Corporate governance

This is the second full financial year in which the Company has been subject to the Tabaksblat Dutch corporate governance code (the "Code"). The Company agrees with the aims of the Code and seeks to achieve general compliance with it. The Company is not subject to any other corporate governance code. This has been a year of consolidation following the extensive changes introduced in the previous financial year to effect general compliance with the Code.

In the financial year to September 30, 2005, changes to the Articles of the Company were approved by the shareholders as well as a Corporate Governance Compliance Policy and Remuneration Policy. Subsequently, new rules for the Supervisory Board and Management Board were approved by the Supervisory Board, together with rules for Audit, Remuneration and Appointment Committees. A number of corporate policies relating to business, financial conduct and whistle-blowing have also been approved by the Supervisory Board and implemented and can be found on the Company's corporate website. Oliver Fryer, a member of the Management Board, acts as the Corporate Secretary for the purposes of the Code. In the year to September 30, 2006 the Supervisory Board's Audit, Remuneration and Selection Committees became fully operational, meeting regularly and working with both Boards in accordance with the requirements of the Code and their own rules.

The Company is in general compliance with the Code. However, we wish to explain certain deviations from the Code or to provide further detail in relation to the following:

- For best practice provisions II.2.1 and II.2.2 of principle II.2 (remuneration Management Board), the Company partly deviates from the Code, as the current option and restricted stock schemes for the members of the Management Board (as well as for employees as a whole) do not include any formal conditional criteria following a grant of options or restricted stock. Additionally, options may be vested and exercised over a period of four years (while the restricted stock vests in two equal tranches, two and four years after grant). There is no formal requirement to retain stock following vesting or exercise. The scheme broadly reflects that of the majority shareholder, Disney, and it has been considered desirable by the Supervisory Board to have generally consistent incentive arrangements for senior management throughout both companies. The format (including the extent of the detail within it) of the Remuneration report included in this Annual Report, follows that of the Company's Remuneration Policy, which was approved by shareholders on March 31, 2005 and which has not been materially changed since that date. It should be noted that on September 20, 2006, the Supervisory Board approved in principle a new Long-Term Incentive Plan for the Company's senior management as a whole (including the Management Board), designed for implementation in the following financial year. This will also be non-compliant with principle II.2. Please see the relevant section of the Remuneration report for further detail on this proposed scheme.
- Although the Company complies with principle III.2 (independence Supervisory Board) by virtue of III.2.2 (f) the Board notes that three of the five members of the Supervisory Board are employees of Disney.