

## CORPORATE GOVERNANCE REPORT

This corporate governance report ("CG Report") presents the corporate governance matters during the year covering the financial year ended 31st March 2007 ("CG Period") required to be disclosed under the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

### ADOPTION OF the code on CORPORATE GOVERNANCE PRACTICES

The Group has adopted the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules which came into effect on 1st January 2005. During the CG Period, the Code had been duly complied with except for the deviations as follows:

Code Provision A2.1 requires the role of Chairman and Chief Executive Officer ("CEO") should not be performed by the same individual. At the moment, the Company does not have a separate Chairman and CEO and Mr. Poon Sum currently holds both positions. The Board believes that vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

The Non-executive Director ("NED") and the Independent Non-executive Directors ("INEDs") of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

### BOARD OF DIRECTORS

As at 31st March 2007, the Board comprised a total of eight Directors, with three Executive Directors ("EDs"), two NED and three INEDs. Two of the INEDs have appropriate professional qualifications, accounting, or related professional management expertise, which is required by the Listing Rules. During the CG Period, four regular Board meetings were held.

The composition of the Board, and the respective attendances of the Directors are presented as follows:

Director	Appointment/ Attendance	
	Resignation during Board Capacity	Regular Board the CG Period meeting
Mr. Poon Sum	ED & Chairman	4/4
Mr. Wong Kwok Leung	ED	3/4
Mr. Poon Wai Kong	ED & Financial Controller	4/4
Mr. Chen Lizhong	NED	2/4
Ms. Chew Lye Yin	NED (Appointed on 15th September 2006)	1/4
Mr. Cheung Kwan Hung	INED	4/4

Mr. Chan Kam Ching, Paul INED 2/4  
Mr. Chan Shu Kin INED 4/4

All the four regular Board meetings were held to discuss and/or approve the financial performance/results of the Group, report, discuss and/or resolve for the ordinary business and operation matters, and the corporate development and decisions. The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective supervision over the management. Daily operations and administration are delegated to the management. During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

#### REMUNERATION COMMITTEE

The Remuneration Committee was formed on 21st March 2005 and adopted specific written terms of reference in accordance with the provisions set out in the Code. The role and function of the Remuneration Committee includes:

- recommendation to the Board on the remuneration policy for the Directors;
- review of, approval of and recommendation for (if any) the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable;
- review and approval of the compensation payment to any Director upon his/her cessation of directorship in or employment with the Company; and
- engagement of external professional advisors to assist and/or advise the Remuneration Committee on its duties when necessary and reasonable.

For the financial year under review, the Remuneration Committee had held two physical meetings for the purpose of considering the remuneration of the Directors.

The composition of the Remuneration Committee, and the respective attendances of the committee members are presented as follows:

Member	Committee capacity	Attendance
Mr. Poon Sum	Chairman of the committee	2/2
Mr. Cheung Kwan Hung	INED	2/2
Mr. Chan Kam Ching, Paul	INED	2/2
Mr. Chan Shu Kin	INED	2/2

The chairman of the Remuneration Committee since its establishment has been Mr. Poon Sum.

The summary of the work performed by the Remuneration Committee for the financial year under review included:

- endorsement to the remuneration policy for the Directors;
- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

## DIRECTORS' REMUNERATION

The remuneration paid to and/or entitled by each of the Directors for the financial year under review is set out in Note 15 to the financial statements in the Annual Report.

The share options granted to/or entitled by the Directors during the financial year under review are inscribed in the section headed "Directors' Interests in Securities" of the Directors' Report.

## DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that all of them have complied with the required standard set out in the Model Code during the year.

## NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Chairman of the Board is responsible to identify and recommend for the Board's approval of any eligible candidate to join the Board for filling the casual vacancy and/or appointing additional directors. The Board composes members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence. During the financial year ended 31st March 2007, the Board has appointed Ms. Chew Lye Yin as the NED of the Company. Mr. Poon Sum, Mr. Poon Wai Kong and Mr. Wong Kwok Leung attended the Board meeting.

## AUDIT COMMITTEE

The Audit Committee has adopted specific written term of reference in accordance with the provision set out in the Code. The principal duties of the Audit Committee include:

- monitoring the integrity of the financial statements of the Group;
- providing independent review and supervision of the effectiveness of the internal control of the Group;
- reviewing of the adequacy of the external audits;
- reviewing on the compliance issues with the Listing Rules and other compliance requirements;
- providing independent views on connected transactions and transactions involving materially conflicted interest;
- considering and reviewing the appointment of the Auditors and the audit fee.

For the financial year under review, the Audit Committee had held three physical meetings for discussing and/or approving the periodic financial results of the Group, reviewing the effectiveness of the financial reporting process and internal control

system of the Group and selection of external consultant for internal control review.

The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

Member	Committee capacity	Attendance
Mr. Cheung Kwan Hung	INED	3/3
Mr. Chan Kam Ching, Paul	INED	3/3
Mr. Chan Shu Kin	Chairman of the committee	3/3

The chairman of the Audit Committee since its establishment has been Mr. Chan Shu Kin.

#### AUDIT REMUNERATION

The analysis of the Joint Auditors' remuneration for the financial year under review is presented as follows:

	Fee amount (HK\$)
Audit Service	1,050,000
Non-audit Services	150,000

#### INTERNAL CONTROL

The Directors recognise its responsibility for maintaining an adequate system of internal control for the Company. The Directors have regularly reviewed the internal control policy so as to safeguard the Company's assets. In addition, the Directors have appointed an independent accountancy firm to review the internal control systems of the Company on an on-going basis. The review covered Purchases Cycle, Capital Expenditures Cycle and Operating Expenses Cycle of the production plants. The report concluded that management have put in place an internal control system to safeguard the interests of the Company. The Directors have discussed and considered the review report .

#### ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the financial statements of the Group. In preparing the financial statements for the financial year under review, the Directors have:

- Based on a going concern basis;
- Selected suitable accounting policies and applied them consistently;
- Made judgments and estimates that were prudent, fair and reasonable.

The statement of the Joint Auditors regarding their reporting responsibilities on the financial statements is set out in detail in the Joint Independent Auditors' Report on page 34 to 35.

On behalf of the Board

Mr. Poon Sum  
Chairman

Hong Kong, 20th July 2007