

## 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 2006.

### Principal activities

The principal activity of the Company is investment holding. The principal activities of the Company's 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 financial planning services. 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 92 to 179.

An interim dividend of HK7 cents per ordinary share was paid on 27 October 2006. The directors recommend the payment of a final dividend of HK7 cents per ordinary share in respect of the year, to shareholders on the register of members on 5 June 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

### Summary financial information

A summary of the published results, assets, liabilities and minority interests of the Group for the year ended 31 December 2006 and the previous ten financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 180 of this Annual Report. This summary does not form part of the audited financial statements.

### Property, plant and equipment

Details of movements in the property, plant and equipment 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 31 and 32 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.

## Report of the Board of Directors

### 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 31 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 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

### Distributable reserves

At 31 December 2006, 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\$56,866,000, of which HK\$41,555,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$526,963,000, may be distributed in the form of fully paid bonus shares.

### Charitable contributions

During the year, the Group made charitable contributions totalling HK\$315,000.

### Major customers and suppliers

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

## Report of the Board of Directors

### 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

#### Non-executive directors:

Wong Kwok Kin, Andrew  
Lam Wai Hon, Patrick  
Cheung Wing Yui, Edward  
Ho Hau Chong, Norman  
To Hin Tsun, Gerald

#### Independent non-executive directors:

Man Mo Leung  
Tsui Hing Chuen, William  
Wei Chi Kuan, Kenny (resigned on 1 December 2006)  
Lau Wai Piu, Bill (appointed on 1 December 2006)

In accordance with the Company's Bye-laws, Dr. Cheng Kar Shun, Henry, Messrs. Wong Shiu Hoi, Peter, Wong Kwok Kin, Andrew, Cheung Wing Yui, Edward and Lau Wai Piu, Bill 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 60 to 64 of this Annual Report.

### Directors' service contracts

#### Executive directors

Each of Dr. Cheng Kar Shun, Henry and Mr. Doo Wai Hoi, William has entered into a new service agreement with the Company on 2 January 2007 upon the expiry of their respective previous service agreements on 31 December 2006. 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 2007 subject to the retirement and re-election provisions in the Bye-laws of the Company unless and until terminated by either party giving to the other not less than six months' prior written notice.

## Report of the Board of Directors

- (b) The annual director fees of Dr. Cheng Kar Shun, Henry and Mr. Doo Wai Hoi, William were HK\$900,000 and HK\$600,000 payable every half-yearly in equal amounts of HK\$450,000 and HK\$300,000 each respectively. Subject to approval of the shareholders in annual general meetings, such annual director fees shall be adjusted from time to time at a rate to be determined by the Remuneration Committee of the Company.

Each of Messrs. Lo Lin Shing, Simon, Wong Shiu Hoi, Peter, Lee Yiu Wing, William and Chan Chi On, Derek has entered into a service agreement with the Company on 10 December 2003. Particulars of these 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 and Chan Chi On, Derek were HK\$225,000, HK\$225,000, HK\$117,000 and HK\$135,000 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 and Chan Chi On, Derek 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 and Chan Chi On, Derek 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. Wong Kwok Kin, Andrew, Lam Wai Hon, Patrick, Cheung Wing Yui, Edward, Ho Hau Chong, Norman, To Hin Tsun, Gerald, Man Mo Leung and Tsui Hing Chuen, William has entered into a new service contract with the Company on 1 July 2006 upon the expiry of their respective previous service contracts on 30 June 2006. Particulars of these new service contracts are set out below:

- (a) Each service contract is for a term of three years commencing on 1 July 2006 subject to the retirement and re-election 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. Wong Kwok Kin, Andrew, Lam Wai Hon, Patrick, Cheung Wing Yui, Edward, Ho Hau Chong, Norman, To Hin Tsun, Gerald, Man Mo Leung and Tsui Hing Chuen, William, subject to approval of the shareholders of the Company in annual general meetings, was HK\$200,000 payable every half-yearly in equal amounts of HK\$100,000 each.

## Report of the Board of Directors

- (c) Each of Messrs. Wong Kwok Kin, Andrew, Lam Wai Hon, Patrick, Cheung Wing Yui, Edward, Ho Hau Chong, Norman, To Hin Tsun, Gerald, Man Mo Leung and Tsui Hing Chuen, William is not entitled to any additional benefits unless decided by the board of directors of the Company otherwise.

Subsequently, pursuant to the mandate granted by the shareholders of the Company in its annual general meeting held on 29 May 2006, the directors of the Company has passed a resolution at its board meeting held on 14 September 2006 to amend the Remuneration Clause of the aforesaid service contracts of Messrs. Man Mo Leung and Tsui Hing Chuen, William. Accordingly, with retrospective effect from 1 July 2006, the annual director fee of Messrs. Man Mo Leung and Tsui Hing Chuen, William was increased to HK\$250,000 payable every half-yearly in equal amounts of HK\$125,000 each.

Mr. Lau Wai Piu, Bill has entered into a service contract with the Company on 1 December 2006. Particulars of his service contract are set out below:

- (a) The service contract is commenced from 1 December 2006 to 30 June 2009 subject to the retirement and re-election 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 Mr. Lau Wai Piu, Bill, subject to approval of the shareholders of the Company in annual general meetings, was HK\$200,000 payable every half-yearly in equal amounts of HK\$100,000 each.
- (c) Mr. Lau Wai Piu, Bill 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.

## Report of the Board of Directors

### Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2006, the interests and short positions of the directors in the shares, underlying shares and debentures 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 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	Personal interests	Number of shares held		Number of underlying shares held under equity derivatives	Total	Percentage of the Company's total issued share capital
		Family interests	Corporate interests			
Lo Lin Shing, Simon ("Mr. Lo")	5,500,000 <i>(Note 1)</i>	–	70,616,222 <i>(Note 2)</i>	4,000,000 <i>(Note 3)</i>	80,116,222	13.64
Doo Wai Hoi, William ("Mr. Doo")	–	–	4,346,000 <i>(Note 4)</i>	–	4,346,000	0.74
Wong Shiu Hoi, Peter	12,000,000 <i>(Note 1)</i>	–	–	4,000,000 <i>(Note 3)</i>	16,000,000	2.72
Lee Yiu Wing, William	–	–	–	2,500,000 <i>(Note 3)</i>	2,500,000	0.43
Chan Chi On, Derek	562,000 <i>(Note 1)</i>	–	–	2,250,000 <i>(Note 3)</i>	2,812,000	0.48

#### (b) Associated corporation of the Company

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 total issued share capital
Mr. Lo	Taifook Finance Company Limited <i>(Note 5)</i>	Non-voting deferred shares	47,670,000 <i>(Note 2)</i>	–	47,670,000	47.34

## Report of the Board of Directors

Notes:

- (1) These shares are held by the relevant director as beneficial owner.
- (2) These shares are held by Wellington Equities Inc. ("Wellington"), a company beneficially wholly-owned by Mr. Lo.
- (3) This represents interest in the share options held by the relevant director as beneficial owner for subscribing the relevant underlying shares in respect of the share options granted by the Company under the 2002 share option scheme.
- (4) These shares are held by Grand Partners Group Limited, a company beneficially wholly-owned by Mr. Doo.
- (5) Taifook Finance Company Limited is an indirect wholly-owned subsidiary of the Company.

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 2006, none of the directors or their associates had registered an interest or short position in the shares, underlying shares or debentures 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, underlying shares and debentures" above and in the share option scheme disclosures in note 32 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**

Estimation of the fair value of the share options granted by the Company during the year and detailed disclosures relating to the Company's share option schemes are set out in note 32 to the financial statements.

## Report of the Board of Directors

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

As at 31 December 2006, 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 total issued share capital
		Direct	Deemed			
Chow Tai Fook Nominee Limited ("CTFN")	(1)	107,140,540	-	-	107,140,540	18.24
Cheng Yu Tung Family (Holdings) Limited ("CYTF")	(2)	-	159,950,256	-	159,950,256	27.22
Centennial Success Limited ("CSL")	(3)	-	159,950,256	-	159,950,256	27.22
Chow Tai Fook Enterprises Limited ("CTFE")	(4)	30,977,916	128,972,340	-	159,950,256	27.22
New World Development Company Limited ("NWD")	(5)	-	128,972,340	-	128,972,340	21.95
NWS Holdings Limited ("NWS")	(6)	-	128,972,340	-	128,972,340	21.95
NWS Service Management Limited (incorporated in the Cayman Islands) ("NWSSM (Cayman)")	(7)	-	128,972,340	-	128,972,340	21.95
NWS Service Management Limited (incorporated in the British Virgin Islands) ("NWSSM (BVI)")	(8)	-	128,972,340	-	128,972,340	21.95
NWS Financial Management Services Limited ("NWSFM")	(9)	128,972,340	-	-	128,972,340	21.95
Wellington	(10)	70,616,222	-	-	70,616,222	12.02
Ku Ming Mei, Rouisa	(11)	-	76,116,222	4,000,000	80,116,222	13.64

Notes:

- (1) Cheng Yu Tung beneficially owns all of the issued shares in CTFN. Cheng Kar Shun, Henry ("Dr. Cheng"), a director of the Company ("Director"), is also a director of CTFN.
- (2) CYTF has interests in more than one-third of the issued shares of CSL and is accordingly deemed to have an interest in the shares in which CSL is deemed to be interested. Dr. Cheng, a Director, is also a director of CYTF.
- (3) CTFE is a wholly-owned subsidiary of CSL and CTFE's interest in the Company is deemed to be held by CSL. Dr. Cheng, a Director, is also a director of CSL.
- (4) CTFE 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. Dr. Cheng, a Director, is also a director of CTFE.
- (5) 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. Dr. Cheng, a Director, is also a director of NWD.
- (6) NWSSM (Cayman) is a wholly-owned subsidiary of NWS and NWSSM (Cayman)'s interest in the Company is deemed to be held by NWS. Dr. Cheng, Mr. Doo, Wong Kwok Kin, Andrew ("Mr. Wong"), Lam Wai Hon, Patrick ("Mr. Lam") and To Hin Tsun, Gerald ("Mr. To"), all Directors, are also directors of NWS.



## Report of the Board of Directors

- (7) NWSSM (BVI) is a wholly-owned subsidiary of NWSSM (Cayman) and NWSSM (BVI)'s interest in the Company is deemed to be held by NWSSM (Cayman). Dr. Cheng, Mr. Doo, Mr. Wong and Mr. Lam, all Directors, are also directors of NWSSM (Cayman).
- (8) NWSFM is a wholly-owned subsidiary of NWSSM (BVI) and NWSFM's interest in the Company is deemed to be held by NWSSM (BVI). Dr. Cheng, Mr. Wong and Mr. Lam, all Directors, are also directors of NWSSM (BVI).
- (9) Mr. Wong and Mr. Lam, both Directors, are also directors of NWSFM.
- (10) These shares are held by Wellington, a company beneficially wholly-owned by Mr. Lo and have been shown in the corporate interests of Mr. Lo in the Company as set out in the section headed "Directors interests and short positions in shares, underlying shares and debentures" above. Mr. Lo and Mr. To, both Directors, are also directors of Wellington.
- (11) Ku Ming Mei, Rouisa is the spouse of Mr. Lo and is thus taken to be interested in the same parcel of shares held by Mr. Lo.

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 2006, 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, underlying shares and debentures" 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 38 to the financial statements.

#### Continuing connected transactions

The continuing connected transactions undertaken by the Group are included in the transactions set out in note 38 to the financial statements.

The independent non-executive directors have reviewed the connected transactions and continuing connected transactions set out in note 38 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 no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Report of the Board of Directors

### 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 report.

### Directors' interests in competing businesses

As at 31 December 2006, 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:

<b>Name of director</b>	<b>Entity whose businesses are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of interest of the director in the entity</b>
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.

Save as disclosed above, as at 31 December 2006, none of the board of directors of the Company and his associates had any interests which compete or was likely to compete, either directly or indirectly, with the Company's business.

### Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 40 to the financial statements.

## Report of the Board of Directors

### Corporate governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 19 to 26 of this Annual Report.

### Auditors

The financial statements for the year ended 31 December 2006 of the Company have been audited by Ernst & Young who will retire and, being eligible, offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

On behalf of the board

**Dr. CHENG Kar Shun, Henry**

*Chairman*

Hong Kong, 29 March 2007