

Chairman's Statement



Dr. CHENG Kar Shun, Henry
Chairman

Business Review

I am pleased to present this annual report of Tai Fook Securities Group Limited to our shareholders, which was made up to the end of 2003. As we have changed our financial year-end date to 31 December from 31 March, in line with the accounting practice of most major financial institutions in Hong Kong, this annual report covered only nine months from 1 April 2003 to 31 December 2003. As such, no comparable account was available for the last corresponding period. However, what we have achieved for the period under review clearly represents a solid improvement from the past two annual results. We made a net profit of HK\$41.6 million for the nine months ended 31

December 2003, compared with a net loss of HK\$39.4 million (as restated) for the year ended 31 March 2003 and a net loss of HK\$105.8 million (as restated) for the preceding year.

The momentum of improvement notably increased in the last quarter of last year. Shareholders should remember that we had reported in December 2003 a net profit of HK\$19.2 million for the six months ended 30 September 2003. After the payment of an interim dividend of HK2 cents per share in January 2004, we are proposing a final dividend of HK2 cents per share for the nine-month period, expected to be payable on 1 June 2004. Total dividend payment will represent 45.6% of the earnings per share of HK8.78 cents for the period.

As reported in the interim report not long ago, our various investment businesses have benefited from reactivated market activity since the middle of last year, when the outbreak of SARS came to an end and the local economy started to move towards a closer integration with the Mainland, in particular in respect of the flows of visitors, trade and investment. Despite the political turmoil in Iraq and the health crisis in Asia in the first quarter of 2003, the local stock market was resilient for the year as a whole.

Thanks to the sharp increase in stock trading activity in the latter half of 2003, average daily turnover on the Stock Exchange of Hong Kong rose by 55% to HK\$10.4 billion for the year. IPO funds raised rose by 13% to HK\$59 billion. Total market capitalisation rose by 54% to HK\$5,548 billion. The benchmark Hang Seng Index soared by 35% to end the year at 12,575.94, which was however paled by the stellar performance of the H-shares index, which skyrocketed by 152% to a new high of 5,020.18.

Investors are well aware of the volatility of the investment markets, and hence the sharp swings in our business cycle. In the past 2-3 years, we had managed to minimise our operating expenses through cost rationalisation under the depressed operating environment in the investment markets worldwide since the burst of the telecom technology bubble in early 2000 and the 9-11 terrorist attacks in the United States in 2001. Yet, we have further strengthened our market position through our continued investment in various business-driven capability, especially in IT, research and marketing. Our success in market penetration has enabled us to take full advantage of the pickup in market activity.

Our shareholders' funds were boosted by 7.3% over the nine months to HK\$822.5 million, or HK\$1.74 per share, as at the end of 2003. In the face of rising regulatory requirements in the industry and also with the need for a higher capital base to strengthen our business underwriting capability, we have expanded our shareholders' funds significantly by the issuance of 85 million new shares at a net price of HK\$1.216 per share in March 2004, raising HK\$103.4 million. We aim to fully compensate for the dilution in book value per share by enhancing earnings per share after the new share issuance. Our shareholders' funds have reached the highest level since our listing in 1996.

Prospects

We fully support the HKSAR Government's vision of maintaining Hong Kong as one of the most important cities in China and a world city of Asia. Without doubt, Hong Kong's strategic location in the Pearl River Delta region and the opportunities brought by the Mainland and Hong Kong Closer Economic

Partnership Arrangement (CEPA) has given it unparalleled advantages over its neighbours, but most of them can only be capitalised through the efforts of every Hong Kong citizen. Therefore, harmony in the society is what we need the most. As one of the major players in the local securities market, we have a pivotal role to play in strengthening Hong Kong's role as a world-class financial and trade center providing high-value added services.

Hong Kong is now not only a preferred market for Chinese enterprises wishing to attract foreign capital, but also a preferred market for investment funds from the Mainland. Institutional monies from the Mainland are set to land on the local market soon, though it is already a fact that Mainland high-net-worth investors are amongst the most active players in the Hong Kong stock market. Hong Kong will continue to act as an international financial hub for fund flows between the Mainland and abroad. The trend should underwrite the future growth of our securities broking and corporate finance businesses.

Whilst we fully understand the importance of risk management in our business, we believe our return will only be enhanced materially by taking advantage of changing market conditions. We foresee tremendous trading opportunities offering excellent investment returns amid the erratic price fluctuations sometimes caused by irrational market movements. We also believe that opportunities will continue to be available in the secondary market or among some of our identified IPO candidates. With our professional judgment and prudent risk management, we trust enhanced returns will be achieved for our shareholders over time.

While we have witnessed a strong start for 2004 on the back of improving economic outlook globally, there remain a lot of challenges ahead. First, market correction is unavoidable after every strong rally, which has been the case for both local blue chips and major China stocks after their strong price gains over the past 12 months. A consolidation will inevitably depress market activity for some time, and our securities broking business will unlikely be immune from any market slump. Second, political unease worldwide and in the region has occurred from time to time, which has become even more pronounced in recent years with escalating terrorist activities and conflicts among the leading economies on various issues. Last but not least, Hong Kong's competitiveness is under severe challenges from our neighboring countries in Asia and the emerging cities on the Mainland.

There is urgent need for us to improve our competitiveness and our mindset in integrating with our motherland in order to tap its vast economic development opportunities. As one of the forerunners in the local securities industry in developing China business, we trust our unfailing commitment in maintaining the long-term growth of Tai Fook will be appreciated by our shareholders.

Dr. CHENG Kar Shun, Henry

Chairman

Hong Kong, 15 April 2004