

insightful





Chairman's Statement



// CHENG Kar Shun, Henry
Chairman

Business Review

I am pleased to present this annual report of Tai Fook Securities Group Limited for the year ended 31 March 2003. The past financial year was another challenging year for the Group. Owing to further provisions for doubtful debts, a net loss of HK\$38 million was sustained for the period. However, the bottom line whether before or after the non-recurrent provisions represents a significant improvement from the preceding financial year, for which a net loss of HK\$118.3 million was incurred. We would have reported positive results if there had not been the necessity to provide for further doubtful debts and certain non-recurring items for prudent accounting practice. On a per share basis, the loss was narrowed to 8.01 cents from 24.32 cents. Apart from a dividend of 1 cent per share having been paid for the interim period, for which a net profit of HK\$10.6 million was reported, the Board has decided not to recommend any further dividend for the financial year under review.

The business environment remained difficult for the securities and the investment banking industry for the past year. The modest profit achieved in the first half of the past financial year was eroded by the unexpected deterioration in market conditions in the second half of the year. Uncertainties over the US economy and the impending US-led military action against Iraq were the major external forces that adversely affected the overall investment sentiment and market activity in the review period. The local business environment was further affected by the weak investment and consumer confidence, leading to persistent high unemployment and deflation.

Our business has continued to be at the mercy of general market conditions. The average daily turnover on the Main and GEM boards dropped from HK\$6,933 million in the first half of the past financial year to HK\$6,398 million in the second half of the year. The turnover figures in the two periods represented a drop of 40% and 17% from the



corresponding periods in the preceding financial year. The activity in the stock market illustrated the adverse changes in investment sentiment over the past two years. The drop in market activity could also be attributed to the slowdown of turnover velocity and the poor market performance. The Hang Seng Index tumbled by 22% over the 12 months to close our past financial year at 8,634.45. Nonetheless, the turnover of the Group was stable at HK\$274 million for the past financial year.

Despite uncontrollable external factors, we believe our strength in management and business strategy enabled the Group to maximize its returns on available business opportunities. The Group has maintained diversified earnings sources from stock and futures broking, corporate finance and securities lending and expanded its range of investment products and services. In addition, our customer portfolio has expanded significantly in terms of both classes of investors and geographical locations of investors.

We have also made significant progress in improving our operating efficiency through the extensive application of information technology. Coupled with our various cost rationalization exercises, operating expenses were cut by 20% in the past financial year. The improved cost efficiency should continue to keep our competitiveness in the market.

On the whole, the Group has maintained its sound financial position. As at 31 March 2003, our shareholders' funds stood at HK\$755 million, or HK\$1.59 per share. We have substantial financial resources to meet recurrent operating and future expansion needs of the Group. Moreover, with the support from our substantial shareholders, Chow Tai Fook Enterprises Limited and New World Development Company Limited, by virtue of their strong footholds in property, infrastructure and retailing businesses in the hinterland, the Group would definitely benefit especially relating to our business expansion in Mainland China.



Prospects

The outbreak of atypical pneumonia in Hong Kong in March had a severe adverse impact on the local economy in the past few months. As the deadly disease has also affected other Mainland cities, our China business in particular in respect of corporate finance was adversely affected. Fortunately, our stock and futures brokerage remained virtually unaffected and it was particularly encouraging to see the surge in the use of our on-line Internet trading facilities during this period. We believe the patronage for electronic on-line trading will continue to grow and are confident that our investment in information technology will bear fruits in the longer term.

The business of our Group is sensitive to the economic performance of both Hong Kong and our motherland. The China economy is undoubtedly on a rising trend and we believe that it is opportune for China to further open its financial markets. We are equipped well to tap the vast demand for quality and innovative financial services on the Mainland. We have been ranked successively in recent years as the best local securities house in Hong Kong by various renowned professional organizations, proving that our sound management and business strategy are well recognized. With our established market niche together with the backup from our major shareholders, we are confident of expanding our business further both locally and overseas, specifically in the emerging Mainland market.

As to Hong Kong, the significant corrections in the local economy in the past six years have placed us in a very competitive position among the major business centers in the world. Hong Kong will continue to show its comparative advantages not only against other developed international cities but also the fast developing cities in Mainland China, where intellectual infrastructures are still relatively immature. Hong Kong's success in the past was

not by accident, but had been largely due to our own efforts and initiatives. With a more balanced flow of investment funds between the territory and the Mainland, hopefully supported by appropriate policies from the central government, Hong Kong will definitely benefit and its economy should prove resilient.

We expect our Group to show strong improvements in our future operating results as we are well positioned to benefit from any positive changes in the business environment. There are already positive signs that the US economy is on track to a recovery, after the ending of the war against Iraq in April. We are confident that the investment value in Tai Fook will become even stronger going forward after the challenges that we have successfully overcome. The contributions from my fellow directors and our staff are much appreciated.

CHENG Kar Shun, Henry

Chairman

Hong Kong, 16 July 2003