

Corporate Governance Report

The board of directors (the “Board”) and the Management of the Company are committed to the principles of corporate governance and to maximize shareholder value. These principles and objective enhance the transparency, accountability and independence of the Company and its ability to attract investment and protect rights of shareholders.

Compliance with the Code on Corporate Governance Practices

The Company has adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices (the “Code”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Directors confirm that, throughout the financial year under review, the Company complied with the code provisions of the Code with a deviation of code provision A.4.1 which stipulates that non-executive directors (including independent non-executive directors) should be appointed for a specific term and subject to re-election. The term of office for non-executive directors of the Company (the “Company”) and independent non-executive Directors is not specific. It is provided in the Company’s articles of association that all the Directors are subject to retirement by rotation at least once every three years at the annual general meeting and are eligible for re-appointment. The Directors are of the view that such provision in Company’s articles of association has been able to safeguard corporate governance.

Model Code for Directors’ Securities Transactions

The Company has adopted a stringent code of conduct governing directors’ securities transactions on terms no less exacting than required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules throughout the financial period under review. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company’s code of conduction regarding directors’ securities transactions.

Board of Directors

During the financial year under review, before the resignation of Mr. Lee Sam Yuen, John from the office of an executive Director on 1 May 2006 and Mr. Chui Sai Cheong from the office of a non-executive Director on 25 August 2006, the Board was made up of eight executive Directors, two non-executive Directors and three independent non-executive Directors and they are collectively responsible for the success of the Company. Each Director has a duty to act in good faith in the best interests of the Company for the manner in which the affairs of the Company are managed, controlled and operated. The Board, as at 31 December 2006, comprised:

- (a) seven executive Directors, namely Mr. Chiang Pedro (Chairman), Mr. Law Kar Po (Vice Chairman), Mr. Wu Ka I, Miguel (Chief Executive Officer), Mr. Hoi Man Pak, Mr. Ung Choi Kun, Ms Law Wing Yee, Wendy (who is a daughter of Mr. Law Kar Po) and Ms Lee Siu Yuk, Eliza.
- (b) one non-executive Director: Mr. Leonel Alberto Alves

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- (c) three independent non-executive Directors required under Rule 3.10(1) of the Listing Rules, namely Mr. Wong King Lam, Joseph, Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse, who in aggregate represent approximately 27% of the Board. Two of them have appropriate professional qualifications, accounting and related financial expertise required under Rules 3.10(2) of the Listing Rules.

There were changes in the directorships of the Company after the board meeting held on 20 April 2007. Mr. Chiang Pedro, Mr. Wu Ka I, Miguel and Mr. Ung Choi Kun resigned as executive Directors of the Company on personal reasons; and Mr. Choy Wang Kong, Mr. Young Wing Tai, William and Mr. Chiang Kin Tong were appointed as executive Directors of the Company. Details of their biography are disclosed on page 18 of this Annual Report.

The Company considers the Board has a range of the necessary skills and experiences for discharging their duties. All Directors have been kept informed on a timely basis through the Senior Management of major changes that may affect the Company's business with new development in accordance with the applicable rules and regulations.

Independent Professional Advice

Directors may, in appropriate circumstances, take independent professional advice or external consultants at the Company's expense. Professional consultants include senior counsel and public relations company have given the Board and its Senior Management opinions on fortifying the corporate image as well as legal advices on selling the Company's health care and MOCCA shoes and bags retail businesses.

Board Meetings

The Board meets regularly to set the objectives of the Company, make decisions on strategic plans and budgets, monitor the performance of the Senior Management, determine and review the strategy of the Company, and oversee the Company's compliance with statutory and regulatory obligations ensuring there is a sound system of internal control and risk management with a goal of protecting the interests of all shareholders.

Sufficient notices accompanying with agendas for regular and non-regular board meetings were given to all of the directors so that full attendance could be attained and the best business decisions could be made with ample information supplied. The Board conducts meeting on a regular and ad hoc basis, as required by business needs. The Articles of the Company allows board meetings to be conducted by way of telephone or video conference from time to time when necessary unless any matters in which a substantial shareholder or a director or their respective associates has conflict of interest.

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The Board held totally 10 board meetings during the year under review and the attendance of individual director is recorded as follows:

Attendance Record of Board Meetings (1 January 2006 — 31 December 2006)

	Attendance	Attendance rate
Number of board meetings	10	
Executive Directors		
CHIANG Pedro (<i>Chairman</i>)	8/10	80%
LAW Kar Po (<i>Vice Chairman</i>)	6/10	60%
WU Ka I, Miguel (<i>Chief Executive Officer</i>)	10/10	100%
HOI Man Pak	6/10	60%
UNG Choi Kun	1/10	10%
LEE Sam Yuen, John (resigned on 1 May 2006)	0/1	0%
LAW Wing Yee, Wendy	3/10	30%
LEE Siu Yuk, Eliza	9/10	90%
Non-executive Directors		
Leonel Alberto ALVES	0/10	0%
CHUI Sai Cheong (resigned on 25 August 2006)	0/5	0%
Independent Non-executive Directors		
WONG King Lam, Joseph	4/10	40%
LAU Wai Ming	4/10	40%
KWOK Hong Yee, Jesse	4/10	40%

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of performance of their duties. The insurance coverage is reviewed on an annual basis.

Independent Non-executive Directors

In compliance with Rules 3.10(1) and 3.10(2) of Listing Rules, the Company has appointed three independent non-executive Directors, two of whom have financial management expertise, which contributes to the effective direction of the Company. The Board is aware of the other commitment of the independent non-executive Directors and is satisfied that these do not conflict with their duties as directors of the Company. The Board has received from each of them the annual confirmation of independence required by Rule 3.13 of the Listing Rules. Based on those confirmation, the Board considers that each of the independent non-executive Directors to be independent.

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The terms and conditions of appointing the independent non-executive directors are available for inspection at the Company's registered office.

Chairman and Chief Executive Officer

In compliance with code provision A.2.1 of the Code and to reinforce the respective independence and accountability, the role and function of the Chairman and the Chief Executive Officer of the Company are segregated.

During the year under review, Mr. Chiang Pedro was the Chairman of the Company while Mr. Wu Ka I, Miguel was the Chief Executive Officer of the Company. Their respective responsibilities are clearly established and defined by the Board in writing.

The Board and Senior Management

The Board, headed by the Chairman, is responsible for formulation and approval of the Company's development and business strategies and policies, approval of annual budgets and business plans and supervision of the Senior Management for the best interest of the Company.

The task of the Senior Management is the successful implementation of the strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and shareholders. The Board delegated the Senior Management to locating investment opportunities, implementation of internal control and risk management, compiling financial reports and discharging day-to-day management of the Company's operations. The Board establishes the strategic direction of the Company and monitors the performance of the Senior Management. The Senior Management is responsible for the day-to-day operations and administration function of the Group under the leadership of the executive Directors. The types of decisions to be delegated by the Board to the Senior Management include implementation of the strategy and direction determined by the Board, operation of the Group's daily businesses and compliance with applicable laws and regulations.

During the year under review, the Board reviewed the remuneration packages of the Directors and the Senior Management, including discretionary bonus, which are based on individual performance, skill and knowledge, involvement in the Group's affairs and performance and profitability of the Group.

Board Committees

The Board has established the internal committees which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules. They are Compensation Committee, Nomination Committee and Audit Committee. To further reinforce independence, the Compensation Committee, Nomination Committee and Audit Committee are structured to include a majority of independent non-executive Directors.

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Compensation Committee

During the year under review, the Compensation Committee was chaired by Mr. Chiang Pedro with committee members comprising three independent non-executive Directors: Mr. Wong King Lam, Joseph, Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse. The Compensation Committee makes recommendations to the Board for the remunerations and benefits of the Chairman, the Directors and the Senior Management of the Company. The responsibilities of the Compensation Committee are described in the terms of reference adopted during the year under review. Details of the remunerations of the Directors are shown on pages 71 to 73 of this Annual Report. The Compensation Committee had not met during the financial year under review.

Nomination Committee

During the year under review, the members of the Nomination Committee included the three independent non-executive Directors (Mr. Wong King Lam, Joseph, Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse) with Mr. Chiang Pedro as the Committee Chairman. The Nomination Committee is responsible for making recommendations to the Board for its approval on the appointment of Directors, evaluation of board composition and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines take account of appropriate industry experience, professional ethics and knowledge, personal skills and time commitments of members. The Nomination Committee carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Committee did not hold any meeting during the year under review. The nomination procedures adopted by the Nomination Committee include: the Chairman of the Committee, in consultation with the person responsible for human resources and the secretary of the Nomination Committee, should be primarily responsible for drawing up and approving the agenda for each Nomination Committee meeting. Potential candidates are then considered at the Nomination Committee meetings based on their experience, professional qualifications and their expected remuneration packages.

Audit Committee

The Audit Committee reviews the Company's financial reports, internal controls and corporate governance issues and makes relevant recommendations to the Board. The written terms of reference which describes the authority and duties of the Audit Committee has been prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" and "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, and amended in accordance with the Code. All the committee members are independent non-executive Directors and two of them possess appropriate professional qualifications, accounting or financial management expertise. The Chairman of the Committee, Mr. Wong King Lam, Joseph, is a qualified accountant and has relevant financial experience. Other members are Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse. None of the Audit Committee members are members of the former or existing auditors of the Company.

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The Audit Committee met 5 times in 2006 (with an attendance rate of each member of 100%). During the meetings, the Audit Committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group and discussed with the Senior Management of the auditing, internal control and financial reporting matters including the review of the unaudited interim results of the six months ended 30 June 2006 and the audited results for the year ended 31 December 2005. It was also discussed in such meetings the disposals of the Group's non-core businesses during the year ended 31 December 2006.

Attendance Record of Audit Committee Meetings

(1 January 2006 — 31 December 2006)

	Attendance	Attendance rate
Number of audit committee meetings	5	
Independent Non-executive Directors		
WONG King Lam, Joseph	5/5	100%
LAU Wai Ming	5/5	100%
KWOK Hong Yee, Jesse	5/5	100%

Auditors' Remuneration

The Audit Committee is satisfied with the process, effectiveness, independence and objectivity of CCIF CPA Limited.

Directors' Responsibilities for the Financial Statements

The Directors aim to present the financial statements of the Company in accordance with the statutory requirements and applicable accounting standards. The Directors ensure the publication of financial statements of the Company in a timely manner that the final and interim results of the Company are announced within the four months and three months limit respectively after the end of the relevant periods prescribed under the Listing Rules.

The financial statements of the Company for the period from 1 January 2006 to 31 December 2006 have been reviewed by the Audit Committee and audited by the external auditors, CCIF CPA Limited. The Directors acknowledge their responsibilities for preparing the financial statements of the Company and presenting a balanced, clear and comprehensive assessment of the Company's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of the Company to continue as a going concern. The Statement of the Auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on pages 30 to 31.

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Internal Control

The Board is committed to managing risk and to controlling its business and financial activities so as to maximize profitable business opportunities, avoid or reduce risks which can cause loss or damage to reputation, ensure compliance with applicable rules and regulations, and enhance resilience to external events. The Board has delegated to the Senior Management the implementation of such systems of internal control as well as risk management. The effectiveness and adequacy of the systems of internal control and risk management are reviewed periodically by the Board and the Audit Committee. Based on the assessment made by them for the year under review, the Board is satisfied that the internal controls and accounting systems of the Company have been in place and function effectively. The internal controls and accounting systems are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Company are identified and monitored, material transactions are executed in accordance with management's authorization and the accounts are reliable for publication.

Investor Relations

The Company continues to pursue a proactive policy of promoting corporate transparency and communications with potential investors and investment community through its mandatory interim and final reports. The Senior Management responsible for investor relations hold meetings with press reporters and potential strategic investors to keep them abreast of the Company's development.

Communication with Shareholders

The Board recognizes the importance of good communications with all shareholders so that they can exercise their rights as shareholders in an informed manner. Besides of regular distribution of financial reports, the Company is constructing a corporate website to foster effective communications with the shareholders, which is scheduled to complete in 2007. It will be maintained to disseminate Company's announcements and presentations, shareholders' information and other relevant financial and non-financial information on a timely basis.

Another regular dialogue with shareholders is the annual general meeting. It provides a useful forum for shareholders to exchange views with the Board.