

Report of the Board of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise securities and futures contracts broking and trading, the provision of margin and other financing, the provision of corporate advisory, placing and underwriting services, bullion contracts dealing and trading, leveraged foreign exchange trading, the provision of nominee and custodian services, fund management and the provision of agency services for savings plans. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 85 to 148.

An interim dividend of HK4 cents per ordinary share was paid on 21 October 2004. The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year, to shareholders on the register of members on 1 June 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial period/years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

Summary financial information (continued)**RESULTS**

	Year ended	Period from	Year ended 31 March		
	31 December	1 April 2003 to	2003	2002	2001
	2004	31 December	2003	2002	2001
	HK\$'000	2003	2003	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	356,776	245,258	273,779	270,669	403,849
OPERATING PROFIT/(LOSS)	77,919	45,881	(40,092)	(121,614)	99,243
Share of profits and losses of:					
associates	–	–	–	–	365
jointly-controlled entities	1,456	(4)	(372)	(48)	–
PROFIT/(LOSS) BEFORE TAX	79,375	45,877	(40,464)	(121,662)	99,608
Tax	(9,095)	(4,297)	1,033	15,860	2,601
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	70,280	41,580	(39,431)	(105,802)	102,209
Minority interests	–	–	–	–	(839)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	70,280	41,580	(39,431)	(105,802)	101,370

ASSETS AND LIABILITIES

	31 December	2003	2003	31 March	2001
	2004	2003	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	2,793,151	2,883,828	2,146,237	2,032,843	2,185,873
TOTAL LIABILITIES	(1,806,194)	(2,061,376)	(1,380,096)	(1,202,849)	(1,225,574)
	986,957	822,452	766,141	829,994	960,299

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, sale or redemption of listed securities of the Company

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 30 to the financial statements.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year other than as an agent for clients of the Company or its subsidiaries.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$53,849,000, of which HK\$11,705,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$523,682,000, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$304,564.

Major customers and suppliers

In the year under review, the turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Cheng Kar Shun, Henry
Lo Lin Shing, Simon
Doo Wai Hoi, William
Wong Shiu Hoi, Peter
Lee Yiu Wing, William
Chan Chi On, Derek
Luo Gang

Non-executive directors:

Wong Kwok Kin, Andrew
Lam Wai Hon, Patrick
Cheung Wing Yui, Edward (re-designated from independent non-executive director on 1 July 2004)
Ho Hau Chong, Norman
To Hin Tsun, Gerald
Chan Wing Luk (resigned on 1 July 2004)
Chan Kam Ling (resigned on 1 July 2004)

Independent non-executive directors:

Man Mo Leung (appointed on 1 July 2004)
Tsui Hing Chuen, William (appointed on 1 July 2004)
Wei Chi Kuan, Kenny

Subsequent to the balance sheet date, on 1 April 2005, Mr. Luo Gang resigned as an executive director of the Company.

In accordance with the Company's Bye-laws, Messrs. Lo Lin Shing, Simon, Doo Wai Hoi, William, Lam Wai Hon, Patrick, Man Mo Leung and Tsui Hing Chuen, William will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 35 to 38 of this Annual Report.

Directors' service contracts

Executive directors

Each of Messrs. Lo Lin Shing, Simon, Wong Shiu Hoi, Peter, Lee Yiu Wing, William, Chan Chi On, Derek and Luo Gang has entered into a new service agreement with the Company on 10 December 2003. Particulars of these new service agreements are set out below:

- (a) Each service agreement is for a term of three years commencing on 1 January 2004 and thereafter continuing until terminated by either party giving to the other not less than six months' prior written notice.
- (b) The salaries of Messrs. Lo Lin Shing, Simon, Wong Shiu Hoi, Peter, Lee Yiu Wing, William, Chan Chi On, Derek and Luo Gang were HK\$225,000, HK\$225,000, HK\$117,000, HK\$135,000 and HK\$91,800 per month, respectively, which shall be adjusted from time to time at a rate to be determined by the independent non-executive directors.
- (c) Each of Messrs. Lo Lin Shing, Simon, Wong Shiu Hoi, Peter, Lee Yiu Wing, William, Chan Chi On, Derek and Luo Gang is entitled to such management bonus as may be determined by the board of directors with the aggregate of the management bonuses payable to all the executive directors in respect of any financial year not exceeding 5% of the consolidated profit of the Group after tax and minority interests but before extraordinary items for the relevant financial year.
- (d) Each of Messrs. Lo Lin Shing, Simon, Wong Shiu Hoi, Peter, Lee Yiu Wing, William, Chan Chi On, Derek and Luo Gang are required to abstain from voting and not be counted in the quorum in respect of any resolution regarding the amount of management bonus available to himself.

Non-executive directors

Each of Messrs. To Hin Tsun, Gerald, Ho Hau Chong, Norman, Wong Kwok Kin, Andrew, Lam Wai Hon, Patrick, Cheung Wing Yui, Edward, Man Mo Leung, Tsui Hing Chuen, William and Wei Chi Kuan, Kenny has entered into a service contract with the Company on 27 July 2004. Particulars of these service contracts are set out below:

- (a) Each service contract is for a term of two years commencing on 1 July 2004 subject to the retirement and reappointment provisions in the Bye-laws of the Company and shall be terminated by either party giving to the other not less than three months' notice in writing.
- (b) The annual director fee of Messrs. To Hin Tsun, Gerald, Ho Hau Chong, Norman, Wong Kwok Kin, Andrew, Lam Wai Hon, Patrick, Cheung Wing Yui, Edward, Man Mo Leung, Tsui Hing Chuen, William and Wei Chi Kuan, Kenny, subject to approval of the shareholders in annual general meetings, was HK\$200,000 payable every half-yearly in equal amounts of HK\$100,000 each.
- (c) Each of Messrs. To Hin Tsun, Gerald, Ho Hau Chong, Norman, Wong Kwok Kin, Andrew, Lam Wai Hon, Patrick, Cheung Wing Yui, Edward, Man Mo Leung, Tsui Hing Chuen, William and Wei Chi Kuan, Kenny is not entitled to any additional benefits unless decided by the board of directors of the Company otherwise.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' interests and short positions in shares and underlying shares

At 31 December 2004, the interests and short positions of the directors in the shares and underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) The Company

Name of directors	Number of shares held			Number of underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests			
Lo Lin Shing, Simon	5,500,000 (Note 1)	–	70,616,222 (Note 2)	–	76,116,222	13.01
Wong Shiu Hoi, Peter	12,000,000 (Note 1)	–	–	–	12,000,000	2.05
Chan Chi On, Derek	562,000 (Note 1)	–	–	–	562,000	0.10

(b) The associated corporation

Name of director	Name of associated corporation	Class of shares	Number of shares held (Corporate interests)	Number of underlying shares held under equity derivatives	Total	Percentage of the associated corporation's issued share capital
Lo Lin Shing, Simon	Tai Fook Finance Company Limited (Note 3)	Non-voting deferred shares	47,670,000 (Note 2)	–	47,670,000	47.34

Notes:

- (1) These shares are held by the relevant director as beneficial owner.
- (2) These shares are held by Wellington Equities Inc., a company beneficially wholly-owned by Mr. Lo Lin Shing, Simon.
- (3) Tai Fook Finance Company Limited is an indirect wholly-owned subsidiary of the Company.

Directors' interests and short positions in shares and underlying shares (continued)

All the interests disclosed above represent long positions in the shares and underlying shares of the Company and its associated corporation.

In addition to the above, a director has a non-beneficial personal equity interest in a subsidiary held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2004, none of the directors or their associates had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option schemes

The detailed disclosures relating to the Company's share option schemes are set out in note 31 to the financial statements.

Substantial shareholders' interests and short positions in shares and underlying shares

At 31 December 2004, the interests and short positions of those persons (other than the directors of the Company) in the shares and underlying shares of the Company as required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO, were as follows:

Name of shareholders	Notes	Number of shares held and nature of interests		Number of underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital
		Direct	Deemed			
Chow Tai Fook Nominee Limited	(1)	107,140,540	–	–	107,140,540	18.31
Chow Tai Fook Enterprises Limited	(2)	30,977,916	125,624,340	–	156,602,256	26.76
New World Development Company Limited ("NWD")	(3)	–	125,624,340	–	125,624,340	21.46
NWS Holdings Limited (NWS)	(4)	–	125,624,340	–	125,624,340	21.46
NWS Service Management Limited (incorporated in the Cayman Islands) ("NWSSM (Cayman)")	(5)	–	125,624,340	–	125,624,340	21.46
NWS Service Management Limited (incorporated in the British Virgin Islands) ("NWSSM (BVI)")	(6)	–	125,624,340	–	125,624,340	21.46
NWS Financial Management Services Limited		125,624,340	–	–	125,624,340	21.46
Wellington Equities Inc.	(7)	70,616,222	–	–	70,616,222	12.07
Ku Ming Mei, Rouisa	(8)	–	76,116,222	–	76,116,222	13.01

Notes:

- (1) Mr. Cheng Yu Tung beneficially owns all of the issued shares in Chow Tai Fook Nominee Limited.
- (2) Chow Tai Fook Enterprises Limited and its subsidiaries have interests in more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares in which NWD is deemed to be interested.
- (3) NWD has interests in more than one-third of the issued shares of NWS and is accordingly deemed to have an interest in the shares in which NWS is deemed to be interested.
- (4) NWSSM (Cayman) is a wholly-owned subsidiary of NWS and its interest in the Company is deemed to be held by NWS.
- (5) NWSSM (BVI) is a wholly-owned subsidiary of NWSSM (Cayman) and its interest in the Company is deemed to be held by NWSSM (Cayman).
- (6) NWS Financial Management Services Limited is a wholly-owned subsidiary of NWSSM (BVI) and its interest in the Company is deemed to be held by NWSSM (BVI).

Substantial shareholders' interests and short positions in shares and underlying shares (continued)

- (7) *These shares are held by Wellington Equities Inc., a company beneficially wholly-owned by Mr. Lo Lin Shing, Simon and have been shown in the corporate interests of Mr. Lo Lin Shing, Simon in the Company as set out in the section headed "Directors' interests and short positions in shares and underlying shares" above.*
- (8) *Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo Lin Shing, Simon is deemed to be interested in these shares. They have been shown in the total interests of Mr. Lo Lin Shing, Simon in the Company as set out in the section headed "Directors' interests and short positions in shares and underlying shares" above.*

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected transactions and continuing connected transactions

Connected transactions

The connected transactions undertaken by the Group are included in the transactions set out in note 36 to the financial statements.

Continuing connected transactions

The continuing connected transactions undertaken by the Group are included in the transactions set out in note 36 to the financial statements

The independent non-executive directors of the Company have reviewed the connected transactions and continuing connected transactions set out above and in note 36 to the financial statements and have confirmed that the connected transactions and continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and (iii) in accordance with the relevant agreements governing them or on terms no less favourable than terms available to third parties. The independent non-executive directors have also confirmed that the income derived from the connected transactions and continuing connected transactions did not exceed 10% of the Group's total turnover for the year.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

Directors' interests in competing businesses

At 31 December 2004, the following director is considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Name of director	Entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the director in the entity
Lam Wai Hon, Patrick	Certain subsidiaries of East Asia Secretaries (BVI) Limited	Provision of corporate advisory services, nominee and custodian services	Director of East Asia Secretaries (BVI) Limited and certain of its subsidiaries

As the board of directors of the Company is independent from the board of directors of the aforesaid companies and the above director does not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

Corporate Governance

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 27 of this Annual Report.

Report of the Board of Directors

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Dr. Cheng Kar Shun, Henry

Chairman

Hong Kong, 12 April 2005