

## CORPORATE GOVERNANCE REPORT

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The Group continued to commit itself to maintaining high standards of corporate governance practices and ensuring the application of those corporate governance practices and policies within the Group. The Board is pleased to present the Corporate Governance Report for the year ended 31st May, 2006.

### COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES

The Group adopted its own Code on Corporate Governance ("the EganaGoldpfeil Code") in July 2005. The principles and practices in the EganaGoldpfeil Code basically incorporated the principles and provisions set out in the Code on Corporate Governance Practices issued by the Stock Exchange ("the Stock Exchange Code"). The Group issued the first Corporate Governance Report in the Annual Report for the year ended 31st May, 2005.

During the year ended 31st May, 2006, the Board considered that the EganaGoldpfeil Code had functioned effectively and the principles and practices set out in the EganaGoldpfeil Code had basically been applied by the Board and employees. In addition, the Board considered that the provisions set out in the Stock Exchange Code had also been complied with (with the exceptions as described below) throughout the year.

### THE BOARD

#### **Board Composition**

The Board currently comprises eight members including Mr. Hans-Joerg SEEBERGER as the Chairman and Chief Executive, Messrs Peter Ka Yue LEE, Michael Richard POIX, Ho Yin CHIK and David Wai Kwong WONG as Executive Directors and Mr. Andy Yick Man NG, Dr. Goetz Reiner WESTERMEYER and Professor Udo GLITTENBERG as Independent Non-Executive Directors. Details of their respective experience and qualification are included in the Biographical Details of Directors and Senior Management Section of this Annual Report and also on the Group's websites.

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

Mr. Hans-Joerg SEEBERGER, Chairman and Chief Executive, is responsible for the Group's overall corporate policy and development strategy as well as overseeing the Group's operations worldwide, particularly in the marketing and business coordination aspects.

Mr. Peter Ka Yue LEE, Chief Operating Officer, is responsible for the operational and general management of the Group's Hong Kong and China operations.

Mr. Michael Richard POIX, Chief Marketing Officer, is responsible for the branding and marketing function of the Group's business and ensuring compliance with the Group's obligations under its brand name licenses.

Mr. Ho Yin CHIK, Group Treasurer, is responsible for financial and treasury affairs of the Group.

Mr. David Wai Kwong WONG, Director of Corporate Planning and Control, is responsible for overseeing the Group's corporate planning and strategic partnership project as well as the internal control and risk management functions.

Throughout the year, the Company has complied with the Listing Rules requirements for a minimum of three independent non-executive directors with one of them having the appropriate accounting qualification or related financial management expertise as required by the Stock Exchange. The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the Listing Rules to which the Company considers all of them independent according to the independence guidelines in the Listing Rules. The Independent Non-Executive Directors are identified as such in all corporate communication and in line with the recommended best practice of the Stock Exchange Code, represent one third of the Board.

Members of the Board are unrelated to one another.

In line with the recommended best practice of the Stock Exchange Code, the Company has arranged an insurance cover for all Directors in respect of any legal action against the Directors.

### Board Meetings

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

The attendance 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	Number of Meetings attended/ Total number of Meetings Held
<b>Chairman and Chief Executive</b>	
Hans-Joerg SEEBERGER	6/14
<b>Executive Directors</b>	
Peter Ka Yue LEE	10/14
Michael Richard POIX	4/14
Ho Yin CHIK	11/14
David Wai Kwong WONG	14/14
<b>Independent Non-Executive Directors</b>	
Professor Udo GLITTENBERG	6/14
Dr. Götz Reiner WESTERMEYER	6/14
Andy Yick Man NG	6/14

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 are open for inspection by Directors upon reasonable notice.



EganaGoldpfeil supported the “Watch and Clock Designer Nurturing Program” to promote innovation, design and creativity in the watch and clock industry.

### Chairman and Chief Executive

Mr. Seeberger is 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 Board affairs. Day-to-day management of the Group’s business is vested in the respective board of the operating companies.

The Board does not have the intention of segregating the role between “Chairman” and “Chief Executive”. The Board believes that it is more effective for the title of “Chairman and Chief Executive” to be vested in one person based on the Group’s ongoing business experience, and the trade practice in Continental Europe from which most 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.

## CORPORATE GOVERNANCE REPORT



**The Company's support on work-life balance philosophy reflects one of the Company's core values — Caring.**

### **Nomination, Appointment, Re-election and Removal of Directors**

In a board meeting held in July 2006 at which all Directors were present, the Company adopted a Director's Nomination Procedures setting out (i) the criteria for evaluating and selecting candidates for directorships, (ii) the nomination procedures by the Board or shareholders of the Company, and (iii) the re-election of Directors at general meetings. It has been the Board's practice to review its structure, size and composition from time to time and when a casual vacancy arises. In selecting and recommending candidates for directorship, the Board will consider, inter alia, the candidate's character and integrity, business experience, needs of the Board for particular expertise and skills at the time.

All directors appointed either to fill a casual vacancy or as an additional board member shall be subject to election at the first general meeting after their appointment. In accordance with the

articles of associations of the Company, one third of the Directors (excluding the Chairman) shall be subject to retirement by rotation and being eligible, offer themselves for re-election at the annual general meeting. Every Director (excluding the Chairman and Chief Executive), including those appointed for a specific term, should be subject to retirement by rotation at least once every three years under the current size of the Board. Given the extensive experience of the Chairman and Chief Executive and as the founder of the Group, it is in the interest of the Company's shareholders as a whole by not subjecting the Chairman to retirement by rotation at the annual general meetings of the Company.

All Independent Non-Executive Directors of the Company do not have a specific term of appointment but they are subject to retirement by rotation at the annual general meetings of the Company.

### **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 business 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 Corporate Planning Department has maintained a "Continuous Professional Development Program" for Directors on issues including Corporate Governance and Financial Reporting Standard. The Company also encourages Board members to attend seminars that are relevant to their duties and professional expertise from time to time.

The management also invests resources in Human Resources Development and Training (HRDT) program for the employees both at our Group's offices and the production facilities. With a global coverage of the Group's business, the HRDT program helps communicate the Group's global development message at a faster pace, and bridge the multi-cultural diversity in a more effective manner. The HRDT program in Europe is coordinated through the European headquarters in Germany. In Asia, in addition to the Hong Kong headquarters which provides continuous HRDT program to colleagues in the region, we have in July 2006 opened a Training Centre at the Group's factory compound and logistic centre in Nanao, China, in anticipation of the Group's continuous exposure in product development, sales and



Training Centre was set up in Nanao, China (right), along with that in Germany (left) to ensure cross cultural exchange of know how — an investment in People.



marketing, and promotion activities in the China market which now represents 10 % of the global luxury goods demand and is expected to achieve 25% in 7-year time.

The HRDT program serves as a platform for managers to evaluate staff capabilities and potential, particularly in the perspectives of career enhancement and inspiration fulfillment within the Group. The kick off of the China Training Centre proved to be encouraging and is in line with the management's expectation, as evidenced by an increase in the employee retention rate and a

higher commitment of the staff to grow with the Group.

The Corporate Planning Department also organized a workshop "Know Yourself, Our Team, Our Company" for employees of the Group's Hong Kong and China offices. The aims of the workshop are to enable the employees to get more acquainted with the Group's mission, corporate strategies, core values, latest business development and their role in contributing to the Group's mission, corporate strategies and value chain.

## CORPORATE GOVERNANCE REPORT

The Board is pleased that the Group's core values, "Caring, Integrity, Fairness", the backbone of our corporate governance principle has, through the HRDT program as well as daily interaction at work, been fused throughout the Group.

### SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

The Group has adopted its "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 on terms no less exacting than those set out in the Model Code (Appendix 10 of the Listing Rules).

The Company has received confirmations from all Directors that they have complied with the Model Code and the Code of Conduct throughout the year. Compliance confirmation was received from concerned employee as well.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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. Written terms of reference for the Remuneration Committee setting out the role, authority and function of the Remuneration Committee have been adopted by the Group.

Two Remuneration Committee Meetings 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) were held during the year to review the existing remuneration packages for Directors, senior management and employees of the Group to ensure that they are in line with the Group's remuneration policy. The Remuneration Committee also reviewed and approved an incentive bonus scheme for Directors and senior management by reference to the individual performance, corporate performance and prevailing market rate. Corporate performance would be considered in light of revenue growth, certain profit margins, profit growth and return on capital employed. The performance-based incentive was capped at 30% of the basic package.

Based on the framework and principles established by the Remuneration Committee, the Group extended the performance-based bonus system to all offices and production bases so as to recognize the contribution and efforts of all employees. In the production facilities (7 in Europe and 5 in Asia), performance-related compensation package shall be determined with reference to quality/output ratio. In addition, we introduced a retention bonus system for our staff in the China operations according to their term of service to the Group with a view to retaining experienced staff and thereby enhancing the operating efficiency.

### Attendance of the Remuneration Committee Members

Name of Members	Number of Meetings attended/ Total number of Meetings Held
<b>Independent Non-Executive Directors</b>	
Andy Yick Man NG (Chairman)	2/2
Professor Udo GLITTENBERG	2/2
Dr. Götz Reiner WESTERMEYER	2/2
<b>Executive Director</b>	
David Wai Kwong WONG	2/2

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;
- (c) Remuneration should reflect performance, job complexity and responsibility so as to attract, motivate and retain high performing individuals and to enhance the return on investment to shareholders; and
- (d) In line with the prevailing market conditions and the Group's performance and profitability.

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 into a fixed contract with duration of more than 3 years. The above policies also apply to the senior management.

Independent 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 Independent Non-Executive Directors.

## 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. In view of the new requirements of the Stock Exchange Code in January 2005, the Group has updated and adopted the terms of reference for the Audit Committee including the role, authority and function of the Audit Committee.

Two 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.

### Attendance of the Audit Committee Members

Name of Members	Number of Meetings attended/ Total number of Meetings Held
<b>Independent Non-Executive Directors</b>	
Andy Yick Man NG (Chairman)	2/2
Professor Udo GLITTENBERG	2/2
Dr. Götz Reiner WESTERMEYER	2/2

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external Auditors.

## CORPORATE GOVERNANCE REPORT

### AUDITORS' REMUNERATION

During the year, an analysis of the remuneration paid to the Company's Auditors, Baker Tilly Hong Kong Limited, is as under:

	HK\$
Audit services	1,470,000
Non-audit services	50,000
<b>Total</b>	<b>1,520,000</b>

### 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. 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:

- (a) reviewing the Group's principal activities and risk management effectiveness;
- (b) 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
- (c) undertaking special reviews and investigations of areas for improvement identified by management.

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.

During the year ended 31st May, 2006, the Corporate Planning Department has conducted a review of the effectiveness of the Internal Control and Risk Management Systems of the Company and its major subsidiaries and presented their findings and recommendations to the Audit Committee. The Audit Committee reviewed and discussed with the management such findings and concurred that the prevailing internal control system within the key operating units and between such units and the headquarters were adequate and effective for the Group's current business activities. There revealed no significant weakness that required major improvement of the system.

### FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31st May, 2006.

The statement of the external Auditors of the Company about their reporting responsibilities on the financial statements is set out in the Auditors' Report.

### GOING CONCERN

The Board, having made appropriate enquiries, considers that there are no material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

### INVESTORS 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 responsible for coordinating and facilitating ongoing communication with shareholders, investment and financial community and media to enhance corporate and financial awareness to the investing public. The Group maintains its own websites ([www.egana.com](http://www.egana.com) and [www.quamnet.com](http://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 to 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 Company. The Chairman and the majority of the Board members will attend the AGMs or other general meetings through which the Chairman can maintain an on-going dialogue with shareholders and to answer their questions.

## SOCIAL RESPONSIBILITY

The Group continues to deliver a positive social value to the communities through four principal means:-

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

During the year, Mr. Seeberger spoke at various international trade conferences to share the Group's experience with the industry. With his profound knowledge in the trade and readiness to share it openly for the well being of the society, Mr. Seeberger is invited to speak again at the Luxury Goods Congress to be held in Paris in October 2006.

In Asia, we aim at promoting good business and social ethics practice to the community by speaking at various regional corporate

governance conference and seminar, including "What is legal may not be moral" (at the Hong Kong Baptist University), "Business ethics in East Asia" (by Japan Society of Business Ethic), "How to reconcile the cultural difference in corporate governance" (at the Chinese University of Hong Kong), "An Industry Review : Corporate Culture and Development" (by CPA Australia) as well as sponsoring international conference, for example, the Inaugural Asia-Pacific Corporate Governance conference.

In promoting innovation, design and creativity capabilities in the industry, we supported the "Watch and Clock Designer Nurturing Program" jointly organized by The Hong Kong Watch Manufacturers Association Limited, The Federation of Hong Kong Watch Trades & Industries and The Hong Kong Polytechnic University.

The management encourages the "Work-life balance" philosophy within the Group, and supports its promotion to our business associates as well as to the community. In June 2006, the Group sponsored certain international conferences (for example, the 14th International Employment Relations Association Conference "Family-friendly Employment Policies and Practices: An East-West Perspective on Work-Life Balance"), and delivered speeches at a post-graduate seminar at the Hong Kong Baptist University "Benefits of Employee Counseling to Organizational Effectiveness".

The Group also participates and encourages our staff to participate in funds raising activities organized by charitable organizations such as the ORBIS Pin Day in October this year.