

The image features a pair of hands held up, palms facing up, against a background of a financial chart. The chart has a grid and a blue line graph that fluctuates. The text 'Good news' is written in a large, blue, cursive font across the top of the chart. Below the hands, there is a semi-transparent purple horizontal band containing white text. The overall color palette is light blue and white, with the purple band providing a focal point for the text.

*As a pioneer of financial industry in Hong Kong and the Mainland, our performance is a distinguishing factor.*

# Financial Review

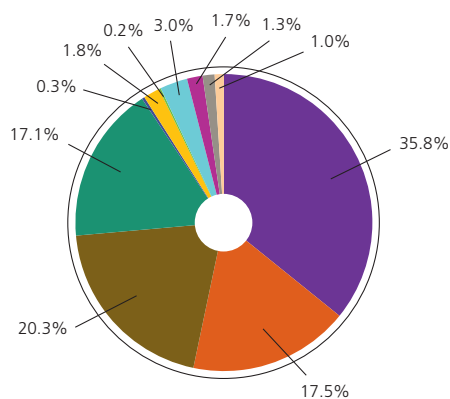
## Financial Performance

### Revenue

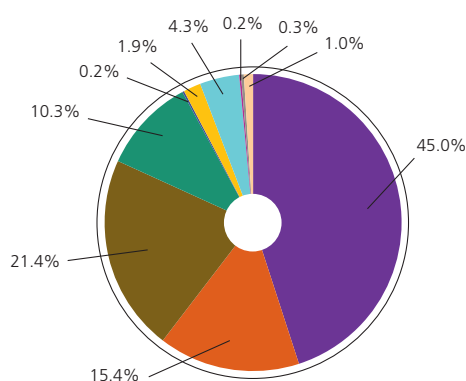
Revenue (also turnover) of the Group for the year ended 31 December 2005 was HK\$390.8 million (2004 : HK\$356.8 million). A summary of the revenue from different operations of the Group is set out below:

	For the year ended			
	31 December 2005 HK\$'000	%	31 December 2004 HK\$'000	%
Securities dealing and broking	139,853	35.8	160,594	45.0
Futures dealing and broking	68,251	17.5	54,982	15.4
Interest income	79,481	20.3	76,085	21.4
Corporate finance and advisory	66,953	17.1	36,792	10.3
Bullion contracts dealing	1,147	0.3	824	0.2
Income earned from the provision of nominee and custodian services	7,209	1.8	6,760	1.9
Fund management	684	0.2	4	0.0
Income from proprietary trading	11,899	3.0	15,532	4.3
Profit on foreign exchange contracts trading, net	6,509	1.7	575	0.2
Income from leveraged foreign exchange trading, net	5,046	1.3	938	0.3
Commission income from the provision of agency services for savings plans	3,749	1.0	3,690	1.0
	<b>390,781</b>	<b>100.0</b>	<b>356,776</b>	<b>100.0</b>

Analysis of 2005 Revenue



Analysis of 2004 Revenue



- Securities dealing and broking
- Futures dealing and broking
- Interest income
- Corporate finance and advisory
- Bullion contracts dealing
- Income earned from the provision of nominee and custodian services
- Fund management
- Income from proprietary trading
- Profit on foreign exchange contracts trading, net
- Income from leveraged foreign exchange trading, net
- Commission income from the provision of agency services for savings plans

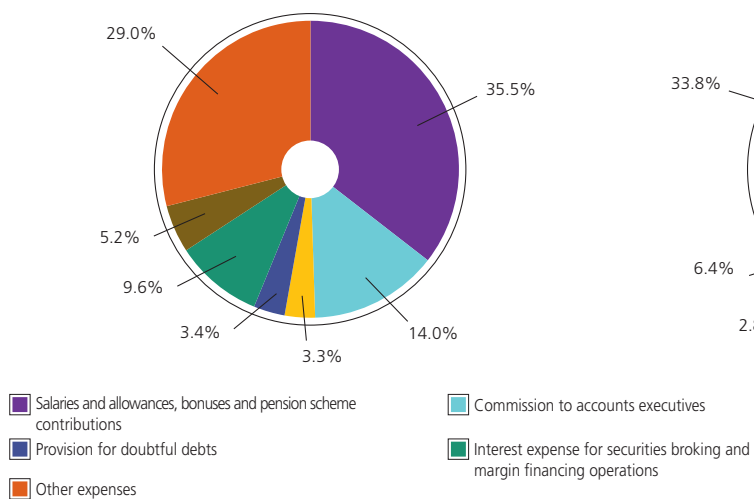
## Financial Review

### Operating Expenses

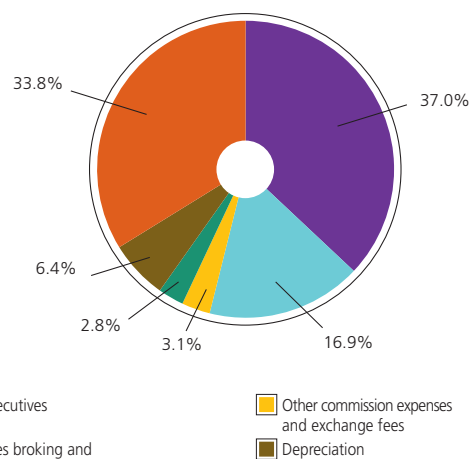
Total Operating Expenses for the year ended 31 December 2005 was HK\$347.7 million (2004 : HK\$284.4 million). An analysis of these expenses are as follows:

	For the year ended			
	31 December 2005 HK\$'000	%	31 December 2004 HK\$'000	%
Salaries and allowances, bonuses and pension scheme contributions	123,936	35.5	105,109	37.0
Commission to accounts executives	48,644	14.0	48,171	16.9
Other commission expenses and exchange fees	11,466	3.3	8,749	3.1
Provision for doubtful debts	11,671	3.4	–	0.0
Interest expense for securities broking and margin financing operations	33,249	9.6	7,877	2.8
Depreciation	17,967	5.2	18,261	6.4
Other expenses	100,728	29.0	96,224	33.8
	<b>347,661</b>	<b>100.0</b>	<b>284,391</b>	<b>100.0</b>

Analysis of 2005 expenses



Analysis of 2004 expenses



## Financial Review

Salaries and allowances, bonuses and pension scheme contributions increased by 18% during the year, mainly attributable to increase in number of staff to support the expanded operations of the Group.

Commission to accounts executives remained fairly stable during the year. The decrease in commission paid to accounts executives in respect of securities dealing was offset by the corresponding increase in commission paid for futures dealing.

Other commission expenses and exchange fees increased by 31% during the year. This was mainly due to increase in commission paid to overseas broker on futures dealing.

Provision for doubtful debts was mainly attributable to default by a margin client who was petitioned to bankruptcy.

Interest expense for securities broking and margin financing operations increased due to increase in bank borrowings, which are mainly used to finance margin loans, and rising interest rates.

Depreciation dropped 1.6%. The increase in depreciation following the rollout of our newly developed trading system in March 2005 was offset by the decrease due to the fact that certain fixed assets were fully depreciated during the year.

Other expenses rose 5% due to various reasons. Legal and professional fees increased mainly due to professional fees incurred on litigation cases. Advertising and promotion expenses rose due to the launch of certain advertising campaign in the latter part of 2005.

### Net Profit Attributable to Shareholders

Net profit attributable to shareholders for the year ended 31 December 2005 was HK\$63.0 million, compared with a net profit of HK\$70.3 million for the year ended 31 December 2004.

## Treasury Policies

The Group generally finances its operations with internally generated cash flows, bank borrowings and unsecured term loans predominantly from independent third parties. Majority of the Group's banking facilities are renewable on a yearly basis and are subject to floating interest rates.

It is the policy of the Group to maintain adequate liquidity at all times to meet its obligations and commitments as and when they fall due. The Group's financial risk management strategies include obtaining substantial standby banking facilities, diversifying the funding sources, spacing out the maturity dates to reduce interest volatility exposure and reviewing capital adequacy ratio from time to time.

The Group's principal operations are transacted and recorded in Hong Kong dollars and the level of foreign currency exposure on non-Hong Kong dollar assets and liabilities is relatively immaterial as compared with its total asset value or outstanding liabilities. Hence, the Group considers that it has no significant exposure to foreign exchange fluctuations.

## Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the year under review. At 31 December 2005, the Group's cash balance totalled HK\$270.9 million, compared with HK\$258.1 million as at the beginning of the year. Cash held on behalf of customers stood at HK\$1,401.4 million, increased from HK\$1,266.1 million as at 31 December 2004. The current ratio was healthy at 1.40 times.

As at 31 December 2005, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 44%, up from 20% as at 31 December 2004. Higher gearing resulted from increase in borrowings, which are mainly used to finance the increased margin loans and proprietary investments. All borrowings are of short-term

## Financial Review

maturities at floating interest rates. Bank and other borrowings totalled HK\$444.4 million (31 December 2004: HK\$194.3 million), against total margin loans of HK\$897.6 million (31 December 2004: HK\$772.3 million). The ratio of interest income to interest expense was 3.11 times, compared with 10.37 times for the last year. The decline was mainly due to increase in interest rates and bank borrowings.

Our operating cash flow remains adequate for financing our recurrent working capital requirements. Besides, the Group has unutilised banking facilities of HK\$1.19 billion, while our capital commitments are minimal. The Group's assets and liabilities are substantially denominated in Hong Kong dollars, so our foreign exchange exposure is immaterial. Except for the guarantees provided to the banks for securing normal banking facilities for our subsidiaries, the Company has no other significant contingent liabilities.

### Capital Structure

During the year, the Company made share repurchases of a total of 8,586,000 shares of the Company on The Stock Exchange of Hong Kong Limited to enhance the net asset value of the Company. As at 31 December 2005, the total issued share capital of the Company stood at HK\$57.7 million, comprising 576,667,699 shares of HK\$0.10 each.

### Material Acquisition and Disposal of Subsidiaries and Associated Companies

On 24 January 2006, the Group completed the acquisition of 60% of the issued share capital in each of Lexton Limited (renamed as Taifook Lexton Wealth Management Limited on 4 February 2006) and Lexton Pacific Consultants Limited (renamed as Taifook Lexton Consultants Limited on 4 February 2006) at an aggregate consideration of HK\$3.6 million.

Taifook Lexton Wealth Management Limited is a limited liability company incorporated in Hong Kong, which, together with its subsidiary, is engaged in the provision of (i) financial planning services assisting clients to select and arrange for insurance and financial products from insurance companies; and (ii) financial and insurance products brokerage in Hong Kong. It is also a member of The Hong Kong Confederation of Insurance Brokers.

Taifook Lexton Consultants Limited, a limited liability company incorporated in Hong Kong, is mainly engaged in the provision of financial advisory services in Hong Kong assisting clients to select funds. It is also a corporation licensed to carry on type 4 (advising on securities) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

### Employees

The Group's total staff costs for the year ended 31 December 2005, which excluded commissions paid to commission-based staff, amounted to HK\$123.9 million, representing a rise of over 18% from HK\$105.1 million for the last year. This is mainly due to increase in number of staff to support business expansion of the Group. As at 31 December 2005, the Group employed a total of 523 (31 December 2004 : 417) permanent staff of which 193 (31 December 2004: 108) were commission-based staff.