

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard corporate governance practices. It met all the code provisions in the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in the year ended 31st March, 2006 except the following :

- (a) the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles of Association of the Company; and
- (b) the Articles of Association of the Company do not require the directors of the Company to retire by rotation every 3 years.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules as a code of conduct regarding its directors’ securities transactions.

Having made specific enquiry of all directors of the Company, they have confirmed compliance with the required standard set out in the Model Code regarding directors’ securities transactions during the year ended 31st March, 2006.

BOARD OF DIRECTORS

The Company is governed by a board of directors (the “Board”) which has the responsibility for leadership and control of the Company. The directors are collectively responsible for promoting the success of the Company and its subsidiaries (the “Group”) by directing and supervising the Group’s affairs. The Board sets strategies and directions for the Group’s activities with a view to develop the Group’s business and to enhance shareholders’ value.

The Board met 4 times in the year ended 31st March, 2006. All directors are given the opportunity to put items on the agenda for regular Board meetings. All directors have access to the Company Secretary to ensure that all Board procedures and rules and regulations are followed. Full minutes of Board meetings are kept by the Company Secretary and are available for inspection on reasonable notice. Any director may, in furtherance of his/her duties, take independent professional advice where necessary at the expense of the Company.

During the year, the Board has at all times complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Corporate Governance Report (Continued)

BOARD OF DIRECTORS (Continued)

The Board's composition and the attendance of individual directors at the Board meetings was as follows:

Name	Number of meetings attended
<i>Executive directors</i>	
Mr. Yeung Ping Leung, Howard (<i>Chairman</i>)	4/4
Mr. Tang Yat Sun, Richard (<i>Vice Chairman</i>)	4/4
Mr. Cheng Ka On, Dominic	3/4
Mr. Yeung Bing Kwong, Kenneth	1/4
Ms. Fung Chung Yee, Caroline	4/4
<i>Non-executive directors</i>	
Dr. Sin Wai Kin	1/4
Mr. Wong Wei Ping, Martin	4/4
Mr. Ho Hau Hay, Hamilton	3/4
Mr. Sin Nga Yan, Benedict (<i>appointed on 4th July, 2006</i>)	0/0
<i>Independent non-executive directors</i>	
Mr. Cheng Kwai Yin (<i>passed away on 4th May, 2006</i>)	3/4
Mr. Lau To Yee	4/4
Mr. Cheng Kar Shing, Peter	2/4
Mr. Chan Chak Cheung, William	4/4

Messrs. Yeung Ping Leung, Howard and Yeung Bing Kwong, Kenneth are brothers and Mr. Wong Wei Ping, Martin is their brother-in-law. Mr. Sin Nga Yan, Benedict is the son of Dr. Sin Wai Kin.

Details of the directors are disclosed in the section headed "Brief Biographical Details of the Directors" on pages 3 and 4.

CHAIRMAN AND GROUP GENERAL MANAGER (CHIEF EXECUTIVE OFFICER)

The roles of the Chairman and the Group General Manager (Chief Executive Officer) of the Company are separated, with a clear division of responsibilities.

Mr. Yeung Ping Leung, Howard is the Chairman of the Company. He is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting agenda of the Board meetings and taking into account any matters proposed by other directors for inclusion in the agenda. Through the Board, he is responsible for ensuring that good corporate governance practices and procedures are followed by the Group. He is also responsible for the strategic planning of the Company.

Ms. Wong Ka Ki, Kay is the Group General Manager of the Company responsible for the day-to-day management of the Group's business and for the growth and diversification thereof to accomplish the vision of the Company. She also monitors achievement of the Group's operational and financial results.

Corporate Governance Report (Continued)

NON-EXECUTIVE DIRECTORS

All the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association of the Company.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established on 19th May, 2005, comprising 3 members, namely, Mr. Chan Chak Cheung, William and Mr. Cheng Kar Shing, Peter (independent non-executive directors) and Ms. Fung Chung Yee, Caroline (an executive director). This Committee is chaired by Mr. Chan Chak Cheung, William. The terms of reference of the Remuneration Committee have been determined with reference to the Code.

The Remuneration Committee met 4 times during the year. The attendance of individual members at these meetings was as follows:

Name	Number of meetings attended
Mr. Chan Chak Cheung, William	4/4
Mr. Cheng Kar Shing, Peter	4/4
Ms. Fung Chung Yee, Caroline	4/4

The Remuneration Committee has reviewed and approved the Group's remuneration policy and the levels of remuneration paid to the senior management of the Group. The Remuneration Committee oversees that factors such as the performance of the senior management, the profitability of the Group, salaries paid by comparable companies and time commitment and responsibilities of the senior management have been considered in determining remuneration for the senior management of the Group. The Remuneration Committee has to ensure that the Group is able to attract, retain and motivate a high-calibre team which is essential to the success of the Group.

NOMINATION OF DIRECTORS

Executive directors identify potential new directors and recommend to the Board for decision. A director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment. Under the Company's Articles of Association, directors are not required to retire by rotation every 3 years, but they have voluntarily agreed to do so. The Board has proposed to amend the Articles of Association of the Company in the forthcoming annual general meeting to the effect that all directors of the Company shall be subject to retirement by rotation at least once every three years.

Potential new directors are selected on the basis of their qualifications, skills and experience which the directors consider will make a positive contribution to the performance of the Board.

During the year, no new director was appointed. Mr. Sin Nga Yan, Benedict was appointed as a non-executive director of the Company on 4th July, 2006.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the financial statements of the Company. As at 31st March, 2006, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going-concern basis.

The responsibilities of the auditors about their financial reporting are set out in the Auditors' Report attached to the Company's Financial Statements for the year ended 31st March, 2006.

The Board has appointed Grant Thornton to conduct a review of the effectiveness of the Group's internal control system covering all controls, including financial, operational and compliance and risk management controls and the result will be reported to the Audit Committee upon completion of the review in due course. Areas for improvement will be identified and appropriate measures will be taken accordingly. The Group has recently set up an internal audit department to strengthen the Group's internal control system.

AUDITORS' REMUNERATION

During the year ended 31st March, 2006, remuneration paid and payable to the auditors for audit services amounted to HK\$810,000. For non-audit services, remuneration paid to the auditors amounted to HK\$109,000, breakdown of which is as follows:

	HK\$
Taxation services	89,000
Other professional services	<u>20,000</u>
	<u><u>109,000</u></u>

In March, 2006, King Fook Securities Company Limited, a wholly owned subsidiary of the Company, appointed Grant Thornton as the investigating accountants in respect of a former director's misappropriation of clients' securities. However, the appointment of Grant Thornton will be replaced as agreed with the insurers. The fees payable to Grant Thornton are yet to be agreed.

AUDIT COMMITTEE

The Audit Committee had 3 members, comprising Messrs. Cheng Kwai Yin and Chan Chak Cheung, William (independent non-executive directors) and Mr. Wong Wei Ping, Martin (a non-executive director) during the year. The Chairman of this Committee is Mr. Chan Chak Cheung, William. As Mr. Cheng Kwai Yin passed away on 4th May, 2006, Mr. Lau To Yee was appointed on 2nd June, 2006 to take his place.

The terms of reference of the Audit Committee follow the guidelines set out in the Code.

Corporate Governance Report (Continued)

AUDIT COMMITTEE (Continued)

The primary duties of the Audit Committee include the review of the Group's interim and annual financial reports, the nature and scope of audit review as well as the system of internal control. The Audit Committee is also responsible for making recommendation in relation to the appointment, reappointment and removal of the auditors, and reviews and monitors the auditors' independence and objectivity. In addition, the Audit Committee discusses matters raised by the auditors to ensure that appropriate recommendations are implemented.

During the year, the Audit Committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the Company's interim and annual financial statements before submission to the Board. The Group's financial statements for the year ended 31st March, 2006 have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

The Audit Committee met 4 times during the year. The attendance of individual members at these meetings was as follows :

Name	Number of meetings attended
Mr. Cheng Kwai Yin (<i>passed away on 4th May, 2006</i>)	3/4
Mr. Chan Chak Cheung, William	4/4
Mr. Wong Wei Ping, Martin	4/4
Mr. Lau To Yee (<i>appointed on 2nd June, 2006</i>)	0/0

COMMUNICATIONS WITH SHAREHOLDERS

The Board endeavours to maintain an on-going dialogue with shareholders and, in particular, through annual general meetings or other general meetings to communicate with shareholders and encourage their participation. Shareholders of the Company are entitled to attend shareholders' meeting in person or by proxy. The Company will inform the shareholders at all general meetings of the procedures for demanding a poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the Articles of Association.