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Corporate Governance Report

Corporate Governance Practices

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.

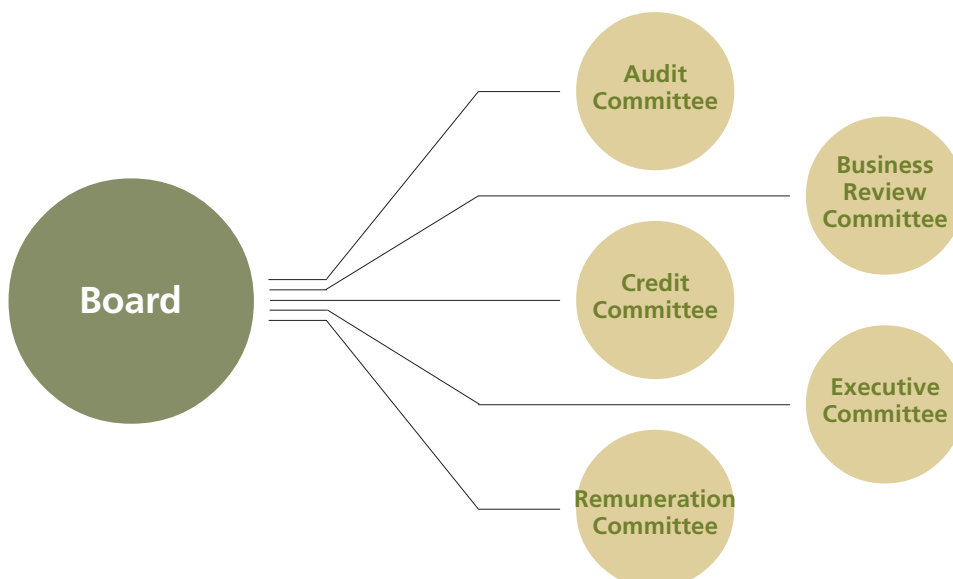
In November 2004, the Hong Kong Stock Exchange introduced the "Code on Corporate Governance Practices" (the "Code") and the "Corporate Governance Report" which will take effect for accounting periods commencing on or after 1 January 2005, with the exception for those relating to internal controls which will be implemented for accounting periods commencing on or after 1 July 2005. The Code will replace the Code of Best Practice in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Code of Best Practice") and sets out the principles of good corporate governance and two levels of recommendations, namely (a) Code Provisions, with which issuers are expected to comply or to give



The Board involves in the direction, strategy, performance and control of the Company.

considered reasons for any deviations; and (b) Recommended Best Practices, which are for guidance only.

Throughout the year ended 31 December 2004, the Company has complied with the Code of Best Practice, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code of Best Practice for the accounting period from 1 January to 30 June 2004 covered by this Annual Report, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws. Though the Code and the Corporate Governance Report will take effect for accounting periods commencing on or after 1 January 2005, the Company has applied some of



the principles mentioned therein in compiling this corporate governance report.

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. Under the Board, there are currently 5 board committees, namely Audit Committee, Business Review Committee, Credit Committee, Executive Committee and Remuneration 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.

Board of Directors

The Board currently comprises 14 directors of the Company, including the Chairman, 2 Deputy Chairmen, the Managing Director, 2 executive directors, 5 non-executive directors and 3 independent non-executive directors. All non-executive directors of the Company are appointed for a specific term of 2 years subject to the retirement and reappointment provisions in the Bye-laws of the Company. Save as the Chairman and the

Managing Director are not subject to rotation or taken into account in determining the number of directors to retire in each year, one-third of the directors of the Company are required to retire from office by rotation and being eligible for re-election at each annual general meeting in accordance with the Bye-laws of the Company. Details of all directors of the Company together with the relationship among the members of the Board are disclosed in pages 35 to 37 of this Annual Report.

Commencing from 1 July 2004, the Board complies at all times with the minimum requirements of the Listing Rules relating to the appointment of at least 3 independent non-executive directors and one of which should have appropriate professional qualifications or accounting or related financial management expertise. Pursuant to the requirement of the Listing Rules, the Company has received a written confirmation from each of the independent non-executive directors of the Company of his independence to the Company. The Company considers that all of the independent non-executive directors are independent.

Full board meeting is held no less than four times a year and the Board is responsible for all the affairs of the Company. Notice of at least 14 days is given of a regular board meeting to give all directors an opportunity to attend. The following table shows the attendance of individual directors of the Company at the

Board and the respective Board Committees Meetings held during the year:

Name of directors	Attendance/Number of Meetings held				
	Board Meeting	Audit Committee Meeting	Business Review Committee Meeting	Credit Committee Meeting	Executive Committee Meeting
Chairman					
Cheng Kar Shun, Henry	2/4	n/a	n/a	n/a	n/a
Deputy Chairman					
Lo Lin Shing, Simon	2/4	n/a	n/a	0/3	n/a
Doo Wai Hoi, William	3/4	n/a	n/a	n/a	n/a
Managing Director					
Wong Shiu Hoi, Peter	4/4	n/a	11/11	3/3	30/33
Executive Directors					
Lee Yiu Wing, William	4/4	n/a	10/11	3/3	32/33
Chan Chi On, Derek	4/4	n/a	n/a	n/a	29/33
Luo Gang (resigned on 1 April 2005)	0/4	n/a	n/a	n/a	n/a
Non-executive Directors					
Wong Kwok Kin, Andrew	3/4	n/a	11/11	n/a	n/a
Lam Wai Hon, Patrick	3/4	n/a	11/11	n/a	n/a
Cheung Wing Yui, Edward (re-designated from independent non-executive director on 1 July 2004)	4/4	2/2	n/a	n/a	n/a
Ho Hau Chong, Norman	3/4	2/2	n/a	n/a	n/a
To Hin Tsun, Gerald	4/4	n/a	n/a	n/a	n/a
Chan Wing Luk (resigned on 1 July 2004)	2/2	n/a	n/a	n/a	n/a
Chan Kam Ling (resigned on 1 July 2004)	1/2	n/a	n/a	n/a	n/a
Independent Non-executive Directors					
Man Mo Leung (appointed on 1 July 2004)	2/2	1/1	n/a	n/a	n/a
Tsui Hing Chuen, William (appointed on 1 July 2004)	2/2	1/1	n/a	n/a	n/a
Wei Chi Kuan, Kenny	3/4	1/2	n/a	n/a	n/a

To enhance better communication with the directors of the Company as to the business transacted at the Board and Board Committee Meetings, an exclusive Intranet site was maintained to enable directors of the Company to gain access to minutes of the respective meetings at their convenience. Minutes of the Board Meetings and relevant Board Committees Meetings are to be posted on this exclusive site within reasonable time for inspection of directors.

In addition, the Company has maintained a procedure for its directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company and also arranged insurance cover for its directors' and officers' liability.

As from 15 April 2004, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors. Based on specific enquiry of the directors of the Company, all directors have complied with the required standard as set out in the Model Code, throughout the year ended 31 December 2004.

Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer ("CEO") are segregated. The duties of the Chairman and the CEO are carried out respectively by Dr. Cheng Kar Shun, Henry and Mr. Wong Shiu Hoi, Peter. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company's business. There is no financial, business or other material/relevant relationship between the Chairman and the CEO.

Audit Committee

The Committee was set up in 1998 and is currently composed of 5 non-executive directors of the Company and 3 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 to review all business affairs managed by the executive directors in particular on connected transactions and continuing 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 terms of reference of the Committee are aligned with the requirements of the Listing Rules and the recommendations as set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and any updates thereof.

During the year, the Committee met on two occasions and discharged its responsibilities in its review of the interim and annual results and system of internal control. The work performed by the Committee in 2004 included reviews of the following:

- the consolidated financial statements for the six months ended 30 June 2004 of the Group, with a recommendation to the Board for approval;
- the directors' report and the consolidated financial statements for the year ended 31 December 2004 of the Group, with a recommendation to the Board for approval;
- the accounting policies and practices adopted by the Group;
- connected transactions and continuing connected transactions undertaken by the Group;
- internal control and risk management system of the Group;
- compliance of the Group with the applicable regulatory and other legal requirements;
- the Group's investment policy and the adequacy of provision made for diminution in value of the Group's investments;
- the adequacy of the provision of bad debts;
- dealing mistakes occurred for the financial period under review; and
- litigation cases.

Business Review Committee

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

Credit Committee

Members of the Committee are appointed by the Board and is currently composed of certain executive directors of the Company and its subsidiaries. The main responsibility of the Committee is to set direction for credit policies and to improve asset quality of the Group. The Committee meets quarterly and report to the Board from time to time. Ad-hoc meetings will be held as and when market conditions change significantly.

Executive Committee

The Committee is composed of the Group Managing Director 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 two weeks and reports to the Board from time to time.



Executive Committee members of the Group.

Remuneration Committee

The Committee is newly established in April 2005 and comprises 5 non-executive directors of the Company and 3 of whom, including the Chairman of the Committee, are independent non-executive directors. The responsibilities of the Committee include setting remuneration policy of the Group and fixing remuneration packages of the executive directors and the Board as a whole in accordance with the Listing Rules and Bye-laws of the Company. No directors of the Company can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set in accordance with the requirements of the Listing Rules.

Prior to the establishment of the Committee, employee policies are proposed by the Human Resources Department of the Group 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 at Board Meetings having the presence of the independent non-executive directors.

Corporate Governance Report

Remuneration of the respective directors in 2004 and their comparative amounts in 2003 were set out in the following table:

Name of directors	Base		Provident Fund Contribution		Bonus		Total	
	For the year ended 31 December 2004 HK\$'000	For the period from 1 April 2003 to 31 December 2003 HK\$'000	For the year ended 31 December 2004 HK\$'000	For the period from 1 April 2003 to 31 December 2003 HK\$'000	For the year ended 31 December 2004 HK\$'000	For the period from 1 April 2003 to 31 December 2003 HK\$'000	For the year ended 31 December 2004 HK\$'000	For the period from 1 April 2003 to 31 December 2003 HK\$'000
Chairman								
Cheng Kar Shun, Henry	450	338	12	9	-	-	462	347
Deputy Chairman								
Lo Lin Shing, Simon	2,741	2,025	106	9	1,198	760	4,045	2,794
Doo Wai Hoi, William	300	225	12	9	-	-	312	234
Managing Director								
Wong Shiu Hoi, Peter	2,741	2,025	210	9	1,198	760	4,149	2,794
Executive Directors								
Lee Yiu Wing, William	1,425	1,053	110	9	645	400	2,180	1,462
Chan Chi On, Derek	1,644	1,215	127	9	695	433	2,466	1,657
Luo Gang (resigned on 1 April 2005)	1,118	826	-	-	400	260	1,518	1,086
Non-executive Directors								
Wong Kwok Kin, Andrew	163	94	-	-	-	-	163	94
Lam Wai Hon, Patrick	163	94	-	-	-	-	163	94
Cheung Wing Yui, Edward (re-designated from independent non-executive director on 1 July 2004)	163	94	-	-	-	-	163	94
Ho Hau Chong, Norman	163	94	-	-	-	-	163	94
To Hin Tsun, Gerald	163	94	-	-	-	-	163	94
Chan Wing Luk (resigned on 1 July 2004)	63	94	-	-	-	-	63	94
Chan Kam Ling (resigned on 1 July 2004)	63	94	-	-	-	-	63	94
Independent Non-executive Directors								
Man Mo Leung (appointed on 1 July 2004)	100	-	-	-	-	-	100	-
Tsui Hing Chuen, William (appointed on 1 July 2004)	100	-	-	-	-	-	100	-
Wei Chi Kuan, Kenny	163	34	-	-	-	-	163	34

Sub-committees

Owing to the complexity of the Group's business, sub-committees are formed and members of the sub-committees are appointed by the Executive Committee to deal with special projects, such as Cost Management Committee and IT Steering Committee.

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

Name of sub-committees	Number of Meetings held	Average attendance
Cost Management Committee	9	78%
IT Steering Committee	24	95%

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

Internal Control and Risk Management

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 quality assurance team which critically reviews and monitors all critical aspects of the Group's activities and its internal controls. The annual audit work plan covers major activities and processes of the Group's operating business. The head of internal audit and quality assurance team report directly to the Board and the Audit Committee.

The Group has maintained a set of up-to-date operation manuals with ISO certification on its major operations. Periodic assessments are conducted every year to ensure that we are complying with standards. As regards the code of conduct of licensed persons, a set of compliance policies has been published and updated from time to time to provide guidance on matters such as employee dealing, ethics, Chinese wall policy and etc. On a regular basis, it conducts audit and compliance checks on procedures of the Group's core operations.

The Group also 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 trading and exposed underwriting commitments as follow:–

- For proprietary trading
 - total investment exposure of both short term and long term investments should not exceed 25% of the Group’s NAV and the maximum exposure limit for short term investment is capped at HK\$100,000,000.
- For exposed underwriting commitments
 - underwriting limit per issue should not exceed 25% of the Group’s NAV

Such policy may be varied at the discretion of the Board.

Operational 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 interests of 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.

Insurable risk:

Other than the abovementioned stringent risk management policies and monitoring systems, the Group has taken up a wide variety of insurance policies to cover its insurable risks associated with its Hong Kong, Macau and PRC businesses.

External Auditors

The Group’s External Auditors are Ernst & Young, Hong Kong. During the year, the Group has engaged the External Auditors to provide the following services and their respective fees charged are set out as below:–

Type of Services	Fee charged	
	for the year ended 31 December 2004	for the period from 1 April 2003 to 31 December 2003
	HK\$’million	HK\$’million
Audit fee for the Group	1.7	1.6
Taxation services	0.2	0.3

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. Press conferences were held on results announcement to explain the Company’s activities, performance and future plans and to

enable better understanding of the Group by the public. The annual general meeting provides a forum for direct communication between the Board and the Company's shareholders. The Company arranges quarterly 'meet the press' luncheons and maintain regular communication with the media and uses its website at www.taifook.com 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 2004 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 year, the Group and its staff had participated in a wide range of community activities, which include "The Community Chest Corporate Challenge", "Casual Wear Day" and "Charity Sale for Christian Action". In addition, our board members and senior management staff have been invited to be speakers in various seminars organised in Hong Kong or PRC on topics such as "Significance of Director Competence to Investors", "The Importance of Corporate Governance for a Modern Enterprise", "Listing and Fund-raising in Hong Kong – Gateway to the International Investment Market for Mainland Enterprises", "Leveraging the Financial Edge of Hong Kong", and "The Challenge for Mainland Enterprises Entering Hong Kong's Capital Market". On environmental protection, the Group have compiled internal guidelines to minimise the consumption of electricity and 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.