

This report describes the Company's corporate governance practices and explains the application of the principles of 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 31st March, 2007.

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company recognises that corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and enhance shareholder value.

The Company has complied with the code provisions of the CG Code as set out in Appendix 14 of the Listing Rules throughout the year ended 31st March, 2007.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("the Directors' Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by the Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard set out in the Directors' Model Code throughout the year ended 31st March, 2007.

Board of Directors

The Board of Directors ("the Board") currently comprises nine directors, namely the Chairman, the Deputy Chairman, four Executive Directors and three Independent Non-Executive Directors ("INEDs"). During the year, Mr. Ching Sau Hong, Kevin, an Executive Director, tendered his resignation with effect from 1st July, 2006 and the same was disclosed in the announcement of the Company dated 28th April, 2006. Biographical details of the current Directors and the relevant relationships among them, if any, are set out on pages 17 and 18.

The Board meets regularly at least four times a year at approximately quarterly intervals. Regular Board Meetings of the year are scheduled in advance and at least 14 days' notice is given to Directors. All Directors are given an opportunity to include matters in the agenda for Board Meetings. Four regular Board Meetings, one ad hoc Board Meeting and one ad hoc Independent Board Committee Meeting were held during the year ended 31st March, 2007. The attendance record of each Director at the Board Meetings during the year ended 31st March, 2007 is set out below :-

<u>Directors</u>	<u>No. of Meetings Attended/Held</u>
<u>Executive Directors</u>	
Dr. Dickson Poon (Group Executive Chairman)	5/5
Mr. Raymond Lee (Deputy Chairman and Chief Executive Officer)	5/5
Mr. Chan Tsang Wing, Nelson	5/5
Mr. Ching Sau Hong, Kevin (Resigned on 1st July, 2006)	0/1
Mr. Edwin Ing	5/5
Mr. Ng Chan Lam	4/5
Mr. Walter Josef Wuest	5/5

INEDs

Mr. Bhanusak Asvaintra	5/6
Mr. Nicholas Peter Etches	6/6
Mr. Christopher Patrick Langley, OBE	6/6

The Board is responsible for determining those matters that are to be retained for full Board sanction including, but not limited to, overall strategy and long-term objectives, new business activities, annual budgets, business plans and financial statements, interim and final results announcements, material acquisitions and disposals of assets, investments, capital projects and commitments, annual internal control assessment, major treasury, funding and risk management policies as well as material connected transactions.

The Board has delegated the day-to-day responsibility in respect of management and administrative functions to management including, but not limited to, implementing and achieving the strategies and objectives set by the Board as well as overseeing the performance of different functions/departments and monitoring and implementing proper internal controls and systems.

Directors' Responsibilities for Preparing Accounts

The Company's Directors acknowledge their responsibilities to prepare accounts for each half and full financial year which give a true and fair view of the state of affairs of the Group. The Directors' responsibilities for the accounts are set out in the Independent Auditor's Report on pages 39 and 40.

Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer ("CEO") are separate and are not exercised by the same individual so as to ensure a clear division between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company's business. Currently, Dr. Dickson Poon is the Group Executive Chairman and Mr. Raymond Lee is the CEO of the Company. A list setting out the respective responsibilities of the Chairman and the CEO was adopted by the Company at the Board Meeting held on 22nd June, 2005.

Non-Executive Directors

There are currently three INEDs. The terms of office of all the INEDs, subject to earlier determination or re-election under retirement by rotation in accordance with the Company's New Bye-laws and/or applicable laws and regulations, are fixed for one year renewable on an annual basis.

The Company has received from each of the INEDs their annual confirmation of independence and considers that each of the INEDs is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

Remuneration of Directors

The Remuneration Committee comprises three members and is chaired by Mr. Bhanusak Asvaintra, an INED, with Mr. Nicholas Peter Etches, an INED, and Mr. Raymond Lee, the CEO, as members. The terms of reference of the Remuneration Committee are aligned with the provisions set out in the CG Code. Given below are the main duties of the Remuneration Committee :-

- (i) to recommend to the Board the Company's policy and structure for all remuneration of Directors and senior management;
- (ii) to determine the specific remuneration packages of all Executive Directors and senior management;
- (iii) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (iv) 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; and
- (v) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.

A Remuneration Committee meeting was held during the year ended 31st March, 2007 which all members attended.

The work performed by the Remuneration Committee for the year ended 31st March, 2007 was in accordance with the terms of reference of the Remuneration Committee and is summarised below :-

- (i) reviewed the remuneration packages for all the Directors and senior management;
- (ii) reviewed performance-based remuneration;
- (iii) recommended the directors' fees for the year ended 31st March, 2007 for each Executive Director and reviewed the directors' fees for Non-Executive Directors for shareholders' approval at the forthcoming 2007 Annual General Meeting; and
- (iv) considered the grant of share options to Directors and senior management, if appropriate.

The primary aim of the remuneration policy is to enable the Company to motivate and retain Executive Directors and senior management by comparing their performance against corporate goals and objectives when determining appropriate compensation to them. The principal elements of the remuneration package include basic salary, discretionary bonus, retirement scheme contributions and share options. In determining guidelines for each compensation element, the Company refers to the comparable remuneration standard in the market.

Non-Executive Directors are compensated with the primary aim to fairly represent their efforts and time dedicated to the Board and Committee Meetings. The fees of Non-Executive Directors are subject to annual assessment and recommendation by management and reviewed by the Remuneration Committee for shareholders' approval at the Annual General Meeting.

In determining the level of fees of Non-Executive Directors, account is taken of factors such as directors' fees paid by comparable companies, and time commitment and responsibilities of the Non-Executive Directors.

The amount of remuneration paid to each Director for the year ended 31st March, 2007 is set out on page 59.

Nomination of Directors

The Company does not have a nomination committee as the role and function of such a committee is performed by the Board. Any member of the Board may nominate any suitable person to join the Board if considered necessary. Such nomination must then be approved by the Board. Any new Director shall hold office only until the next following Annual General Meeting of the Company and shall then be eligible for re-election at the Annual General Meeting. Mr. Ching Sau Hong, Kevin tendered his resignation as an Executive Director of the Company with effect from 1st July, 2006 in order to pursue other career interests and no replacement was appointed in his place. No Board Meeting regarding nomination of Directors was held during the year.

Auditors' Remuneration

During the year ended 31st March, 2007, the fees charged to the accounts of the Company and its subsidiary companies (together "the Group") for the Group's statutory audit services amounted to HK\$4,703,000 (2006 : HK\$4,032,000), and in addition HK\$261,000 (2006 : HK\$307,000) for other non-statutory audit services such as advisory services.

Independent Auditor's Reporting Responsibilities

The reporting responsibilities of KPMG, the Independent Auditor ("the Independent Auditor"), are set out in the Independent Auditor's Report on pages 39 and 40.

Audit Committee

The Audit Committee comprises three members and is chaired by Mr. Nicholas Peter Etches, an INED, with Mr. Bhanusak Asvaintra and Mr. Christopher Patrick Langley, OBE, both INEDs, as members. The terms of reference of the Audit Committee are aligned with the provisions set out in the CG Code. Given below are the main duties of the Audit Committee :-

- (i) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and to answer any questions relating to the resignation or dismissal of those auditors;
- (ii) to review before submission to the Board the Company's annual report and accounts, half-year report and any significant financial reporting judgments contained therein with particular focus on :-
 - any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with the Listing Rules and other legal requirements in relation to financial reporting;

- (iii) to review the contents of the representation letter to the external auditors prior to submission to the Board;
- (iv) to review the financial controls, internal control and risk management systems;
- (v) 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;
- (vi) to ensure co-ordination between the internal and external auditors and to review and monitor the effectiveness of the internal audit function; and
- (vii) to review the Group's financial and accounting policies and practices.

Four Audit Committee Meetings were held during the year ended 31st March, 2007. The attendance record of each member at the Audit Committee Meetings during the year ended 31st March, 2007 is set out below :-

<u>Audit Committee Members</u>	<u>No. of Meetings Attended/Held</u>
Mr. Nicholas Peter Etches (Chairman)	4/4
Mr. Bhanusak Asvaintra	4/4
Mr. Christopher Patrick Langley, OBE	4/4

The work performed by the Audit Committee for the year ended 31st March, 2007 was in accordance with the terms of reference of the Audit Committee and is mainly summarised below :-

- (i) reviewed and discussed with the Independent Auditor before submission to the Board the Company's annual report and accounts, half year report and any significant financial reporting judgments contained therein together with the relevant draft letters of representation addressed to the Independent Auditor;
- (ii) reviewed the Company's quarterly operating results and financial highlights for the three month period ended 30th June, 2006 and nine month period ended 31st December, 2006 respectively;
- (iii) reviewed the effectiveness of the internal control system of the Group covering material controls for financial, operational, compliance and risk management;
- (iv) reviewed the quarterly reports from the Head of Group Internal Audit Department;
- (v) considered the audit plan for 2007/2008; and
- (vi) considered matters relating to the continuing connected transactions with private group companies.

Internal Controls

The Board has the overall responsibility for maintaining sound and effective internal controls to safeguard the shareholders' investment and the Group's assets. The Group's internal control systems are designed to provide reasonable assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in operational systems.

Apart from annual review of the effectiveness of the Group's internal control system by the Board, it delegates such responsibility of reviewing the effectiveness of the Group's internal control systems to the Audit Committee which monitors the Group's internal control systems through the Group Internal Audit Department. The Group Internal Audit Department performs regular independent reviews of all material controls, including financial, operational and compliance controls and risk management functions of the Group and evaluates their adequacy and effectiveness on a continuing basis. The annual audit plan is discussed and agreed every year with the Audit Committee. A report of major audit findings is submitted quarterly to the members of the Audit Committee and discussed at the Audit Committee Meetings. The audit reports are then followed up by the Group Internal Audit Department to ensure corrective actions have been taken in respect of findings previously identified and that they have been properly resolved. Internal audits are designed to provide the Board with reasonable assurance that sound and effective internal control systems of the Group are implemented for protecting the Group's assets and identifying business risks.

Apart from the regular independent reviews by the Group Internal Audit Department, there is an annual compliance review by the functional departments of the Company. For the year under review, various compliance certificates for the year ended 31st March, 2007 were received from the Department Heads / Officers of the Company countersigned by the Head of Group Internal Audit Department confirming that internal control systems have been assessed and compliance reviews have been conducted by departments (with the relevant disclosure of matters arising and remedial action taken, if any) and reviewed by the Group Internal Audit Department. The certificates also included confirmation that the internal control procedures of the relevant departments have been complied with and their internal control systems with the relevant risk assessment are effective and in compliance with all the relevant statutory requirements and regulations.

A model code for securities transactions by relevant employees ("the Relevant Employees' Model Code") has been adopted by the Company which sets out the securities dealing and confidentiality requirements for compliance by all Relevant Employees (as defined in the Relevant Employees' Model Code) of the Company which is on no less exacting terms than the Directors' Model Code. Amongst the requirements under the Relevant Employees' Model Code, the Relevant Employees who have knowledge of unpublished price-sensitive information should take extra care and treat such information in the strictest confidence. In addition, the Company will issue memoranda annually and through the Department Heads / Officers from time to time to remind the Relevant Employees of the Company to observe the said requirements.

The Board has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational, compliance and risk management for the year under review and in view of the above, it considered that the Group's internal control systems are effective, adequate and in compliance with the code provision on internal control of the CG Code.

Investor Relations and Communication with Shareholders

The Company has established a range of communication channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. These include the Interim Report, Annual Report and circulars which are sent to shareholders from time to time. Moreover, regular meetings with institutional investors and analysts are held to keep them abreast of the Company's development. In order to promote effective communication, the Company maintains its website at www.dickson.com.hk on which press releases, announcements and financial and other information relating to the Company and its businesses are disclosed.

All shareholders are encouraged to attend the Annual General Meeting and they are informed of the procedure for demanding a poll in all circulars which are sent to shareholders from time to time together with notices of general meetings of the Company. The Company has taken steps to ensure compliance with the requirements about voting by poll contained in the Listing Rules and the New Bye-laws of the Company and poll results are published on the Stock Exchange's website at www.hkex.com.hk and on the Company's website as soon as possible after the meeting, but in any event not later than 9:00 a.m. on the next business day following the meeting. The Directors and the Independent Auditor also attend the Annual General Meetings to answer shareholders' questions, if any.

By Order of the Board



Dickson Poon

Group Executive Chairman

Hong Kong, 26th June, 2007