

# CORPORATE GOVERNANCE REPORT

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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 along with EganaGoldpfeil 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 eleven members including Mr. Hans-Joerg SEEBERGER as the Chairman and Chief Executive, Messrs. Peter Ka Yue LEE, Michael Richard POIX, Ho Yin CHIK, David Wai Kwong WONG, Shunji SAEKI and Michael BOMMERS as Executive Directors and Messrs. Charles Cho Chiu SIN, Eduardo Tang Lung LAU, Andy Yick Man NG and Professor Zhengfu WANG 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, accounting and finance, marketing, manufacturing, procurement and legal 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:-

- 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 Project, as Chief Project Officer, is responsible for the integration and coordination of the Group’s European operations and strategic alliance.
- Director of Business Development, as Chief Business Development Officer, is responsible for overseeing the Group’s business development program with current focus in Asia.
- Director of Planning and Control, as Corporate Planning Director, is responsible for the Corporate Planning, Control and Compliance matters.

# CORPORATE GOVERNANCE REPORT

## THE BOARD *(continued)*

### Board Composition *(continued)*

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. 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 Board Meetings attended by/ Total number of Board Meetings Held |
|--|---|
| <b>Chairman and Chief Executive</b>  |   |
| Hans-Joerg SEEBERGER   | 5/13  |
| <b>Executive Directors</b>   |   |
| Peter Ka Yue LEE   | 9/13  |
| Michael Richard POIX   | 4/13  |
| Ho Yin CHIK  | 10/13   |
| David Wai Kwong WONG   | 13/13   |
| Shunji SAEKI   | 2/13  |
| Michael BOMMERS  | 2/13  |
| <b>Independent Non-Executive Directors</b>   |   |
| Charles Cho Chiu SIN   | 3/13  |
| Eduardo Tang Lung LAU  | 6/13  |
| Professor Zhengfu WANG   | 6/13  |
| Andy Yick Man NG ( <i>appointed as Independent Non-Executive Director on 13th July, 2005</i> ) | 6/13  |

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## **THE BOARD** *(continued)*

### **Board Composition** *(continued)*

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.

### **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 the 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 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" to be vested in one person based on the Group's business experience, and the trade practice in Continental Europe from which over 70% 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.

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

The EganaGoldpfeil Code provides that the appointment process should be formal, considered and transparent. It has been a 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 and Chief Executive 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.

### **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 also received from concerned employee.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A Remuneration Committee comprising all four Independent Non-Executive Directors (Messrs. Charles Cho Chiu SIN, Eduardo Tang Lau LAU, Andy Yick Man NG and Professor Zhengfu WANG) 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.

During the year, two Remuneration Committee Meetings were 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 Remuneration Committee also reviewed and approved an incentive bonus scheme 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.

### Attendance of the Remuneration Committee Members

| Name of Members                            | Number of Meetings attended/<br>Total number of Meetings Held |
|--|---|
| <b>Independent Non-Executive Directors</b> |   |
| Andy Yick Man NG ( <i>Chairman</i> )       | 2/2   |
| Charles Cho Chiu SIN                       | 1/2   |
| Eduardo Tang Lung LAU                      | 2/2   |
| Professor Zhengfu WANG                     | 2/2   |
| <b>Executive Director</b>                  |   |
| David Wai Kwong WONG                       | 2/2   |

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

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources;
- 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; and
- 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.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

The Company has complied with the Listing Rules requirement for an Audit Committee (established since 1998) comprising at least three Independent Non-Executive Directors and at least one member has the appropriate professional qualification and experience in financial matters throughout the year. In view of the new requirements of the Stock Exchange Code in January 2005, the Group has updated and adopted new terms of reference for the Audit Committee including the role, authority and function of the Audit Committee.

Two Audit Committee Meetings 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 system, financial control and risk management system of the Group.

### Attendance of the Audit Committee Members

| Name of Members                            | Number of Meetings attended/<br>Total number of Meetings Held |
|--|---|
| <b>Independent Non-Executive Directors</b> |   |
| Eduardo Tang Lung LAU ( <i>Chairman</i> )  | 2/2   |
| Andy Yick Man NG                           | 2/2   |
| Charles Cho Chiu SIN                       | 1/2   |
| Professor Zhengfu WANG                     | 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.

## 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     | 430,000        |
| Non-audit services | —              |
| Total              | <u>430,000</u> |

## 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.

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### **INTERNAL CONTROL AND RISK MANAGEMENT** *(continued)*

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.

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.