

### **CORPORATE GOVERNANCE PRACTICES**

The board of directors (the “Board” or the “Directors”) of Tristate Holdings Limited (the “Company”) believes in the importance of effective corporate governance, both internally and externally. Internally, it improves the Company’s internal communications, enhances departments’ efficiency and speeds up management’s decision making process. Externally, it strengthens the Company’s competitiveness and increases confidence among shareholders, investors, customers and other stakeholders.

Throughout the year ended 31 December 2006, the Company has complied with code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”), except for the deviation from code provision A.2.1. Details of the deviation are explained in the following relevant paragraphs.

Included in this report is the information relating to corporate governance practices of the Company during the year ended 31 December 2006 and significant events after that date and up to the date of this report.

### **BOARD OF DIRECTORS**

In January 2005, the Company formalised in writing the functions and responsibilities reserved to the Board and those delegated to the management of the Company. The Board is mainly responsible for setting and approving the Company’s strategic direction and planning all important matters including the preparation of interim and annual results (including the determination of dividends), annual financial budget and business and operation plans. In addition, each member of the Board is expected to make a full and active contribution to the Board’s affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

Matters explicitly reserved for the Board’s decision include, amongst other things, (i) the size, composition, structure and role of the Board and the Board committees, (ii) the suitability of any individual as a member of the Board or the Board committee, (iii) the appointment and removal of the Chief Executive Officer (“CEO”), and (iv) monitoring the performance of the CEO to ensure the Company and its subsidiaries (together, the “Group”) are in alignment with the Group’s strategic direction. Responsibility for delivering the Company’s objectives and running the business on a day-to-day basis is delegated to the senior management of the Group.

As at the date of this report, the Board comprises of one Executive Director, Mr. WANG Kin Chung, Peter, who is also the Chairman and the CEO, four Non-Executive Directors, Ms. WANG KOO Yik Chun, Ms. Leslie TANG SCHILLING, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick and three Independent Non-Executive Directors, Mr. YUAN Ching Man, James, Mr. LO Kai Yiu, Anthony and Mr. James Christopher KRALIK. Biographies of the Directors are set out in the “Directors’ and Senior Management’s Profile” section of the Annual Report.

The Company has been maintaining the number of Independent Non-Executive Directors at not less than one-third of the number of the Board members since September 2004. The Independent Non-Executive Directors are explicitly identified in all corporate communications.

Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a Non-Executive Director, is the mother of Mr. WANG Kin Chung, Peter (the Chairman and the CEO), Ms. MAK WANG Wing Yee, Winnie (Non-Executive Director) and Dr. WANG Shui Chung, Patrick (Non-Executive Director).

During the year ended 31 December 2006 and up to the date of this report, the Board includes three Independent Non-Executive Directors. Mr. LO Kai Yiu, Anthony, one of the Independent Non-Executive Directors, is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to his professional accounting experience of more than eight years, he has over 25 years of experience in investment banking and other financial services.

The Company has received annual confirmations from all Independent Non-Executive Directors that they did not have any business or financial interest with the Group and were independent as at 31 December 2006 in accordance with rule 3.13 of the Listing Rules. The Company considers that all the existing Independent Non-Executive Directors are independent.

During the year, four members of the Board, led by Mr. WANG Kin Chung, Peter (the Chairman and the CEO), has visited two factories of the Company located at Panyu, Mainland China. The visit helped to enhance the Board's understanding of the factory operation and production process of the Company.

During the year ended 31 December 2006, four regular Board meetings have been held. The attendance of each Director during the year at Board meetings and Board committee meetings and the annual general meeting ("2006 AGM") is set out below:

	Meetings attended/held			2006 AGM
	Board	Audit Committee (as defined below)	Remuneration Committee (as defined below)	
<b>Executive Director:</b>				
WANG Kin Chung, Peter <i>Chairman and CEO</i> <i>member of the Remuneration Committee</i>	4/4	N/A	1/1	1/1 <i>(Note)</i>
<b>Non-Executive Directors:</b>				
WANG KOO Yik Chun <i>Honorary Chairlady</i>	4/4	N/A	N/A	1/1
Leslie TANG SCHILLING	4/4	N/A	N/A	0/1
MAK WANG Wing Yee, Winnie <i>Chairlady of the Remuneration Committee</i> <i>member of the Audit Committee</i>	4/4	2/2	1/1	0/1 <i>(Note)</i>
WANG Shui Chung, Patrick	4/4	N/A	N/A	0/1
<b>Independent Non-Executive Directors:</b>				
YUAN Ching Man, James <i>member of the Audit Committee</i> <i>member of the Remuneration Committee</i>	4/4	2/2	1/1	0/1
LO Kai Yiu, Anthony <i>Chairman of the Audit Committee</i> <i>member of the Remuneration Committee</i>	3/4	2/2	1/1	1/1
James Christopher KRALIK <i>member of the Remuneration Committee</i>	4/4	N/A	1/1	0/1

N/A: Not applicable

*Note:*

Mr. WANG Kin Chung, Peter also acted as the delegate of Ms. MAK WANG Wing Yee, Winnie, the Chairlady of the Remuneration Committee.

The Board has scheduled four regular Board meetings for 2007 and additional Board meetings will be arranged, if and when required. Board meeting or Board committee meeting schedules for each year are normally made available to all Directors or Board committee members before the beginning of the year. Directors can attend meetings in person or via conference telephone facility pursuant to Bye-Law 94. The Company Secretary assists the Chairman in establishing the meeting agenda and each Director or Board committee member may request the inclusion of items in the agenda. Information packages containing analysis and background materials for the Board meeting or Board committee meetings are despatched at least three days in advance of the respective meetings to the Directors or Board committee members. Mr. LI Kwan In, the Chief Financial Officer and the Qualified Accountant under the requirements of the Listing Rules, is invited to attend Board meetings, and other senior executives will be invited to attend Board meetings, as appropriate.

Minutes of Board meeting or Board committee meetings are maintained, and draft minutes are circulated to all Directors or Board committee members for comments before being approved by the Chairman or Board committee Chairman. Minutes of the Board meeting or Board committee meetings are kept by the Company Secretary and are open for inspection by the Directors. Where any Director has a material or conflict of interest in any transaction discussed in the Board meeting or Board committee meetings, this would not be dealt with by way of written resolutions. The Director or Directors concerned could express views but would not be counted as part of the quorum and shall abstain from voting on the relevant resolutions.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board or Board committee procedures are complied with and for advising the Board or Board committee on compliance matters.

The Company has arranged directors' and officers' liability insurance in respect of any legal action against the Directors.

### **CHAIRMAN AND CEO**

The Chairman of the Board is responsible for ensuring the Board works effectively and discharges its responsibilities and addresses all key and appropriate issues in a timely manner. He is responsible for encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

Other than the decisions reserved to the Board, the Board delegates to the CEO full authority to achieve the corporate goal of the Company in collaboration with other members of the management of the Group. The CEO assumes the responsibility for the day-to-day management of the Group and exercises his judgment in the best interests of the Company and its shareholders as a whole.

During the year 2006 and up to the date of this report, Mr. WANG Kin Chung, Peter is the Chairman and the CEO of the Company, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from code provision A.2.1 of the Code which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual. However, the Board considered that it is beneficial to the Company that the Chairman and the CEO both take part in the Company's strategic planning and development process. The Board also considers that it would be appropriate and in the best interest of the Company and its shareholders as a whole that Mr. WANG Kin Chung, Peter holds both the offices of the Chairman and the CEO given the current size of the Group and its present stage of development.

### **NON-EXECUTIVE DIRECTORS**

The term of appointment of Non-Executive Directors (including Independent Non-Executive Directors) has been fixed for a period of three years commencing from 1 January 2005, subject to earlier determination in accordance with the Bye-Laws and/or applicable laws and regulations. In addition, under the Company's Bye-Laws currently in force, all Directors of the Company (save for any executive chairman and any managing director) shall be subject to retirement by rotation at least once every three years and that a Director may voluntarily retire. A retiring Director shall be eligible for re-election.

## REMUNERATION COMMITTEE AND REMUNERATION OF DIRECTORS

In September 1998, the Company formed an executive personnel and compensation committee (“EPC Committee”), which is charged with the responsibility for recommending compensation packages of Directors and advising on the succession planning and development of Directors.

In January 2005, the Board resolved to change the name of the EPC Committee to remuneration committee (the “Remuneration Committee”) and adopted a new set of terms of reference for the Remuneration Committee in alignment with the Code. The full text of those terms of reference is set out on the Company’s website and is also available in writing upon request to the Company Secretary.

During the year 2006 and up to the date of this report, the members of the Remuneration Committee are:

### Executive Director:

Mr. WANG Kin Chung, Peter

### Non-Executive Director:

Ms. MAK WANG Wing Yee, Winnie

### Independent Non-Executive Directors:

Mr. LO Kai Yiu, Anthony

Mr. James Christopher KRALIK

Mr. YUAN Ching Man, James

Ms. MAK WANG Wing Yee, Winnie is the Chairlady of the Remuneration Committee.

The attendance by each committee member at each Remuneration Committee meeting during the year is set out in the “Board of Directors” section of this report.

The responsibilities of the Remuneration Committee pursuant to the new terms of reference include, amongst other things, the review of the Company’s policy, structure and basis for the determination of the remuneration of the Directors and the senior management of the Group, the review of the remuneration packages of all Directors and the senior management of the Group and the review and approval of the compensation payable to Executive Directors and the senior management of the Group in connection with any loss or termination of their office.

The emoluments payable to the Directors are determined at arm’s length on the basis of the responsibilities involved, time devoted, financial position of the Company and prevailing market conditions. At the 2006 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration. The policy adopted for the remuneration of the Non-Executive Directors for the three years commencing from 1 January 2005 remains unchanged and is set out as follows:

(i) Annual director’s fee for each Non-Executive Director: HK\$20,000

(ii) Meeting attendance fees for each Non-Executive Director:

	Column A (Acting as Chairman/Chairlady) <i>(Note a)</i>	Column B (As participating member) <i>(Note b)</i>
Fee for attending each Board meeting	HK\$10,000	HK\$10,000
Fee for attending each Audit Committee meeting	HK\$20,000	HK\$10,000
Fee for attending each Remuneration Committee meeting	HK\$5,000	HK\$5,000
Fee for attending each Board Committee meeting	HK\$20,000	HK\$10,000
Fee for attending each Independent Board Committee meeting	HK\$20,000	HK\$10,000

*Notes:*

- a. *If a Director acts as the Chairman/Chairlady at the relevant meeting, he/she will be entitled to the fee set out under column A only.*
- b. *If a Director participates in the relevant meeting as a participating member (but he/she does not act as the Chairman/Chairlady), he/she will be entitled to the fee set out in column B only.*

During the year ended 31 December 2006, the Remuneration Committee held a meeting at which the following issues were reviewed:

- (i) the bonus practice in year 2005 and its continuation for year 2006;
- (ii) the organisational structure of the senior management of the Group;
- (iii) the succession planning for the management of the Group, particularly on Fulfillment division, Sales division and Finance and Accounting division; and
- (iv) the special retention programs.

Subsequent to the year ended 31 December 2006, the Remuneration Committee held a meeting in January 2007 and in April 2007, respectively, to discuss the issues regarding, amongst other things, the remuneration packages of the Directors and the senior management for the years 2006 and 2007.

### **NOMINATION, RETIREMENT AND RE-ELECTION OF DIRECTORS**

The Board is responsible for considering the suitability of individuals to act as a Director, and approving or terminating the appointments. The Company has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board of the Company.

The Chairman of the Board is mainly responsible for identifying suitable candidates to fill Board membership whenever a vacancy arises or as an additional Director. He will put forward the qualified candidates to the Board for consideration. The Board will approve the appointment based on the candidates' qualifications, business experience and suitability to the Company. Pursuant to the Bye-Laws, any Director newly appointed by the Board during the year shall hold office until the next annual general meeting and shall then be eligible for re-election at that annual general meeting.

Under code provision A.4.2 of the Code, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the Company's Bye-Laws currently in force, all Directors of the Company (save for any executive chairman and any managing director) shall be subject to the retirement by rotation at least once every three years according to the provisions in the Company's Bye-Laws, and that a Director may voluntarily retire.

During the year 2006, no Directors were appointed or resigned. At the Board meeting held in April 2006, the Board recommended the re-election of Mr. WANG Kin Chung, Peter, Ms. WANG KOO Yik Chun, Ms. Leslie TANG SCHILLING, Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony, the retiring Directors, at the 2006 AGM and all of them were re-elected at the 2006 AGM.

Ms. MAK WANG Wing Yee, Winnie and Mr. James Christopher KRALIK will retire by rotation at the 2007 AGM (as defined below) and, being eligible, offer themselves for re-election. In consideration of their qualifications, experience and contributions to the Company, the Board recommended the shareholders of the Company to vote for the re-election of the aforesaid two Directors at the 2007 AGM.

In accordance with Bye-Law 90, a shareholder of the Company may recommend a person for election as a Director by lodging at the office of the Company notice in writing signed by the shareholder (other than the person to be proposed) the day after the despatch of the notice of general meeting appointed for such

election and no later than seven days prior to the date of such general meeting. Upon receipt of such notice, the Board will consider the suitability of the said candidate as a Director and will make recommendation to the shareholders of the Company for their consideration.

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code"). By responding to specific enquiries from the Company, the Directors have confirmed that they complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transaction by Directors throughout the year 2006.

In addition, in January 2005 the Board formally adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

### **AUDIT COMMITTEE**

An audit committee of the Company (the "Audit Committee") was formed in September 1998. During the year ended 31 December 2006, two Audit Committee meetings were held. The attendance of each Audit Committee member at Audit Committee meetings during the year is set out in the "Board of Directors" section of this report.

During the year 2006 and up to the date of this report, the members of the Audit Committee are:

#### **Non-Executive Director:**

Ms. MAK WANG Wing Yee, Winnie

#### **Independent Non-Executive Directors:**

Mr. LO Kai Yiu, Anthony

Mr. YUAN Ching Man, James

Mr. LO Kai Yiu, Anthony is the Chairman of the Audit Committee and has the professional qualifications and accounting and related financial management expertise as required under rule 3.10(2) of the Listing Rules.

In January 2005, the Board adopted a new set of terms of reference for the Audit Committee in alignment with the Code. The main duties of the Audit Committee are set out below:

- (i) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and any questions of resignation or dismissal of the auditor;
- (ii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (iii) to develop and implement policy on the engagement of external auditor to supply non-audit services;
- (iv) to monitor the integrity of the financial statements of the Company and the Company's annual and interim reports and accounts, and to review significant financial reporting judgments contained in such reports;
- (v) to review the Company's financial controls, internal controls and risk management systems; and
- (vi) to review the Group's financial and accounting policies and practices.

The terms of reference of the Audit Committee are set out in full on the Company's website and are also available in writing upon request to the Company Secretary.

During the year ended 31 December 2006, the Audit Committee held two meetings, one of which was held in April 2006 and the following issues were considered:

- (i) reviewed the draft 2005 Annual Report and the audited financial statements for the year ended 31 December 2005 and recommended the same to the Board for approval;
- (ii) proposed the re-appointment of auditor and the approval of the auditor's remuneration at the 2006 AGM;
- (iii) reviewed the changes to operational procedures of business units within the Group;
- (iv) reviewed the improvements to the management information system and internal controls of the Group; and
- (v) reviewed the periodic internal audit reports of the Group.

Another meeting was held in September 2006 and the following issues of the Group were considered:

- (i) reviewed the improvements to the management information system and the internal audit report of the Group; and
- (ii) reviewed the draft 2006 Interim Report and the unaudited financial statements for the six months ended 30 June 2006 and recommended the same to the Board for approval.

The Audit Committee has reviewed the Company's 2006 Annual Report and audited financial statements for the year ended 31 December 2006 with the auditor and the management of the Company and recommended them to the Board for approval.

## **FINANCIAL REPORTING**

The Directors acknowledge that they are responsible for the preparation of the consolidated financial statements which give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and for ensuring that appropriate accounting policies are selected and applied consistently.

To the best of the knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

PricewaterhouseCoopers ("PwC"), the external auditor of the Company, stated their reporting responsibilities in the Independent Auditor's Report included in the Annual Report on the financial statements of the Company and of the Group for the year ended 31 December 2006.

## INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining an effective system of internal controls to safeguard the investment of the Company's shareholders and the Group's assets at all times. The primary purpose of such system is to provide reasonable, but not absolute, assurance regarding the achievement of the Group's objectives in relation to the reliability of financial reporting and the effectiveness and efficiency of operations.

During the year, a review of the effectiveness of the system of internal controls applicable to the Group's major activities was carried out under the direction of the Audit Committee. This review comprised:

- (i) periodic internal audit reports received from the Group's internal audit function detailing the activities/locations audited, key findings regarding the effectiveness of internal controls and recommendations for improvements; and
- (ii) an annual review of key internal controls based on the COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework. This encompassed evaluating the control environment, identifying key business objectives and risks which may prevent the achievement of such objectives, strategies to manage such risks and key controls established as part of the execution of such strategies. This annual review included financial, operational and compliance controls and risk management functions.

## AUDITORS' REMUNERATION

The external auditor of the Company for the two years ended 31 December 2005 and 2006 was PwC. In January 2005, the Audit Committee adopted a written policy which clearly set out the procedure for the appointment of external auditor to supply non-audit services to the Group.

In 2006, remunerations paid to PwC (including any entity that is under common control, ownership or management with PwC or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of PwC nationally or internationally) in respect of audit and non-audit services to the Group are set out below:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Annual audit fees	<b>3,777</b>	3,008
Other assurance services fees	<b>19</b>	1,407
Tax services fees	<b>1,973</b>	872
<b>TOTAL</b>	<b>5,769</b>	5,287

During 2006 and up to the date of this report, the Group has not employed any staff member who was formerly involved in the Group's statutory audit.

## SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company values communication with shareholders and investors. Enquiries and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

- (i) By mail to the Company's head office at 5/F., 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong;
- (ii) By telephone at telephone number (852) 2279-3888;
- (iii) By fax at fax number (852) 2423-5576; or
- (iv) By e-mail to cosec@tristateww.com.

The 2006 AGM was held on 6 June 2006 at Room 5A, 5/F., 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong, at which, inter alia, the audited financial statements and the reports of the directors and auditor of the Company and the final dividend of the Company for the year ended 31 December 2005 were considered and approved. For details of the matters discussed, please refer to the circular of the Company dated 8 May 2006.

The Board resolved that the forthcoming annual general meeting of the Company will be held at Room 5A, 5/F., 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Wednesday, 6 June 2007 at 10:00 a.m. ("2007 AGM"). The notice of the 2007 AGM will be sent to all shareholders separately. The Chairman of the Board together with the Chairman of the Audit Committee and the Chairlady of the Remuneration Committee or their delegates will attend the 2007 AGM to answer questions from the shareholders of the Company on the business to be dealt with at the 2007 AGM.

The important dates to shareholders in year 2007 are as follows:

- Book close dates for proposed final dividend : 31 May 2007 to 6 June 2007, both days inclusive
- 2007 AGM: 6 June 2007
- Expected payment date of proposed final dividend : 11 June 2007

## MOVING FORWARD

As at the date of this report, the Company, upon implementing the improvements on the Company's corporate governance practices, has applied the principles and complied with all requirements of the code provisions of the Code with the only deviation being with regard to the separation of the role of the Chairman and the CEO as detailed above. The Board acknowledges its responsibility to ensure the establishment and implementation of good corporate governance practices and procedures.

On behalf of the Board

**WANG Kin Chung, Peter**  
*Chairman and Chief Executive Officer*

Hong Kong, 2 April 2007