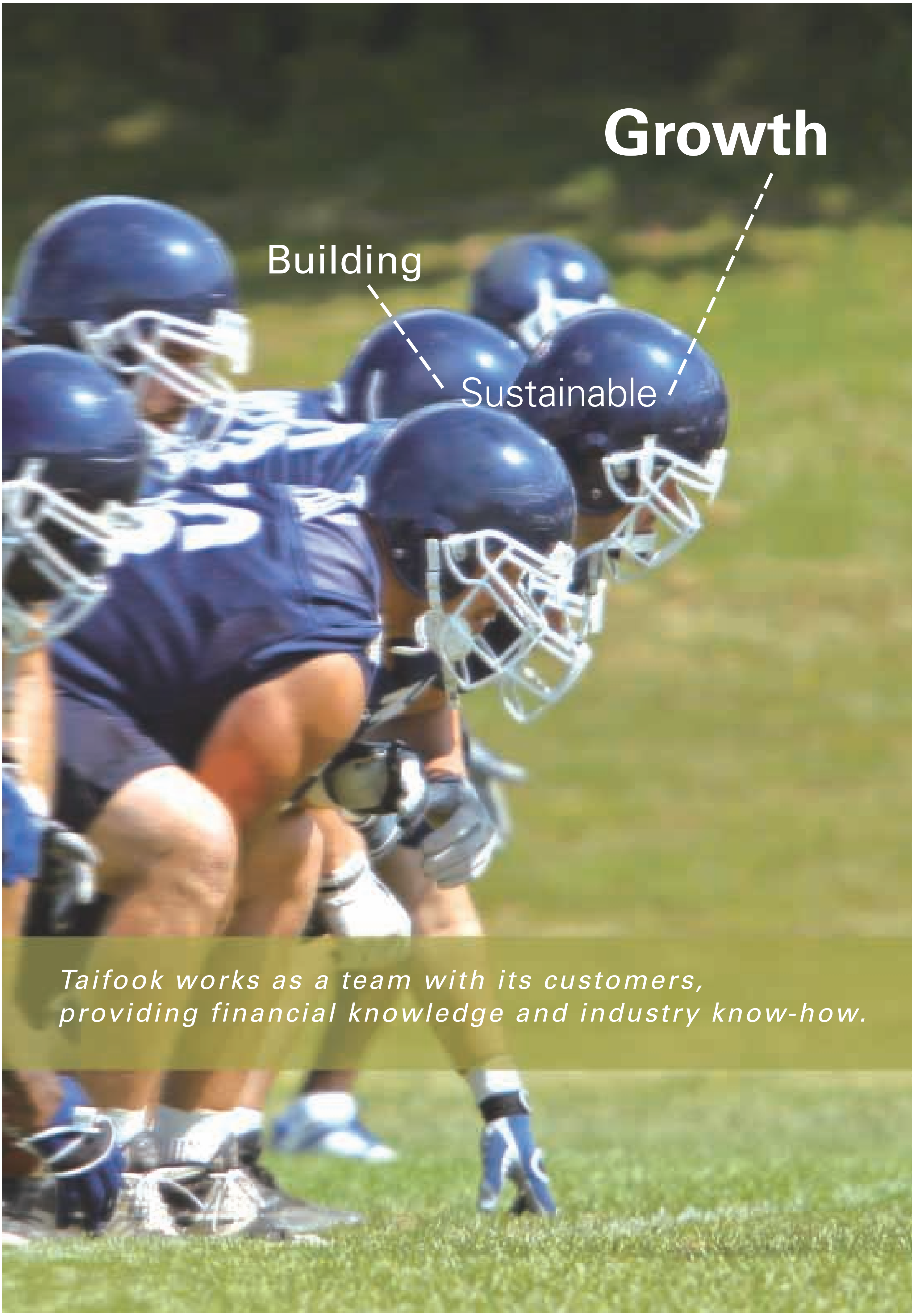

Growth
Building
Sustainable
Taifook works as a team with its customers,
providing financial knowledge and industry know-how.

Financial Review

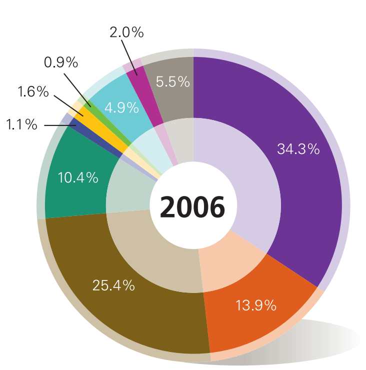
Financial Performance

Revenue

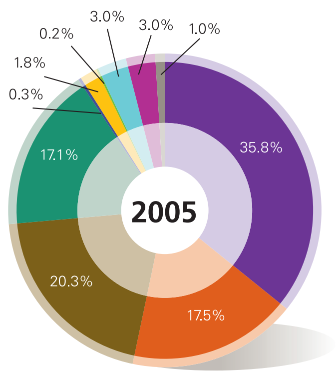
Revenue (also turnover) of the Group for the year ended 31 December 2006 was HK$726.9 million (2005: HK$390.8 million). A summary of the revenue from different operations of the Group is set out below:

	For the year ended			
	31 December 2006 HK$'000	**%**	31 December 2005 HK$'000	%
Securities dealing and broking	**249,175**	**34.3**	139,853	35.8
Futures dealing and broking	**100,849**	**13.9**	68,251	17.5
Interest income	**184,724**	**25.4**	79,481	20.3
Corporate finance and advisory	**75,790**	**10.4**	66,953	17.1
Bullion contracts dealing	**7,843**	**1.1**	1,147	0.3
Income earned from the provision of nominee and custodian services	**11,790**	**1.6**	7,209	1.8
Fund management	**6,502**	**0.9**	684	0.2
Income from proprietary trading	**35,264**	**4.9**	11,899	3.0
Income from leveraged foreign exchange trading	**14,696**	**2.0**	11,555	3.0
Commission income from the provision of financial planning and advisory services	**40,280**	**5.5**	3,749	1.0
	726,913	**100.0**	390,781	100.0

Analysis of 2006 Revenue



Analysis of 2005 Revenue



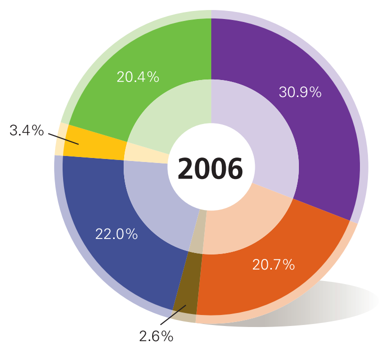
- Securities dealing and broking
- Futures dealing and broking
- Interest income
- Corporate finance and advisory
- Bullion contracts dealing
- Income earned from the provision of nominee and custodian services
- Fund management
- Income from proprietary trading
- Income from leveraged foreign exchange trading
- Commission income from the provision of financial planning and advisory services

Operating Expenses

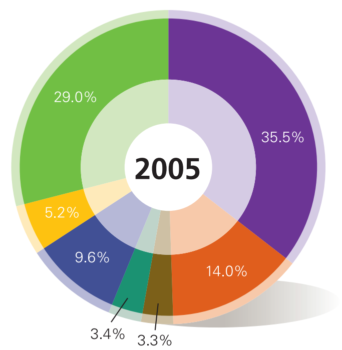
Total Operating Expenses for the year ended 31 December 2006 was HK$603.5 million (2005: HK$347.7 million). An analysis of these expenses are as follows:

	For the year ended			
	31 December 2006 HK$'000	**%**	31 December 2005 HK$'000	%
Salaries and allowances, bonuses and pension scheme contributions	**186,580**	**30.9**	123,936	35.5
Commission to accounts executives	**124,994**	**20.7**	48,644	14.0
Other commission expenses and exchange fees	**15,461**	**2.6**	11,466	3.3
Impairment of advances to customers and accounts receivable	**–**	**–**	11,671	3.4
Interest expense for securities broking and margin financing operations	**132,710**	**22.0**	33,249	9.6
Depreciation	**20,848**	**3.4**	17,967	5.2
Other expenses	**122,920**	**20.4**	100,728	29.0
	603,513	**100.0**	347,661	100.0

Analysis of 2006 Expenses



Analysis of 2005 Expenses



- Salaries and allowances, bonuses and pension scheme contributions
- Commission to accounts executives
- Other commission expenses and exchange fees
- Impairment of advances to customers and accounts receivable
- Interest expense for securities broking and margin financing operations
- Depreciation
- Other expenses

Salaries and allowances, bonuses and pension scheme contributions increased by 51% during the year, mainly attributable to increased incentives and bonuses paid and increase in number of staff to support the expansion of the Group.

Commission to accounts executives increased due to increase in revenues and higher commission-sharing ratios offered to accounts executives.

Other commission expenses and exchange fees increased by 35% during the year. This was mainly due to increase in commission paid to overseas broker on futures dealing.

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.

Increase in depreciation was attributable to the rollout of the new computer system as well as additions to leasehold improvements, furniture, fixtures and equipment due to office expansion.

Other expenses rose 22% due to increase in occupancy, insurance, communications and travelling expenses which are in line with business expansion.

Net Profit Attributable to Shareholders

Net profit attributable to shareholders for the year ended 31 December 2006 was HK$172.3 million, compared with a net profit of HK$63.0 million for the year ended 31 December 2005.

Treasury Policies

The Group generally finances its operations with internally generated cash flows, bank borrowings and unsecured term loans from independent third parties. Majority of the Group's banking facilities are renewable on a yearly basis and are subject to floating interest rates. Besides, the Group has secured a 5-year HK$500 million Revolving Credit Facility from a syndicate of banks during the year which provides the Group with medium-term financial flexibility to fund its fast growing operations, investment banking and asset management businesses.

Taifook signed with 19 banks on the agreement of a 5-year, HK$500 million Revolving Credit Facility to fund its fast growing businesses.

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.

Financial Review

Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the year under review. At 31 December 2006, the Group's cash balance totalled HK$595.3 million, compared with HK$270.9 million as at the beginning of the period. Cash held on behalf of customers stood at HK$1,804.5 million, increased from HK$1,401.4 million as at 31 December 2005. The current ratio was healthy at 1.30 times.

As at 31 December 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 49%, up from 44% as at 31 December 2005. Higher gearing resulted from increase in borrowings, which are mainly used to finance the increased margin loans. All borrowings are of short-term maturities at floating interest rates. Bank and other borrowings totalled HK$580.4 million (31 December 2005: HK$444.4 million), against total margin loans of HK$1,108.2 million (31 December 2005: HK$897.6 million). The ratio of interest income to interest expense was 1.91 times, compared with 3.11 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 as well as any investment opportunities when they arise. Besides, the Group has unutilised banking facilities of HK$1.505 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 1,768,000 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 2006, the total issued share capital of the Company stood at HK$58.8 million, comprising 587,519,699 shares of HK$0.10 each.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

On 7 March 2007, Taifook (BVI) Limited, a wholly-owned subsidiary of the Group, entered into a legally binding agreement with a wholly-owned subsidiary of SW Kingsway Capital Holdings Limited ("SWKCHL"), a company listed on the main board of The Stock Exchange of Hong Kong Limited, for the acquisition of the entire issued capital of Kingsway Fund Management Limited ("KFM"), an indirect wholly-owned subsidiary of SWKCHL and a corporation licensed to carry on type 1 (dealing in securities), 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). KFM is the investment manager of the Kingsway MPF Master Trust and Kingsway Unit Trusts which are authorised by the Securities and Futures Commission and/or the Mandatory Provident Fund Scheme Authority in Hong Kong. The acquisition will be completed on 31 March 2007.

Employees

The Group's total staff costs for the year ended 31 December 2006, which excluded commissions paid to commission-based staff, amounted to HK$186.6 million, representing a rise of 51% from HK$123.9 million for the last year. This is mainly due to increased incentives and bonuses paid and increase in number of staff to support business expansion of the Group. As at 31 December 2006, the Group employed a total of 790 (31 December 2005: 610) permanent staff of which 240 (31 December 2005: 193) were commission-based staff.