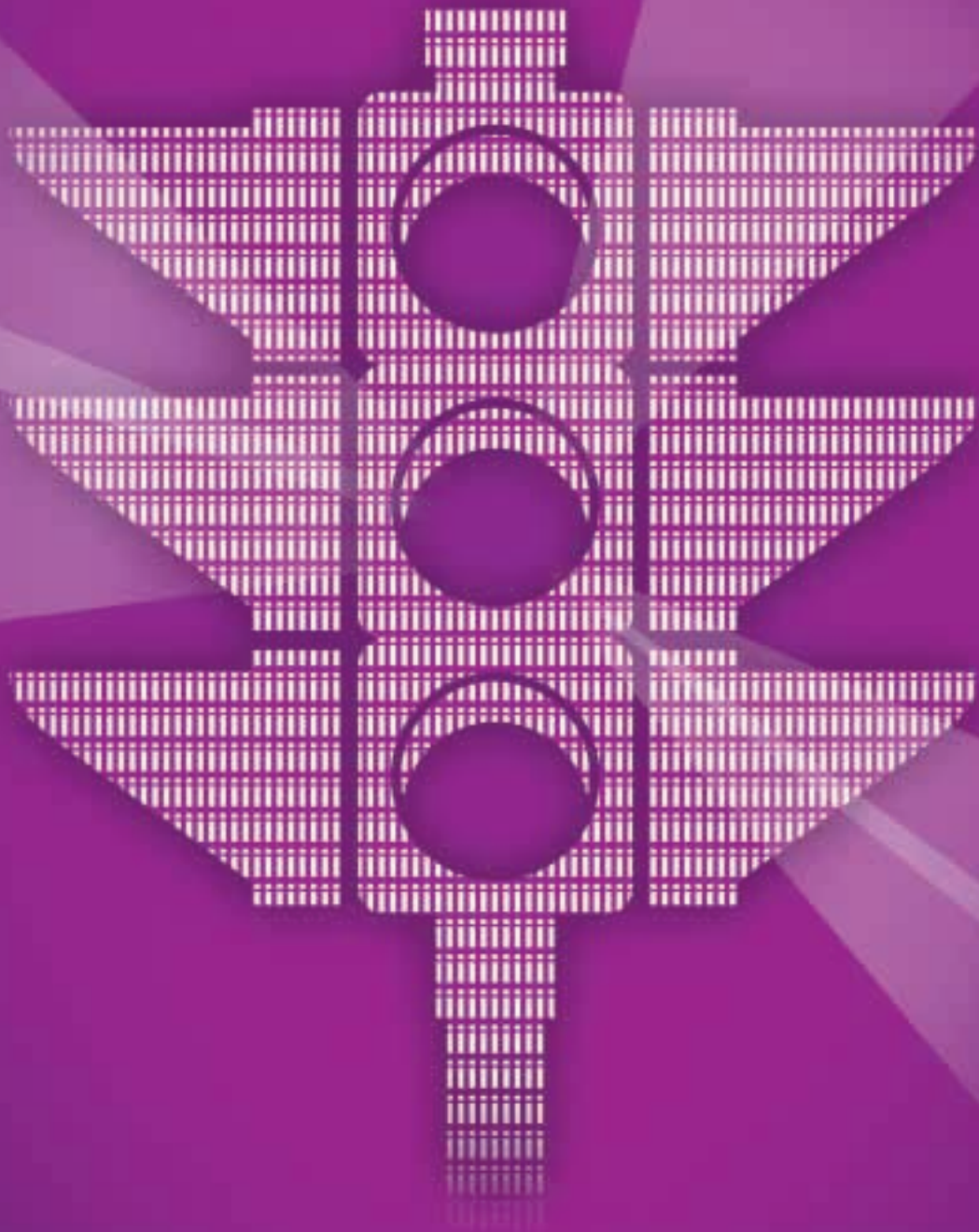


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Corporate Governance Statement



Tai Fook won the Best Corporate Governance Disclosure Awards in the Non Hang Seng Index Category organized by the Hong Kong Society of Accountants for two consecutive years.

The board and senior management are committed to maintain a high standard of corporate governance. It is believed that a well-balanced corporate governance system will ensure the Company is run in the best interests of its shareholders and other stakeholders. A brief summary of the corporate governance policies adopted at Tai Fook is set out below:

Board of Directors

Full board meeting will be held no less than twice a year and it will be responsible for all the affairs of the Company. The board will involve primarily in the control, direction, strategy and performance of the Company.

Audit Committee

The Committee is made up of 3 non-executive directors of the Company and 2 of whom are independent

non-executive directors. The Committee will meet no less than twice a year to review all business affairs managed by the executive directors in particular on connected transactions, if any and to review the interim and final financial statements before their submission to the board and the annual general meeting for approval. The authority and duties of the Audit Committee adopt the terms of reference set out in “A Guide For The Formation Of Audit Committee” published by the Hong Kong Society of Accountants.

Executive Committee

The Committee is made up of the Chief Executive Officer and the heads of major business divisions of the Company and its subsidiaries. Members of the Committee are appointed by the board. The Committee is duly authorized by the board to manage the day-to-day business of the

Company on the board's behalf. Such authorization may be revoked at the discretion of the board. The Executive Committee meets every week and reports to the board as and when required.

Business Review Committee

The Committee is made up of 2 executive directors and 2 non-executive directors of the Company. The Committee will meet once a month to review the performance of the Group's businesses and report to the board regularly.

Credit Committee

The Committee consists of certain executive directors of the Company and its subsidiaries. Members of the Committee are appointed by the Executive Committee. The Committee is charged with the responsibility to approve margin rate of stocks and client credit application. The Committee reports to the Executive Committee as and when required.

Cost Rationalization Committee

The Committee is headed by the Chief Financial Officer and made up of certain senior executives of the Group. Members of the Committee are appointed by the Executive Committee. The objective of the Committee is to rationalize cost structure of the Group and enhance efficiency. The Committee reports to the Executive Committee as and when required.

Ad-hoc Committees

Owing to the complexity of our business, Ad-hoc Committees are formed and members of the committees are appointed by the Executive Committee to deal with special projects, such as IT Steering Committee and Business Combination Committee.

Records

The following is an attendance record of the meetings held by the board and various committees in the financial year and their average attendance rates:

	Number of meetings held in 2002/2003	Average attendance of members
Full Board	2	53%
Audit Committee	2	67%
Executive Committee	51	91%
Business Review Committee	11	100%
Credit Committee	4	39%
IT Steering Committee	47	90%
Cost Rationalization Committee	11	92%
Business Combination Committee	4	95%



All businesses transacted at the respective meetings are well-documented by minutes which are circulated to the board from time to time.

Annual General Meeting

The annual general meeting provides a forum for direct communication between the board and the Company's shareholders. All shareholders will be given at least 21 days' notice for the annual general meeting. Shareholders' attendance and questioning on the Company's operations or financial information at such meeting are encouraged and welcome.

Department Heads Meeting

The meeting is chaired by the Chief Operating Officer and all departmental heads within the Group meet together every month. The objective of the meeting is to facilitate and strengthen divisional communication and co-operation within the Group.

Internal Controls

To maintain a sound system of internal controls and safeguard our shareholders' investment and the Company's

assets at all times, the Company has an independent and objective internal audit and compliance team which critically reviews all critical aspects of the Group's activities and its internal controls. The head of internal audit and compliance team has direct access to the board through the Chief Executive Officer. The Group has maintained a set of up-to-date operation manuals on its major operations. As regards to the code of conduct of registered persons, a set of compliance policies have been published to provide guidance on matters such as employee dealing, ethics and Chinese wall policy, etc. On a regular basis, it conducts audit checks on procedures of the Group's core operations.

In mid March 2003, an incident of suspected fraudulent acts involving clients' assets committed by an employee of Tai Fook Securities Company Limited ("TFS"), a wholly owned subsidiary of the Company, was discovered and reported to the police on 25 March 2003 for further investigation. On the same day, the incidence was reported to the Securities and Futures Commission (the "SFC") and The Stock Exchange of Hong Kong Limited. An announcement was published on 27 March 2003 to inform our shareholders and the public of the incidence. TFS has



Annual general meeting of Tai Fook provides a forum for direct communications between the board and shareholders.

since then strengthened its internal control system in particular on issuance of third party cheques so as to protect its assets and those of its clients. On 2 June 2003, at the request of the SFC, TFS appointed KPMG as an independent accountant to conduct a circularization of clients of TFS, an investigation into the alleged acts of misappropriation of clients' assets and a review of TFS's internal control system. According to our preliminary estimate, the potential loss of those affected clients amounts to approximately HK\$7.9 million subject to final report of KPMG. TFS would seek compensation for the loss to the extent covered by the Brokers' Fidelity Insurance Policy.

Risk Management Policies

The Group adopts very stringent risk management policies and monitoring systems to contain exposure associated with credit, liquidity and market in all its major operations.

Credit risk: The Credit Committee is charged with the responsibility of approving the trading limit and margin limit of each customer. The Committee is also responsible for approval of stock acceptable for margin lending at a specified ratio. The approved stock list is updated quarterly, and will be revised as and when deemed necessary by the Committee. The Committee will prescribe from time to time lending limits on individual stocks or on an individual customer and his/her associates.

The Credit Control Department is responsible for making margin calls to customers whose trades exceed their limit. Any such excess is required to be made good within 2 days for securities and the next day for futures of the deficiency report. The deficiency report will be monitored by the finance director. Failure to meet margin calls will result in the liquidation of the customer's securities.

Liquidity risk: The Group's operating units are subject

to various statutory liquidity requirements as prescribed by the authorities. The Group has put in place monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with the relevant Financial Resources Rules.

As a safeguard, the Group has maintained very substantial stand-by banking and other facilities to meet any contingency in its operations. Even in periods of high market volatility, the management believes the Group's working capital is adequate to meet its financial obligations.

Market risk: If the stock prices of a margin customer's portfolio drop below the margin limit and the customer fails to meet margin calls, the Group will be exposed to the defaulter's liabilities. When stock prices come down, these may affect the value of the Group's proprietary trading portfolio. Any loss incurred will be charged direct to the Group's profit and loss account. The Group's exposure to underwriting commitments will also be affected if the price of the underlying stocks comes down.

The Group has adopted an investment policy to cap its proprietary portfolio and exposed underwriting commitments at an aggregated sum of not exceeding 25% of the net assets value of the Group.

Taking into account of the changing regulatory environment, the Group has maintained and constantly updated its operation manuals of its major operations. We have also put in place competent compliance, internal audit and quality assurance teams with their respective aims at detecting systemic risks and recommending policy changes; carrying out checks on statutory compliance and Company's rules and regulations; and implementing ongoing checks and verification of satisfaction rate of Company's prescribed service pledge and standards.



Hong Kong Institute of Directors presented the “Directors of the Year Awards” to Mr. Wong Shiu Hoi, Peter, Managing Director of the Group, in recognition of his achievement in corporate governance.

Employee Policies and Remuneration

Employee policies are proposed by Human Resources Division and submitted to the Executive Committee for review and approval. Remuneration of executive directors and granting of share options to employees are reviewed and approved by a committee consisting of independent non-executive directors.

Investor Relations

The Company encourages two way communications with both its institutional and private investors. Extensive information about the Company’s activities is provided in its Annual Report and Interim Report, which are sent to shareholders of the Company. The Company maintains regular communication with the media and uses its website to disseminate financial and other information relating to the Group and its business to the public in order to foster effective communication.

Corporate Citizenship

The Group is committed to playing a full role as responsible market practitioners in the securities industry. It endorses its senior executives in accepting public offices of various regulatory advisory boards. Through their participation, the Group aims at fostering and promoting the healthy development of the securities and futures industry of Hong Kong.

The Group and its staff are also keen to contribute to the community and to protect the environment. During the year, the Group and its staff had participated in a wide range of community activities, which include “Adopt-A-School Program”, “The Community Chest Corporate Challenge”, “Dress Casual Day”, “Skip Lunch Day” and “Standard Chartered Hong Kong Marathon”. On environmental protection, the Group, leveraged on its IT capability, strongly promotes its e-statement and other paperless e-communication services among its clients and associates so as to make the world a greener place to live in.