



We actively work towards promoting good industry practice and self-regulation through keeping abreast of developments in the financial market and regulatory system.

Corporate Governance Report

Corporate Governance Practices

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year 2005, except that the Chairman and the Managing Director who are appointed for a term of 2 and 3 years respectively are not subject to rotation or taken into account in determining the number of directors to retire in each annual general meeting in accordance with the Bye-laws of the Company. However, the Company has been taking action to amend its Bye-laws to comply with the code provision regarding retirement by rotation of every director, including those appointed for a specific term, at least once every three years at its forthcoming annual general meeting. The following summaries how the Company applies the principles of the Code in its corporate governance.

Corporate Governance Structure

The Board and the senior management are committed to maintaining a high standard of corporate governance. It is believed that a well-balanced corporate governance structure 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.

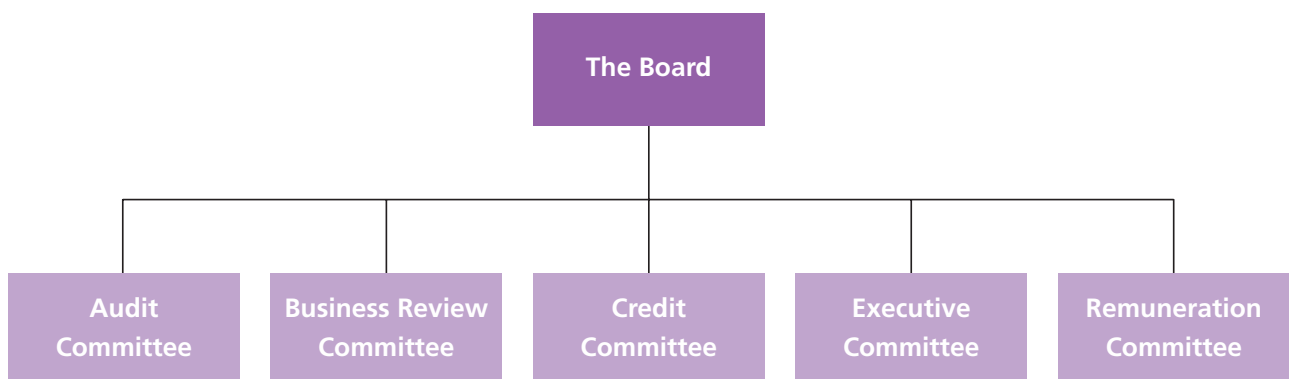
The overall corporate governance structure of the Company is depicted in the following diagram. The Board is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks

of the Group. At the same time, it is charged with the duty to put in place a proper corporate governance structure of the Company. Under the Board, there are altogether 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.

Within the Board, there is a clear segregation of roles between the Chairman and the Chief Executive Officer ("CEO"). 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. The duties of the Chairman and the CEO are carried out respectively by Dr. Cheng Kar Shun, Henry and Mr. Wong Shiu Hoi, Peter. There is no financial, business or other material/relevant relationship between the Chairman and the CEO.



The Board held its regular meetings to discuss direction, strategy, performance and control of the Group.



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The following table shows the attendance of each individual member of the Board and the respective board committees at the Board and the respective board committees meetings held during the financial year:

Name of Members of the Board/the respective Board Committees	Attendance/Number of Meetings held					
	Board Meeting	Audit Committee Meeting	Business Review Committee Meeting	Credit Committee Meeting	Executive Committee Meeting	Remuneration Committee Meeting
The Board						
Chairman						
Cheng Kar Shun, Henry	1/4	n/a	n/a	n/a	n/a	n/a
Deputy Chairman						
Lo Lin Shing, Simon	3/4	n/a	n/a	0/3	n/a	n/a
Doo Wai Hoi, William	0/4	n/a	n/a	n/a	n/a	n/a
Managing Director						
Wong Shiu Hoi, Peter	4/4	n/a	12/12	3/3	21/25	n/a
Executive Directors						
Lee Yiu Wing, William	4/4	n/a	12/12	3/3	25/25	n/a
Chan Chi On, Derek	4/4	n/a	n/a	n/a	19/25	n/a
Luo Gang (resigned on 1 April 2005)	0/0	n/a	n/a	n/a	n/a	n/a
Non-executive Directors						
Wong Kwok Kin, Andrew	4/4	n/a	12/12	n/a	n/a	1/1
Lam Wai Hon, Patrick	3/4	n/a	12/12	n/a	n/a	1/1
Cheung Wing Yui, Edward	4/4	2/2	n/a	n/a	n/a	n/a
Ho Hau Chong, Norman	4/4	2/2	n/a	n/a	n/a	n/a
To Hin Tsun, Gerald	4/4	n/a	n/a	n/a	n/a	n/a
Independent Non-executive Directors						
Man Mo Leung	4/4	2/2	n/a	n/a	n/a	1/1
Tsui Hing Chuen, William	4/4	1/2	n/a	n/a	n/a	1/1
Wei Chi Kuan, Kenny	3/4	2/2	n/a	n/a	n/a	1/1
Senior Management Executives						
Wong Yat Hang, Peter	n/a	n/a	n/a	3/3	24/25	n/a
Hui Yee, Wilson	n/a	n/a	n/a	3/3	23/25	n/a
Wu Kwok Leung, Edmond	n/a	n/a	n/a	3/3	22/25	n/a
Ying Tak Sun, Nelson	n/a	n/a	n/a	n/a	23/25	n/a
Chang Chow Kam Wen, Margaret	n/a	n/a	n/a	3/3	n/a	n/a
Lo Wai Ho, Kendy	n/a	n/a	n/a	3/3	n/a	n/a
Average Attendance :	82%	90%	100%	88%	90%	100%

The Board

The Board currently comprises 6 executive directors, including the Chairman, 2 Deputy Chairmen and the Managing Director, 5 non-executive directors and 3 independent non-executive directors. All directors of the Company are appointed for a specific term of 2 to 3 years. Save for the Chairman and the Managing Director, 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. Throughout the financial year, 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 written confirmation from each of the independent non-executive directors of his independence to the Company. The Company is of the view that all the independent non-executive directors were acting independently throughout the financial year. Details of all directors of the Company together with the relationship among the directors are disclosed in pages 57 to 59 of this Annual Report.

During the financial year, 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 2005.

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 so as to give all directors an opportunity to attend. Agenda and accompanying board papers for each meeting are circulated in full to all directors normally with at least 7 days in advance of the date of the meeting. Senior management executives may, from time to time, be invited to attend the board meetings

for making presentation and/or answering any queries that may be raised by the Board.

Audit Committee

The Committee is 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, to review the interim and final financial statements before their submission to the Board and the annual general meeting for approval and to review the internal control and risk management system of the Group. 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.



The Audit Committee held its regular meetings to review the Group's business.

During the financial year, the Committee met on two occasions and discharged its responsibilities in its review of the interim and annual results and the system of internal control of the Group. The works performed by the Committee in 2005 included review of the followings:

- the consolidated financial statements for the six months ended 30 June 2005 of the Group, with a recommendation to the Board for approval;

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- the directors' report and the consolidated financial statements for the year ended 31 December 2005 of the Group, with a recommendation to the Board for approval;
- the accounting policies and practices adopted by the Group;
- the 2005 audit fees proposed by the External Auditors, with a recommendation to the Board for approval;
- the connected transactions and the continuing connected transactions undertaken by the Group;
- the internal control and risk management system of the Group;
- the findings and the recommendations of the internal audit team on the Group's operations and of the regulatory review carried out by the regulators;
- the compliance status 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 for the Group's investments;
- the adequacy of the provision for bad debts;
- the dealing mistakes occurred for the financial period under review; and
- the 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 business and reports 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 reports 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, 2 executive directors of the Company 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 composed of 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 the By-laws of the Company. No directors of the Company can determine their own remuneration packages. The

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Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which has been posted on the Company's website. The Committee is provided with sufficient resources to discharge its duties. The chairman of the Committee will report their findings and recommendations to the Board for consideration and approval.

During the financial year, the Committee met on one occasion and discharged its responsibilities which included review of the followings:

- the remuneration policy of the Group;
- the proposal for granting of share options;
- the proposal for salary adjustment; and
- the proposal for distribution of discretionary bonus

Remuneration paid to the respective directors in 2005 and 2004 were set out in the following table:

Name of Directors	Base		Bonus		Provident Fund Contribution		Total	
	For the year ended 31 December 2005	For the year ended 31 December 2004	For the year ended 31 December 2005	For the year ended 31 December 2004	For the year ended 31 December 2005	For the year ended 31 December 2004	For the year ended 31 December 2005	For the year ended 31 December 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Chairman								
Cheng Kar Shun, Henry	900	450	–	–	12	12	912	462
Deputy Chairman								
Lo Lin Shing, Simon	2,823	2,741	1,050	1,198	141	106	4,014	4,045
Doo Wai Hoi, William	600	300	–	–	12	12	612	312
Managing Director								
Wong Shiu Hoi, Peter	2,823	2,741	1,050	1,198	282	210	4,155	4,149
Executive Directors								
Lee Yiu Wing, William	1,634	1,425	602	645	163	110	2,399	2,180
Chan Chi On, Derek	1,776	1,644	723	695	178	127	2,677	2,466
Luo Gang (resigned on 1 April 2005)	1,152	1,118	40	400	–	–	1,192	1,518
Non-executive Directors								
Wong Kwok Kin, Andrew	200	163	–	–	–	–	200	163
Lam Wai Hon, Patrick	200	163	–	–	–	–	200	163
Cheung Wing Yui, Edward	200	100	–	–	–	–	200	100
Ho Hau Chong, Norman	200	163	–	–	–	–	200	163
To Hin Tsun, Gerald	200	163	–	–	–	–	200	163
Chan Wing Luk (resigned on 1 July 2004)	–	63	–	–	–	–	–	63
Chan Kam Ling (resigned on 1 July 2004)	–	63	–	–	–	–	–	63
Independent Non-executive Directors								
Man Mo Leung	200	100	–	–	–	–	200	100
Tsui Hing Chuen, William	200	100	–	–	–	–	200	100
Wei Chi Kuan, Kenny	200	163	–	–	–	–	200	163
Cheung Wing Yui, Edward (redesignated as non-executive director on 1 July 2004)	–	63	–	–	–	–	–	63

Proceedings of the Board and respective Board Committees Meetings

The Company Secretary will assist the chairman of the Board and the respective board committees in setting agenda for meetings, and each director is given an opportunity to include any matters to be transacted in the agenda. Where any director is considered to be having a conflict of interest in any transactions, the director concerned will not be counted in the quorum of the relevant meeting. Minutes of meetings of the Board and the respective board committees are recorded in details. All draft minutes are circulated to all those present at the meetings for comment before submission to the chairman of the meetings for approval. To further enhance better communication with the directors of the Company as to the business transacted at the Board and respective board committees meetings, an exclusive Intranet site is maintained to enable all directors of the Company to gain access to minutes of the respective meetings of the Board and the board committees. Minutes of the Board and the relevant board committees meetings will be posted on this exclusive site within reasonable time for the information of all 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. In order to safeguard the interest of individual director, the Company has also arranged directors' and officers' liability insurance for its directors.

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	Percentage of Average Attendance
Cost Management Committee	5	91%
IT Steering Committee	16	87%

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

Internal Control and Risk Management

It is acknowledged that the Board has the ultimate responsibility for the Group's internal control system and, through the Audit Committee, the Board has reviewed the effectiveness of the system. To maintain a sound system of internal control and safeguard our shareholders' investments and the Company's assets at all times, the Company has an independent and objective internal audit team which reviews and monitors all critical aspects of the Group's activities and its internal controls.

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 the 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 dealings, 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 bi-monthly, 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 advanceable value of a margin customer's portfolio drops below his margin loan 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 follows:

- (i) *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\$100,000,000.00
- (ii) *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 the 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 internal audit, compliance 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 business.

Internal Auditors

The Company has an independent internal audit team, which plays a major role in monitoring the corporate governance of the Group and providing objective assurance to the Board that a sound internal control system is maintained and operated by the management. The head of the internal audit team directly reports to the Board and the Audit Committee on audit matters. By adopting a risk-based approach to evaluate risk level on control environment, the internal audit team plans internal audit schedules annually in consultation with, but independent of, the management, and the audit plan is submitted to the Audit Committee for approval. During the year, an induction session on the Group's internal control system was conducted with an aim to present to the directors of the Company the annual internal audit plan together with a risk assessment report to demonstrate the risk profile of certain critical operations of the Group and its related control activities taken for mitigating risks. On a yearly basis, the head of the internal audit team will express an opinion to the Audit Committee on the internal control environment of the Group. The annual audit work plan covers major activities and processes of the Group's operating business. Moreover, ad hoc reviews will be performed on specific areas of concern identified by the Audit Committee and the management.

External Auditors

The Group's External Auditors are Ernst & Young, Hong Kong. During the financial 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 2005	for the year ended 31 December 2004
	HK\$'000	HK\$'000
Audit fee for the Group	1,922	1,680
Taxation services	200	200

Corporate Communication

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 are 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. Separate resolutions are proposed at general meetings on each separate issue. Details of the procedures and the rights of shareholders to demand a poll are included in the circulars sent to the Company's shareholders. Any results of the poll are published in the newspapers and on the Company's website. All corporate communication with shareholders will be posted on the Company's website at www.taifook.com for shareholders' information. Besides, the Company arranges quarterly 'meet the press' luncheons and maintains regular communication with the media and uses its corporate website to disseminate its press releases, financial and other information relating to the Group and its business to the public in order to foster effective communication.



The Group maintains regular communication with the investors and the media.

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.

As one of Hong Kong's leading financial institutions, the Group actively takes part in various community services and makes contributions to the community. The Group strives to promote a caring culture and help staff enhance communications and cohesiveness. In order to foster a caring environment, the "Tai Fook Caring Ambassadors" was formed in 2004, and has organised a variety of community service activities, which staff have actively participated in. During the financial year, members of the "Tai Fook Caring Ambassadors" and our colleagues took part in a charity sale organised by "Christian Action" to raise funds for immigrant and minority children in Hong Kong. In addition, our colleagues also participated in activities organised by other charities, such as "The Community Chest Corporate Challenge", "Dress Casual Day 2005", "Volunteer Service for Oxfam" and "Mentorship Programs for Universities in Hong Kong". We hope our staff will further develop their potential and sense of social responsibility through participation in these community activities. In respect of 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.

In addition, our board members and senior management staff have also been invited to be speakers in various seminars organised in Hong Kong or PRC on topics such as "Opportunities and Procedures for Mainland Enterprises Listing in Hong Kong", "Challenge encountered by Mainland Enterprises entering into Hong Kong market", "International Fund-raising and Risk Management Forum • Shenzhen" and "Preparation Works for Listing of Mainland Enterprises".



Members of the Board and Senior Management were invited to give speeches in various seminars organised in Hong Kong or the PRC.