

Statement of Corporate Governance

THE BOARD OF DIRECTORS

The Board is committed to sound corporate governance practices designed to promote greater transparency, investor confidence and the ongoing development of the Group, having always as its ultimate objective, the best long term interest of the Group and the enhancement of value for all shareholders. The Board also believes that sound corporate governance benefits the Group's employees and the community in which the Group operates.

The Board has overall responsibility for the stewardship of the Group, including responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operations of the Group are conducted in accordance with the objectives of the Group. The Board's current mandate is to hold full board meetings (meetings at which directors are physically present) at least four times a year to determine and review strategic objectives, approve interim and annual results, review the principal risks of the Group's business to ensure that these risks are within acceptable limits and that appropriate systems are in place to manage these risks and discuss other significant matters that will affect the operations of the Group as a whole. Directors are expected to attend all Board meetings and meetings of any committees of the Board on which they serve and to spend the time needed as necessary to properly discharge their duties, although it is understood that special circumstances may occasionally prevent a director from attending a meeting.

The Board is comprised of a mix of executive and non-executive directors (including two independent non-executive directors). In order to ensure that the Company has an independent and effective Board, the segregation of roles of Chairman and Chief Executive Officer ("CEO") has been in place since the listing of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Each of the independent non-executive directors has submitted to the Stock Exchange a written statement confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

BOARD COMMITTEES

The Board has delegated specific responsibilities and duties to the following committees to ensure our best corporate governance practices:

(1) Audit Committee

The Audit Committee consists of the two independent non-executive directors. The Chairman of the Audit Committee was with an internationally recognized accounting firm for 25 years and is a fellow member of The Institute of Chartered Accountants in England & Wales and the Hong Kong Institute of Certified Public Accountants. The committee is responsible for reviewing the Group's interim and annual financial statements and making recommendations as to the approval of the Group's interim and annual financial statements by the Board.

The committee meets at least twice annually with the external auditors to discuss the interim results and annual audit. The adequacy and effectiveness of the Group's internal control and management information system are also discussed in these meetings. The committee has complete and unrestricted access to the external auditors, Chief Financial Officer and the Director of Legal & Compliance.

Statement of Corporate Governance

(2) Remuneration Committee

The Remuneration Committee consists of the Chairman of the Group, one executive director and an independent non-executive director, who also acts as the chairman of the committee. The committee meets once a year to review and recommend executive directors' remuneration packages to the Board, including the remuneration of the Chief Executive Officer. It takes into account whether the packages offered are appropriate to the duties and performance of the executive directors and whether the packages are competitive and sufficiently attractive to retain the executive directors.

(3) Nomination Committee

The Nomination Committee consists of the Chairman of the Group, one executive director and an independent non-executive director, who also acts as the chairman to the committee. It is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The committee meets once a year and when the need arises.

(4) Risk Management Control Committees

The Group views the management of risk as integral to the Group's goal to achieve and maintain profitability. As previously reported, in recognition of the increasingly varied, complex and global nature of the financial services business, we continue to believe that risk management must be handled internally, but, independently of the Group's core business activities. This is to protect the interest of all stakeholders and to manage our professional and legal obligations.

The Group's principle in relation to risk management is that where risk is assumed, it is within a calculated and controlled framework with continuous assessment and reporting. The process is multi-faceted covering market risk, credit risk, concentration risk and systems failure risk.

In order to monitor specific risks, an Investment Monitoring Committee, a Credit Committee and a Finance Committee were established with the objectives of identifying risks, continuously assessing and managing risk, quantifying and assessing risk and setting prudential credit limits and introducing regular reporting to senior management. With the assistance of the committees, the Board determines the overall risk management policies for the Group.

(a) *Investment Monitoring Committee*

In order to monitor the Group's proprietary trading activities, the Board has established an Investment Monitoring Committee to oversee these activities. Within parameters set by the Board, the committee sets the policies and revises the maximum limits for the Group's proprietary trading and investment activities.

The committee consists of two executive directors, the Chief Operating Officer and the Group Risk Management Controller, who acts as the secretary of this committee. The committee meets on a monthly basis and reports to the Board.

(b) *Credit Committee*

The role of the Credit Committee is to establish the procedures and guidelines for granting credit to the Group's brokerage clients, assessing credit risk and setting credit limits.

The committee consists of one executive director, the Chief Operating Officer, two SFO dealing directors and the Group Risk Management Controller. The committee usually meets once a month.

Statement of Corporate Governance

(c) Finance Committee

The role of the Finance Committee is to minimize the Group's exposure to the credit risk arising from the Group's general loan financing operations and to set out the internal policies and guidelines under which loans are to be assessed and properly authorized.

The committee consists of two executive directors and is assisted by the Group Risk Management Controller. The committee meets when the need arises.

ATTENDANCE RECORD AT BOARD AND COMMITTEE MEETINGS

The number of full Board meetings to discuss financials and strategic planning and the number of committee meetings, for the year 2003/2004 are as follows:

	Number of Meetings	Average Attendance of Directors
Full Board	6	86%
Audit Committee	2	100%
Remuneration Committee	1	100%
Nomination Committee	2	100%
Investment Monitoring Committee	12	97%
Credit Committee	11	96%
Finance Committee	9	100%

INTERNAL CONTROLS

In addition to the above, the Board recognizes that constant changes taking place in the business environment call for periodic reviews of the system of internal controls. Well-managed internal controls enable effective and efficient operations, ensure the reliability of internal and external reporting and assist in the compliance with laws and regulations.

In line with the Group's corporate culture and in light of the regulated industry in which the Group operates, the Legal and Compliance Department was established with a mandate to oversee compliance of the Group's operations with the applicable regulatory requirements as well as for reviewing internal controls, in-house training and system efficiencies as an additional measure to enhance superior corporate governance. Additionally, the department assists the Group to develop and update its compliance manuals, staff handbook, operational procedures and guidelines and as necessary, to update the Group on legislative and regulatory amendments and developments.

The Legal and Compliance Department has unrestricted access to all necessary information and records of the Group and carries out regular internal reviews and compliance monitoring. It reports its findings to the Board via the Audit Committee.

SHAREHOLDER RELATIONS

The Group recognizes the importance of shareholder feedback and the need for ongoing communication with shareholders, investors and representatives of the investment community. In addition to the detailed information contained in its annual and interim reports provided to shareholders, the Group maintains a policy of ongoing and regular communication with shareholders and the investment community. Inquiries by shareholders are directed to and dealt with by senior management.