



## Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance. To enhance the overall management quality of the Company, the Board has adopted corporate governance practices with special emphasis on an effective Board for leadership and control, sound business ethics and integrity in all business activities, transparency and accountability to shareholders.

### CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company has adopted and complied with code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules which came into effect on 1 January 2005 except for the deviations from Code Provisions A.4.1 and A.4.2 which are explained under the section headed “Appointments, re-election and removal of directors” on page 35.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted stringent procedures governing directors’ securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. All directors and chief executives of the Company have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

### THE BOARD OF DIRECTORS

The Board of Directors (the “Board”) currently comprises six members, three executive directors (including Chairman and Managing Director) and three independent non-executive directors. The executive directors draw on a rich and diverse experience from the footwear business while the independent non-executive directors possess appropriate professional qualifications and management expertise. Each independent non-executive director gives the Company an annual confirmation of his independence to the Company, and the Company considers these directors to be independent pursuant to Rule 3.13 of the Listing Rules. The names, brief biographical details of the directors and relationship among them are set out on page 25 under Biographical Details of Directors and Senior Management.

The Board meets regularly throughout the year to formulate overall strategy of the Group, monitor its financial performance and maintain effective oversight over the management. The company secretary assists the Chairman in preparing the meeting agenda. Notice of meetings is given to directors at least 14 days prior to a regular Board meeting, and each director may request inclusion of matters in the agenda for Board meetings. A detailed agenda, minutes of the previous meeting and accompanying board papers are sent to directors at least 3 days before the date of the meeting to facilitate informed discussion and decision-making.

Every board member is entitled to have access to board papers and related materials and has access to the advice and services of the company secretary, and has the liberty to seek external professional advice if necessary. The company secretary is responsible to the Board for ensuring the procedures are followed and that all applicable rules and regulations are complied with.

During the year, six full board meetings were held and the attendance of each director is set out on page 39.



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### **THE BOARD OF DIRECTORS** *(Continued)*

The Board has established three committees, the Nomination Committee, Remuneration Committee and Audit Committee, to assist it in overseeing the Group's affairs. Each committee has defined terms of reference setting out its duties, powers and functions and are posted on the Company's website. The committees report regularly to the Board and make recommendations on matters where appropriate. The Board, in addition to its overall supervisory role, retains specific responsibilities such as approving specific senior appointments, approving financial accounts, recommending dividend payments, approving policies relating to the Board's compliance, etc.

### **CHAIRMAN AND CHIEF EXECUTIVE**

The Chairman and the Managing Director (i.e. Chief Executive) of the Company are Mr Chen Ying-Chieh and Mr Chen Hsien Min respectively. Mr Chen Ying-Chieh is the nephew of Mr Chen Hsien Min. The roles of the Chairman and Managing Director are segregated to assume a balance of authority and power. The Chairman is responsible for the leadership and effective running of the Board, while the Managing Director is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Managing Director have been clearly established and set out in writing.

### **APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS**

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 all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointments. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the year of review, all independent non-executive directors of the Company do not have a specific term of appointment. At every general meeting, one-third of the directors for the time being, or if the number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office.

In addition, the director holding the office of Chairman and Managing Director shall not be subject to retirement by rotation. A director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

In order to ensure full compliance with Code Provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the Annual General Meeting to be held on 19 May 2006, so that every director appointed by the Board during the year, if any, shall retire at the next general meeting. Every director shall be subject to retirement at least once every three years.



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### RESPONSIBILITIES OF DIRECTORS

Every newly appointed director of the Company, on the first occasion of his appointment, shall receive a tailored induction on the responsibilities and on-going obligations to be observed by a director. In addition, the senior management and the company secretary will conduct briefing if necessary to ensure that the directors have a proper understanding of the operations and business of the Group and that they are aware of their responsibilities under the laws and applicable regulations.

The functions of non-executive directors, as per the terms of reference of the Board, have included the functions as specified in Code Provisions A.5.2 (a) to (d) of the Code.

### NOMINATION COMMITTEE

The Nomination Committee of the Company, comprising one executive director and three independent non-executive directors, was formed on 22 April 2005.

Major roles and functions of the Nomination Committee are as follows:

- To review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.
- To identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individual nominated for directorships.
- To assess the independence of independent non-executive directors.
- To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Managing Director.

The Nomination Committee shall meet at least once a year. During the year, two Nomination Committee meetings were held and the attendance of each member is set out on page 39.

At the meetings held during the year, the relevant provisions relating to appointment, re-election and removal of directors under the Code were reviewed and adopted except for the deviations from Code Provisions A.4.1 and A.4.2 as mentioned under the section headed "Appointments, re-election and removal of directors" on page 35.



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### REMUNERATION COMMITTEE

The Remuneration Committee of the Company, comprising one executive director and three independent non-executive directors, was formed on 22 April 2005.

Major roles and functions of the Remuneration Committee are as follows:

- To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration.
- To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time.
- To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.
- To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
- To ensure that no director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee shall meet at least once a year. During the year, two Remuneration Committee meetings were held and the attendance of each member is set out on page 39.

At the meetings held during the year, the overall pay levels in Hong Kong, China and Taiwan where the Group has establishments were reviewed and considered. The remuneration of directors is pre-determined and is based on their respective contractual terms of appointment, if any, and as recommended by the Remuneration Committee. Details of the emoluments paid/payable to individual director of the Company are set out in Note 12 to the accounts.



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### AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive directors of the Company.

Major roles and functions of the Audit Committee are as follows:

- To consider the appointment, reappointment and removal of the external auditors, and to approve the remuneration and the terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors of the Group.
- To assess the independence of external auditors and discuss with the external auditors the nature and scope of the audit.
- To review interim and annual accounts before submission to the Board.
- To review the financial controls, internal controls and risk management system of the Group and make recommendations to the Board.
- To review the external auditors' management letter and material queries raised by the auditors to management in respect of accounting records, financial accounts or systems of control and management's response.

At the meetings held during the year, the Audit Committee had performed the following work:

- To review 2004 annual accounts and 2005 interim accounts
- To review external auditors' audit plan, terms of engagement and recommend the fees for the Board's approval.
- To review the management letters and reports issued by the external auditors.
- To review the effectiveness of internal control and financial control systems
- To consider and review material related party transactions and connected transactions if any.

The Audit Committee shall meet at least twice a year. During the year, two Audit Committee meetings were held and attended by external auditors of the Company. The attendance of each member to the meetings is set out on page 39.



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### ATTENDANCE OF BOARD AND BOARD COMMITTEES' MEETINGS

The attendance rates of individual members in Board and Board Committees' meetings held in 2005 are detailed as follows:

	Number of meetings attended/held in 2005			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
<i>Executive directors</i>				
Chen Ying-Chieh (Chairman)	6/6	2/2		
Chen Hsien Min (Managing Director)	6/6		2/2	
Chang Chih-Kai	5/6			
<i>Independent non-executive directors</i>				
Hsiao Hsi-Ming (Chairman of Audit Committee)	5/6	2/2	2/2	2/2
Huang Shun-Tsai (Chairman of Nomination Committee)	5/6	2/2	2/2	2/2
Kuo Jung-Cheng (Chairman of Remuneration Committee)	5/6	2/2	2/2	2/2
Average attendance rate	89%	100%	100%	100%

### INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal controls to safeguard the Company's assets. The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meetings with the Audit Committee periodically to discuss financial, operational and risk management control. The directors are of the view that the existing system of internal control is effective and adequate to the Group.

### ACCOUNTABILITY AND AUDIT

The directors are responsible for keeping proper accounting records and preparing accounts for each financial period by the management. Subsequent to each reporting period, annual and interim financial highlights and business review are published on a timely basis to disclose all information that are necessary for shareholders to assess the performance, financial positions and prospects of the Company.

The Board will present a balanced, clear and understandable assessment 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 to information required to be disclosed pursuant to statutory requirements.



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### MANAGEMENT FUNCTIONS

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 the management.

While 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.

Matters reserved to be approved by the Board include:

- Appointment of directors and senior executives
- Business plans and establishment of new markets
- Proposal for selection of external auditors
- Financial accounts and budgets
- Substantial capital investments and commitments
- Formation of policies and codes as required by regulatory bodies
- Formation of board committees

### AUDITORS' REMUNERATION

During the year, the fees paid/payable to the Company's external auditors, PricewaterhouseCoopers, for the provision of audit and non-audit services amounted to HK\$1,680,000 and HK\$330,000 respectively.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The board recognises the importance of good communication with all shareholders and potential investors. Communication with shareholders, investors and analysts are maintained through the followings:

- Delivery of interim and annual reports to all shareholders.
- Publication of announcements on the interim and annual results on the Stock Exchange's website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under Listing Rules.
- Holding of annual general meetings to provide a channel for the Chairman of the Board and the Board Committees to answer shareholders' questions. At the annual general meetings, a separate resolution was proposed by the Chairman in respect of each separate issue including the re-election of directors.
- Establishing dedicated divisions and personnel for liaison with investors and analysts by answering their questions.
- Arranging on-site visits to the company's establishments to enhance their timely understanding of the situations and latest development of the Company's business operations.



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### **COMMUNICATION WITH SHAREHOLDERS AND INVESTORS** *(Continued)*

- Making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials, press releases of the Company and etc.
- Actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meeting with institutional investor upon the announcements of the interim and annual results and making decisions on material investments. The Company also participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

At the annual general meeting, the Chairman demanded a poll on all resolutions. The procedures for and the rights of shareholders for demanding a poll by the shareholders were incorporated in the circular dated 24 April 2006. The Company is responsible for ensuring the votes are properly counted and recorded.