

Corporate Governance Report

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 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 three independent non-executive directors and one non-executive director). In order to ensure that the Company has an independent and effective Board, the segregation of the 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 a written statement to the Stock Exchange 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 three independent non-executive directors. The Chairman of the Audit Committee was with an internationally recognised 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 and all staff, including the Chief Financial Officer, the Company Secretary and the Director of Legal & Compliance.

(2) Compensation Committee

The Compensation Committee consists of the Chairman of the Group, and two independent non-executive directors (one of whom acts as the chairman of the committee). The committee meets at least once a year to review and determine the specific remuneration packages of the executive directors, 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 of 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) Corporate Governance Committee

During the current fiscal year the Board established the Corporate Governance Committee. The committee consists of a non-executive director, who also acts as the chairman of the committee, an independent non-executive director and the Chief Operating Officer. The committee is responsible for reviewing and further developing the Group's corporate governance policies and principles and the implementation thereof. The committee meets once a year and when the need arises. The committee's first meeting was held after the end of the fiscal year ending 30 June 2005.

(5) 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 monitors the policies and the maximum limits for the Group's proprietary trading and investment activities.

The committee consists of two executive directors, one of whom acts as the Chairman, the Head of the Brokerage division, the Chief Financial Officer and the Assistant Financial 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, four SFO dealing directors, the Head of Operations, the Chief Financial Officer and the Assistant Financial Controller. The committee usually meets once a month.

(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 Assistant Financial Controller. The committee meets when the need arises.

Attendance Record at Board and Board Committee Meetings

The number of full Board meetings to discuss financials and strategic planning and the number of Board Committee meetings, for the year 2004/2005 are as follows:

Attendance of individual Directors at Board Meetings in 2004-2005

Number of Meetings	5	
Jonathan Koon Shum Choi (<i>Chairman</i>)	4/5	80%
William Ka Chung Lam	5/5	100%
Mary Yuk Sin Lam (retired in November 2004)	2/2	100%
Michael Koon Ming Choi	5/5	100%
Rebecca Yuk Fung Lau (appointed in September 2004)	3/3	100%
Patrick Sun (appointed in September 2004)	3/3	100%
Michael Wai Chung Wu	5/5	100%
Douglas Ching Shan Hui (retired in November 2004)	1/2	50%
Robert Tsai To Sze	5/5	100%
Raymond Wai Yung Wu	5/5	100%
Stanley Kam Chuen Ko (appointed in September 2004)	3/3	100%

Attendance of individual Members at Audit Committee Meetings in 2004-2005

Number of Meetings	2	
Robert Tsai To Sze (<i>Chairman</i>)	2/2	100%
Raymond Wai Yung Wu	2/2	100%
Stanley Kam Chuen Ko (appointed in September 2004)	1/1	100%

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Attendance of individual Members at Compensation Committee Meetings in 2004-2005

Number of Meetings		1
Stanley Kam Chuen Ko (<i>Chairman</i>) (appointed in September 2004)	N/A	N/A
Jonathan Koon Shum Choi	1/1	100%
Robert Tsai To Sze	1/1	100%
Mary Yuk Sin Lam (retired in November 2004)	1/1	100%

Attendance of individual Members at Nomination Committee Meetings in 2004-2005

Number of Meetings		1
Raymond Wai Yung Wu (<i>Chairman</i>)	1/1	100%
Jonathan Koon Shum Choi	1/1	100%
William Ka Chung Lam	1/1	100%

Attendance Record at Other Committee Meetings

The number of other committee meetings, in 2004-2005 are as follows:

	Number of Meetings	Average Attendance of Members
Investment Monitoring Committee	12	100%
Credit Committee	12	95%
Finance Committee	15	100%

Internal Controls

In addition to the above, the Board recognises 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.

Risk Management

Policies and Procedures

The Group has established policies and procedures for risk management which are reviewed regularly by the management, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The Group's Legal and Compliance department ("L&C") (which reports its findings to the Board via the Audit Committee) also performs regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group, to ensure compliance with policies and procedures.

Operational Risk

Operational risk has been defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Board places importance on ensuring that there is an effective operational risk management framework by maintaining strong risk and internal control cultures, including clear lines of responsibility and segregation of duties, effective internal reporting and contingency planning.

Credit Risk

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading, and other activities undertaken by the Group.

The Group's Finance and Credit Committees are responsible for establishing the credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the Operations department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds our pre-set guideline.

Liquidity Risk

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the Chief Financial Officer and relevant senior managers monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various licensed subsidiaries.

Capital Risk

The Group maintains a strong capital base to support the development of its businesses and to comply, where necessary, with at least the minimum statutory ratios.

Capital is allocated to the various activities of the Group depending on requirements and the degree of risk appropriate to various activities.

Interest Rate Risk

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its loans to an appropriate level. Interest rates paid by the Group are managed by the Finance department with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from its real estate assets located in the PRC. Foreign exchange risk is managed and monitored by the Finance department. Our principal lending operations are carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on loan assets.

Market Risk

Proprietary trading activities across the Group are subject to limits approved by management. The Board sets up the Investment Monitoring Committee ("IMC") for the purposes of independently monitoring the positions of its proprietary trading activities involving equities and derivatives. In addition to the IMC, the Group's exposures are closely monitored by the Finance department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

Reputational Risk

A key factor for businesses in the financial services sector is their reputation for financial probity and prudence. In our case, with our important and valuable "brand", we manage these risks through our strong internal controls and risk management regime, by comprehensive employee training and operational manuals in key areas, and by the strength and independence of our L&C.

Shareholder Relations

The Group recognises 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.