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2005 was a year of continuing progress for the Group. On the back of an improving economic environment, especially in the Asia region, and a conductive investment climate, the Group achieved improved operating results overall.

The Group continued to leverage on its strong financial position to capture quality investment opportunities. Diversification into property investment has contributed to the improved results.

For the year ended 31st December, 2005, the Group registered a profit attributable to shareholders of HK$112 million, against the previous year's loss of HK$65 million.

RESULTS FOR THE YEAR

Turnover for the year 2005 totalled HK$1,187 million, which was 10 per cent. lower than the HK$1,325 million (restated) recorded in 2004. The decrease was mainly attributable to the drop from treasury and securities investments of 11 per cent. and corporate finance and securities broking business of 8 per cent.

Despite the drop in turnover, the Group reported a profit before tax of HK$126 million (2004 – loss of HK$63 million). Treasury and securities investments and property investment were the main contributors.

Treasury and securities investments

The global investment markets increased in volatility marked by interest rate hikes and oil price increases. Against this background, the Group's securities investment activities declined. Turnover attributable to treasury and securities investments for 2005 was reduced to HK$1,093 million (2004 – HK$1,232 million, as restated). However, the Group was able to actively and strategically manage its portfolio to achieve a higher return of HK$145 million (2004 – HK$7 million), including an unrealised net fair value gain of HK$70 million (2004 – an unrealised holding loss on other investments in securities of HK$72 million).

Following the adoption of the new accounting standards in 2005, certain investments were required to be stated at fair value with revaluation gains or losses recognised directly in equity. Such investments are held for capital appreciation and on disposal, the resultant gains or losses accumulated in equity will be released to the profit and loss account. As at 31st December, 2005, a net gain of HK$82 million was credited to the investment revaluation reserve.

Property investment and development

With the regional property markets looking promising, especially in relation to long term capital appreciation, the Group has been actively seeking strategic property investments. In Macau, the Group acquired a parcel of land for a consideration of HK$238 million during the year. Macau witnessed a thriving economy in 2005. Together with the properties located in Hong Kong, the Group recorded a total revaluation gain of HK$75 million. Under the revised accounting standards, such gains were recognised in the profit and loss account.

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During the year, the Group entered into an agreement under which it would be committed to invest up to HK$1,450 million in a property fund which carries the objectives of investing in real estates in the East Asia region (the "Property Fund"). As at 31st December, 2005, a capital contribution of HK$158 million has been made by the Group to the Property Fund.

Subsequent to balance sheet close, the Group acquired 11 floors of a commercial building in Singapore for an aggregate consideration of approximately HK$448 million. This property investment is expected to generate stable and recurrent rental income to the Group.

Additionally, the Group has participated in other well-located development projects in China, Singapore, Thailand and Japan.

Banking business

Benefiting from the rising interest rates, the bank's net interest income rose 44 per cent. Pushed by higher credit demand, the bank registered a loan growth of 19 per cent. However, management continued to lend conservatively and strived to improve asset quality. Despite reduced commission income during the year, profit derived from the banking segment was higher, amounting to HK$6.6 million (2004 – HK$4.0 million).

Following the adoption of the new accounting standards in 2005, the respective assets and liabilities of the bank were consolidated to the Group's balance sheet on a line-by-line basis instead of the previous one line consolidation under "assets less liabilities attributable to banking operation". Turnover is now included in the Group's profit and loss account on a gross rather than net basis. 2004 comparative amounts have been restated to reflect the new accounting presentation.

Corporate finance and securities broking

In 2005, the securities broking business in Hong Kong remained highly competitive as reflected in decreasing profit margins and rising operating costs. The Group's corporate finance and securities broking business was directly affected, registering a reduced turnover of HK$60 million (2004 – HK$65 million). Before taking into account a provision of HK$30 million made for a loan advanced to a corporate margin client, the segment reported a profit of HK$4 million, similar to last year. However, after making the provision, the segment generated a net loss of HK$26 million. The loan was secured by certain shares in a listed company and guaranteed by its chairman who was also a director of the corporate client. During the year, both the corporate client and the listed company went into provisional liquidation. Action has since been taken to tighten the controls in the Group's securities lending.

FINANCIAL POSITION

Despite the new property investments made, the Group's total assets as at 31st December, 2005 remained substantially unchanged and amounted to HK$3.7 billion (2004 – HK$3.6 billion, as restated) as the new property investments have been financed by internal resources with little resort to bank financing. The Group's financial position continued to be robust and current ratio (measured as current assets to current liabilities) remained high at 3.0 to 1 (2004 – 3.3 to 1, as restated).

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At the balance sheet date, the Group maintained a total investment portfolio of HK$1.2 billion (2004 – HK$1.5 billion), comprising debt securities of HK$0.3 billion (2004 – HK$0.4 billion), equity securities of HK$0.4 billion (2004 – HK$0.5 billion) and investment funds of HK$0.5 billion (2004 – HK$0.6 billion, as restated). The investment portfolio represented 35 per cent. (2004 – 42 per cent.) of the Group's total assets. On the other hand, property-related assets increased to HK$0.7 billion (2004 – HK$0.2 billion), representing 20 per cent. (2004 – 6 per cent.) of the total assets.

During the year, the Group reduced substantially its bank loans outstanding. As at 31st December, 2005, total bank loans outstanding amounted to HK$25 million (2004 – HK$209 million). All were secured by certain securities owned by the margin clients of the Group (2004 – HK$189 million were secured by certain securities owned by the Group or its margin clients with the balance of HK$20 million being unsecured). The bank loans outstanding were denominated in Hong Kong dollars (2004 – Hong Kong dollars or United States dollars), repayable within one year and carried interest at floating rates. Gearing ratio (measured as total borrowings to shareholders' funds) was much lower at 0.9 per cent. (2004 – 7.7 per cent.). Despite the payment of final and interim distributions totalling HK$61 million made during the year, the net asset value attributable to the shareholders of the Company increased by 4.6 per cent. to HK$2.8 billion (2004 – HK$2.7 billion). This was equivalent to HK$2.1 per share (2004 – HK$2.0 per share).

The Group monitors the relative foreign exchange position of its assets and liabilities to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure.

Apart from the above-mentioned, there were no charges on the Group's assets at the end of the year (2004 – Nil). Aside from those arising from the normal course of the Group's banking operation, the Group had no material contingent liabilities outstanding (2004 – Nil).

As at 31st December, 2005, the Group had total capital commitment of HK$1.5 billion (2004 – HK$0.2 billion), including HK$1.3 billion relating to the Property Fund as mentioned above. The investments or capital assets will be financed by the Group's internal resources and/or external bank financing, as appropriate.

CHANGES IN ACCOUNTING POLICIES

The Group adopted the new and revised accounting standards which came into effect for accounting periods commencing on 1st January, 2005. The resulting changes in accounting treatment and presentation of various items in the profit and loss account and balance sheet may render certain comparative figures not strictly comparable. Details of the changes and the summary of the effect of the changes are described in the Note 2.2 and Note 2.4 to the financial statements.

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STAFF AND REMUNERATION

The Group had approximately 204 employees as at 31st December, 2005 (2004 – 161 employees). Total staff costs (including directors' emoluments) amounted to HK$56 million which was slightly lower than the HK$57 million recorded in last corresponding year. The Group ensures that its employees are offered competitive remuneration packages. Currently, there are no share option schemes for its employees.

OUTLOOK

The global economy has been coping well with the repercussions from recent rising oil prices and interest rates as well as the threat of a potential widespread outbreak of avian flu. The Group is cautiously optimistic about the global and regional economic prospects in the coming year. The growth prospects will continue to be centered on developments in the United States and Mainland China. For the Group, the operating environment remains challenging. While striving to continue to improve internal operational efficiencies, the Group will keep on refining its existing core businesses and seeking new investment opportunities with long-term growth potential. Given its own strong financial position, the Group is confident that it would be able to take advantage of new business opportunities in its pursuit of enhancing shareholders' value.