

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

In the opinion of the board of directors (the “**Board**”) of Kenford Group Holdings Limited (the “**Company**”), the Company has complied with the applicable code provisions of 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 of Hong Kong Limited (the “**Listing Rules**”) throughout the financial year ended 31 March 2006, except for the deviation from the CG Code Provision A.2.1 explained in the following relevant section.

The Company is committed to the establishment of three committees of the Board, namely Remuneration Committee, Nomination Committee and Audit Committee with the terms of reference adopted by the Board set out separately. The Board believes that pursuit of a high standard of corporate governance practices and procedures could provide a sound framework and solid foundation to achieve a high standard of accountability, transparency, independence, responsibility, fairness to the shareholders and stakeholders. The Company is dedicated to maintain a credible framework of corporate governance and continue to review and improve our corporate governance and internal control system from time to time.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors’ securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company (the “**Directors**”) have confirmed that they fully complied with the required standards as set out in the Model Code throughout the financial year ended 31 March 2006.

BOARD OF DIRECTORS

Board functions

The Board oversees the strategic development, determines objectives, strategy, policy and business plan of the Company. It monitors, controls the operation and financial performance, reviews the corporate governance standard of the Company and sets appropriate policies pursuant to the Company objectives.

Board composition

The Board of Directors of the Company comprises six Directors, of which three are Executive Directors, namely, Mr Lam Wai Ming (Chairman), Mr Tam Chi Sang (Managing Director), Mr Chan Kwok Tung, Donny; and three are Independent Non-Executive Directors, namely, Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. The biographical details of the Directors of the Company and the relationships among them as at the date of this report are set out in the “Directors and Senior Management Profile” section on pages 20 to 21 of this annual report. Save as disclosed in this annual report, none of our Directors has any business, financial, or family interests with each other and the Company.

To ensure objectivity and impartiality in the management of the Company, the Board comprises equal number of Executive Directors and Independent Non-Executive Directors. The Executive Directors have diversified skills, expertise, backgrounds and qualifications including solid experience on production, sales and marketing in the electrical appliances industry, extensive experience in banking and finance industry, sound professional qualifications background focusing on corporate governance (including regulatory compliance) and financial risk control (including credit assessment), to develop, direct, and monitor the strategies and policies on the issues in relation to production, operation, promotion, sales and marketing of the Company and its subsidiaries (collectively, the “**Group**”) and to ensure the going concern of the Group. The Independent Non-Executive Directors have their professional qualifications and expertise in accounting, auditing, legal and information technology which bring independent judgment to the Group’s strategies and policies through their valuable advice. The Board believes that the balance between Executive Directors and Independent Non-Executive Directors is reasonable and adequate to provide checks and balance and also safeguards the interests of shareholders of the Company and the Group. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Group.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board composition (Continued)

During the financial year ended 31 March 2006, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors. One of the Independent Non-Executive Directors is a professional accountant, which is in compliance with the requirement of the Listing Rules. Each of our Independent Non-Executive Directors has presented an annual confirmation of independence to the Company in accordance with the requirement of the Listing Rules. The Company considered that all of the Independent Non-Executive Directors to be independent.

The Company has arranged a cover of "Directors' and Officers' Liabilities Insurance" for Directors, officers and senior management of the Group. The insurance coverage is reviewed annually.

Board delegation

The Board delegates to the committees or senior management of the Company on issues which require discussion, expertise knowledge and experience to make the decision.

During the financial year ended 31 March 2006, the Board granted and delegated its powers to establish a committee comprising any three or more Directors (the "**Committee of Directors**") with full power to do all such things and to approve, execute and authorize the issue, publication or dispatch of all such documents on behalf of the Company as the Committee of Directors may consider necessary or desirable in connection with the application to the Listing Committee of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the listing of the shares and warrants issued by the Company on the Stock Exchange and any matters directly or indirectly relating thereto, including any announcement required to be issued by the Company in connection therewith.

Besides, three committees of the Board, namely Remuneration Committee, Nomination Committee and Audit Committee have been established during the financial year ended 31 March 2006 with the terms of reference adopted by the Board set out separately. The details of Remuneration Committee, Nomination Committee and Audit Committee are explained in the following relevant sections.

Board, Board committees and general meetings

The total number of the meetings and the individual attendance of each Director in person at each of the meetings during the financial year ended 31 March 2006 were as follows:

Name of Directors	Number of Meetings Attended		
	Board meetings (Note 1)	Audit Committee meetings	annual general meeting
Executive Directors			
Mr Lam Wai Ming	20/23	N/A	1/1
Mr Tam Chi Sang	22/23	N/A	1/1
Mr Chan Kwok Tung, Donny	23/23	N/A	1/1
Independent Non-Executive Directors			
Mr Chiu Fan Wa	7/23	2/2	1/1
Mr Li Chi Chung	2/23	0/2	0/1
Mr Li Tat Wah	7/23	2/2	1/1

Notes:

1. There were twenty-three (23) Board meetings held during the financial year ended 31 March 2006 which included two (2) regular meetings with formal notice and agenda and four (4) meetings of the Committee of Directors.
2. There were no meeting of Remuneration Committee and Nomination Committee held during the financial year ended 31 March 2006.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board, Board committees and general meetings (Continued)

The regular Board meetings at approximately half yearly intervals were held during the financial year ended 31 March 2006. The notices in advance for each of the regular board meeting had been given to all the Directors an opportunity to attend in person during the year. On ad hoc basis, the Executive Directors met together by given the reasonable notices or by agreement of the Executive Directors to waive the requirement of the notice of the meetings to discuss the matters as required by business needs. In respect of regular Board meetings, and so far as practicable, an agenda and accompanying board papers were sent in full to all Directors in a timely manner before the intended dates of Board meetings. The company secretary of the Company attended all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company has maintained a procedure for Directors to seek independent professional advice in appropriate circumstances. Minutes of Board meetings and meetings of Board committees are kept by a duly appointed secretary of the meetings and such minutes would be opened for inspection at any reasonable time on reasonable notice by any Director. Minutes of Board meetings and meetings of Board committees had recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or the representatives of the relevant parties or dissenting views expressed. Draft and final versions of minutes of Board meetings had been sent to all Directors and the representatives of the relevant parties involved in the meetings through electronic means for their comments and records respectively, in both cases within a reasonable time after the meetings held.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr Lam Wai Ming holds the position of Chairman currently and is deemed to be the Chief Executive Officer. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies and development plans. The Board believes that the balance of power and authority is adequately ensured.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-Executive Directors has entered into a letter of appointment with the Company commencing on the 16 June 2005 for a term of one year and shall continue until terminated by not less than one month's prior notice in writing served by either party on the other.

REMUNERATION COMMITTEE

Remuneration Committee functions

The remuneration committee of the Company (the "Remuneration Committee") was established to formulate remuneration policy for the Board's approval. It has adopted the terms of reference which are in line with the Code Provisions set out in the CG Code under Appendix 14 of the Listing Rules.

The principal functions of the Remuneration Committee include reviewing and determining specific remuneration packages for each Executive Director and senior management by reference to corporate goals and objectives as well as share option scheme of the Company.

Corporate Governance Report

REMUNERATION COMMITTEE (Continued)

Remuneration Committee composition

The Remuneration Committee comprises three Independent Non-Executive Directors namely, Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. Mr Li Tat Wah was appointed as the chairman of the Remuneration Committee.

Remuneration Committee meeting

As the Remuneration Committee was newly established in July 2005, there was no meeting held during the financial year ended 31 March 2006.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of emoluments of the Directors of the Group for the year are disclosed in Note 13 to the financial statements.

NOMINATION COMMITTEE

Nomination Committee functions

The nomination committee of the Company (the "Nomination Committee") was established to formulate nomination policy for consideration by the Board and to implement the nomination policy laid down by the Board. It has adopted the terms of reference which are in line with the Code Provisions set out in the CG Code under Appendix 14 of the Listing Rules.

As the result of the establishment and the adoption of the written terms of reference of the Nomination Committee, there would be a formal and transparent procedure for the appointment of new Directors to the Board. There would be plans in place for orderly succession for appointments to the Board. All Directors would be subject to re-election at regular intervals.

Nomination Committee composition

The Nomination Committee comprises three Independent Non-Executive Directors namely, Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. Mr Chiu Fan Wa was appointed as the chairman of the Nomination Committee.

Nomination Committee meeting

As the Nomination Committee was newly established in July 2005, there was no meeting held during the financial year ended 31 March 2006.

AUDITORS' REMUNERATION

During the financial year ended 31 March 2006, the Company engaged BDO McCabe Lo Limited (formerly known as BDO McCabe Lo & Company) as the external auditors of the Company to perform audit and audit related services. The audit and audit related services fees for auditing the annual financial statements and reviewing the interim financial statements are set out in Note 7 to the audited financial statements for the year ended 31 March 2006.

AUDIT COMMITTEE

Audit Committee functions

The audit committee of the Company (the "Audit Committee") was established on 29 April 2005 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are, inter alia, to review and supervise the financial reporting process and internal control system of the Group, to review the financial statements focusing particularly on (i) any changes in accounting policies and practices of the Group; (ii) the compliance with accounting standards and (iii) the compliance with the legal requirements, as well as to review the Company's annual reports and interim reports.

Corporate Governance Report

AUDIT COMMITTEE (Continued)

Audit Committee composition

The Audit Committee comprises three Independent Non-Executive Directors namely Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. Mr Chiu Fan Wa was appointed as the chairman of the Audit Committee who is a qualified accountant with appropriate professional qualification and experience in financial matters. None of the Audit Committee members are members of the former or existing auditors of the Company.

Audit Committee meetings

The Audit Committee had met two times to review the effectiveness of the internal control system, the final results for the year ended 31 March 2005, and the interim results for the six months ended 30 September 2005 of the Group prior to recommending them to the Board for approval during the year ended 31 March 2006. The details of the number of the Audit Committee meetings held during the financial year ended 31 March 2006 and the relevant record of individual attendance of the members of the Audit Committee, on a named basis, are shown in the table under the heading "Board, Board committees and general meetings" on page 23 of this Corporate Governance Report.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of our audited financial statements of the Group for the financial year ended 31 March 2006 in conjunction with the Group's auditors, BDO McCabe Lo Limited. In addition, the preliminary results announcement has been agreed with the Group's auditors, BDO McCabe Lo Limited.

The Board agreed with the Audit Committee's view on the selection and re-appointment of the external auditors of the Company for the financial year ended 31 March 2005. As at the date of this Corporate Governance Report, the Board agrees the proposal of re-appointment of the external auditors of the Company, BDO McCabe Lo Limited, for the financial year ended 31 March 2006.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

During the financial year ended 31 March 2006, no significant change in the Company's articles and association had been amended since the Company's shares listed on the Stock Exchange. The articles and association of the Company will be amended and modified to reflect the changes brought about by the new Listing Rules and the restrictions or obligations under the laws in any territory applicable to the Company. A special resolution in relation to the proposal of the amendment of the Company's articles and association will be put forth as special business at the forthcoming annual general meeting of the Company. A full text of the special resolution will be contained in the notice of annual general meeting of the Company to be published in the newspapers and the circular of the Company to draw the attention of the shareholders of the Company.

The Company uses a number of formal communications channels to communicate with shareholders and investors for the performance of the Company. These include: (i) publishing interim and annual reports and/or dispatching circular, notices, and other announcements; (ii) conducting the annual general meeting or extraordinary general meeting (if any) which provides a forum for shareholders of the Company to raise comments and exchange views with the Board; and (iii) updating the website with the corporate information, the achievements and the new development of the Group.

At the annual general meeting of the Company held at Plaza V, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 16 September 2005 at 10:30 a.m., the following ordinary resolutions had been passed: (i) the receipt and adoption of the audited consolidated accounts and the reports of the Directors and auditors for the year ended 31 March 2005; (ii) the re-election of Directors and the authorization to the board of Directors to fix the Directors' remuneration; (iii) the re-appointment of the auditors of the Company and the authorization of the board of Directors to fix the auditors' remuneration; and (iv) the grant of the proposal of the general mandates to the Directors to exercise the powers of the Company to issue shares and to repurchase shares and warrants respectively.

Corporate Governance Report

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT (Continued)

The details of the number of the annual general meeting of the Company held during the financial year ended 31 March 2006 and the relevant record of individual attendance of the Directors, on a named basis, are shown in the table under the heading "Board, Board committees and general meetings" on page 23 of this Corporate Governance Report.

The forthcoming annual general meeting of the Company will be held on 8 September 2006. The notice of the annual general meeting of the Company will be published in the newspapers and be dispatched to the shareholders of the Company in due course.

INTERNAL CONTROL AND RISK MANAGEMENT

The Company believes that improvement in its internal control system will enhance its operational management efficiency and effectiveness and promote its continued development. The Directors conduct the annual review of the effectiveness of the system of internal control of the Group which cover all material controls, including financial, operational and compliance control and risk management functions.

The Group's internal control for financial risks includes ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use as well as for publication, ensuring compliance with relevant legislation and regulations, and implementing credit risk management. The Directors are responsible for overseeing the preparation of accounts for the financial year to ensure such accounts give a true and fair view of the state of affairs of the Group. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. As at the date of this Corporate Governance Report, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern required to disclose.

The Group's internal control for operational risks includes: (i) maintaining and ensuring compliance with ISO9001 under the standards under the family of ISO 9000, a series of international standards on quality management and quality assurance developed by the International Organisation for Standardization, for the quality control of the Group's production; (ii) maintaining and improving a sound network system to avoid computer viruses or other system malfunctions; and (iii) maintaining a team of staff for products development. Besides, the Group has been maintaining product liability insurance for most types of the Group's products against possible claims relating to personal injury or property damage arising from the use of the products manufactured by the Group.

The Group's internal control for compliance risks includes maintaining a team of professionals with accounting, financial management, financial risk control (including credit assessment), and corporate governance expertise (including regulatory compliance) to monitor the ongoing activities of the Group and to avoid the breach of financial regulations, Listing Rules, Companies Ordinance requirements and other regulations and laws. The Group would seek for advice from external adviser on accounting, financial and legal issues if necessary.

LOOKING FORWARD

The Group will keep on reviewing and improving its corporate governance standards from time to time and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the CG Code introduced by the Stock Exchange.