

## CORPORATE GOVERNANCE REPORT

### MISSION STATEMENT OF CORPORATE GOVERNANCE

“We are delighted to have maintained excellence in corporate governance in order to supply value added PCBs to the market and consider the balance of all the stakeholders’ interest as our top priority.”

The Board of Directors and the Senior Management of the Company are of the opinion that during the year 2005, the Company has properly operated in accordance with the “Code on Corporate Governance Practices” (the “CG Code”) as set out in Appendix 14 of the listing rules of the Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the deviation as stated in the section “Compliance with CG Code”.

The Board of Directors is committed to the transparency, accountability and independence highlighted by the principles of the CG Code to better enhance the shareholders’ value and proper management of corporate assets in the following ways:

1. Ensuring the decision-making process, internal audit and controls, disclosure of information and the communication with stakeholders are carried out in accordance with good management practices and good compliance with the respective regulatory standards;
2. Building a culture of integrity, transparency and accountability for the Company including all the staff and Directors and emphasizing the importance of each of their role in such an environment; and
3. Adopting quality standards widely recognized internationally to foster quality management in every aspect of daily operations to enhance the performance and value of the Company as a whole.

### COMPLIANCE WITH CG CODE

The Directors confirm that, for the accounting year ended 31 December 2005, the Company has complied with the CG Code with the deviation mentioned below:

1. Mr. Cheok Ho Fung is the Chairman as well as the Chief Executive Officer of the Company. Under the CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Directors are of the opinion that this arrangement does not have a material adverse impact on the corporate governance of the Company.

The Board of Directors will carry out a review in the following year and propose any amendment, if necessary, to ensure compliance with the Code provisions on Corporate Governance as set out in the Listing Rules.

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### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted a code of conduct (the "Own Code") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code.

The Company, having made specific enquiries, confirms that members of the Board have complied with the Model Code throughout the whole accounting year ended 31 December 2005. Senior managers, who, because of their offices in the Company, are likely to be in possession of unpublished price sensitive information, also have to comply with the provisions of the Model Code and the Own Code.

### THE BOARD OF DIRECTORS

During the year, the Board of Directors consists of eleven Directors with a variety of experience in accounting, auditing, manufacturing, marketing, finance, investment and legal professions; their brief biographical particulars are set out on pages 24-26 respectively of this annual report. The detailed composition of the Board of Directors and the respective Board meetings held in the current year is as follows:

| Name of Directors   | Attendance |
|---|------------|
| <b>Executive Directors</b>  |            |
| Mr. Cheok Ho Fung ( <i>the Chairman and Chief Executive Officer</i> ) | 4/4        |
| Mr. Ng Chi Shing  | 4/4        |
| Mr. Wong Shui Hing  | 4/4        |
| Mr. Ting Sui Ping   | 4/4        |
| Mr. Ho Siu Man  | 1/1        |
| <b>Non-Executive Directors</b>  |            |
| Mr. Kwok Chi Kwong, Danny (Retired on 17 May 2005)                    | 1/1        |
| Mr. Tang Yok Lam, Andy  | 4/4        |
| Mr. Ng Kwok Ying, Alvin   | 4/4        |
| <b>Independent Non-Executive Directors</b>                            |            |
| Mr. Leung Shu Kin, Alfred   | 3/4        |
| Mr. Wong Wing Kee   | 4/4        |
| Mr. Look Guy  | 4/4        |

The Company has appointed sufficient numbers of Independent Non-Executive Directors in accordance with the Listing Rules, including those with accounting and finance expertise. They have dedicatedly provided the Company with professional advice with respect to the steady operation and development of the Company. They also exercise supervision and coordination to safeguard interests of the Company and its shareholders.

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Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Group is of the view that all Independent Non-Executive Directors meet the independence guidelines set out in Rule 3.13, and are independent in accordance with the terms of the guidelines.

### THE OPERATION OF THE BOARD OF DIRECTORS

The Board's main task is to supervise and direct the management of the Company to operate under good corporate governance in order to maintain the good value of the shareholders and the balance of interest of the various stakeholders. The Board of Directors holds meetings quarterly to monitor the performance of the company as against the budget and to be briefed on market developments, to discuss and decide on major corporate, strategic and operational issues, and to appraise any good investment opportunities available.

The major duties performed by the Board of Directors are as follows:

1. Setting the Company's values and standards;
2. Setting the objectives of the Company and responsibilities of the Board;
3. Establishing the strategic direction for the Company;
4. Setting targets for the management;
5. Monitoring the performance of the management;
6. Supervising the annual and interim results of the Company;
7. Ensuring that a framework of prudent and effective controls are in place and to assess and manage the risk of the Group;
8. Overseeing the management of the Company's relationships with shareholders, customers, the community, interest groups and others who have a legitimate interest in the responsible conduct of the Group's business;
9. Identifying and assessing any matters involving a conflict of interest for a substantial shareholder or a Director;
10. Determining material acquisitions and disposals of assets, investments, capital, projects, authority levels, major treasury policies, risk management policies and key human resources issues; and
11. Considering and determining issues which are the responsibilities of the Board pursuant to the Company's memorandum and Bye-laws and relevant laws and regulations in force by which the Company is governed from time to time.

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The Board of Directors delegates to the management major corporate matters as stated below:

1. Preparation of the annual and interim results to be approved by the Board;
2. Execution of the corporate strategies and directions adopted by the Board;
3. Implementation of sufficient systems of internal controls and risk management procedures; and
4. Carrying out daily operations, etc.

### BOARD COMMITTEES

As an integral part of good corporate governance, the Board of Directors has established the following Board Committees to oversee particular aspects of the Company's affairs. The Board Committees are governed by their respective Terms of Reference, which describe the authority and duties of the Committees and will be regularly reviewed and updated by the Board.

### AUDIT COMMITTEE

The Company's Audit Committee is composed of three Independent Non-Executive Directors and one Non-Executive Director, with the Chairman having appropriate professional qualifications and experience in financial matters. The Audit Committee discharges its responsibilities as follows:

1. Reviewing of the interim and annual results;
2. Overseeing the reporting, accounting, financial and internal control aspects of the Company;
3. Monitoring the appointment and function of the Company's external auditor;
4. Reporting directly to the Board of Directors; and
5. Having full access to the Corporate Governance Manager to hear directly any concerns of the Corporate Governance Department that may have arisen during the course of the department's work.

#### Members of Audit Committee

#### Attendance

|   |     |
|---|-----|
| Mr. Look Guy ( <i>Chairman</i> ) ( <i>Independent Non-Executive Director</i> )            | 2/2 |
| Mr. Ng Kwok Ying, Alvin ( <i>Member</i> ) ( <i>Non-Executive Director</i> )               | 2/2 |
| Mr. Leung Shu Kin, Alfred ( <i>Member</i> ) ( <i>Independent Non-Executive Director</i> ) | 2/2 |
| Mr. Wong Wing Kee ( <i>Member</i> ) ( <i>Independent Non-Executive Director</i> )         | 2/2 |

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### AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Company. During the year under review, the Group is required to pay to the Auditors, Messrs Ernst & Young as follows:

#### Nature of Services

HK\$'000

|                       |       |
|-----------------------|-------|
| Audit services        | 1,561 |
| Tax advisory services | 458   |
|                       | 2,019 |

### REMUNERATION COMMITTEE

The Remuneration Committee carries out the following duties:

1. Ensuring formal and transparent procedures for overseeing and developing policies on the remuneration packages of Directors and senior managers;
2. Assessing the achievement and performance of Executive Directors and Senior Management; and
3. Providing effective supervision and administration of the Company's share option schemes and other share incentive schemes.

It comprises three members, the majority of whom are Independent Non-Executive Directors.

#### Members of Remuneration Committee

#### Attendance

|   |     |
|---|-----|
| Mr. Leung Shu Kin, Alfred ( <i>Chairman</i> ) ( <i>Independent Non-Executive Director</i> ) | 1/1 |
| Mr. Look Guy ( <i>Member</i> ) ( <i>Independent Non-Executive Director</i> )                | 1/1 |
| Mr. Tang Yok Lam, Andy ( <i>Member</i> ) ( <i>Non-Executive Director</i> )                  | 1/1 |

### NOMINATION COMMITTEE

The Nomination Committee carries out the following tasks:

1. Recommending and nominating candidates to fill vacancies to the Board of Directors by considering the past performance, qualification, general market conditions and the Company's Bye-laws; and

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2. Changing of Directors by considering the issues of conflict of interest, performance and conduct.

During the year, the following Director was appointed and nominated by the Nomination Committee:

| Name of Director | Appointment Date | Effective date  | Terms   | Capacity           |
|------------------|------------------|-----------------|---------|--------------------|
| Mr. Ho Siu Man   | 31 October 2005  | 31 October 2005 | 3 Years | Executive Director |

| Members of Nomination Committee   | Attendance |
|---|------------|
| Mr. Wong Wing Kee ( <i>Chairman</i> ) ( <i>Independent Non-Executive Director</i> )       | 2/2        |
| Mr. Leung Shu Kin, Alfred ( <i>Member</i> ) ( <i>Independent Non-Executive Director</i> ) | 2/2        |
| Mr. Tang Yok Lam, Andy ( <i>Member</i> ) ( <i>Non-Executive Director</i> )                | 2/2        |

Under the CG Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. The Bye-laws of the Company provides that at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation such that every Director shall be subject to retirement by rotation at least once every three years.

### EXECUTIVE COMMITTEE

The Executive Committee of the Board meets regularly and operates with overall delegated authority from the Board of Directors. The Executive Committee reports through the Chairman to the Board of Directors. The Executive Committee carries the following tasks:

1. Determining group strategy;
2. Setting targets for the management;
3. Reviewing business performance;
4. Ensuring adequate funding; and
5. Examining major investments.

| Members of the Executive Committee                                    | Attendance |
|---|------------|
| Mr. Cheok Ho Fung ( <i>the Chairman and Chief Executive Officer</i> ) | 8/8        |
| Mr. Ng Chi Shing  | 8/8        |
| Mr. Wong Shui Hing  | 6/8        |
| Mr. Ting Sui Ping   | 7/8        |
| Mr. Ho Siu Man  | 4/4        |

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### CORPORATE MANAGEMENT AND INTERNAL CONTROL

The Corporate Governance Department plays a major role in monitoring the internal governance of the Company. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management and governance processes in connection to nature of compliance and legal requirements.

There is an internal audit division in the Corporate Governance Department. Under an audit plan, it conducts audits of the practices, procedures and internal controls of all business and support units. As requested by the Board Committees, it also conducts ad-hoc reviews or investigations. The Corporate Governance Manager reports directly to the Chief Executive Officer and has direct access to the Audit Committee. It also has the right to consult the Audit Committee without reference to the management.

The management systems for occupational health, safe environment and quality standards are set up. The perfection of the internal control system is properly established and the Board and Senior Management have paid significant attention to it. The internal audit division functions for overall system establishment and comprehensive perfection in corporate internal control. Internal audit division being an independent entity and its independence is currently under reviewed. Key tasks of the internal audit function include:

1. Unlimited authority of access to review different aspects of the Group's business activities and internal control procedures;
2. Regular performance of the comprehensive audit of the work flow procedures, practices, expenses, investment, asset management of the special business unit and subsidiaries of the Group;
3. Special reviews and investigations for ad-hoc projects; and
4. Liaison with Senior Management and the Board on the effectiveness and efficiency of management and the assurance against material financial misstatements.

The Corporate Governance Manager meets with Senior Management frequently to monitor corporate governance as well as to develop new processes and systems to ensure compliance and the Group's adherence to industry best practices.

### ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The Company is committed to our society on the impact of our business to the environment and wishes to create value to the community in which we operate. We do this in these areas:

#### ENVIRONMENTAL POLICY

Traditionally, PCB is classified as a pollution industry. Because of this, the Company pledges to uphold quality management and implement policies for conserving resources and managing waste. The Company has set the following

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policies in compliance with environmental regulations.

1. During the stage of design, research and development, environmental impact assessment for each material or machinery is conducted prior to any purchase decision. Accordingly, such impact assessment data is considered as one of the key criteria for procurement decisions;
2. During production, consumption, delivery and waste disposal, the Company undertakes environmental protection measures through technological enhancement, usage of recycling materials and conservation of resources. Besides, minimum environmental impact approach and systematic recycling methods are employed to best protect the environment as well as the ecosystem;
3. The Company commits to fulfil and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly;
4. Awareness for environmental protection of all staff is enhanced through environmental protection activities, training programmes and promotion. "Reduce", "Reuse", "Recycle" are heavily promoted. By promoting them, the Company is striving to protect the environment as well as to contribute back to society;
5. Top management is acting as a core for establishing a well-defined structure and system for environmental management by outlining corresponding responsibility, scope and policy. Besides, this environmental protection policy is always given first priority, overriding production needs wherever necessary; and
6. The Company always keeps track of the development of international environmental protection legislation and ensures its environmental policy is implemented not only complying with international standards, but also at the same pace as worldwide counterparts.

### ENVIRONMENTAL RESEARCH PROJECTS

Since 2001, the Company started sponsoring Tsinghua University (one of the top research and education institutions in China) for the establishment of the "Tsinghua Topsearch R&D Centre of Green Manufacturing" to achieve the following:

1. Conduct Green Manufacturing Research; and
2. Organize and promote Green Education.

Major subjects for research include:

1. Green Assessment System;
2. Green Design Theory and Methods;



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3. Recycle and Reuse Technology of PCB;
4. Energy Consumption Management;
5. Green Education for Manufacturing and Industrial Ecology; and
6. Green Manufacturing Web Site.

The Company is playing a significant role in taking the Green Technologies on to the next level. It is looking forward to sharing these future technologies and is confident that together, a better and healthier environment can be built.

### EDUCATION

Besides the work on environmental issues, since 1999 the Company has already financed over 120 staff in university studies. It believes that staffs are the most valuable assets of the Company. It also invests heavily in training because it believes that training and further education will not only benefit the individual staff but also provide them more opportunities to make greater contributions to the Company.

Financing is not limited to staff. The Company extends it to talented young students. Since 1995, the Company has sponsored over 50 students in their Doctor's and Master's studies in South China Agricultural University and Tsinghua University. The Company may not directly benefit from it, but believes that these students can contribute more to society if they have opportunities for further education.

The Company is willing to take more responsibilities for society but with a view to balancing the shareholders' interests and society's benefits.

### INVESTOR RELATIONS AND COMMUNICATION

The Company continues to commit to a proactive policy of promoting investor relations and communication with shareholders and analysts. In order to further promote effective communication, the Company maintains a website ([www.topsearch.com.hk](http://www.topsearch.com.hk)) to disclose the Company's information to shareholders on a timely basis.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2005.