



Tracking

Our

Progress

Track and Field symbolises the forward surge, progress and competitive nature of Taifook.

Chairman's Statement

Business Review

I am pleased to present to shareholders the operating results of the Group for the year ended 31 December 2006. Last year was a record year for the Group in terms of contributions from our recurrent operations. Revenue reached HK\$726.9 million, an 86% increase year-on-year. Net profit attributable to shareholders increased 174% to HK\$172.3 million, and there was a corresponding increase in earnings per share to HK29.71 cents. In recognition of the encouraging achievements, our Board has recommended a final dividend of HK7 cents per share for the year, after the payment of an interim dividend of HK7 cents per share in October 2006. Total dividends paid and recommended for the last financial year represented an increase of 180% from those of the preceding year, and the dividend payout ratio was 47% of attributable net profit. Largely because of the impetus from strong earnings for the year, the Group's net asset value rose 17% to HK\$1,179.2 million, representing HK\$2.01 per share.

Last year was also a record year for the local securities industry. The Stock Exchange recorded an average daily

turnover of HK\$33.9 billion, which grew 85% from the preceding year to make it the historically most active year. Total capital raised through the local stock market reached an unprecedented HK\$525 billion, so was the total capitalisation of the market, which amounted to HK\$13,338 billion as at the end of 2006. Supplementing cash market activity, activity in the derivatives market was also robust. Against this favorable backdrop, we achieved significant growth in each of our core businesses covering broking, margin financing, corporate finance, and trading and investment. In addition, our strategy of expanding our products and services to capture wider customer patronage has proven fruitful as it added strength to our growth momentum.

We are well established in the local securities broking industry, with a sizeable retail client base comprising not only local investors but also Mainland Chinese investors who have shown rising interest in investing outside the Mainland. Hong Kong-listed stocks are a logical extension of their equity investments from the domestic A-share markets. Red chips and H-shares are particularly popular for Mainland investors. China's leading commercial bank, Industrial & Commercial Bank of China, opened a new page for both Hong Kong and the Mainland's securities industry developments by its simultaneous A+H dual listing in Hong Kong and Shanghai. The buoyant activity in the Mainland markets last year has a spillover effect on Hong Kong, and we took full advantage of the corresponding sharp increase in our local market activities. Furthermore, our institutional business has continued to be strengthened by our professional services and unique product offerings.



Dr. CHENG Kar Shun, Henry
Chairman

Chairman's Statement

The global economies were remarkably resilient in the past year. Inflation worries and volatile commodity prices led to a marked correction in global equity markets in the second quarter of the year. However, global economic performance was generally solid throughout the remainder of the year and subsiding inflation pressure has prompted the US Federal Reserve to halt its tightening policy which started in mid-2004. Interest rates turned flat in the second half and strong fund inflows to the territory led to an early rate cut by the local banks. There were some jitters over China's austerity measures which aimed to cool down the Mainland's fast-growing economy. However, the rate increases and credit tightening implemented by the People's Bank of China proved to have only a mild effect on both the economy and investment sentiment. IPO activities in Hong Kong reached a climax in the second half of last year, contributing to a sharp increase in our interest income from IPO shares financing.

The Hang Seng Index rose 34% over the past year, while the H-shares index soared 94%, reaching new records for both. The performances of our core businesses are all highly correlated to market performance and investment sentiment. We took advantage of our investment expertise to take up suitable trading and investment opportunities in the market to enhance our treasury returns. Although fluctuating market conditions are beyond our control, we have endeavored to control our operating expenses and to improve our operating efficiency to safeguard our profitability. Our sophisticated electronic trading platforms and IT enhancement initiatives contributed to both customer satisfaction and operational efficiency. Overall, we improved our pre-tax margin to 27.2% from 17.7% a year ago. The average return on equity also leapt to 15.8% from 6.3%. The above financial parameters demonstrated our overall successful achievements in the past year.

Prospects

Any market correction that comes after the sharp rally is of no surprise. The relatively higher valuations mean

that the market will likely to be more volatile in 2007. However, we believe that there will be no shortage of catalysts for a resilient market going forward. Firstly, interest rates look set to peak out later this year as the US economy has shown signs of slower growth, which may be further dragged down by the correction in property prices. Barring an economic recession, lower interest rates will most likely benefit equity investors. Secondly, we remain confident on the local economy especially with its continuing process of integration with the prospering Mainland.

The management quality of Chinese enterprises has continued to improve especially in respect of corporate governance and transparency, which could be the result of their broadened shareholder base that includes many foreign institutional investors. The share reform and internal group restructuring will both enhance their investment value and the investment attraction for global investors. Needless to say, there are already numerous high-quality home-grown stocks in the market which have become more internationalised. A lot of them have expanded their business on the Mainland in a bid to sustain their long-term growth. This trend will assure Hong Kong's role as a preferred marketplace for the equities of Hong Kong or Mainland-based enterprises.

We will continue to leverage our niche to expand our business in Mainland China and regionally. We are particularly well prepared to further increase our penetration into the Mainland after years of effort in relationship and brand building alongside the gradual open-up of its capital markets. We have every confidence in our Group's cross-border business developments and its contributions to our earnings going forward.

Dr. CHENG Kar Shun, Henry

Chairman

Hong Kong, 29 March 2007