

SOLID FOUNDATION

to extend our leading position

Tai Fook has a strong and solid foundation to serve its customers, employees, shareholders as well as the community.



Chairman's Statement

Business Review

I am pleased to present this annual report of the Group for the year ended 31 December 2004 to our shareholders. Bearing in mind that we have changed our financial year-end to 31 December for the year 2003 and as a result the last annual results covered only nine months from 1 April 2003 to 31 December 2003, comparable results for the full year of 2004 are therefore not available. However, it is not difficult to notice the improvements in our business performance over the past year.

The Group attained a net profit of HK\$70.3 million for 2004, compared with HK\$41.6 million for the preceding nine-month period. This represents an annualised growth rate of 27%. Turnover amounted to HK\$357 million representing an annualised growth rate of 9%. The accelerated growth rate in net profit reflected our success in controlling costs and improving operating efficiency. Earnings per share for 2004 were HK12.67 cents, an annualised growth rate of 8%. The slower growth in earnings per share was due to the issuance of new shares through a private placement to certain strategic investors in March 2004. Our enlarged share capital base should enhance returns to our shareholders over time as we are financially better equipped to

take advantage of suitable investment opportunities. As at the end of 2004, our shareholders' funds stood at HK\$987.0 million, or HK\$1.69 per share.

Compared to the results reported for the first half of 2004, there was a slowdown in our overall business performance in the second half of the year. To recap our half-yearly performances, we had reported a net profit of HK\$45.0 million (EPS: HK8.39 cents) for the first six-month period, and an interim dividend of HK4 cents per share was paid in October 2004. Although we achieved a lower net profit in the second half of the year, we consider the results for the year as a whole to be satisfactory and our Board accordingly has recommended a final dividend of HK2 cents per share, which will be payable to shareholders on 8 June 2005. The total dividend payment will amount to HK6 cents per share for the whole year. We believe that shareholders should be pleased with the increased dividend payment for the year. The dividend payout ratio stands at a high level of 49%, evidencing our endeavor to enhance distributions to shareholders.

Our business performance is inextricably linked with the overall market performance in Hong Kong, in particular in respect of its market activity and liquidity. Average daily turnover on the local Stock Exchange rose 54% to a record HK\$16.0 billion for 2004. The derivatives markets were also active with a 36% rise in the average daily number of futures contracts to 56,752 and a 33% rise in options contracts to 22,720. Hong Kong is now one of the most important equity and derivatives trading centers in the world. Total capital raised during 2004 amounted to HK\$281.5 billion, making Hong Kong the third largest fund raising market in the world last year. With a market capitalisation of HK\$6,695.9 billion at the end of 2004, Hong Kong was among the top ten largest stock markets of the world.

Without doubt, Hong Kong is capable of keeping its key position amongst the top global securities markets. In particular, Hong Kong will remain a preferred listing and trading marketplace for Mainland enterprises. In fact as of 31 December 2004, Mainland enterprises accounted for about one-third of the total market size and in recent years a dominant share of fund raising activity in the local market. Our development strategy coincides with



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Chairman

the market trend and it appears that increased revenue from our broking, investment banking and asset management businesses were derived from the Mainland.

Being the world's freest economy possessing a fully open stock market, Hong Kong will continue to be influenced by external factors like economic performances of its major trading and business partners as well as global political changes from time to time. Rising oil prices and interest rates have been the major worries affecting stock market performance since mid-2004 subsequent to the cool-down effects from the macro economic adjustments in Mainland China since the beginning of that year.

The Hang Seng Index eased 2.3% in the first half of 2004 but rebounded 15.8% in the second half. Yet, sentiment turned increasingly cautious in the latter period, which had affected our corporate finance business in particular. We are pleased to report that our broking business and proprietary trading activity continued to perform well in the second half of the year despite a slow down in market activities amid increasing market uncertainties during the period. We have identified clearly our four core businesses of broking, investment banking, asset management and trading and investment and their self-driven growth capability has been reflected by our solid financial results achieved in the review period.

Prospects

Looking forward, the year 2005 seems to be even more challenging as the global economy is facing more uncertainties amid firmer oil prices and higher interest rates. The US Federal Reserve has expressed concerns that threat of inflation has increased as pricing power is more evident. There is a danger that the upside and downside risks to the attainment of both sustainable growth and price stability could only be balanced by a tighter monetary policy. The global financial markets are vulnerable to the expected rises in interest rates especially should there be a shift from a progressive pace to an accelerated pace. On the positive side, the US economy has continued to perform well with continued improvements in employment and capital inflows remaining strong, which are paramount for funding the

country's growing fiscal and current account deficits. China remains a bright spot on the horizon though short-term economic adjustments seem unavoidable for sustainable growth in the longer term.

On the local front, the current economic recovery looks set to continue unless an exceptional unfavorable external environment emerges. The economy grew by 8.1% in real terms in 2004, the highest growth in four years and well above the 20-year average of 4.8%. The Government is targeting a real GDP growth of 4.5% to 5.5% in 2005, with inflation expected to be a tame 1.5%. It is also pleasing to note that the fiscal accounts will turn surplus for 2004-05, thanks to the proceeds from bond issuances and higher-than-expected revenue from land premiums consequential upon a recovery of the local property market. Recovering property prices also helped create wealth effect, benefiting both private consumption and investment sentiment. Clearly, a sustainable fiscal surplus should not be taken for granted under the changing economic climates. While employment has continued to improve, general wage rates have only modestly improved. It is anticipated that further interest rate hikes may dampen substantial upside in the property market.

We certainly welcome the Government's continued efforts to uphold the principle of "Market Leads, Government Facilitates" and actively promote economic growth by facilitating the development of the market and providing a favorable platform for the business community. As one of the major participants in the local financial industry, we have always advocated the fostering of economic cooperation with and the attraction of talents from the Mainland in the past several years. We also strongly support the industry's calls for the improvement of the financial regulatory system and the enhancement of corporate governance to make Hong Kong a truly world-class securities marketplace. Our commitment in total quality management has been well recognised by our customers and the industry. We have developed a sophisticated electronic trading and settlement system to keep pace with market developments, in tandem with the ongoing efforts of the local stock and futures exchanges to continuously improve market infrastructure that is essential for supporting Hong Kong's competitiveness.

Chairman's Statement

I am confident that with the vision and dedication of our management, we will continue to maintain our competitive edge over our competitors in exploring new revenue sources and increasing our market share. We believe that we are on track to attain longer-term growth in profits and dividends to maximise returns to our shareholders, whilst our ability to withstand challenges in the volatile market situations is secured by our prudent risk management and adherence to regulatory requirements. The Tai Fook brand will continue to stand for "Striving Ahead for Sustainable Growth" in our established businesses and expanding markets geographically. Lastly, the Board and I wish to take this opportunity to express our deepest gratitude to Mr. Luo Gang for his contributions to the Group in the past years. Due to his busy personal schedule, he has resigned as an Executive Director of the Company with effect from 1 April 2005 and he has kindly agreed to remain as Advisor to the Board.

Dr. CHENG Kar Shun, Henry

Chairman

Hong Kong, 12 April 2005