



WONG Shiu Hoi, Peter
Managing Director

Review of Operations

Overview

In general, the progress across our major business divisions since our last annual report in July 2003 has continued not only throughout the review period, but also in the early part of our new financial year, which coincides with the calendar year as from 2004. The change in the financial year-end date is not merely for the purpose of making peer comparisons easier, but also reflects our commitment in becoming a major participant in the local marketplace with comparable strength and returns with our larger competitors over time.

In summary, we have grown our business on the backdrop of the favorable changes in the business environment, and equally important is the improvement in our internal control system after the exposure of certain weaknesses in the course of our investigation in an isolated theft case during the period. Such weaknesses have now been rectified and eliminated. We have also upgraded our IT capability to cope with the increasingly demanding requirements of our clients as well as the launch of new products to meet diversified market demand.

Stock and futures broking

We recorded a turnover of HK\$144.0 million from stock and futures broking in the review period, exceeding that of HK\$133.7 million for the preceding financial year. An operating profit of HK\$32.8 million was achieved, which represented a significant turnaround from a loss of HK\$22.7 million for the preceding financial year. The improvement in market conditions and an enhanced sales force were the major factors behind the improved results. In particular, the turnover recorded by our branches and our online trading platform jumped dramatically during the period. This well depicted the return of trading interest from retail investors and our success in capturing business from overseas investors, who are most adaptable to the use of electronic trading facilities where efficient execution engines as well as fast and valuable investment information are available. Our market share has increased as a result of our diversified market penetration efforts.

Corporate finance

Investment banking activity was the most affected amid the outbreak of SARS in the second quarter of 2003. Our corporate finance division recorded a turnover of HK\$24.6 million for the review period, well below that of HK\$38.9 million for the preceding financial year. We booked an operating profit of HK\$4.4 million for the review period, compared with HK\$8.4 million for the preceding financial year. The reduction in earnings contribution could be attributed to the rescheduling of certain IPO issues. As such, the potential contributions from our assignments on hand should be promptly reflected in the current financial year. During the review period, activity was relatively quiet with the completion of one IPO sponsorship assignment – which was a landmark deal of last year on the GEM board, six IPO underwriting assignments, five other fund-raising assignments and 20 corporate advisory assignments. The origination of business from Mainland China remained very encouraging as our established connection and reputation have been further leveraged.

Securities financing and money lending

Our margin financing business has remained one of the major sources of recurrent earnings. The balance of advances to customers increased moderately to HK\$1.1 billion as at the end of 2003, from HK\$1.0 billion nine months ago. Owing to the drop in interest rates, interest income dropped by an annualised 6.4%. However, thanks to reduced credit costs, we booked an operating profit of HK\$16.4 million for the review period, a marked improvement from a loss of HK\$5.9 million for the preceding financial year. The demand for our margin financing service reached a climax last December along with the hectic IPO application

activity on the part of local retail investors. In future, our margin financing business will continue to be conducted mainly for the purpose of facilitating the trading needs of our clients. We expect our enhanced credit control system will help minimise the requirement for future loan provisions.

Other investment services and activities

Our trading and investment activities contributed an operating profit of HK\$5.0 million for the review period, a sharp reversal from a loss of HK\$2.3 million incurred for the preceding financial year. Largely because of the revaluation gain on a major listed H-shares investment, the balance of our long-term investments rose to HK\$74.6 million as at the end of 2003 from HK\$31.5 million nine months ago. Besides, we have increased our proprietary trading activity to take advantage of trading opportunities in the market, which has generated satisfactory results.

As mentioned in the last interim report, we have launched in last August an open-ended public investment fund, namely CCS Tai Fook China Investment Fund, focusing on China equity investments. With Tai Fook acting as a manager, the investment strategy for the Fund has been formulated jointly with CM-CCS Securities, which has in-depth knowledge of China's economic and political developments. It is envisaged that another investment fund will be launched soon with another prominent China investment house. We continue to see ample development potential in our asset management business, considering the increasing opportunities from the opening capital markets in Mainland China and the ever-increasing investment needs of the growing wealth in Asia are still yet to be fully satisfied.

Future Plans

We have made concrete steps in strengthening our securities broking business through our IT, marketing and research initiatives, which should continue as a key earnings contributor ahead. Market penetration and the provision of value-added services are what we consider the major driving forces for our business growth in this area. We have enriched our investment products, which now encompass stocks, futures, options, bullion, FX and other commodities, and round-the-clock trading services for global products are already in place.

We are confident of our deal-sourcing capability for our investment banking activity. In particular, we have built up a strong business network in China, which is served by our seasoned professionals stationed on the Mainland. Our corporate finance professionals will continue to react promptly to market opportunities in respect of IPO and M&A transactions and changing investor appetite. Going forward, we will further strengthen our own deal distribution capability by increasing our resources in the ECM division.

Supplementing our core businesses of securities broking and investment banking, our ancillary financial services are vital in making us a preferred local investment house. In particular, we have firm commitment in maintaining our high research standard and capability, which is considered an important value-added component of Tai Fook's long-term development strategy. Our independent research capability should distinguish ourselves from other local players.

I am glad to see the resiliency of the local economy and the return of confidence after years of depression, which should bode well for our business in 2004. Insisting on the provision of quality services, we aim to promote the Tai Fook franchise as a respectable logo in the local investment community, and in Greater China over time. I have no doubt the concerted efforts of our staff and management have played an indispensable role in achieving this corporate goal and our shareholders and stakeholders will ultimately be rewarded for their continued support to our Group.

WONG Shiu Hoi, Peter

Managing Director

Hong Kong, 15 April 2004

Net Profit/(Loss) Attributable to Shareholders
HK\$' million

Aspiring High

