

Corporate Governance Report

The Company 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 Company also believes that sound corporate governance practices benefit the Group's employees and the community in which the Group operates.

Code on Corporate Governance Practices

The Company has applied the principles and, save as disclosed herein, has complied with the 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 30 June 2006.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they have complied with the required standard set out in the Model Code.

The Board of Directors

The Board currently comprises nine directors and the composition is set out as follows:

Jonathan Koon Shum Choi	<i>Chairman</i>
Mary Yuk Sin Lam	<i>Deputy Chairman & Executive Director</i>
William Wai Leung Wu	<i>Chief Executive Officer & Executive Director</i>
Rebecca Yuk Fung Lau	<i>Deputy Chief Executive Officer & Executive Director</i>
Michael Koon Ming Choi	<i>Executive Director</i>
Michael Wai Chung Wu	<i>Non-Executive Director</i>
Robert Tsai To Sze	<i>Independent Non-Executive Director</i>
Raymond Wai Yung Wu	<i>Independent Non-Executive Director</i>
Stanley Kam Chuen Ko	<i>Independent Non-Executive Director</i>

The brief biographical details of the directors, including financial, business, family or other material or relevant relationships among members of the board, are set out in the "Biographical Details of Directors and Senior Management" section on pages 26 to 29.

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There is a clear division of responsibilities between the Board and management. The Board is responsible for providing high-level guidance and effective oversight of the management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking, the Board is responsible for:

- Formulating the Group's long term strategy and monitoring the implementation thereof;
- Approval of interim and year ended dividend;
- Reviewing and approving the annual and interim reports;
- Ensuring good corporate governance and compliance;
- Monitoring the performance of the management;
- Reviewing and approving any material acquisition and assets disposal.

The Board authorizes the management to carry out the strategies that have been approved.

The Board meets regularly (at least four times a year) and additional meetings are convened as and when the Board considers necessary. During the year, five board meetings were held and the principal businesses transacted included approving interim and final results and reports, assessing business performance, succession planning and implementation, and approving material transactions. The attendance record of each director during the year ended 30 June 2006 is set out as follows:

	Number of Board meetings
Board Directors	Attended/eligible to attend
Chairman	
Jonathan Koon Shum Choi	5/5
Executive Directors	
William Ka Chung Lam (<i>deceased 24 Apr 2006</i>)	2/3
Mary Yuk Sin Lam (<i>appointed 25 Apr 2006</i>)	2/2
William Wai Leung Wu (<i>appointed 25 Apr 2006</i>)	2/2
Rebecca Yuk Fung Lau	5/5
Michael Koon Ming Choi	5/5
Patrick Sun (<i>resigned 31 May 2006</i>)	3/5
Non-executive Director	
Michael Wai Chung Wu	4/5
Independent Non-executive Directors	
Robert Tsai To Sze	4/5
Raymond Wai Yung Wu	5/5
Stanley Kam Chuen Ko	4/5

The non-executive directors (a majority of whom are independent) provide the Group with a wide range of expertise and experience.

The Company has complied with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive director and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. Each of the independent non-executive director 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 have met independence guidelines set out in Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Long before the implementation of the CG Code, the Company has taken the initiative to separate the role of the Chairman and the Chief Executive Officer. Currently, Dr Jonathan Koon Shum Choi serves as the Chairman of the Board and Mr William Wai Leung Wu serves as the Chief Executive Officer.

The Chairman is responsible for the leadership of the Board and the Chief Executive Officer is responsible for the conduct of the Group's business, day-to-day operation, and implement the Group's strategy with respect to the achievement of its business objectives with the assistance of the executive directors and senior management. The division of responsibilities between the Chairman and the Chief Executive Officer are clearly segregated.

The Chairman is also responsible for ensuring that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Pursuant to code A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election and, pursuant to Code A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

During the period under review, not all non-executive directors of the Company were appointed for a specific term. However, the Board has since taken affirmative action and all non-executive directors are appointed for a specific term subject to re-election pursuant to the Company's Bye-laws. Currently, Mr Michael Wai Chung Wu and Dr Raymond Wai Yung Wu have each been appointed for a specific term of two years and Mr Robert Tsai To Sze, Mr. Stanley Kam Chuen Ko and Dr Jonathan Koon Shum Choi have each been appointed for a specific term of three years.

Those directors who are appointed to fill a casual vacancy or as an addition to the Board during the year ended 30 June 2006 would hold office only until the next following annual general meeting and should then be eligible for re-election at that meeting.

Board Committees

As integral part of good corporate governance, the Board has established the following committees whose authority, functions, compositions and duties of each of the committees are set out below:

(1) COMPENSATION COMMITTEE

The Compensation Committee consists of the Chairman and Deputy Chairman of the Board and three Independent Non-Executive Directors, namely Mr Stanley Kam Chuen Ko (Chairman), Mr Robert Tsai To Sze and Dr Raymond Wai Yung Wu.

On 16 September 2005, the Company adopted a new set of terms of reference for the Compensation Committee, which included those specific duties as set out in the code provision B.1.3 of the CG Code. Pursuant to its terms of reference, the Compensation Committee is required, amongst other things, to review and recommend to the Board the compensation packages of the executive directors and senior management, to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and to ensure that no director is involved in deciding his/her own remuneration. The Compensation Committee should meet at least once a year and when the need arises.

Four committee meetings were held during the year ended 30 June 2006 including a meeting 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 in respect to the duties and performance of the executive directors and whether the packages are competitive and sufficiently attractive to retain the executive directors. The attendance record of each member is set out as follows:

Committee members	Number of Committee meetings
	Attended/eligible to attend
Stanley Kam Chuen Ko (<i>Chairman</i>)	4/4
Jonathan Koon Shum Choi	4/4
Robert Tsai To Sze	3/4
William Ka Chung Lam (<i>appointed 10 Nov 2005 and deceased 24 April 2006</i>)	1/2
Raymond Wai Yung Wu (<i>appointed 10 Nov 2005</i>)	3/3
Mary Yuk Sin Lam (<i>appointed 25 Apr 2006</i>)	1/1

(2) NOMINATION COMMITTEE

The Nomination Committee consists of the Chairman and Deputy Chairman of the Board and an independent non-executive director, who also acts as the chairman of the Nomination Committee.

On 16 September 2005, the Company adopted a new set of terms of reference for the Nomination Committee, which included those specific duties as set out in the code provision A.4.5 of the CG Code. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidates experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

One committee meeting was held during the year ended 30 June 2006 to propose the nomination of Mr William Wai Leung Wu and Ms Mary Yuk Sin Lam as executive directors to the Board. The attendance record of each member is set out as follows:

Committee members	Number of Committee meetings	
	Attended/eligible to attend	
Raymond Wai Yung Wu (<i>Chairman</i>)		1/1
Jonathan Koon Shum Choi		1/1
William Ka Chung Lam (<i>deceased 24 Apr 2006</i>)		NA
Mary Yuk Sin Lam (<i>appointed 25 Apr 2006</i>)		NA

(3) AUDIT COMMITTEE

The Audit Committee has been established since 2000. It comprises three independent non-executive directors, Mr Robert Tsai To Sze (Chairman), Dr Raymond Wai Yung Wu and Mr Stanley Kam Chuen Ko.

On 16 September 2005, the Company adopted a new set of terms of reference for the Audit Committee, which included those specific duties as set out in the code provision C.3.3 of the CG Code. Pursuant to its terms of reference, the Audit Committee is required, amongst other things, to consider and recommend to the Board the appointment, re-appointment and removal of the external auditors and to approve their remuneration, to review the interim and annual financial statements, to review the Group's financial controls, internal controls and risk management system and to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response. The Audit Committee should meet at least twice each year and when the need arises.

During the year ended 30 June 2006, two committee meetings were held, one to consider the interim results of the Group for the six months ended 31 December 2005 and one to consider the annual results of the Group for the financial year ended 30 June 2005 which focused particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit and compliance with accounting standards.

Details of the Audit Committee members' attendance record in the year are shown as follows:

Committee members	Number of Committee meetings
	Attended/eligible to attend
Robert Tsai To Sze (<i>Chairman</i>)	2/2
Raymond Wai Yung Wu	2/2
Stanley Kam Chuen Ko	2/2

(4) CORPORATE GOVERNANCE COMMITTEE

Corporate Governance Committee has been established since 2005 and consists of a non-executive director, who also acts as the chairman of the committee, an independent non-executive director and the Deputy Chief Executive Officer. The committee is responsible for reviewing and further developing the Group's corporate governance policies and principles and the implementation thereof. The Corporate Governance Committee meets once a year and when the need arises.

During the year ended 30 June 2006, the Corporate Governance Committee held one meeting to review the Company's corporate governance practices and to bring them in line with the CG Code. Details of the Corporate Governance member attendance record is shown below.

Committee members	Number of Committee meeting
	Attended/eligible to attend
Michael Wai Chung Wu (<i>Chairman</i>)	1/1
Rebecca Yuk Fung Lau	1/1
Stanley Kam Chuen Ko	0/1

Other Committees

Risk Management Control Committees

The Group views the management of risk as integral to the Group's goal to achieve and maintain profitability. As mentioned before 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 Committee, 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 Committee

The Board has established the Investment Committee to manage the Group's investments and financial commitments. The Investment Committee (i) sets the investment policies and guidelines (subject to the approval of the Board), including policies and guidelines regarding asset class, asset allocation ranges, prohibited investments, and propose proprietary investment limits for the Committee and the Group's Chief Investment Manager; (ii) reviews and approves the proposed proprietary investments which are above the investment limits set on the Chief Investment Manager; and (iii) reviews the investment performance of the various investment decisions made by the Group.

The committee consists of the Chief Investment Manager and two Executive Directors. The committee meets as required, but at least once a month.

(b) 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, financial commitments and investment activities.

The committee consists of the Chief Financial Officer, who acts as the Chairman, an executive director, the Director of Legal and Compliance, 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.

(c) 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, among others, two executive directors, two SFO Responsible Officers—Brokerage Division, the Head of Operations, the Chief Financial Officer and the Assistant Financial Controller. The committee usually meets once a month.

(d) 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.

Accountability and Audit

FINANCIAL REPORTING

The Board acknowledges that it is their responsibility to prepare financial statements of the Company for each financial period which give a true and fair view of the state of affairs of the Company and that financial statements are prepared in accordance with statutory and regulatory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements of the Company.

The Board confirms that, to the best of its knowledge and, having made appropriate enquiries, it considers that the Company has adequate resources to continue in operational existence for the foreseeable futures and have prepared the financial statements on a going concern basis accordingly.

INTERNAL CONTROLS

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 applicable laws and regulations.

The Board recognizes that it has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. Pursuant to the Group's framework, senior management is primarily responsible for designing and implementing the policies and procedures of internal controls, while the Board and the Audit Committee oversee the actions of senior management and monitor the effectiveness of the controls previously established.

The Company's internal audit function is performed by the Legal and Compliance Department ("L&C"), which is headed by the Director of Legal and Compliance ("Director of L&C") and includes eight staff members. L&C has unrestricted access to review all aspects of the Group's business activities. The Director of L&C reports directly to the Chief Executive Officer and the Deputy Chief Executive Officer and has direct access to the Chairman of the Audit Committee. The tasks of L&C in respect of its internal audit functions includes, (i) review and report on internal and operational controls, (ii) follow-up on the suggestions made by external auditors, (iii) ongoing monitoring and reviews on different operating cycles in the financial and brokerage industry, and (iv) special review of areas of concern identified by senior management. Throughout the financial year, L&C continually monitors various operational aspects of the Group's business activities and issues monthly compliance reports to senior management covering those activities.

All staff, including all Executive Directors, are subject to the provisions set out in the Company's Staff Handbook and Compliance Manual (collectively, the "Company Manuals"). The Company Manuals clearly sets out the policies and procedures which apply to the Group's businesses and places staff under specific obligations as to duty, ethics, integrity and principles under which our businesses operate. Each core business division has its own operating manual which specifically outlines the respective divisions operating procedures. The failure to comply with the policies and procedures as set out in the Company Manuals and/or the division operating manuals may result in disciplinary action, including dismissal from employment.

As previously noted, the Board has established the Investment Committee and the Investment Monitoring Committee to manage and monitor the Group's investments and financial commitments. Each of the core business divisions is managed by one of the Executive Directors. The Executive Directors meet on a monthly basis to review detailed financial accounts of each material business division.

The Director of L&C reviews and monitors the effectiveness of the Group's internal controls and reports its findings to the Audit Committee. However, internal controls can only provide reasonable but not absolute assurance against errors or deliberate attempts to defraud the Company. The Audit Committee reviews the findings and opinions of the Director of L&C and holds discussions with the auditors in relation to the audit of the Group's financial statements and reports to the Board on such review. The Board has through L&C and the Audit Committee conducted a review of the effectiveness of material aspects of the Group's internal control system. Improvements to the system of internal controls have been identified and appropriate measures have been taken. In respect of the year ended 30 June 2006, after considering the report of the Director of L&C and the review of the Audit Committee, the Board considered that there were no material weaknesses in the Group's internal control system that should be brought to the shareholders' attention.

EXTERNAL AUDITORS

During the financial year and up to the date of this report, the external auditors of the Group is KPMG. Fees for auditing services and non-auditing services (included interim review, report of agreed-upon procedures on on-going connected transactions and MPF business) provided by the external auditors for the year ended 30 June 2006 are HK\$1,535,800 and HK\$489,800 respectively.

Risk Management

The Group's business, financial conditions and results of operations may be affected by risks and uncertainties pertaining to the Group's business. The factors set out below are those that the Company believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those mentioned below and are unknown to the Group or which may not be material now but could turn out to be material in the future.

OPERATIONAL RISK AND INTEREST RATE RISK

The Group's results are affected by trends in the industry that it operates, particularly, investment, brokerages and wealth management. Income from these operations is dependent upon the interest rate, conditions of global investment market and money market and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's financial conditions and results of operations.

MARKET RISK

The Group operates in highly competitive and rapid changeable markets. New market entrants, the intensification of price competition by existing competitors, product innovation or technical advancement could adversely affect the Group's financial conditions and result of operations.

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 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 ("SFC").

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.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to the Group's financial conditions and results of operations arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arises from currency exposures originating from its proprietary investments. Foreign exchange rates fluctuate in reaction to the macro-economic performances of different countries and fund flows between countries arising from trade or capital movements.

IMPACT OF NEW LEGISLATION

The introduction of new legislation and rules by the Stock Exchange, SFC and other regulative body in Hong Kong and overseas may induce change in market conditions that will finally adversely affect market conditions and operation result of the Company.

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 together with Finance and Account Department and other control committees 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.

Communication with Shareholders

The Board recognizes the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The general meetings of the Company provide a forum for exchange of views between the shareholders and the Board. The Chairman of the Board, the directors and senior management of the Company and where applicable, the independent non-executive directors, are available to answer questions at the shareholders' meeting.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-Laws. Details of such right to demand a poll and the poll procedures are included in all circulars to shareholders which will call for a general meeting and will be explained during the proceedings of meeting.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Company and of the Stock Exchange.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual director.

The Company continues to enhance communications and relationship with its shareholders. Enquiries from shareholders are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.kingswaygroup.com, where extensive information and updates on the Company's business developments and operations and other information are posted.