

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE PRACTICES

As from 1 January 2005, the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) issued by the Stock Exchange became effective for accounting periods commencing on or after that date.

The Company has complied with the code provisions laid down in the CG Code throughout the year ended 31 December 2005, except for code provisions A.1.1, A.2.1, A.4.1, A.4.2 and B.1.3, details of which are discussed in this report.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

All directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2005.

### BOARD OF DIRECTORS

Members of the Board are collectively responsible for overseeing the business and affairs of the Group that aims to enhancing the Company’s value for stakeholders. Roles of the Board include reviewing and guiding corporate strategies and policies; monitoring financial and operating performance; ensuring the integrity of the Group’s accounting and financial reporting systems; and setting appropriate policies in managing risks of the Group while the day-to-day management is delegated to the executive directors. The biographical details of the directors are set out in the section “Biographies of Directors” in pages 11 to 12.

## CORPORATE GOVERNANCE REPORT

During the year of 2005, two board meetings were held and the attendance of each director is set out as follows:-

<b>Name of director</b>	<b>Number of meetings attended</b>
<i>Executive Directors</i>	
Dr. James Sai-Wing Wong ( <i>Chairman</i> )	2
Mr. Stephen Sek-Kee Yu	2
Mr. Frank Kwok-Kit Chu	2
Mr. Peter Chi-Chung Luk (resigned on 11 April 2006)	2
<i>Non-Executive Director</i>	
Mr. Herman Man-Hei Fung	1
<i>Independent Non-Executive Directors</i>	
Mr. William Gage McAfee	2
Mr. David Chung-Shing Wu	1
Mr. Vincent Tian-Quan Mo	1

Board meetings of the Company were held two times during the year, which deviated from code provision A.1.1 which stipulates that the Board should meet regularly and board meeting should be held at least four times a year at approximately quarterly intervals.

In view of the simplicity of the Group's businesses, board meetings have not been held four times during the year. The interim and annual results together with all corporate transactions happened during the year have been reviewed and discussed amongst the directors at the full board meetings held twice in the year.

Drafts minutes of board meetings are circulated to directors for comments and the signed minutes are kept by the Company Secretary.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has not appointed a chief executive officer since Mr. Stephen Yu is the managing director of CAEL and JvdB and Mr. Frank Chu is the managing director of DMT and JvdB. DMT, JvdB and CAEL already comprise a substantial portion of the Group's business. Dr. James Wong, Chairman of the Company, is responsible for the management of the Board. In view of the size of the Group, it is considered unnecessary to appoint a chief executive officer of the Company. Such practices of the Company deviate from code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

## CORPORATE GOVERNANCE REPORT

### RE-ELECTION OF DIRECTORS

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and that code provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The existing non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company's annual general meeting under the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

According to the provisions of the Company's Bye-laws, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation save that the Chairman and/or the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

Dr. James Wong is appointed by Chinney Investments, Limited, a substantial shareholder of the Company, as the Chairman of the Board to safeguard its investment in the Company. As a result, the Board concurred that the Chairman of the Board need not be subject to retirement by rotation. The Company currently has no Managing Director.

### REMUNERATION COMMITTEE

The Remuneration Committee comprises three directors, of which two are independent non-executive directors. The role of the Committee is to review and recommend to the Board on the remuneration packages of executive directors.

Code provision B.1.3 stipulates that the terms of reference of the Remuneration Committee should include, as a minimum, those specific duties as set out in the CG Code provisions. The Company has adopted the terms of reference for the Remuneration Committee on 20 September 2005, which was subsequently amended. Pursuant to the terms of reference, the Remuneration Committee has the duty to review as opposed to determine the specific remuneration packages of executive directors.

The Chairman of the Board receives no remuneration and determines the remuneration of all other executive directors, taking reference to market pay, individual performance and a bonus scheme, which has been in place prior to the establishment of the Remuneration Committee. There has been no change to the remuneration packages of the executive directors during the year. The first Committee meeting was held in March 2006, during which the existing pay of all executive directors have been reviewed individually. The attendance of each member is shown as below.

## CORPORATE GOVERNANCE REPORT

Name of member	Number of meetings attended
<i>Executive Director</i>	
Mr. Peter Chi-Chung Luk (resigned on 11 April 2006)	1
<i>Non-Executive Director</i>	
Mr. Herman Man-Hei Fung (appointed on 11 April 2006)	N/A
<i>Independent Non-Executive Directors</i>	
Mr. William Gage McAfee ( <i>Chairman</i> )	1
Mr. David Chung-Shing Wu	1

### NOMINATION OF DIRECTORS

No directors were nominated into the Board during the year.

### AUDITORS' REMUNERATION

During the year, the remuneration paid to the auditors of the Group were as follows:

Services rendered	Fees paid/payable HK\$'000
Audit services	1,100
Non-audit services (Tax compliance service and other services)	117
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	1,217
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### AUDIT COMMITTEE

The Audit Committee comprises four directors, of which three are independent non-executive directors.

The terms of reference for the Audit Committee has been adopted in line with the CG Code. Regular meetings have been held by the Audit Committee since establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal control. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management and the external auditors financial reporting matters, both the half year results for the period ended 30 June 2005 and the annual results for the year ended 31 December 2005.

## CORPORATE GOVERNANCE REPORT

The Audit Committee met two times during the year and the attendance of each member is shown as below.

<b>Name of member</b>	<b>Number of meetings attended</b>
<i>Non-Executive Director</i>	
Mr. Herman Man-Hei Fung	2
<i>Independent Non-Executive Directors</i>	
Mr. William Gage McAfee ( <i>Chairman</i> )	2
Mr. David Chung-Shing Wu	2
Mr. Vincent Tian-Quan Mo	1

Drafts minutes of the Audit Committee meetings are circulated to members of Audit Committee for comments and the signed minutes are kept by the Company Secretary.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. The statement of the external auditors of the Company, Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements is set out in the Auditors' Report on page 28.