

CORPORATE GOVERNANCE REPORT

The Group is committed to ensuring high standards of corporate governance so as to ensure “Accountability, Responsibility and Transparency” towards the shareholders, stakeholders, investors as well as the employees of the Group.

Following the introduction of “Code on Corporate Governance Practices” by the Stock Exchange in January 2005, the Group and Egana Jewellery have accordingly adopted their own Code on Corporate Governance (“the EganaGoldpfeil Code”) in July 2005. The principles in the EganaGoldpfeil Code have basically embraced the principles and standards set out in the “Code on Corporate Governance Practices” issued by the Stock Exchange. The purpose of the EganaGoldpfeil Code is to set out standard principles and practices of good corporate governance for the Board as well as the teams to observe and follow for compliance with the Group’s core value of “Caring, Integrity and Fairness” for furtherance of the business in a professional and socially responsible manners thereby maximizing the shareholders’ value and bringing contribution to the community. The EganaGoldpfeil Code is published in EganaGoldpfeil’s websites (www.egana.com and www.quamnet.com) so that our shareholders as well as the public are aware of the standards which they can expect from us and can let us know whether these standards meet their expectations.

The Board will continue to monitor and upgrade the EganaGoldpfeil Code so as to ensure it to stay as consistent as the practices and standards recommended by the Stock Exchange as well as the internal standards currently practised by the Group.

Board Composition

The Board currently comprises eight members (The Chairman, four Executive Directors and three Independent Non-Executive Directors) of which at least one member has the appropriate accounting qualification or related financial management expertise as required by the Stock Exchange.

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounts and finance, marketing, trading and procurement qualifications with comprehensive experience in and exposure to diversified businesses.

The Board is responsible for overseeing the Group’s strategic planning and development, and determining the objectives, strategies and policies of the Group. Each Executive Director has assigned with specific responsibilities to enhance the effectiveness of the Group:-

- Director of Execution, as Chief Executive Officer, is responsible for overseeing and coordinating the Group’s business affairs for furtherance of the Group’s vision.
- Director of Operations, as Chief Operating Officer, is responsible for overseeing the Group’s general management.
- Director of Process, as Chief Marketing Officer, is responsible for the Group’s licensing business as well as sales and marketing of the Group’s brand products.
- Director of Resources, as Group Treasurer, is responsible for the Group’s Financial, Treasury and Logistics matters.
- Director of Planning and Control, as Corporate Planning Director, is responsible for the Corporate Planning, Control and Compliance matters.

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Board Composition (Cont'd)

Details of the composition of the Board, by category of Directors, including names of Chairman and Chief Executive, Executive Directors, Independent Non-Executive Directors and their respective experience and qualification are included in the Biographical Details of Directors' and Senior Management Section of this Annual Report and also the Group's websites.

The Company also maintains an insurance coverage for the Directors in order to prevent the Directors from suffering any liabilities as a result of any legal proceeding against the Company or any of its subsidiaries, which is in line with the recommended best practice suggested by the Stock Exchange.

Board Meetings

The Board met regularly throughout the year to discuss the business development, operational and financial performance of the Group.

The attendance rates of individual Board members at the Board Meetings (either in person or by phone) held during the year are set out in the following table:

Attendance of Board Members

Name of Directors	Total number of Board Meetings Held	Number of Board Meetings attended by individual Director
	20	
Chairman and Chief Executive		
Hans-Joerg SEEBERGER		9
Executive Directors		
Peter Ka Yue LEE		18
Michael Richard POIX		7
Ho Yin CHIK		18
David Wai Kwong WONG		15
Independent Non-Executive Directors		
Professor Udo GLITTENBERG		3
Dr. Götz Reiner WESTERMEYER		4
Andy Yick Man NG		4

Other Board Meetings with the attendance of senior management were held regularly during the year to discuss the day-to-day management and administration as well as the recent business development of the Group.

All minutes of the Board Meetings are prepared and kept by the Company Secretarial Department and open for inspection by Directors upon reasonable notice.

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Chairman and Chief Executive

Mr. Seeberger is currently the Chairman and Chief Executive of the Group. He is responsible for the Group's overall strategic planning, objectives setting and corporate development as well as the management of the Board affairs. Day-to-day management of the Group's businesses are vested in the respective Board of the operating companies.

The Board does not have the present intention of separating the role between "Chairman" and "Chief Executive". The Board believes that it is more effective for the title of "Chairman and Chief Executive" be vested in one person based on the Group's ongoing business experience, and the trade practice in Continental Europe from which over 60% of the Group's revenue is derived. Moreover, it is also in line with the conclusion reached by certain independent academic researches in the United Kingdom and the United States that "a separation between the role "Chairman" and "Chief Executive" as a philosophical rule does not improve corporate performance.

Program of Continuous Professional Development for Directors and Employees

In order that the Directors (i) are kept informed of major changes that may affect the Group's businesses and changes in relation to the Listing Rules and other rules and regulations; and (ii) can develop and refresh their knowledge and skills to help ensure that their contribution to the Board remains informed and relevant, the Director of Corporate Planning Department has been running a "Continuous Professional Development Program" for Directors on issues including Corporate Governance and Financial Reporting Standard. The Group also encourages the Board Members to attend different seminars which are relevant to their duties and professional expertise from time to time.

Apart from organizing Continuous Professional Development Program for Directors, the Corporate Planning Department has also organized a workshop "Know Yourself, Our Team, Our Company" for employees of the Group's Hong Kong and PRC offices. The aims of the workshop are to enable the employees getting more acquainted with the Group's mission, corporate strategies, core value, latest business development and their role in contributing to the Group's mission, corporate strategies and value chain.

Directors' Securities Transactions

The Group has adopted its own "Code for Securities Transactions by Directors" ("Code of Conduct") and "Code for Securities Transactions by Employees" to govern the Directors' and certain employees' (who are likely to be in possession of unpublished price-sensitive information of the Group) securities transactions are in compliance with the terms set out in the Model Code (Appendix 10 of the Listing Rules).

Confirmations have been obtained from all Directors to acknowledge compliance with the Model Code and the Code of Conduct throughout the year.

Directors' and Auditors' Responsibilities for Accounts

The Directors' responsibilities for the accounts are set out on page 114, and the responsibilities of the external Auditors to the shareholders are set out on page 114.

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Remuneration of Directors

A Remuneration Committee comprising all three Independent Non-Executive Directors (Professor Udo GLITTENBERG, Dr. Götz Reiner WESTERMEYER and Mr. Andy Yick Man NG) and Mr. David Wai Kwong WONG, Executive Director, was established in January 2005. The main role of the Remuneration Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Chairman, Executive Directors and Independent Non-Executive Directors of the Company including its subsidiaries and such other members of the executive management reporting to the Board. A written terms of reference for the Remuneration Committee, which clearly defined the role, authority and function of the Remuneration Committee, has been adopted by the Group.

One Remuneration Committee Meeting with the attendance (either in person or by phone) of all committee members (Professor Udo GLITTENBERG, Dr. Götz Reiner WESTERMEYER, Mr. Andy Yick Man NG and Mr. David Wai Kwong WONG) was held to review the existing remuneration packages for Directors, senior management and employees of the Group and to make recommendations to the Board to improve the Group's existing remuneration policy.

The main principles of the Group's remuneration policies are:

- (a) No individual should determine his or her own remuneration;
- (b) Remuneration should be broadly aligned with companies with whom the Group competes for human resources; and
- (c) Remuneration should reflect performance, job complexity and responsibility so as to attract, motivate and retain high performing individuals and to enhance the return of investment to shareholders.

The remuneration packages offered to the Executive Directors of the Group are principally structured so as to link rewards to corporate and individual performance.

No Executive Director has entered into a service contract with the Company or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation for termination which exceeds one year's salary and benefits-in-kinds. None of the Executive Directors has entered a fixed contract with duration of more than 3 years. The above policies also apply to the senior management.

Non-Executive Directors are paid fees in line with market practice, as determined having regard to the recommendation of the "Higgs Report" in the United Kingdom on the Review of the Role and Effectiveness of Non-Executive Directors in its calculation of the fees of Non-Executive Directors. In summary, reference was made to the workload, scale and complexity of business, responsibility and the attendance rate of the meetings of the Non-Executive Directors.

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Audit Committee

An Audit Committee comprising all three Independent Non-Executive Directors (Professor Udo GLITTENBERG, Dr. Götz Reiner WESTERMEYER and Mr. Andy Yick Man NG) was established in December 1998. Amongst the Audit Committee Members, at least one member has the appropriate professional qualification and experience in financial matters as required by the Listing Rules. A written terms of reference for the Audit Committee, which clearly defined the role, authority and function of the Audit Committee, has been adopted by the Group.

Four Audit Committee Meetings with the attendance (either in person or by phone) of all committee members were held during the year (i) to review the interim and annual financial statements and the relevant significant financial reporting judgments; (ii) to review the remuneration of external Auditors, evaluate the independence and objectivity of external Auditors and to determine the nature and scope of the Audit; and (iii) to review the financial and accounting policies and practices, the internal control, financial control and risk management system of the Group.

Internal Control and Risk Management

The internal control of the Group are designed to provide reasonable assurance that the Group's assets and shareholders' investments are safeguarded against unauthorised use or disposition, transactions are executed in accordance with the management's authorisation, proper accounting records are maintained, and the relevant legislation and regulations are being complied with.

Internal control procedures and risk management systems are in place in each of the operating units of the Group. An Internal Control System Assessment Guidelines has been adopted by the Group for reviewing, assessing and monitoring the effectiveness of the Group's risk management system and internal control system in the areas of finance, operation and Listing Rules Compliance.

The Corporate Planning Department undertakes the role of reviewing and assessing the Group's internal control system implemented in the principal operations in Asia, Europe and the USA for their respective effectiveness and efficiency on an annual basis.

The key tasks basically include:

- reviewing the Group's principal activities and risk management effectiveness;
- conducting comprehensive examination of the practices and procedures as to the recognition of income and expenditure; and internal controls of the business units of the Group on a regular basis; and
- undertaking special reviews and investigations of areas for improvement identified by management.

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Internal Control and Risk Management *(Cont'd)*

The Corporate Planning Department has conducted a thorough review and assessment of the Group's existing Internal Control System especially on the following areas and has satisfied with their respective effectiveness and efficiency based on the standards and guidelines set out in the Internal Control System Assessment Guidelines.

The review covers all material activities, including finance, operational and compliance controls and risk management.

Finance

The Company's assets were used in an appropriate manner, the expenditures in each of the operating units of the Group were under a strict control, expenditures exceeding certain predetermined amounts needed management's authorisation. Accounting Records were properly maintained.

Operation

A hierarchical system with proper work flow and reporting procedures was duly established in each of the operating units. Every employee was assigned with a specific area of duty and responsibility.

Regular meetings with the attendance of senior management and representatives from each of the operating units were held during the year so as to improve communication and identify potential issues within the Group.

Listing Rules Compliance

Throughout the year, the Group has fully complied with the Listing Rules requirements. Financial Reports, announcements and circulars have been prepared and published in accordance with the requirements of the Listing Rules.

Whilst the Board is satisfied with the overall performance of the Internal Control System, there reveal certain areas for improvement during the process. The Corporate Planning Department is taking steps to reflect such findings and effect them into practice in line with the "Continuous Improvement" commitment of the Group.

During the process of Internal Control review, interviews have been made with managers of the key operating units discussing about their units' activities as well as performance and areas of responsibilities. Through the process of interview, their awareness of the concept of Financial Planning and Control, their understanding of the risk management, the manner in monitoring risks and system of internal control were greatly enhanced. It also helps to build up team spirit amongst every team member of the Group.

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Investor Relations and Communication with Shareholders

The Company continues to pursue a proactive policy of promoting investor relations and communications with shareholders.

The Corporate Planning Department is in place to coordinate and facilitate ongoing communication with shareholders, investment and financial community and media for enhancing corporate and financial awareness to the investing public. It will also respond to enquiry from shareholders/investing public or the media. The Group maintains its own websites (www.egana.com and www.quamnet.com) through which the Group's updated financial information, announcements, business development, recent events and corporate activities can be accessed by the shareholders and investors. The Company's websites provide an alternative means for the investing public to obtain information of the Group in a convenient and timely manner.

The Board has established a team of designated executives located in the Group's offices in Hong Kong, Japan, Germany and the USA to perform the role of promoting investor relations globally.

The Annual General Meetings ("AGMs") also provide an important opportunity for constructive communication between the Board and the shareholders of the Group. The Chairman and the majority of the Board member will attend the AGMs or other general meetings through which the Chairman can maintain an on-going dialogue with shareholders and to answer any questions raised by the shareholders.

Social Responsibility

We aim at delivering positive social value in the communities in which we serve, primarily through four principal means:

- Promoting fair employment and creating safe workplace;
- Applying innovation in our business approach as well as the product coverage;
- Providing quality products and services to the customers for good value and in a responsible manner; and
- Being a good corporate citizen through contribution to community programs in which we are to add value.

On the community program, our objective is to reciprocate the business experience (that we have gained from the community in the past 30 years of operation) to the society to enable a sustainable development of the environment which should result in a better living for the people, and an (ever) improving business climate for fair trade and on an open competition basis.

During the year, the Group and Egana Jewellery, sponsored the world's 1st international corporate governance conference - The Inaugural Asia-Pacific Corporate Governance Conference, organized by Hong Kong Baptist University (August 2005), in line with our commitment to high standard of corporate governance.

In addition to sponsorship, our Director of Corporate Planning made several speeches at conferences and seminars organized by Chinese University of Hong Kong, Hong Kong Baptist University and Hong Kong Professional & Education Services Limited respectively on topics covering "Corporate Governance" and "Business Ethics". These include "Improving Corporate Governance in SMES" (January 2005); "Business Ethics for Quality Business" (February 2004); "Workshop on Best Corporate Governance Practice" (March 2005).

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Social Responsibility *(Cont'd)*

We have been invited to share “What is legal may not be moral” in a business ethics seminar organised by Hong Kong Baptist University to be held in March 2006.

We promulgate “work-life balance” philosophy in our daily work, and in addition to it, actively sponsor program with this theme, which includes the 14th International Employment Relations Association Conference: “Family-friendly Employment Policies and Practices: An East-West Perspective on Work-Life Balance” organized by Hong Kong Baptist University (to be held in June 2006).

In December 2005, we will speak at a human resources development program organised by Hong Kong Baptist University on the topic “Employment Development: Adult Learning in the Workplace”.

Mr. Seeberger, the Chairman, made two speeches at conferences held in Germany on topics relating to Global Economy during the year. He also actively shares his experience on international branding and marketing strategies at various luxury goods seminars organized by investment banks, non-profit making organizations and academics.

We are pleased that Mr. Seeberger has been presented the “Award of Excellence” by Club 55, the European Community of Marketing and Sales. This award is a milestone for Mr. Seeberger and the Group’s achievement of excellence in taking on the leadership role in the international sales and marketing arena.

To share the practical experience in operating certain advanced product development and production facilities with our future business leaders, we extended hospitality to post-graduate students from renowned universities in the US, Germany, Australia, Malaysia and Hong Kong for factory visits in the past year.

Two of our Directors (Mr. Peter Ka Yue LEE and Mr. David Wai Kwong WONG) are honored to be the Honorary Associate of Hong Kong Baptist University, in recognition of our contribution to the community.