

# Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance practices. The Board considers shareholders can maximize their benefits from good corporate governance.

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2005, except for the deviations from Code Provisions A.4.1 and A.4.2 which are explained in the following relevant paragraphs.

## Corporate Governance Principles and the Company's Practices

### A.1. Board of Directors

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Regular Board meetings are held at quarterly intervals. In addition, special Board meetings will be held when necessary. Attendance of individual Directors at Board meetings in 2005 are as follows:

Number of meetings		9
Executive Directors		
Mr. Ngan Hei Keung	(Chairman)	9/9
Madam Ngan Po Ling, Pauline	(Deputy Chairman and Managing Director)	9/9
Mr. Ho Hung Chu, Peter	(Chief Executive Officer)	9/9
Mr. David, Stephen Briskie	(resigned on 8 July 2005)	1/9
Independent Non-executive Directors		
Mr. Leung Shu Yin, William		3/9
Mr. Tse Kam Fow		4/9
Mr. Lo Hang Fong	(appointed on 21 February 2005)	3/9

Directors are consulted to include matters in the agenda for regular Board meetings.

Dates of regular Board meetings are scheduled at least 14 days in advance to provide sufficient notice to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice will be given.

Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable rules and regulations, are followed.

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Minutes of the Board, the Audit Committee and the Remuneration Committee are kept by the Company Secretary. Minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board and Board Committees have recorded in sufficient detail the matters considered by the Board and the Committees, decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes of the Board are sent to all Directors for their comment and records respectively.

The Board shall resolve to provide separate independent professional advice to Directors to assist Directors to discharge their duties at the Company's expense.

## A.2. Chairman and Chief Executive Officer

There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Ngan Hei Keung is the Chairman of the Company. Mr. Ngan oversees the management of the manufacturing facilities of the Group and also provides leadership for the Board. He ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Ngan is also responsible to ensure that all directors are properly briefed on issues arising at board meetings and that all directors receive adequate information, which must be complete and reliable, in a timely manner. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline.

Madam Ngan Po Ling, Pauline is the Deputy Chairman and Managing Director of the Company. She is responsible for the marketing activities of the Group's Manufacturing Business. Madam Ngan is the wife of Mr. Ngan Hei Keung.

Mr. Ho Hung Chu, Peter is the Chief Executive Officer of the Company. He is responsible for the implementation of the Group's business strategies and policies adopted by the Board and oversees the management of the Retail Business of the Group.

The Board considers that there is adequate segregation of duties within the Board to ensure a balance of power and authority.

### A.3. Board Composition

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

The Board comprises three Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. Ho Hung Chu, Peter; and three Independent Non-executive Directors, namely Messrs. Leung Shu Yin, William, Tse Kam Fow and Lo Hank Fong. All Directors are expressly identified by categories of Executive Directors and Independent Non-executive Directors, in all corporate communications that disclose the names of Directors of the Company.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise, except that Mr. Lo Hang Fong was only appointed on 21 February 2005 to replace Mr. Gordon Ng who resigned as an independent non-executive director of the Company on 23 November 2004.

Biographies which include relationships of Directors are set out in pages 10 to 11 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

### A.4. Appointments, Re-election and Removal

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's bye-law No. 87, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that the Chairman of the Board and/or the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

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Independent Non-executive Directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election in accordance with the Company's bye-law No. 87. The Board considers that the deviation from Code Provision A.4.1 is not material as Independent Non-executive Directors are subject to retirement by rotation and re-election at least once every three years in view of the small number of total directors of the Company. The Directors will reconsider the practice and adopt the Code Provision should the number of directors increase substantially.

The Company's bye-law 87 which excludes the Chairman and the Managing Director from retirement by rotation and re-election deviates from the Code Provision A.4.2 which requires every director to be subject to retirement by rotation at least once every three years. The Directors consider the deviation acceptable as Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, the current Chairman and Managing Director respectively, are the founders, principal management and also the substantial shareholders of the Company.

All Directors appointed to fill a casual vacancy or as an addition are subject to election by shareholders at the first general meeting after their appointment.

The Directors consider that it is not necessary to have a nomination committee for the time being. The Directors will review this from time to time and will establish a nomination committee should there be a need.

A proposal for the appointment of a new Director will be considered and reviewed by the Board. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

## A.5. Responsibilities of Directors

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company is ensured to have a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal and regulatory requirements and the business governance policies of the Group. The Directors are continually updated with legal and regulatory developments, business and strategic development of the Group to enable the discharge of their responsibilities.

All Independent Non-executive Directors take an active role in board meetings to bring in independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts. They scrutinize the Company's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance. They also take the lead where potential conflicts of interests arise and serve the audit and remuneration committees.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the year ended 31 December 2005.

#### **A.6. Supply of and Access to Information**

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all Directors in a timely manner and at least 3 days before the intended date of a Board or Board Committee meeting.

Management are regularly reminded by the Company Secretary that they have an obligation to supply the Board and its Committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. The Board and each Director shall have separate and independent access to the Company's senior management.

All Directors are entitled to have access to Board papers, minutes and related materials. Where queries are raised by Directors, steps are taken to respond as promptly and fully as possible.

#### **B.1. The Level and Make-up of Remuneration and Disclosure**

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Company has established a Remuneration Committee with specific written terms of reference as set out in Code Provisions B.1.3 (a) to (f) of the Code. The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy, and for the formulation and review of the specific remuneration packages of all Executive Directors and senior executives of the Group.

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee is chaired by Mr. Tse Kam Fow. The other members are Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. Leung Shu Yin, William and Mr. Lo Hang Fong.

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The meetings of the Committee is held at least once a year or when necessary. All members attended the first meeting of the Committee held on 19 January 2006. The Remuneration Committee had considered the following proposals for the remuneration of Directors and senior management and made recommendation to the Board:

1. Annual salary review policy;
2. Offer of share options as part of the long term incentive schemes; and
3. Performance related bonus.

The Group ensures that the pay levels of its employees, including Directors and senior management, are competitive and employees are remunerated based on their positions and performance. Key employees of the Group are also granted share options under the share option schemes operated by the Company.

Details of the amount of Directors' emoluments for 2005 are set out in note 7 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 26 to the financial statements.

The Remuneration Committee is provided with sufficient resources, including access to professional advice, to discharge its duties if considered necessary.

## C.1. Financial Reporting

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Management has provided such explanation and information to the Board as would enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors are responsible for keeping proper accounting records and preparing financial statements of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2005, the Directors have made judgements and estimates that are prudent and reasonable and prepared the financial statements on a going concern basis.

A statement by the auditors about their reporting responsibilities is included in the Report of the Auditors on page 32 of the annual report for the year ended 31 December 2005.

The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.

## C.2. Internal Controls

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Board requires management to establish and maintain sound and effective internal controls. Evaluation of the Group's internal controls covering financial, operational compliance controls and risk management functions had been done on an ad hoc basis. With effect from 1 January 2006, review of internal controls on different systems will be done on a systematic rotational basis based on the risk assessments of the operations and controls.

## C.3. Audit Committee

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

The Company has established an Audit Committee with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Audit Committee have included the duties set out in Code Provisions C.3.3 (a) to (n) of the Code, with appropriate modifications where necessary. The Audit Committee has made available its terms of reference, on the website of the Company, explaining its role and the authority delegated to it by the Board.

As set out in the terms of reference, the Audit Committee is responsible for reviewing the financial reporting system and internal control procedures, annual report and financial statements and interim report.

The Audit Committee comprises the three Independent Non-executive Directors of the Company and is chaired by Mr. Leung Shu Yin, William. This Committee held 2 meetings in 2005 which were attended by all members of the Committee.

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The following is a summary of the work performed by the Audit Committee during the year:

1. Reviewed external auditors' management letter and management's response;
2. Reviewed and revised its Terms of Reference to conform with the Code;
3. Reviewed and recommended to the Board approval of the audit fee proposal for 2005;
4. Considered and recommended to the Board that the shareholders be asked to re-appoint Moores Rowland Mazars as the Company's external auditors for 2006;
5. Reviewed and approved the Group's internal audit plan for 2006;
6. Reviewed the audited financial statements and final results announcement for the year 2004; and
7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2005.

All issues raised by the Committee have been addressed by Management. The work and findings of the Committee have been reported to the Board. During the year, no issues brought to the attention of Management and the Board were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the re-appointment of Moores Rowland Mazars as the Company's external auditors for 2006. During the year, Moores Rowland Mazars had not provided any non-audit services to the Company.

Auditors' remuneration for the year is set out in note 6 to the financial statements.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Committee for their comments and records respectively, in both cases within a reasonable time after the meeting.

The Audit Committee does not have a former partner of the Company's existing audit firm.

The Audit Committee is provided with sufficient resources, including the advice of external auditors, to discharge its duties.



## D.1. Management Functions

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of Management.

When the Board delegates aspects of its management and administration functions to Management, it has given clear directions as to the powers of Management, in particular, with respect to the circumstances where Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company has established schedules of Matters Reserved to the Board for Decision and Matters Delegated to Management. The Board shall review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Matters Reserved to the Board for Decision include:

1. Business plan;
2. Financial statements and budget;
3. Mergers and acquisitions and other substantial investments;
4. Formation of board committees;
5. Appointment and resignation of directors; and
6. Appointment and removal of auditors.

## D.2. Board Committees

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Apart from Audit Committee (particulars are disclosed under C.3) and Remuneration Committee (particulars are disclosed under B.1), there are no other board committees established by the Board. Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly. The terms of reference of board committees shall require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

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## E.1. Effective Communication

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

At the 2005 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-elections of Directors.

The Chairman of the Board and the chairmen of the Audit and Remuneration Committees shall attend the 2006 Annual General Meeting to answer questions of shareholders.

## E.2. Voting by Poll

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

The Company sets out in its circular to shareholders the procedures for and the rights of shareholders to demand a poll. In accordance with the Company's bye-law, at any general meeting, a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

1. the chairman of the meeting; or
2. at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
3. any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
4. a member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

In accordance with Listing Rules 13.39 (3), the Chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting shall disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

The Company shall count all proxy votes and, except where a poll is required, the Chairman of a meeting shall indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. Representatives from Tengis Limited, the Company's Hong Kong Branch Share Registrar, are present in meetings as to ensure votes cast are properly counted and recorded.

The Chairman of a meeting shall at the commencement of the meeting ensure that an explanation is provided of:

1. the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and
2. the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.