 and acted as an independent non-executive director of the Company on 1 April 2005. Therefore, the Company has complied with the Code Provision C.3.2 of the CG Code which stipulates that a former partner of a listed issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of 1 year commencing on the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the later.

Each member brings to the audit committee his valuable experience in reviewing financial statements and evaluating significant control and financial issues of the Company. The Board expects the members to exercise independent judgment in conducting the business of the audit committee.

The main duties of the audit committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

## C. BOARD COMMITTEES (CONTINUED)

### (1) Audit committee (continued)

- (d) To monitor the integrity of financial statements and the annual report and accounts, the half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing such reports and accounts before submission to the Board, the audit committee should focus particularly on:-
- (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from the external and internal audits;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.

The audit committee held 2 meetings in respect of the financial year ended 31 March 2006 for reviewing the interim and annual financial statements of the Company respectively and discussing on the financial reporting system and related issues. Besides the members of the audit committee, the meetings were held in the presence of the external auditors, and the Company's qualified accountant and senior management.

The audit committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

## C. BOARD COMMITTEES (CONTINUED)

### (2) Remuneration committee

The remuneration committee comprises Mr. Lau Chung Yim, an executive director of the Company, and two independent non-executive directors, namely Mr. Chang Tso Tung Stephen and Mr. Kwok Kwan Hung (chairman of the committee). The company secretary of the Company acts as the secretary of the remuneration committee.

The main duties of the remuneration committee include the following:

- (a) To make recommendation to the Board on the 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.
- (b) To determine, review and approve 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, taking into account 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.
- (c) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
- (d) To ensure that no director or any of his associates is involved in deciding his own remuneration.
- (e) To advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under the Listing Rules.

During the year ended 31 March 2006, the remuneration committee held a meeting with all the committee members present thereat. In the meeting, the members discussed and analysed the role and function of the committee and instructed the senior management to gather the directors' and senior management's remuneration related information and documents for review and discussion in the next remuneration committee's meeting.

## C. BOARD COMMITTEES (CONTINUED)

### (3) Executive committee

The executive committee comprises all executive directors of the Company with Mr. Lau Chung Yim acting as the Chairman thereof. The company secretary of the Company acts as the secretary of the executive committee.

The main duties of the executive committee include the following:

- (a) To monitor the execution of the Company's strategic plans and operations of all business units of the Company.
- (b) To discuss and make decisions on matters relating to the management and operations of the Company.
- (c) To appoint and remove the operating management.
- (d) To approve any changes to the scope of the authority delegated to the operational management and the corporate management.
- (e) To approve any excess in authority delegated to the corporate and operating management.
- (f) To review and discuss any other matters as may from time to time be delegated to it by the Board.

## D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2006.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by the Company's relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

## E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements for the year ended 31 March 2006 is set out in the "Auditors' Report".

## F. AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 March 2006 amounted to HK\$1,128,000 and HK\$58,000 respectively. The non-audit services related to the provision of tax services to the Group.

## G. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. In case a poll voting is taken in a shareholders' meeting, the poll procedures will be explained at the meeting and the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of all the Board committees, or in their absence, other members of the respective committees, are normally available to answer questions at the Company's shareholders' meetings.

**G. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS** (continued)

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains websites at <http://www.namhingholdings.com>, <http://www.nh-laminate.com.hk>, <http://www.namhing-pcb.com.hk> and <http://www.bil.co.th> where information on the Company's business developments and operations and other information are posted.