

5. CORPORATE GOVERNANCE

The Group is committed to maintaining the highest levels of ethical behavior from all its employees. The foundation of the Group's corporate governance rests on several basic principles: zero tolerance, internal accountability and independent supervision, which are monitored by Valarie Fong, an independent non-executive director who acts as the *Corporate Governance Officer* for the Company. The Corporate Governance Officer meets with senior management as required to monitor corporate governance as well as to develop new processes and systems to ensure compliance and the Group's adherence with the highest standards of corporate governance practice.

Zero Tolerance: The Group maintains a zero-tolerance policy on any and all infringements of its corporate code of conduct.

Internal Accountability: The Group has developed extensive internal controls and accounting systems that are designed to provide reasonable assurance that assets are protected from unauthorized use or transfer and transactions are executed consistent with management authorization. Qualified and trained employees are located in all divisions within the Group to maintain and monitor corporate governance.

Independent Supervision: The Company's audit procedures are strictly monitored by the independent non-executive Directors, each of whom possess appropriate industry and financial experience.

5.1 The Board and senior management

The Board is responsible for protecting and maximizing long-term shareholder value. The Company has eight Directors on its Board, including the Chairman and three executive Directors. Of the remaining five non-executive Directors, three are independent. Details of the Directors and senior management are given on pages 29 to 31 of this report.

The Chairman and the Chief Executive Officer of the Company are brothers. Mr. Edward Tan is the Chairman of the Company, and Mr. Alfred Chan is the Chief Executive Officer of the Company. The role of Chairman is clearly segregated from that of the Chief Executive Officer.

The Chairman is responsible for managing and providing leadership to the Board. He ensures that the Company establishes sound corporate governance practices and procedures and encourages the Directors to make a full and active contribution to the affairs of the Board. The Chairman is also responsible for approving the agenda for each Board meeting taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda. With support of the executive directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive complete and reliable information in a timely manner.

As Chief Executive Officer, Mr Chan is directly responsible for the day-to-day management of the business of the Company and maintaining the operational performance of the Company. With the assistance of senior management, he ensures that the funding requirements of the business are met and closely monitors the operating and financial results against plans and budgets, taking remedial action when necessary and advising the Board of any significant developments and issues. The Chief Executive Officer also reviews and presents to the Board the annual business plans and budgets of the operations for consideration and approval by the Board.

The Board meets regularly and no less than four times a year. During the course of FY2004, the board held eight board meetings. All Directors understand their duty to represent the interests of shareholders and each Director attends meetings as regularly as possible. When a director is not able to attend a meeting, the Chairman and/or the Chief Executive Officer briefs them fully on the content and results of the Board meeting. Pursuant to the bye-laws of the Company, each Director shall retire by rotation in the forthcoming annual general meeting and all, being eligible, offer themselves for re-election.

5.2 Directors Responsibility

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Report of the Auditors on page 33 which acknowledges the reporting responsibilities of the Group's auditors.

5.2.1 Annual Report and Accounts

The Directors acknowledge their responsibility to review financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

5.2.2 Accounting Policies

The Directors consider that in preparing the financial statements the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

5.2.3 Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

5.2.4 Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

5.3 Director's Securities Transactions

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. All Directors confirmed that they have complied with the Model Code and the Securities Trading Policy in their securities transactions throughout the year.

5.4 Remuneration of Directors

In FY2004 the remuneration of Directors and senior management was determined by the Board with reference to the performance and profitability of the Group as well as remuneration benchmarks from other companies in the high-end retail industry and the prevailing market conditions. Details of the remuneration and emoluments awarded can be found on pages 55 to 56.

A Remuneration Committee which comprises three Board members has recently been formed. The Committee is chaired by the Chief Executive Officer, Mr. Alfred Chan. The other two members are Ms Lara Lai and Mr. Rodney Cone, both independent non-executive Directors. The Remuneration Committee is charged with the responsibility of assisting the Board in achieving its objective of attracting, retaining and motivating people of the highest caliber and experience needed to develop and implement the Group's strategy. The Committee is also responsible for the development and administration of a fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Company and for determining their remuneration packages. Executive Directors, however, do not participate in the determination of their own remuneration.

5.5 Nomination of Directors

New directors are appointed to the Board by the existing Board of Directors. Vacant seats are discussed at the Board level and appropriate candidates are considered based on prior experience and qualifications. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

5.6 Auditors' remuneration

The amount of fees charged by the Company's auditors in respect of their audit and non-audit services is disclosed in the notes to the financial statements of the Company. The Audit Committee is responsible for approving the remuneration and terms of engagement of the external auditors and for making recommendations to the Board regarding any non-audit services to be provided to the Company by the external auditors. In FY2004, the fees paid to the Company's auditors were primarily for audit services as no significant non-audit service assignments were undertaken by them.

5.7 Audit Committee

The Audit Committee consists of Mr. Rodney Ray Cone, Ms. Valarie Wei Lynn Fong and Lara Magno Lai, who are all independent non-executive Directors of the Company. The Audit Committee is chaired by Mr. Rodney Ray Cone. All committee members possess appropriate business and financial experience. However, the Audit Committee is authorized to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

The Audit Committee is responsible for monitoring the integrity of financial statements of the Company. In addition to the review of financial information of the Company, the Committee's other primary duties are monitoring the relationship with the Company's external auditors and oversight of the Company's financial reporting system, internal control and risk management procedures. In FY2004, the Audit Committee considered reports from the financial controller in respect of a number of matters including the Group's reporting, budgeting and forecasting procedures, audit strategy, and key performance indicators. With respect to the Group's results for FY2004, the Audit Committee reviewed with senior

management and the external auditors their respective audit findings, the accounting principles and practices adopted by the Group and internal control, risk management and financial reporting matters.

5.8 Internal controls and risk management

The Board of Directors has overall responsibility for establishing and maintaining the Group's internal control systems and approval procedures. Together with the internal audit team, external auditors and senior management of the Group, the Audit committee reviews and monitors such internal control and approval procedures with a view to ensuring their effectiveness. The Company also maintains a system of disclosure controls and procedures to ensure that information required to be disclosed by the Company is recorded, processed, summarized and reported within the required time periods and accumulated and communicated to the Company's management to allow timely decisions regarding disclosure.

5.8.1 Internal Control Environment

The Board has overall responsibility for monitoring the Group's operations. Executive Directors are appointed to the boards of all material operating subsidiaries and management works closely with the senior management of the Group's operations, monitoring their performance to ensure that strategic objectives and business performance targets are being met.

Senior management of each of the operations within the Group prepares a business plan and budget annually which is subject to review and approval by the Executive Directors. When setting budgets and forecasts, senior management identifies, evaluates and reports on the likelihood and potential financial impact of any significant business risks. Budgets are prepared on an annual basis and forecasts are prepared on a quarterly basis and reviewed for differences to the budget.

The financial controller has established guidelines and procedures for the approval and control of expenditures. Both operating and capital expenditures are subject to overall budget control. Operating expenditure is further controlled by approval levels for such expenditures being set by reference to the level of responsibility of the relevant executives and officers. Capital expenditures are also subject to specific approval prior to commitment for material expenditures within the approved budget, and also unbudgeted expenditures.

The Group's internal audit function provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Using risk assessment methodology and taking into account the dynamics of the Group's activities, internal audit derives its yearly audit plan. The plan is reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met and internal audit also follows up on all findings to ensure that identified issues are satisfactorily resolved. Internal audit is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and to report its findings to the Audit Committee, the Chief Executive Officer, the financial controller and relevant senior management.

5.8.2 Review of Internal Controls

The Directors confirm that they have reviewed the effectiveness of the system of internal controls of the Company and its subsidiaries and that they consider that such system is reasonably effective and adequate although they cannot provide absolute assurance that all material risks are appropriately identified, evaluated and managed. The review covered all material controls including financial, operational and compliance controls and the risk management function. Whilst the various procedures described above are designed to identify and manage risks that could potentially adversely affect the Group's ability to meet its business objectives and to properly record and report financial information, they do not provide absolute assurance against material misstatement or loss.

5.9 Corporate Social Responsibility

The Group periodically monitors its suppliers to ensure that adherence to national labor laws and international best practices on labor, health and environmental standards are met.

5.10 Model Code for Securities Transactions by Directors

As noted above, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"). The Directors have complied with the Model Code and the interests of Directors' notified to the Company in accordance with the Model Code are set out at page 22.

5.11 Code of Best Practice

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout FY2004.