

Our global perspective and local knowledge enables us to provide outstanding financial services to our partners in Hong Kong, the Mainland and the world.



Chairman's Statement

Business Review

I am pleased to present the annual results of the Group for the year ended 31 December 2005 to our shareholders. The Group achieved a net profit of HK\$63.0 million for the year, a decline of 10.4% from HK\$70.3 million for 2004. The Group recorded a 9.5% increase in revenue to HK\$390.8 million. The profit drop could be attributed to a HK\$11.7 million provision for doubtful debts, which is considered a non-recurrent item. Earnings per share for 2005 amounted to HK10.8 cents, representing a larger decline of 14.8% from the preceding year as the issued share capital was markedly expanded via a top-up share placing in March 2004. As at the end of 2005, our shareholders' funds increased to HK\$1,004 million, or HK\$1.74 per share, which grew 3% over the past year.

Contrary to the market trend in 2004 which had a better first half, activity was significantly better in the second half in 2005. The Stock Exchange recorded an average daily turnover of HK\$18.3 billion for the whole of 2005, up from HK\$16.9 billion for the first half. Last year's stock market turnover increased 13.7% from 2004 to set a new activity record for the Stock Exchange. 2005

was a remarkable year for the local securities market as new records were set in many aspects. In addition to a record market turnover (HK\$4,520.4 billion), total market capitalisation (HK\$8,179.9 billion as at year end), IPO funds raised (HK\$191.5 billion), and activities in derivative warrants (HK\$856.6 billion), futures and options were also record-breaking last year.

It is particularly noteworthy that the turnover in H-shares surged to a record HK\$953.3 billion to account for 21% of the total market turnover during the year. IPO funds raised by H-shares amounted to HK\$137.4 billion, or 72% of total IPO funds raised during the year. The listing of China Construction Bank marked the largest ever IPO in the local market by raising HK\$71.6 billion. Chinese enterprises have notably played an increasingly important role in the developments of the local securities market. We were one of the most active margin financing providers for public subscription to IPOs last year, and applications through our online platform were very popular.

Despite the significant improvement in market activity and investment sentiment in the latter part of 2005, market conditions were lackluster for a large part of the past year. Keener competition in the local brokerage industry continued to have an important bearing on our operating performance. In particular, non-bank institutions like us are not in a level playing field with banking institutions in the brokerage industry. As reported in the interim report, worries about rising interest rates and oil prices remained the major draggers to market performance. Therefore, our business performance last year was on the whole steady. However, both the economies of the Mainland and the Hong Kong SAR have performed strongly. The SAR recorded a respectable GDP growth of 7.3% last year, which beat most forecasts but it was still shy of the 9.9% growth rate recorded on the Mainland. Funds flow into the local



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Chairman

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market was evident, with the successful launch of several large-scale H-share IPOs and the first REIT, The Link, providing the greatest impetus to market sentiment.

Compared to the results reported for the first half of 2005, our Group achieved slightly better results in the second half. After an interim dividend of HK2 cents per share, which was paid on 28 October 2005, our Board has proposed a final dividend of HK3 cents for the year, which will be payable to shareholders on 5 June 2006. The total payout represents a decrease of 16.7% from the preceding year's HK6 cents per share and a payout ratio of 46.01%. The Board has decided to reserve more of our financial resources in the face of emerging business opportunities.

Prospects

The buoyancy of the local securities market that emerged in the latter part of 2005 has extended into 2006. Market activity and investment sentiment actually leapt dramatically since the beginning of 2006. We are confident that the Group's business performance will at least keep track with market performance, despite the acute competition from other market participants. Performances of the global economies will continue to affect Hong Kong's economic performance, given its position as a prominent international city. However, we are in an enviable position as China's gateway city in respect of international trade and finance. The sustained economic growth in the Chinese Mainland will undoubtedly propel regional developments, firstly in its coastal cities and in later stages in inland cities. We believe Hong Kong will benefit from the Mainland's widespread growth momentum, rather than being sidelined in view of our unparalleled advantages in people, capital and ideas. These are also the beliefs of our Group in pursuing longer-term growth.

We are pleased to report to our shareholders that the organisation structure of the Group has become even more mature and professional. Our well-recognised market niche, integrity, professional services and corporate governance keep us in a distinct position among local market participants. We expect more balanced contributions from our core operations, which primarily comprise securities brokerage, investment

banking and asset management. We are well positioned to expand our three major streams of operations both in Hong Kong and the Mainland, where plenty of business opportunities are available from industry deregulations and developments and growing investment needs will come from cumulative wealth. We will strive to leverage on our strength to tap suitable business and investment opportunities, maximising returns to our shareholders going forward.

Dr. CHENG Kar Shun, Henry

Chairman

Hong Kong, 10 April 2006