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CASH Financial Services Group Limited

(incorporated in Bermuda with limited liability)
(Stock code #8122)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This announcement, for which the Directors of CASH Financial Services Group Limited ("Company" or "CFSG") collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief,: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the Latest Company Announcements" page of the GEM website for at least 7 days from its date of publication and on the website of the Company at www.cfsg.com.hk.

Highlights

- Net profit attributable to shareholders increased by 30.6% to HK$26.6 million
- Net Asset Value grew to HK$358.1 million, a 49.0% increase from the previous year, reflecting profit growth and new funds raised to strengthen capital during the year
- Continued to diversify income stream through investment banking and wealth management
- Launched asset management services to meet clients' diverse investment needs and to complement the existing lines of business

CONSOLIDATED INCOME STATEMENT

The audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 December 2005 together with the comparative figures for the last corresponding year are as follows:

	Notes	**2005 HK$'000**	2004 HK$'000 (restated)
Revenue	(2)	**213,557**	239,972
Other operating income		**2,721**	7,710
Reversal of allowance for bad and doubtful debts		**702**	1,139
Convertible loan note settlement expense		**(85)**	(310)
Salaries, commission and related benefits		**(108,303)**	(119,778)
Other operating and administrative expenses		**(56,316)**	(58,570)
Depreciation and amortisation		**(10,606)**	(20,106)
Finance costs		**(14,568)**	(8,748)
Net decrease in fair value of listed investments held for trading		**(3,298)**	-
Loss on trading of securities, options, futures, and leveraged foreign exchange contracts		**-**	(20,140)
Gain (Loss) on disposal of property and equipment		**43**	(7)
Profit before taxation		**23,847**	21,162
Taxation credit (charge)	(4)	**3,440**	(350)
Profit for the year		**27,287**	20,812
Attributable to :			
Equity holders of the Company		**26,626**	20,388
Minority interests		**661**	424
		27,287	20,812
Dividend:			
No proposed final dividend for 2005 (2004: final dividend of HK$0.01 per ordinary share based on 754,556,448 shares)		**-**	7,546
Earnings per share	(5)		
- Basic		**3.2 cents**	3.2 cents
- Diluted		**3.0 cents**	N/A

CONSOLIDATED BALANCE SHEET

	Notes	At 31 December 2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Property and equipment		**12,218**	20,725
Goodwill		**4,933**	4,933
Intangible assets		**11,062**	9,092
Other assets		**7,564**	11,387
Loan receivables		**122**	18,700
Deposits for acquisition		**56,095**	-
		91,994	64,837
Current assets			
Deferred tax assets		**3,940**	-
Account receivables	(6)	**469,528**	363,191
Loan receivables		**38,426**	19,651
Prepayments, deposits and other receivables		**16,074**	9,978
Amounts due from fellow subsidiaries		**972**	2,048
Listed investments held for trading		**42,472**	-
Other investments		**-**	47,032
Derivative financial instrument		**16**	-
Bank deposits under conditions		**17,125**	16,782
Bank balances - trust and segregated accounts		**352,902**	433,156
Bank balances (general accounts) and cash		**117,516**	71,500
		1,058,971	963,338
Current liabilities			
Account payables	(7)	**555,565**	616,906
Accrued liabilities and other payables		**33,939**	34,319
Taxation payable		**1,084**	584
Obligations under finance leases - amount due within one year		**150**	63
Bank borrowings		**171,737**	96,155
Convertible loan note - amount due within one year		**30,242**	-
		792,717	748,027
Net current assets		**266,254**	215,311
		358,248	280,148

	Notes	At 31 December 2005 HK$'000	2004 HK$'000 (restated)
Capital and reserves			
Share capital		**104,488**	75,456
Reserves	(8)	**252,130**	164,048
Equity attributable to equity holders of the Company		**356,618**	239,504
Minority interests		**1,471**	810
Total equity		**358,089**	240,314
Non-current liabilities			
Obligations under finance leases			
- amount due after one year		**159**	-
Convertible loan note – amount due after one year		**-**	39,834
		159	39,834
		358,248	280,148

Notes:

(1) Basis of preparation and application of Hong Kong Financial Reporting Standards

The audited consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and all Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA")

HKICPA has undertaken to converge by 1 January 2005 HKFRSs all with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects. The application of the new HKFRSs, Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as "New HKFRSs") has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the New HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005. In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. On 1 January 2005, the Group eliminated the carrying amount of the related accumulated amortisation and impairment of approximately HK$104,512,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Share-based payments

The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to Directors and employees, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. The changes reduce the profits of year 2003 and 2004 by the amounts of approximately HK$461,000 and HK$219,000 respectively. Comparative figures have been restated.

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible loan note

The principal impact of HKAS 32 on the Group is in relation to convertible loan note issued by the Company that contain an early redemption option, a liability component and an equity component. Previously, convertible loan note was classified as liability on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument to separate the compound financial instrument into the early redemption option, liability component and equity component on initial recognition. Derivative embedded in a financial instrument is treated as separate derivative when its economic risk and characteristic are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. At the date of issue, the early redemption option derivative, liability component are recognised at fair value. The carrying amount of the equity component is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole. Issue costs are apportioned between the components of the convertible loan note based on their relative fair value at the date of issue. The portion relating to the derivative is charged directly to profit or loss. The issuer of a compound financial instrument has to account for these components separately. In subsequent periods, the liability component is measured at amortised cost, using the effective interest rate method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid is added to the carrying amount of the liability component. The early redemption option derivative is subsequently measured at fair value at each balance sheet date. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. The remeasurement of convertible loan note at fair value has increased the finance costs of the convertible loan note for the current year by approximately HK$284,000 (2004: HK$361,000).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

In previous year, under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Pursuant to the changes, "other investments" amounted to approximately HK$47,032,000 has been classified as "listed investments held for trading" on 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values for derivatives that are deemed as held for trading are recognised in profit or loss for the period in which they arise.

For derivatives that do not qualified as hedging instruments under HKAS 39, on 1 January 2005, the Group recognised the difference between the previous carrying amount recognised on the balance sheet and the fair value on 1 January 2005, amounting to HK$48,000, in the Group's retained earnings.

Intangible assets

By 31 December 2004, intangible assets were amortised over their estimated useful lives. HKAS 38 *Intangible Assets* requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less accumulated impairment losses (if any). Intangible assets with indefinite lives are not subject to amortisation but are tested for impairment annually or more frequently when there are indications of impairment. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of its trading rights in the exchanges in Hong Kong on 1 January 2005 and concluded that the trading rights have indefinite useful lives. The Group has applied the revised useful lives prospectively and discontinued amortising the trading rights from 1 January 2005 onwards. No amortisation has been charged in relation to the trading rights for the year ended 31 December 2005. As a result, the profit for the year has been increased by approximately HK$1,830,000. Comparative figures for 2004 have not been restated.

(2) Revenue

	2005 **HK$'000**	2004 HK$'000
Fees and commission income	**178,719**	210,729
Interest income	**34,838**	29,243
	213,557	239,972

(3) Business and geographical segments

For management purposes, the Group is currently organised into three main operating divisions, namely, broking, financing and corporate finance. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Broking	Broking of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products and their trading services
Financing	Provision of margin financing and money lending services
Corporate finance	Provision of corporate finance services

All of the activities of the Group are based in Hong Kong and all of the Group's revenue for both years are derived from Hong Kong. Accordingly, no analysis by geographical segments is presented.

Income statement for the year ended 31 December 2005

	Broking HK$'000	**Financing HK$'000**	**Corporate finance HK$'000**	**Consolidated HK$'000**
Revenue	**171,628**	**34,838**	**7,091**	**213,557**
RESULT				
Segment profit (loss)	**33,145**	**7,281**	**(5,337)**	**35,089**
Other operating income				**2,721**
Net decrease in fair value of listed investments held for trading				**(3,298)**
Unallocated corporate expenses				**(10,665)**
Profit before taxation				**23,847**
Taxation credit				**3,440**
Profit for the year				**27,287**

Balance sheet as at 31 December 2005

	Broking HK$'000	Financing HK$'000	Corporate finance HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	**624,276**	**404,049**	**16,601**	**1,044,926**
Unallocated corporate assets				**106,039**
Consolidated total assets				**1,150,965**
LIABILITIES				
Segment liabilities	**478,417**	**248,885**	**3,337**	**730,639**
Unallocated corporate liabilities				**62,237**
Consolidated total liabilities				**792,876**

Other information for the year ended 31 December 2005

	Broking HK$'000	Financing HK$'000	Corporate finance HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions of property and equipment	**-**	**-**	**-**	**2,116**	**2,116**
(Reversal of allowance) Allowance for bad and doubtful debts	**(104)**	**(898)**	**300**	**-**	**(702)**
Depreciation of property and equipment	**769**	**-**	**19**	**9,818**	**10,606**
Gain on disposal of property and equipment	**-**	**-**	**-**	**(43)**	**(43)**

Income statement for the year ended 31 December 2004

	Broking HK$'000 (restated)	Financing HK$'000	Corporate finance HK$'000	Consolidated HK$'000 (restated)
Revenue	204,092	29,243	6,637	239,972
RESULT				
Segment profit (loss)	64,876	8,527	(7,863)	65,540
Other operating income				7,710
Loss on trading of securities, options, futures and leveraged foreign exchange contracts				(20,140)
Unallocated corporate expenses				(31,948)
Profit before taxation				21,162
Taxation charge				(350)
Profit for the year				20,812

Balance sheet as at 31 December 2004

	Broking HK$'000	Financing HK$'000	Corporate finance HK$'000	Consolidated HK$'000 (restated)
ASSETS				
Segment assets	681,832	293,478	11,400	986,710
Unallocated corporate assets				41,465
Consolidated total assets				1,028,175
LIABILITIES				
Segment liabilities	552,738	160,323	3,353	716,414
Unallocated corporate liabilities				71,447
Consolidated total liabilities				787,861

Other information for the year ended 31 December 2004

	Broking HK$'000	Financing HK$'000	Corporate finance HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions of property and equipment	-	-	-	7,137	7,137
Reversal of allowance for bad and doubtful debts	-	(1,139)	-	-	(1,139)
Amortisation of intangible assets	1,830	-	-	-	1,830
Amortisation of goodwill	1,040	-	1,330	-	2,370
Depreciation of property and equipment	1,132	-	32	14,742	15,906
Loss on disposal of property and equipment	-	-	-	7	7

(4) Taxation (credit) charge

	2005 HK$'000	2004 HK$'000
Current year:		
Hong Kong Profits Tax	**500**	350
Deferred taxation	**(3,940)**	-
	(3,440)	350

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years.

At the balance sheet date, the Group had unused estimated tax losses of HK$325,487,000 (2004: HK$349,973,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$26,949,000 (2004: HK$11,114,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK$298,538,000 (2004: HK$338,859,000) due to the unpredictability of future profit streams.

(5) Earnings per share

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the year ended 31 December 2005 together with the comparative figures for 2004 are based on the following data:

	2005 HK$'000	2004 HK$'000 (restated)
Profit		
Profit for the purpose of basic earnings per share	**26,626**	20,388
Effect of dilutive potential ordinary shares: Interest on convertible loan note	**1,351**	-
Profit for the purpose of diluted earnings per share	**27,977**	20,388
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**832,131,859**	642,409,860
Effect of dilutive potential ordinary shares assumed conversion of convertible loan note	**112,962,963**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**945,094,822**	642,409,860

In the opinion of the Directors, in 2004, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan note due to insignificant effect.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares for both years.

(6) Account receivables

	2005 HK$'000	2004 HK$'000
Account receivables arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	**29,894**	16,168
Cash clients	**94,958**	86,935
Margin clients	**270,707**	183,287
Account receivables arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	**70,662**	72,989
Commission receivables from brokerage of mutual funds and insurance-linked investment plans and products	**2,275**	3,302
Account receivables arising from the business of provision of corporate finance services	**1,032**	510
	469,528	363,191

Account receivables are netted off by provision for bad and doubtful debts of HK$27,872,000 (2004: HK$28,572,000).

The settlement terms of account receivables arising from the business of dealing in securities and equity options are two days after trade date, and account receivables arising from the business of dealing in futures and options are one day after trade date.

Except for the loans to margin clients as mentioned below, all the account receivables arising from the business of dealing in securities and equity options aged within 30 days.

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

(7) Account payables

	2005 HK$'000	2004 HK$'000
Account payables arising from the business of dealing in securities and equity options:		
Cash clients	**347,961**	353,113
Margin clients	**77,148**	64,168
Clearing houses, brokers and dealers	**-**	39,875
Account payables to clients arising from the business of dealing in futures and options	**127,446**	156,151
Account payables to clients arising from the business of dealing in leveraged foreign exchange contracts	**3,010**	3,599
	555,565	616,906

The settlement terms of account payables arising from the business of dealing in securities are two days after trade date. Except for the amount payables to margin clients, the age of these balances is within 30 days.

Amounts due to margin clients are repayable on demand. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Account payables to clients arising from the business of dealing in futures and options and leveraged foreign exchange contracts are margin deposits received from clients for their trading of these contracts. The excesses of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of these businesses.

The account payables amounting to HK$352,902,000 (2004: HK$433,156,000) was payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

(8) Reserves

	Attributable to equity holders of the Company					
	Share premium	Contributed surplus	Convertible loan note equity reserve	Share-based payment reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004, as originally stated	-	186,377	-	-	(106,229)	80,148
Effects of changes in accounting policies	-	-	1,764	461	(1,190)	1,035
At 1 January 2004, as restated	-	186,377	1,764	461	(107,419)	81,183
Profit for the year, representing total recognised income for the year	-	-	-	-	20,388	20,388
Recognition of employee share option benefits	-	-	-	219	-	219
Recognition of equity component of convertible loan note	-	-	771	-	-	771
Arising from partial repayment of convertible loan note	-	-	(1,764)	-	1,295	(469)
Issue of rights shares	64,137	-	-	-	-	64,137
Transaction costs attributable to issue of rights shares	(2,181)	-	-	-	-	(2,181)
At 31 December 2004 and 1 January 2005, as restated	61,956	186,377	771	680	(85,736)	164,048
Profit for the year, representing total recognised income for the year	-	-	-	-	26,626	26,626
Recognition of employee share option benefits	-	-	-	203	-	203
Arising from partial repayment of convertible loan note	-	-	(190)	-	151	(39)
2004 final dividend paid	-	-	-	-	(7,546)	(7,546)
Issue of new shares	69,138	-	-	-	-	69,138
Transaction costs attributable to issue of new shares	(300)	-	-	-	-	(300)
Amount transferred to set off accumulated losses	-	(12,827)	-	-	12,827	-
At 31 December 2005	130,794	173,550	581	883	(53,678)	252,130

(9) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, statutory and other deposits, bank borrowings, account receivables, account payables, convertible loan note and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. To mitigate the foreign currency risk, leveraged foreign exchange contracts are entered into for foreign exchange exposure arising from broking in foreign shares and commodities.

Equity price risk

The Group is exposed to equity price risk through its investments in equity securities. The Board of Directors manages the exposure by closely monitoring the portfolio of equity investments.

Interest rate risk

Most of the bank borrowing, that are matured within 3 months and are collateralised by margin clients' securities, carry interest at variable rate which can mitigate the cash flow interest rate risk. Certain of the bank borrowings carry fixed-rate interest. To mitigate the fair value interest rate risk, the Group entered into interest rate swap to hedge against its exposures to changes in fair values of these borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the clients' and foreign brokers' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Credit and Risk Management Committee is set up to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount for each individual account receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Directors of the Company consider that the Group's credit risk is effectively controlled and significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of clients and foreign brokers.

Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with Clearing House or brokers and clients. To address the risk, treasury team works closely with the settlement division on monitoring the liquidity gap. In addition, for contingency purposes, clean loan facilities are put in place.

(10) Contingent liabilities

Pang Po King Cannie ("Pang") filed a statement of claim against Celestial Securities Limited ("CSL"), a wholly owned subsidiary of the Company, alleging that CSL, without knowledge or authority of or instructions from Pang, had misused the account opened by Pang with CSL to buy 1,046,000 shares of Takson Holdings Limited. The Directors confirmed that the subject transactions were made with knowledge and authority of Pang. The Directors do not envisage the claim by Pang will be held to be valid. Accordingly, no provision was made in the financial statements.

(11) Commitments

(a) Underwriting commitment

At 31 December 2005, the Group had an underwriting commitment of HK$129,120,750 in respect of a new share public offer under the requirement of a corporate finance business. The deal was completed on 6 January 2006. The underwriting commitment of the Group was subsequently fully discharged.

(b) Capital commitment

	2005	2004
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the financial statements	**55,000**	-

The acquisition of subsidiaries was duly passed at the special general meeting by shareholders and independent shareholders of the Company on 20 December 2005. The acquisition was completed on 10 January 2006 upon the completion of all conditions as stated in the share purchase agreement dated 15 September 2005.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2005 (2004: HK$0.01 per share).

REVIEW AND OUTLOOK

Financial Review

For the year ended 31 December 2005, the Group recorded a net profit attributable to shareholders of HK$26.6 million as compared to HK$20.4 million in the previous year. The increase was mainly attributable to an improved performance of the securities trading portfolio, and a decrease in depreciation and amortisation charges resulting from the adoption of the new financial reporting standards in the year under review.

The Group recorded a decrease in revenue to HK$213.6 million for the year ended 31 December 2005, as compared to HK$240.0 million in last year. The decrease was in part a reflection of a directionless market environment throughout the first half of the year under review and in part a result of a change in accounting treatment for brokerage commission de-regulation, especially in Hong Kong domestic securities market rebate for the current year. After the abolition of the minimum commission requirement, a significant portion of our commission revenue has been changed from a gross to a net basis. While this has technically reduced the revenue of the year, it had virtually no impact on its net profit. The brokerage revenue in the second half of the year began to pick up albeit at a much slower pace when the expectation that the US Federal Reserve would soon end its cycle of rising interest rates had greatly improved the sentiment of the securities market in the region.

The Group's total equity amounted to HK$358.1 million on 31 December 2005 as compared to HK$240.3 million at the end of the previous year. The net increase was due to the growth in retained earnings and new funds raised to strengthen capital bases during the second half of the year.

On 31 December 2005, our cash and bank balances including trust and segregated accounts totaled HK$487.5 million as compared to HK$521.4 million at the end of the previous year. The reduction in cash and bank balances was a result of a decrease in clients' deposits as they became more active in trading near year-end. On the other hand, our house funding rose as a result of several fund raising activities near year-end. The liquidity ratio on 31 December 2005 remained healthy at 1.3 times, being virtually unchanged from 31 December 2004. Given the strong funding requirements of the business and the expectation that the market will remain robust in the coming year, we believe it is in the best interest of the shareholders that we retain and reinvest the corporate funds back into the operations.

Our total bank borrowings on 31 December 2005 were HK$171.7 million, which were drawn to fund securities margin financing to our clients. Most of these bank borrowings were collateralised by our margin clients' securities pledged to us in turn by them for the purpose of securing their financing from us. Apart from these, largely back-to-back advances, we had no other bank borrowings at the end of the year as we exercised prudence to ensure that our financial resources would not be in any way strained.

During the year, the Group made several early partial repayments of a convertible loan note in an amount totalling HK$10.0 million, thereby reducing the outstanding nominal value of the convertible loan note to HK$30.5 million at the end of the year. Together with this convertible loan note, the ratio for our interest bearing borrowings to total equity was 56.4% on 31 December 2005 as compared to 56.6% on 31 December 2004. Insofar as that the convertible loan note, which accounted for approximately 8.4% of the total equity, matures on 31 December 2006, as well as the bank borrowings being of a back-to-back nature, our gearing was kept at a conservatively low level.

As of the end of the year, our Group did not have any material un-hedged foreign exchange exposure or interest rate mismatch. Cash deposits of approximately HK$0.9 million were pledged to secure general banking facilities granted to a subsidiary. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group covenant to maintain deposits of not less than HK$15.0 million with the bank as a pre-condition for an overdraft facility granted by the bank. To this end, a bank deposit of approximately HK$16.2 million was held for this purpose. Save as aforesaid, we had no other material contingent liabilities.

In September 2005, the Group announced a major transaction for the proposed acquisition of Netfield Technology Limited and its subsidiaries ("Netfield Group"), the holding company of an online game developer and operator in China, for a consideration of HK$110.0 million ("Acquisition") and several fund raising activities. These transactions were approved by the shareholders at the special general meeting of the Company held on 20 December 2005 and all had been completed subsequent to the balance sheet date in January 2006. The placing of 145 million shares in the Company held by a controlling shareholder to independent third parties at HK$0.40 each was completed on 23 September 2005. The corresponding top up of 145 million new shares in the Company to the controlling shareholder was then completed on 5 October 2005. The placing of 155 million shares in the Company to various independent third parties at HK$0.40 each and the subscription of 120 million shares in the Company by the controlling shareholder at HK$0.40 each were completed subsequent to the balance sheet date on 10 January 2006. The total gross proceeds of HK$168.0 million were raised, of which HK$110.0 million was used for settling the consideration for the Acquisition, approximately HK$30 million was put into to the operating capital of the Netfield Group, and the balance of approximately HK$28.0 million was used as the general working capital of the Group.

On 15 September 2005, 132 million shares at a subscription price of HK$0.27 per share were issued to the controlling shareholder, raising a total of gross proceeds of HK$35.6 million. The proceeds were used as the general working capital of the Group.

As at 31 December 2005, the Group was holding a portfolio of listed investments with market value of approximately HK$42.5 million and a loss on such listed investments of HK$3.3 million was recorded for the year.

Save as disclosed above, the Group did not make any material acquisitions or disposals nor did we hold any significant investment during the year ended 31 December 2005. Save as the balance of the consideration of HK$55.0 million to be paid for the Acquisition, the Group did not have any material capital commitment as at 31 December 2005. The balance had been fully paid in January 2006 upon completion of the Acquisition. We do not have any future plans for material investments or capital assets.

Industry Review

The positive global economic and equity market cycles experienced in 2004 were extended into 2005. Economic activity was firm or improving in most regions throughout 2005. In the capital markets, subdued inflationary pressure and good corporate earnings growth helped support broad-based rallies in most stock markets globally, despite concerns over rising oil prices and US interest rate hikes.

On the domestic front, the Hong Kong economy exhibited a year of resilient growth amid external challenges. Macro-tightening in Mainland China, rising oil prices, and successive interest rate hikes in the US seemed to have little impact on the SAR's economy. The employment market continued to have improved and GDP is expected to have grown 7.3% in 2005. Inflation remained benign despite record prices of crude oil and commodities. The property market appeared to hold strength on the back of rising mortgage rates. The opening of Disney Hong Kong marked another milestone for Hong Kong to branch out into a tourist centre. While the growth of tourists from Mainland China fell short of expectations, inbound tourism remained robust.

By contrast, the Hong Kong stock market was lackluster. With a yearly high of 15,508 and a low of 13,320, the Hang Seng Index traded in the narrowest range of 16.4% since 1978. Concerns over rising interest rates caused Hong Kong to end the year with a mere 4.5% appreciation, one of the worst-performing markets globally.

Business Review

Throughout 2005, we have stated, as a key component of our development strategy, the diversification of product offerings and revenue sources both with a view to better service our clients as well as to minimise the impact on business performance by market cycles. We remained on course on the strategy as we continue our pursuit of establishing ourselves as the financial services house of the choice for our clients.

During the first half of the year when the domestic market was pedestrian, we focused our resources to upgrade the operating and trading systems to prepare for market upturn and future expansion.

While continuing to strengthen our pillar businesses in brokerage, wealth management, and investment banking, we launched our asset management service in June to capture opportunities inherent in the high-net-worth market, and to complement our strategy of providing a full suite of services to our clients. This newly added service has allowed us to continue to expand our customer base and to further leverage on the cross-selling synergy within the Group.

At the same time, our efforts to diversify our income stream through wealth management initiatives and expanded investment banking activities continued to be rewarding. Income from wealth management and investment banking as a percent of the total revenue continued to rise.

While we continue to grow our income from the relatively mature brokerage business, we concurrently look for new opportunities in business sectors with high-growth potential. In September, we announced our plan to enter the online game industry by acquiring Netfield Group. This new strategic acquisition will allow us to enhance shareholders' value by participating in the high-growth online business in China.

As a technology leader and a client-focused service provider, we constantly review and upgrade our system to ensure compatibility and its ease of use. In 2005, we implemented a series of system enhancements of the online trading platform. The new platform will not only enable us to better serve our existing self-served, technology-savvy clients, but also place us in an advantageous position to compete in the premium mass-market segment.

Our core brokerage business continued to show steady and healthy growth during the year. The division grew its sales team by double-digit as part of the expansion strategy. The new strategic direction is to focus on the high turnover business as a way to compensate for the impact of reduced commission on the industry.

The wealth management business continued to report strong growth in both headcount and revenue during the year. Taking advantage of RMB revaluation pressure and high growth potential in China's property market, the division introduced a property investment vehicle to clients as part of the product enrichment and diversification initiatives. The new investment tool was well received by clients and has also attracted attention of prospective investors.

In investment banking, we continued to take steps to ensure that we are competitively positioned to provide medium-sized corporate clients with a full scope of services including corporate finance, financial advisory, underwriting, and financial re-engineering. During the year, the investment banking division was very active in broadening and deepening client relationships and has recently entered into agreements with a few PRC corporations to sponsor their listings in 2006.

In an effort to raise our international recognition, we brought in a new strategic investor, AvW Invest AG, an Austrian company listed in Vienna. The new alliance will assist us in making inroads into the European market and exploring cross-selling opportunities in Asia and Europe. Together with the Saudi Arabian investment partner ARTAR Group, this new alliance has broadened our shareholding base that now extends from Asia and Middle East to Europe.

Outlook

In addition to the core brokerage business, the fast-growing wealth management business will remain as an integral part of our focused strategy to diversify our income streams. With a high savings rate and a relatively low penetration of wealth management services in Hong Kong and Mainland China, growth opportunity in wealth management is enormous. While competition continues to be intensifying, we are confident that we have established ourselves as a solid player in the industry through strong brand recognition, professional sales team, and ability to provide a wide array of financial products and services.

The newly launched asset management service will complement the wealth management needs of the high-net-worth clients, broaden client base, and attract new prospects. More importantly, it will serve as a new source to the more stable fee-based income pool.

On the investment banking front, we expect to see fund-raising and financial advisory activities continue to grow in the PRC. An increasing number of state-owned and private-sector enterprises in Mainland China have expressed interest to raise funds abroad and Hong Kong becomes the preferred destination for international capital-raising. This tendency is further fueled by the unsatisfactory performance of the recent A-share reform, which seems to have failed to revive the sluggish A-share market. As such, a number of the upcoming IPOs will likely abandon the original A-H dual listing plan and list solely on the Hong Kong Stock Exchange. With a focus on medium-sized enterprises in Mainland China, our investment banking group has gained good presence in recent years and is well-positioned to seize opportunities as they arise.

Looking ahead into 2006, our focus is to increase turnover, increase market share, and expand client base through repositioning the brokerage strategy, enhancing online platform capability, strengthening cross-selling synergies within the Group, and expanding product offerings. With our commitment to excellence, dedication to servicing clients, and determination to create customer and shareholder value, we are confident that we will become the financial services house of choice for our clients through value-added services and enhanced client experience.

EMPLOYEE INFORMATION

At 31 December 2005, the Group had 209 employees. Our employees were remunerated according to their performance, working experience and market conditions. In addition to basic salaries and Mandatory Provident Fund scheme, we also offered staff benefits including medical schemes, discretionary share options, performance bonus and sales commission. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK$50.7 million. We continue to organise training for employees in areas such as product knowledge, customer service, selling techniques, problem solving, team building, communication, presentation, coaching, mentoring and continuous professional training programmes required by regulatory bodies. Meanwhile, we are also liaising with external consultants to conduct team building training program.

CORPORATE GOVERNANCE

On 1 June 2005 (“Adoption Date”), the Board adopted a set of corporate governance principles (“Principles”) which aligns with or is more restrictive than all requirements set out in the Code on Corporate Governance Practices (“CG Code”) and the Model Code for Securities Transactions by Directors of Listed Issuers (“Securities Code”) contained in the GEM Listing Rules. The Board had also made specific enquiry in writing to each Director in respect of the due compliance of the rules and principles relevant to the Securities Code. During the CG Period, the Principles had been duly complied with except for the deviations summarised as follows:

CG Code	Deviation
Before the Adoption Date	
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election	▫ Before the Adoption Date, all the Independent Non-executive Directors (“INED(s)”) were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company’s Bye-laws. ▫ With effect from or before the Adoption Date, the term of office for each then INED had been fixed for one year commencing retrospectively from the date of the 2005 annual general meeting of the Company until the next annual general meeting of the Company, at which all of them shall retire, but be eligible for re-election.
A.4.2 Every director should be subject to retirement by rotation at least once every 3 years	▫ Before the Adoption Date, there were no fixed terms for all the Directors to retire at annual general meeting of the Company and the Chairman of the Board was not subject to retirement at annual general meeting of the Company in each year. ▫ With effect from or before the Adoption Date, all Executive Directors (“ED(s)”) or Non-executive Directors (“NED(s)”), including the Chairman of the Board, shall retire, are eligible for re-election, at least once in every 3 financial years at annual general meeting of the Company.

A.6.1 Agenda and the board papers should be despatched at least 3 days before the meeting	▫ Before the Adoption Date, the Audit Committee papers and the Board papers might not have been sent at least 3 days before the Audit Committee meetings and the Board meetings for approving the financial results. ▫ Since the Adoption Date, the terms in relation to the despatch of the Audit Committee papers and the Board papers under the Principles had not been violated.
B.1.1 A remuneration committee should be set up with majority members to be INEDs	▫ Before the Adoption Date, the Company had not set up a Remuneration Committee. ▫ Since the Adoption Date, the Company has maintained a Remuneration Committee with specific written terms of reference comprising 2 INEDs and an ED.
After the Adoption Date	
A.3 At least 3 INEDs	▫ During the period from 12 September 2005 to 27 September 2005, the Company has maintained only 2 INEDs which resulted from the resignation of a resigning INED and before the appointment of the new INED taking effect upon the prior approval from the Stock Exchange.

Save for the above, the Company has been in compliance with the CG Code and the Securities Code throughout the CG Period. In addition, there is no material change in the corporate governance practices and the deviations from the CG Code since 30 June 2005, the date to which the 2005 interim report of the Group were made up, except there was only 2 INEDs during the period from 12 September 2005 to 27 September 2005 as disclosed above.

REVIEW OF RESULTS

The Group's audited consolidated results for the year ended 31 December 2005 have been reviewed by the Audit Committee of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS

The figures in respect of this preliminary announcement of the Group's consolidated income statement, consolidated balance sheet and the related notes thereto for the year ended 31 December 2005 have been agreed by the Group's auditors, Messrs Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs Deloitte Touche Tohmatsu on this preliminary announcement.

On behalf of the Board
Bankee P Kwan
Chairman

Hong Kong, 17 March 2006

As at the date hereof, the executive Directors are Mr Kwan Pak Hoo Bankee, Mr Law Ping Wah Bernard, Mr Wong Kin Yick Kenneth and Mr Cheng Man Pan Ben, and the Independent Non-executive Directors are Mr Cheng Shu Shing Raymond, Dr Hui Ka Wah Ronnie and Mr Lo Kwok Hung John.