



CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Group for the year ended 31 December 2010.

CORPORATE GOVERNANCE PRACTICES

The Board considers effective corporate governance a key component in the Group's sustained development and believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has considered and applied the principles set out in the "Code on Corporate Governance Practices" (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code, except the code provisions A.2.1 and A.4.2. The details of the foregoing deviations are provided below.

The Company periodically reviews its corporate governance practices to ensure that they comply with the statutory and regulatory standards and align with the latest developments.

A. BOARD OF DIRECTORS

(1) Responsibilities

The overall management of the Group's business is vested in the Board, which assumes the responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising its affairs and overseeing the implementation of plans to enhance shareholder value. Every director carries out his/her duty in good faith and in compliance with the standards of applicable laws and regulations, and takes decisions objectively in the interests of the Group and the shareholders.

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. The independent non-executive directors may take independent professional advice at the Company's expense in carrying out their functions, upon making request to the Board.



CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(2) Board Composition

The Board comprises the following directors:

Executive directors:

| | |
|-------------------|--|
| Mr. Chow Tak Hung | <i>(Chairman of the Board, Chief Executive Officer and Chairman of both the Remuneration Committee and the Nomination Committee)</i> |
| Ms. Chow Woon Yin | <i>(Deputy Chairman)</i> |
| Ms. Wong Siu Wah | |
| Ms. Chau Choi Fa | <i>(Managing Director)</i> |

Independent non-executive directors:

| | |
|---------------------|---|
| Dr. Lau Yue Sun | <i>(Member of both the Audit Committee and the Remuneration Committee)</i> |
| Mr. Yip Tai Him | <i>(Chairman of the Audit Committee and Member of both the Remuneration Committee and the Nomination Committee)</i> |
| Mr. Lam Kwok Cheong | <i>(Member of both the Audit Committee and the Nomination Committee)</i> |

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time. The biographical details of the directors of the Company as well as the relationships among them, if any, are set out under “Directors and Senior Management Profile” on pages 8 to 9.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group.

The Board has at all times met the requirements of the Listing Rules relating to the appointment of a minimum of three independent non-executive directors with at least one of whom possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation from all of its independent non-executive directors in respect of their independence pursuant to the requirements of the Listing Rules. The Company considers that all of them are independent in accordance with the independence guidelines set out in the Listing Rules.



CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(2) Board Composition – continued

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

(3) Chairman and Chief Executive Officer

The code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual so that power is not concentrated in one individual.

Mr. Chow Tak Hung currently holds the offices of Chairman and Chief Executive Officer of the Company. Mr. Chow is the founder of the Group and has extensive experience in the electronics industry. He has the appropriate standing, management skills and business acumen that are essential prerequisites for assuming the two roles. The Board believes that vesting both roles in Mr. Chow provides the Group with strong and consistent leadership and, at the same time, allows for the continuous effective operations and development of the Group's business. As such, the structure is beneficial to the Group and the shareholders as a whole.

As other Board members are keeping abreast of the conduct, business activities and development of the Group and as the day-to-day business operations of the Group are delegated to the management, the Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority.

(4) Appointment and Re-Election of Directors

Each of the executive directors of the Company is engaged on a service contract for a fixed term. The current term for all executive directors is 3 years. All the independent non-executive directors of the Company have also been appointed for a specific term, subject to re-election. The term of office of each independent non-executive director is 1 year.

The code provision A.4.2 of the CG Code requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company's Bye-laws deviates from such code provision in the following aspects with the reasons of the deviations/ measures taken to address the deviations specified below:

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued**(4) Appointment and Re-Election of Directors – continued**

- (a) The Bye-laws provides that any new director appointed by the Board shall be subject to election by shareholders of the Company at the Company's next following annual general meeting, instead of the first general meeting, after appointment.
- The reason for keeping such Bye-laws provision is to ensure the Company's compliance with paragraph 4(2) of Appendix 3 to the Listing Rules and also to facilitate the Company's process of re-election of directors since it enables the Company and the shareholders to consider the re-election of those new directors appointed by the Board during the year and of those directors retiring by rotation at the same general meeting.
- (b) The Bye-laws has not stated that directors should be subject to retirement by rotation at least once every three years and besides, it provides that the Chairman of the Board and/or the Managing Director shall not be subject to retirement by rotation.
- Notwithstanding the foregoing Bye-laws provisions, in practice, Ms. Chau Choi Fa, the Managing Director of the Company, has voluntarily submitted herself for re-election by shareholders before and will continue to do so; and Mr. Chow Tak Hung, the Chairman of the Board, will also voluntarily submit himself for re-election by shareholders in the Company's annual general meeting, such that all directors of the Company are subject to retirement by rotation at least once every three years.

The Board will consider in due course whether amendments on the Company's Bye-laws are necessary.

Nomination Committee

The Nomination Committee of the Company comprises one executive director, namely Mr. Chow Tak Hung (Chairman of the Committee), and two independent non-executive directors, namely Mr. Yip Tai Him and Mr. Lam Kwok Cheong.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the Company's independent non-executive directors.



A. BOARD OF DIRECTORS – continued

(4) Appointment and Re-Election of Directors – continued

Nomination Committee – continued

As set out in the Committee's Terms of Reference, the Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, character, personal ethics and integrity and time commitments of such individuals as well as the Company's needs and market conditions. An external recruitment agency may be engaged to carry out the selection process when necessary.

The Nomination Committee held one meeting during the year ended 31 December 2010 and the attendance record is set out under "Directors' Attendance Records" of this report. The Committee performed the following work during the year:

- (a) reviewed 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;
- (b) recommended the re-appointment of Dr. Lau Yue Sun and Mr. Yip Tai Him, the directors standing for re-election at the 2010 annual general meeting of the Company held on 1 June 2010; and
- (c) assessed the independence of the Company's independent non-executive directors.

(5) Induction and Continuing Development for Directors

Each newly appointed director shall receive an 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.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Professional briefings and development to directors will be arranged whenever necessary.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued**(6) Board Meetings***Board 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. 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 senior management whenever necessary.

The Chief Executive Officer, Managing Director and Company Secretary normally attend 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.

The Company Secretary 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.

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. Pursuant to the Company's Bye-laws, directors are required 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.

Directors' Attendance Records

During the year ended 31 December 2010, four regular Board meetings were held 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.

The attendance records of each director/Committee member at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee during the year ended 31 December 2010 are set out below:

**A. BOARD OF DIRECTORS – continued****(6) Board Meetings – continued***Directors' Attendance Records – continued*

| Name of Directors | Attendance/Number of Meetings | | | |
|---|-------------------------------|----------------------|------------------------|-----------------|
| | Board | Nomination Committee | Remuneration Committee | Audit Committee |
| Executive directors: | | | | |
| Mr. Chow Tak Hung | 4/4 | 1/1 | 1/1 | N/A |
| Ms. Chow Woon Yin | 4/4 | N/A | N/A | N/A |
| Ms. Wong Siu Wah | 4/4 | N/A | N/A | N/A |
| Ms. Chau Choi Fa | 4/4 | N/A | N/A | N/A |
| Independent non-executive directors: | | | | |
| Dr. Lau Yue Sun | 4/4 | N/A | 1/1 | 2/2 |
| Mr. Yip Tai Him | 4/4 | 1/1 | 1/1 | 2/2 |
| Mr. Lam Kwok Cheong | 4/4 | 1/1 | N/A | 2/2 |

(7) Model Code for Securities Transactions

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

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 December 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by 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 employees was noted by the Company.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Group, 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, budgets, appointment of directors and other significant financial and operational matters.



CORPORATE GOVERNANCE REPORT

B. DELEGATION BY THE BOARD – continued

The day-to-day management, administration and operations of the Group are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. The Board will give directions to the senior management as to their powers of management, and circumstances where they should report back. Approval has to be obtained from the Board prior to any decision making on significant transactions or entering into any significant commitments on behalf of the Company.

The senior 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 have separate and independent access to the senior management.

In addition, the Board has established 3 Committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Group's affairs. All these Committees are established with defined written terms of reference which are available to shareholders upon request.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the directors and senior management of the Group. Details of the remuneration of each director of the Company for the year ended 31 December 2010 are set out in note 12 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee comprises one executive director, namely Mr. Chow Tak Hung (Chairman of the Committee) and two independent non-executive directors, namely Dr. Lau Yue Sun and Mr. Yip Tai Him.

The primary functions of the Committee include making recommendations to the Board on the remuneration policy and structure and remuneration packages of directors and senior management. It is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration.

The Remuneration Committee held one meeting during the year ended 31 December 2010 for reviewing generally the remuneration policy and structure of the Group, and the remuneration packages as well as the annual bonuses of the executive directors and the senior management. The attendance record is set out under "Directors' Attendance Records" of this report.



D. ACCOUNTABILITY AND AUDIT

(1) Directors' Responsibilities for Financial Reporting

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 December 2010.

The senior management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Group put to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

(2) Internal Controls

The Board has overall responsibility for the internal control system of the Company. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company and, with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The Board has conducted an annual review of the effectiveness of the internal control system of the Group for the year ended 31 December 2010. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

(3) Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. Yip Tai Him (Chairman of the Committee who possesses the appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules), Dr. Lau Yue Sun and Mr. Lam Kwok Cheong. None of the members of the Audit Committee is a former partner of the Company's existing independent auditor.



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D. ACCOUNTABILITY AND AUDIT – continued

(3) Audit Committee – continued

The main duties of the Committee include review of the financial information of the Group, review of the relationship with and the terms of appointment of the independent auditor, and review of the Group's financial reporting system, internal control system, risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2010. The attendance records are set out under "Directors' Attendance Records" of this report. The Committee performed the following work during the year:

- (a) reviewed with the independent auditor the Group's annual audited financial statements for the year ended 31 December 2009, and reviewed the unaudited interim financial statements for the six months ended 30 June 2010, with recommendations made to the Board for approval;
- (b) reviewed the changes in accounting standards and assessed their potential impacts on the Group's financial statements;
- (c) reviewed the Group's internal control system and related matters; and
- (d) considered and made recommendations on the re-appointment of the independent auditor and the terms of engagement.

(4) Independent Auditor and Auditor's Remuneration

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 26 to 27.

The remuneration paid to the Company's independent auditor, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services for the year ended 31 December 2010 is set out below:

| Type of services provided by the Independent auditor | Amount of fees HK\$'000 |
|---|-----------------------------------|
| Audit services | 1,150 |
| Non-audit services: | |
| Tax consultancy and compliance | 76 |
| Total | 1,226 |



E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information, which enables shareholders and investors to make the best investment decision.

Shareholders' meetings provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective Committees normally attend shareholders' meetings of the Company to answer shareholders' questions. During the year ended 31 December 2010, the Company held one shareholders' meeting, which is the annual general meeting held on 1 June 2010. Six members of the Board were present at this meeting to address to shareholders' enquiries.

As a channel to promote effective communication, the Group maintains a website where information on the Company's announcements, business developments and operations, financial information and other information are posted. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

F. SHAREHOLDERS' RIGHT

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The poll voting results will be published on the websites of the Stock Exchange and the Company after the meeting.