

Managing Director's Review

Review of Operations

Overview

Our major businesses all benefited from buoyant activities across different investment markets, including equities and their derivatives, foreign exchange, bullion and other commodities. Our broking service, which covers a wide array of investment products, together with our margin finance service, which aims to facilitate our customers' more aggressive trading needs, made up for a dominant part of our earnings last year. The active participation of both retail and institutional investors in the local equity market last year made us one of the major beneficiaries in the broking industry as we have built up a comprehensive client portfolio covering both market segments. Our investment banking business also showed steady growth. Significant growths were witnessed in other areas, such as trading and investment, asset management and wealth management, which have emerged as solid earnings contributors to the Group on our increased commitments. Geographically, our China business has further increased its importance in terms of both revenue and profit contributions to our Group.

Stock and futures broking

This division boosted its revenue by 71% to HK\$357.9 million and contributed a segment profit of HK\$64.5 million, up 170% year-on-year. Apart from the efforts of our sales professionals, our online trading platforms have become increasingly popular and have emerged an effective way of business promotion, in particular in other markets such as Mainland China, Japan and South Korea. Online trading also underlined a significant improvement in profitability as it has been propelled greatly by the leap in trading volume. In addition to our head office, we now have ten branches in Hong Kong and one branch in Macau servicing mainly retail investors. Our institutional desk serves both professional traders and global institutional investors which were very active in the local

equity market last year. Our independent research continued to provide value-added investment advisory services to our clients. Its role is indispensable for supporting our sales and marketing efforts as investors are becoming increasingly demanding for up-to-date and sound investment advices. The loyalty of our customers depends very much on our provision of quality services, which remains as our major strategy for customer development.

Investment banking

The division recorded a 13% increase in revenue to HK\$75.8 million and lifted its segment profit by 36% to HK\$19.7 million. IPO sponsorship and underwriting, financial advisory, and share placing and underwriting continued to provide the bulk of its earnings. During the year, the division completed 3 IPO sponsorship assignments, 23 IPO underwriting assignments, 10 securities placements, 5 rights issues underwriting and over 40 corporate advisory assignments. Tapping strong market demand for quality consumer stocks at an opportune time, we acted as the lead sponsor and underwriter of China's leading lingerie manufacturer and retailer Embry Holdings which raised HK\$362 million in its public listing in December 2006. The stock's performance was one of the best among newly-listed stocks last year. Our deal sourcing effort has been



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focused on the quality of the IPO target as well as the market's investment appetite.

Securities financing and money lending

The division increased its revenue by 132% to HK\$184.7 million and its segment profit by 142% to HK\$78.0 million. At the end of last year, the balance of advances to customers amounted to HK\$1,108.0 million, up 23% over the year. The demand for margin finance came along with the surge in trading activity. We have been able to improve our interest margins through our access to cheaper funding from the banks. Our prudent credit control assures that the underlying pledged securities provide an adequate cover for our loan exposure. Bad debts written off during the year were insignificant against the size of our margin finance portfolio. On the other hand, we held cash on behalf of customers totaling HK\$1,804.5 million and our own cash and deposits of HK\$595.3 million as of end 2006, which also generated considerable interest income.

Other investment services and activities

We provide ancillary investment services including asset management and wealth management services to our customers. Through our various joint ventures, including those with China Merchants Securities and Aizawa Securities of Japan, we have set up investment funds targeting on the Greater China markets. We will soon complete the acquisition of the asset management division of a competitor specialising in MPF business. In January 2006, we acquired a 60% interest in an independent wealth management entity, which then changed its name to Taifook Lexton Consultants Ltd. This has become our platform for expanding our wealth management business in the region. We see great demand from the increasingly affluent Mainland population. For our in-house investment and trading, we held securities worth a total of HK\$233.4 million, of which HK\$146.3 million were classified as longer-term investments, as of end 2006. Trading and investment, financial planning and advisory services, and other financial services contributed a total segment profit of HK\$36.1 million last year, a significant turnaround from a net loss of HK\$1.3 million in 2005.

Future Plans

We will continue to strengthen our broking business through our increased presence in both Hong Kong and the Mainland. We will likely add 1-2 new branches in

Hong Kong and also 1-2 new contact points on the Mainland, probably in Xiamen and Hangzhou, this year. We will also capture increasing investor interest in China equities in other regional markets like Japan, South Korea and Taiwan, where we have established good connection with the local securities houses through which we gain access to their vast customer resources. We will increase our research resources and capability to cope with our ever increasing customer demand.

Our investment banking business will remain a major driver for exceptional growth ahead. Our deal sourcing capability in Mainland China will assure our access to lucrative IPO business. In the past years, we have developed a seasoned institutional sales team and our ECM division has also functioned effectively. Our asset management and wealth management divisions will continue to have a China focus.

Our expansion in all aspects will be properly backed up by our effective management and sophisticated IT support. Our expanding economy of scale should help enhance our profitability ahead. While we will continue to speed up our business expansion in our well defined directions, we will also rationalise our cost structure so that we should be able to weather any abrupt changes in market conditions. If suitable opportunities arise, we will expand our capital base to cope with our expansion, and suitable strategic investors would be welcome if there are synergies from the cooperation. I am firmly of the view that capable manpower and talented staff will continue to be the backbone for sustaining the growth of our Group in the challenging business environment. I wish to thank the Board, our dedicated staff, our stakeholders and shareholders for their faithful support for the Group, and I hope all of them will enjoy the Group's growing returns in the future.

WONG Shiu Hoi, Peter

Managing Director

Hong Kong, 29 March 2007