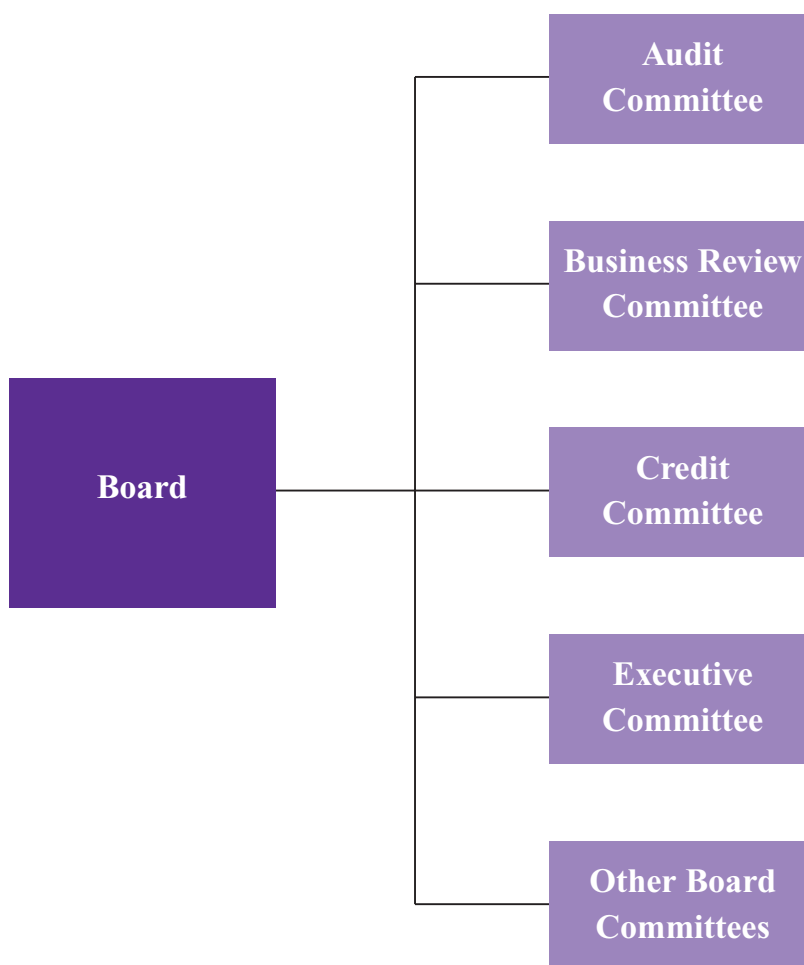


The board and senior management are committed to maintaining a high standard of corporate governance. It is believed that a well-balanced corporate governance practice will enable the Company to better manage its business risks and thereby ensure the Company is run in the best interests of its shareholders and other stakeholders.

Corporate Governance Structure

The board is charged with the duty to put in place a proper corporate governance structure of the Company. It is primarily responsible for setting

directions, formulating strategies, monitoring performance and managing risks of the Group. There are currently four board committees, namely Audit Committee, Executive Committee, Business Review Committee and Credit Committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the board in supervising certain functions of the senior management. Other board committees will be formed to perform specified functions such as Remuneration Committee and Nomination Committee as and when required.



Tai Fook Corporate Governance Structure Chart

Board of Directors

Commencing from 2004, full board meeting will be held no less than four times a year and it will be responsible for all the affairs of the Company. The board will involve primarily in the direction, strategy, performance and control of the Company. The roles of the Chairman and the Managing Director are segregated.

Attendance at Full Board Meetings

Name of directors	Attendance/Number of Meetings held
Cheng Kar Shun, Henry	0/2
Lo Lin Shing, Simon	0/2
Doo Wai Hoi, William	2/2
Wong Shiu Hoi, Peter	2/2
Lee Yiu Wing, William	2/2
Chan Chi On, Derek	2/2
Luo Gang	0/2
Chan Wing Luk	2/2
To Tin Tsun, Gerald	2/2
Ho Hau Chong, Norman	2/2
Chan Kam Ling	2/2
Wong Kwok Kin, Andrew	1/2
Lam Wai Hon, Patrick	2/2
Cheung Wing Yui, Edward	1/2
Liang Chung Meng, Arthur <i>(resigned as independent non-executive director on 23 September 2003)</i>	0/1
Wei Chi Kuan, Kenny <i>(appointed as independent non-executive director on 23 September 2003)</i>	0/1

To enhance communication with the directors of the Company as to the business transacted at the board and board committees' meetings, an exclusive Intranet site was established in March 2004 to enable directors of the Company to access minutes of the respective meetings at their convenience.



The board members involve in the direction, strategy, performance and control of the Company.



An exclusive Intranet site provides convenience to the board members to access minutes of the respective meetings.

Audit Committee

The Committee was set up in 1998 and is currently composed of 3 non-executive directors of the Company and 2 of whom are independent non-executive directors. A majority of the Committee members, including the Chairman, have the appropriate professional qualification and experience in financial matters. The Committee will meet no less than twice a year (commencing from 2004, four times 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. As regards to the authority and duties of the Audit Committee, the Company adopts the terms of reference as set out in "A Guide For The Formation Of Audit Committee" published by the Hong Kong Society of Accountants and any updates thereof.

Attendance at Audit Committee Meetings

Name of Committee Members	Attendance/Number of Meetings held
Cheung Wing Yui, Edward	2/2
Ho Hau Chong, Norman	2/2
Liang Chung Meng, Arthur <i>(ceased to be committee member on 23 September 2003)</i>	0/1
Wei Chi Kuan, Kenny <i>(appointed as committee member on 23 September 2003)</i>	0/1

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.

Attendance at Business Review Committee Meetings

Name of Committee Members	Attendance/Number of Meetings held
Wong Shiu Hoi, Peter	10/10
Lee Yiu Wing, William	10/10
Wong Kwok Kin, Andrew	9/10
Lam Wai Hon, Patrick	10/10

Executive Committee

The Committee is made up of the Chief Executive and the heads of major business divisions of the Group. Members of the Committee are appointed by the board. The Committee is duly authorised by the board to manage the day-to-day business of the Group on the board's behalf. Financial commitments under delegated power of the board is subject to a cap to be reviewed by the board from time to time. Such authorisation may be revoked at the discretion of the board. The Executive Committee meets every week and reports to the board from time to time.

Attendance at Executive Committee Meetings

Name of Committee Members	Attendance/Number of Meetings held
Wong Shiu Hoi, Peter	34/38
Lee Yiu Wing, William	35/38
Chan Chi On, Derek	32/38
Wong Yat Hang, Peter	37/38
Hui Yee, Wilson	32/38
Wong Chung Man <i>(ceased to be committee member on 1 November 2003)</i>	23/27
Wu Kwok Leung, Edmond	34/38
Lau Chi Keung, Sammy	33/38
Ying Tak Sun, Nelson <i>(appointed as committee member on 1 November 2003)</i>	7/9

Credit Committee

The Committee has been reconstituted since 22 September 2003 with newly added responsibilities and enhanced functions to set direction for credit policies and to improve asset quality of the Group. Members of the Committee are appointed by the board and is currently composed of certain executive directors of the Company and its subsidiaries. The Committee will meet quarterly and report to the board from time to time. Ad-hoc meetings will be held as and when market conditions change significantly.

Attendance at Credit Committee Meetings

Name of Committee Members	Attendance/Number of Meetings held
Lo Lin Shing, Simon	0/3
Wong Shiu Hoi, Peter	3/3
Lee Yiu Wing, William	3/3
Wong Yat Hang, Peter	2/3
Hui Yee, Wilson	3/3
Wu Kwok Leung, Edmond	3/3
Lau Chi Keung, Sammy	3/3
Chang Chow Kam Wen, Margaret	3/3

Cost Management Committee

The Committee was formerly named as Cost Rationalisation Committee. It 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 manage cost structure of the Group and enhance efficiency. The Committee reports to the Executive Committee from time to time.

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.

Records

The following is an attendance record of the meetings held by the various committees during the period and their average attendance rates:

Name of Committee	Number of Meetings held	Average Attendance %
Cost Management Committee	5	89
IT Steering Committee	22	98

All businesses transacted at the respective meetings are well-documented by minutes.

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.



Tai Fook Annual General Meeting provides a forum for direct communication between the board and the shareholders.

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 Control

To maintain a sound system of internal control 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 control. The head of internal audit and compliance team has direct access to the board. 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 and compliance checks on procedures of the Group's core operations.

Last year, an incident of 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. On the same day, the incidence was reported to the Securities and Futures Commission (the "SFC") and The Stock Exchange of Hong Kong Limited. Announcements were published firstly on 27 March 2003 and subsequently on 27 May 2003 to inform our shareholders and the public of the incidence and the estimated financial loss arising from the incidence. TFS has since then strengthened its internal control system.

On 2 June 2003, at the request of the SFC, TFS appointed KPMG as an independent accountant to conduct a circularisation of clients of TFS, an investigation into the alleged acts of misappropriation of clients' assets and a review of TFS's internal control system. KPMG issued a Report on Internal Control and Systems and Procedures dated 14 July 2003 confirming adequate internal control system in place but with certain weaknesses. Subsequently, a Report on Follow-up Review of Internal Control and Systems and Procedures dated 12 March 2004 confirming that all weaknesses as mentioned in the earlier report were rectified and disposed of by the Company. TFS are seeking compensation for the loss to the extent covered by the Brokers' Fidelity Insurance Policy.

External Auditors

The Group's financial statements were audited by Ernst & Young at a total fee of HK\$1.6 million that was approved by the board of directors. The Group also paid Ernst & Young a fee of HK\$0.3 million for non-audit services.

Risk Management Policies

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

Credit risk:

The Credit Committee has appointed a group of authorised persons who are charged with the responsibility of approving credit limit of each customer. The Committee is 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 respective limits. 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 daily by the Group's finance director and responsible officers. Failure to meet margin calls will result in the liquidation of the customer's positions.

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 prices of the underlying stocks come down.

The Group has adopted an investment policy to cap its proprietary portfolio and exposed underwriting commitments respectively at an aggregated sum of not exceeding 10% of the net assets value of the Group or HK\$100 million, whichever the lower. Such policy may be varied at the discretion of the board.

IT Systems performance risk:

Systems are installed to monitor availability and performance of various IT systems and a vigilance team will act and report to senior management in accordance with laid-down procedures in the event of disruption, instability and other situations which may warrant to trigger contingency procedure to protect the interests of our clients.

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.

Employee Policies and Remuneration

Employee policies are proposed by Human Resources Department 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.



The board members presented the annual results of 2003 in a press conference.

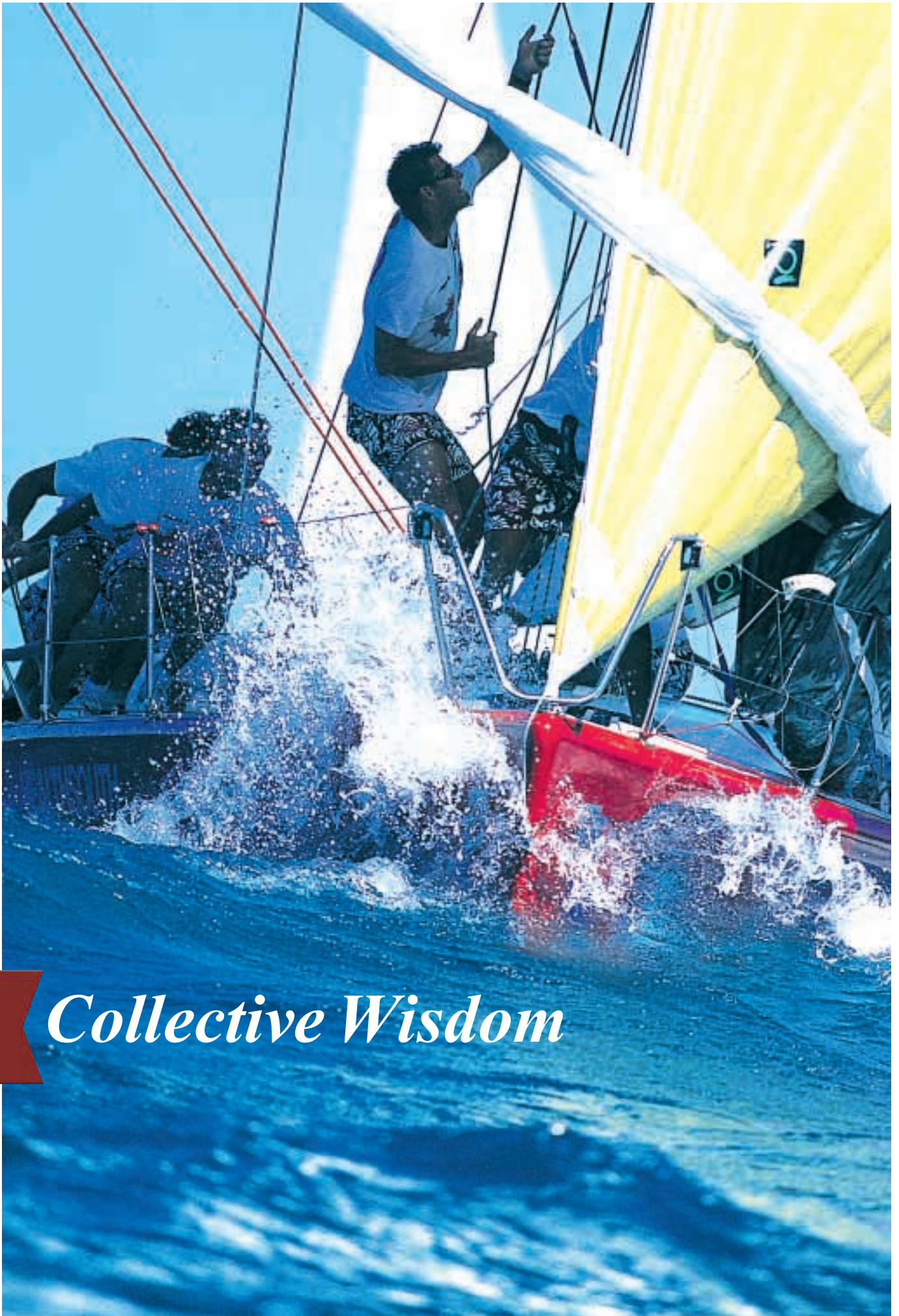
Corporate Citizenship

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 period, the Group and its staff had participated in a wide range of community activities, which include "The Community Chest Corporate Challenge", "Half Marathon and 10 Km Run", "Dress Casual Day" and "Mentorship Program for The Chinese University of Hong Kong". In addition, our board members have been invited to be speakers in various seminars organised in Hong Kong or PRC on topics such as "Corporate Governance", "Overview of IPO in the Past Year", "Hong Kong Market Situation", "Presentation on the Listing of Mainland China's SMES on the HKGEM", "The Hong Kong Financing Platform - How to Raise Funds Through a Listing in Hong Kong" and "Fujian - Hong Kong week: Financial Seminar". 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.



A reporter interviewed Mr. Wong Shiu Hoi, Peter, Managing Director.



Collective Wisdom