

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 on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

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.

During the year, save as disclosed in the Company's latest Interim Report for the six months ended 30th September, 2005, the Company has complied with the code provisions of the CG Code. At the Board meeting held on 22nd June, 2005 to consider the final results of the Company for the year ended 31st March, 2005, the following code provisions were discussed and complied with as detailed below :-

- (i) Under A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 22nd June, 2005, Mr. Raymond Lee, the Deputy Chairman, was appointed as the Chief Executive Officer ("CEO") of the Company and a list setting out the respective responsibilities of the Chairman and the CEO was adopted by the Company.
- (ii) Under A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. On 22nd June, 2005, the terms of office of the Independent Non-Executive Directors ("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, were fixed for one year renewable on an annual basis.
- (iii) Under A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. On 22nd June, 2005, recommendation was made to the shareholders of the Company to amend the Company's new Bye-laws to, inter alia, delete the exception clause so that every director of the Company ("the Directors") shall be subject to retirement by rotation at least once every three years. This recommendation was adopted at the Annual General Meeting of the Company held on 25th August, 2005.
- (iv) Under A.5.4 of the CG Code, the board should establish written guidelines for relevant employees in respect of their dealings in the securities of the issuer on no less exacting terms than 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. On 21st September, 2005, the Company adopted the Model Code for Relevant Employees on Securities Transactions which is on no less exacting terms than the Directors' Model Code or the code previously adopted by the Company.
- (v) B.1 of the CG Code relates to the establishment of a remuneration committee and its composition, authority and duties. On 22nd June, 2005, the Company established a remuneration committee with relevant terms of reference.
- (vi) Under C.3.3 of the CG Code, the terms of reference of the audit committee should include at least those duties as set out in C.3.3 of the CG Code. On 22nd June, 2005, the Company adopted a new set of terms of reference for the Audit Committee including those duties as set out in C.3.3 of the CG Code in place of the terms of reference of the Audit Committee adopted on 1st June, 2004.
- (vii) Under D.1.2 of the CG Code, an issuer should formalise the functions reserved for the board and those delegated to management. On 22nd June, 2005, the Company formalised and adopted a list setting out the functions reserved for the board of directors of the Company ("the Board") and those delegated to management.

Directors' Securities Transactions

The Company has adopted the Directors' Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by 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, 2006.

Board of Directors

The Board currently comprises ten directors, namely the Chairman, the Deputy Chairman, five Executive Directors (of whom Mr. Ching Sau Hong, Kevin, an Executive Director, has tendered his resignation with effect from 1st July, 2006 and the same was disclosed in the announcement of the Company dated 28th April, 2006) and three INEDs. Biographical details of the Directors and relevant relationships among them, if any, are set out on pages 19 to 20.

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 and two ad hoc Board meetings were held during the year ended 31st March, 2006. The attendance record of each Director at the Board meetings during the year ended 31st March, 2006 is set out below :-

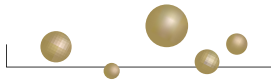
<u>Directors</u>	<u>No. of Meetings Attended/Held</u>
<u>Executive Directors</u>	
Dr. Dickson Poon (Group executive chairman)	5/6
Mr. Raymond Lee (Deputy chairman and CEO)	6/6
Mr. Chan Tsang Wing, Nelson	6/6
Mr. Ching Sau Hong, Kevin	4/6
Mr. Edwin Ing	6/6
Mr. Ng Chan Lam	5/6
Mr. Walter Josef Wuest	6/6
<u>INEDs</u>	
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.

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.

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.



Chairman and Chief Executive Officer

The roles of the Chairman and the CEO of the Company 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.

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.

Remuneration of Directors

The Remuneration Committee was established on 22nd June, 2005 and 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 on 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, 2006 which all members attended.

The work performed by the Remuneration Committee for the year ended 31st March, 2006 was in accordance with the terms of reference of the Remuneration Committee and is summarised below :-

- (i) reviewed the remuneration policy, structure and packages for all remuneration of Directors and senior management and recommended the establishment of the related procedure for developing such policy;
- (ii) recommended to the Board the remuneration of Non-Executive Directors;
- (iii) reviewed performance-based remuneration;
- (iv) recommended the directors' fees for the year ended 31st March, 2006 for each Executive Director and reviewed the directors' fees for Non-Executive Directors for shareholders' approval at the forthcoming 2006 Annual General Meeting; and
- (v) 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 levels 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, 2006 is set out on page 58.

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. No Board meeting regarding nomination of Directors was held during the year.

Auditors' Remuneration

During the year ended 31st March, 2006, 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\$4,032,000 (2005 : HK\$3,539,000), and in addition HK\$307,000 (2005 : HK\$82,000) for other non-statutory audit services such as advisory services.

Auditors' Reporting Responsibilities

The reporting responsibilities of KPMG, the Auditors ("the Auditors"), are set out in the Auditors' Report on page 38.

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, 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, 2006. The attendance record of each member at the Audit Committee meetings during the year ended 31st March, 2006 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	3/4
Mr. Christopher Patrick Langley, OBE	4/4

The work performed by the Audit Committee for the year ended 31st March, 2006 was in accordance with the terms of reference of the Audit Committee and is mainly summarised below :-

- (i) reviewed and discussed with the Auditors 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 Auditors;

- (ii) reviewed the Company's quarterly operating results and financial highlights for the three month period ended 30th June, 2005 and nine month period ended 31st December, 2005 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 Group Internal Audit Department;
- (v) considered the audit programme for 2006/2007; 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. During the year ended 31st March, 2006, the Board has reviewed the effectiveness of the internal control system of the Group covering material controls for financial, operational, compliance and risk management.

Apart from annual review of the effectiveness of the internal control system of the Group by the Board, it delegates such responsibility to the Audit Committee which monitors the internal control systems through the Group Internal Audit Department. The Group Internal Audit Department reviews the material controls of the Group on a continuing basis and aims to cover all operations of the Group. The annual audit programme is approved by the Audit Committee. Results of the audit reviews are submitted in reports to the members of the Audit Committee and discussed at the Audit Committee meetings. The audit reports are also followed up by the Group Internal Audit Department to ensure findings previously identified have been properly resolved. Internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective.

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. 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 <http://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 to shareholders which are from time to time despatched to shareholders 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 advertised in newspapers on the following day and are posted on the Company's website. The Directors and Auditors also attend the Annual General Meetings to answer shareholders' questions, if any.