CASH 時富

CELESTIAL ASIA SECURITIES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock code #1049)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED INCOME STATEMENT

The audited consolidated results of Celestial Asia Securities Holdings Limited ("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)
Continuing operations			
Revenue	*(2)*	**213,620**	247,420
Cost of sales		**–**	(7,138)
Other operating income		**3,480**	9,191
Reversal of allowance (Allowance) for bad and doubtful debts		**702**	(1,361)
Recovery of bad debts		**8,294**	–
Convertible loan note settlement expenses		**(85)**	(310)
Salaries, allowances and commission		**(123,970)**	(137,325)
Other operating, administrative and selling expenses		**(70,879)**	(113,446)
Depreciation of property and equipment		**(11,656)**	(17,410)
Finance costs		**(16,984)**	(8,721)
Net loss on investments held for trading		**(6,632)**	–
Loss on trading of securities, options, futures and leveraged foreign exchange contracts		**–**	(24,327)
Gain (Loss) on disposal of property and equipment		**6,773**	(100)
Gain on dilution of shareholding in subsidiary and associate		**16,289**	–
Share of loss of associate		**(26,728)**	–
Impairment loss recognised in respect of available-for-sale investments/investment securities		**(10,800)**	(15,500)
Impairment loss recognised in respect of goodwill		**–**	(10,000)
Loss before taxation		**(18,576)**	(79,027)
Taxation credit (charge)	*(4)*	**2,999**	(350)
Loss for the year from continuing operations		**(15,577)**	(79,377)
Discontinued operation			
Loss for the period/year from discontinued operation	*(5)*	**(11,482)**	(82,617)
Loss for the year		**(27,059)**	(161,994)

Attributable to:			
Equity holders of the Company		**(37,022)**	(143,954)
Minority interests		**9,963**	(18,040)
		(27,059)	(161,994)
Loss per share	*(6)*		
From continuing and discontinued operations:			
– Basic		**HK$(0.08)**	HK$(0.37)
From continuing operations:			
– Basic		**HK$(0.06)**	HK$(0.23)

CONSOLIDATED BALANCE SHEET

		At 31 December	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
			(restated)
Non-current assets			
Property and equipment		**12,802**	100,497
Prepaid lease payments		**–**	48,244
Investment securities		**–**	10,800
Goodwill		**17,426**	57,199
Interest in associate		**103,870**	–
Intangible assets		**11,261**	9,092
Other assets		**7,564**	13,346
Loan receivables		**725**	19,334
Deposits for acquisition		**56,095**	–
		209,743	258,512
Current assets			
Inventories		**–**	59,013
Deferred tax assets		**3,940**	–
Account receivables	*(7)*	**469,772**	365,047
Loan receivables		**38,460**	20,623
Prepayments, deposits and other receivables		**19,580**	44,896
Listed investments held for trading		**35,467**	–
Other investments		**–**	64,700
Derivative financial instrument		**16**	–
Bank deposits under conditions		**17,125**	52,784
Bank balances – trust and segregated accounts		**352,902**	433,156
Bank balances (general accounts) and cash		**118,219**	236,147
		1,055,481	1,276,366

	Notes	At 31 December 2005 HK$'000	2004 HK$'000 (restated)
Current liabilities			
Account payables	(8)	**581,965**	784,990
Accrued liabilities and other payables		**35,801**	97,901
Taxation payable		**1,525**	729
Obligations under finance leases – amount due within one year		**150**	93
Bank borrowings – amount due within one year		**171,737**	181,777
Convertible loan note – amount due within one year		**30,242**	–
		821,420	1,065,490
Net current assets		**234,061**	210,876
		443,804	469,388
Capital and reserves			
Share capital		**43,748**	43,748
Reserves		**139,596**	176,817
Equity attributable to equity holders of the Company		**183,344**	220,565
Equity component of convertible loan note and share option reserve of a listed subsidiary		**1,464**	1,451
Minority interests		**179,273**	166,086
Total equity		**364,081**	388,102
Non-current liabilities			
Obligations under finance leases – amount due after one year		**159**	–
Bank borrowings – amount due after one year		**79,564**	41,452
Convertible loan note – amount due after one year		**–**	39,834
		79,723	81,286
		443,804	469,388

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("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 all HKFRSs with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board. As a result, 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$57,620,000 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. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment loss (if any) after initial recognition. 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

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). 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 of the Group, 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 by the Group after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures for 2004 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 Group that contains 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 liability component and equity component on initial recognition. At the date of issue, the liability component is 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. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component.

The convertible loan note of the Group also contains an early redemption option which is considered an embedded derivative. Under HKAS 39, derivative embedded in a financial instrument is treated as a 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. 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.

Issue costs are apportioned between the components of the convertible loan note based on their relative fair value at the date of issue.

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.

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.

Debt or equity securities previously accounted for under benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24")

By 31 December 2004, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. 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.

On 1 January 2005, the Group classified and measured its investments in debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "other investments" and "investments securities" amounting to approximately HK$64,700,000 and HK$10,800,000 have been classified as "listed investments held for trading" and "available-for-sale investments" respectively 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.

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.

The Group has applied the relevant transitional provisions in HKAS 39. 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 accumulated losses.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Comparative figures for 2004 have been restated.

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, loss for the year has been decreased by approximately HK$1,830,000. Comparative figures for 2004 have not been restated.

(2) Revenue

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Fees and commission income	**178,720**	210,729
Interest income	**34,900**	36,691
	213,620	247,420
Discontinued operation		
Sales of furniture and household goods and trendy digital products, net of discounts and returns	**374,296**	876,896
Others	**229**	73
	374,525	876,969

(3) Business and geographical segments

Business segments

For management purposes, the Group is currently organised into two main operating divisions, namely, financial services and investment holding. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Financial services	Broking, financing, corporate finance services and wealth management
Investment holding	Strategic investments

The Group was also involved in retailing. This operation was discontinued at the end of May 2005 (see note 5).

Geographical segments

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

Segment information about these businesses is presented as follows:

Income statement for the year ended 31 December 2005

	Continuing operations				Discontinued operation	
	Financial services *HK$'000*	**Investment holding** *HK$'000*	**Others** *HK$000*	**Total** *HK$'000*	**Retailing** *HK$'000*	**Consolidated** *HK$'000*
Turnover	213,557	63	–	213,620	374,525	588,145
Segment profit (loss)	23,847	(3,918)	21,514	41,443	(8,252)	33,191
Share of loss of associate				(26,728)	–	(26,728)
Finance costs				(16,984)	(2,256)	(19,240)
Unallocated corporate expenses				(16,307)	–	(16,307)
Loss on deemed disposal of subsidiary				–	(974)	(974)
Loss before taxation				(18,576)	(11,482)	(30,058)
Taxation credit				2,999	–	2,999
Loss for the year/period				(15,577)	(11,482)	(27,059)

Balance sheet as at 31 December 2005

	Financial services *HK$'000*	**Investment holding** *HK$'000*	**Consolidated** *HK$'000*
ASSETS			
Segment assets	1,150,965	741	1,151,706
Interest in associate			103,870
Unallocated corporate assets			9,648
Consolidated total assets			1,265,224
LIABILITIES			
Segment liabilities	621,139	–	621,139
Unallocated corporate liabilities			280,004
Consolidated total liabilities			901,143

Other information for the year ended 31 December 2005

	Continuing operations				Discontinued operation	
	Financial services *HK$'000*	**Investment holding** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*	**Retailing** *HK$'000*	**Consolidated** *HK$'000*
Additions of property and equipment	**2,116**	**–**	**73**	**2,189**	**5,350**	**7,539**
Reversal of allowance for bad and doubtful debts	**(702)**	**–**	**–**	**(702)**	**–**	**(702)**
Recovery of bad debts	**–**	**–**	**8,294**	**8,294**	**–**	**8,294**
Depreciation of property and equipment	**10,606**	**–**	**1,050**	**11,656**	**10,019**	**21,675**
Amortisation of prepaid lease payments	**–**	**–**	**186**	**186**	**–**	**186**
Impairment loss recognised in respect of available-for-sale investments	**–**	**–**	**10,800**	**10,800**	**–**	**10,800**
Gain on dilution of shareholding in subsidiary and associate	**(8,423)**	**–**	**(7,866)**	**(16,289)**	**–**	**(16,289)**
Gain on disposal of property and equipment	**(43)**	**–**	**(6,730)**	**(6,773)**	**–**	**(6,773)**

Income statement for the year ended 31 December 2004

	Continuing operations				Discontinued operation	
	Financial services *HK$'000* (restated)	**Investment holding** *HK$'000* (restated)	**Unallocated** *HK$'000* (restated)	**Total** *HK$'000* (restated)	**Retailing** *HK$'000* (restated)	**Consolidated** *HK$'000* (restated)
Turnover	239,972	5	7,443	247,420	876,969	1,124,389
Segment profit (loss)	20,812	(15,495)	(23,603)	(18,286)	(79,573)	(97,859)
Finance costs				(8,721)	(3,038)	(11,759)
Unallocated corporate expenses				(52,020)	–	(52,020)
Loss before taxation				(79,027)	(82,611)	(161,638)
Taxation charge				(350)	(6)	(356)
Loss for the year				(79,377)	(82,617)	(161,994)

Balance sheet as at 31 December 2004

	Financial services HK$'000 (restated)	Retailing HK$'000 (restated)	Investment holding HK$'000 (restated)	Others HK$'000 (restated)	Consolidated HK$'000 (restated)
ASSETS					
Segment assets	1,028,175	444,626	10,800	–	1,483,601
Unallocated corporate assets					51,277
Consolidated total assets					1,534,878
LIABILITIES					
Segment liabilities	690,706	189,262	–	–	879,968
Unallocated corporate liabilities					266,808
Consolidated total liabilities					1,146,776

Other information for the year ended 31 December 2004

	Continuing operations					Discontinued operation	
	Financial services HK$'000 (restated)	Investment holding HK$'000 (restated)	Other HK$'000 (restated)	Unallocated HK$'000 (restated)	Total HK$'000 (restated)	Retailing HK$'000 (restated)	Consolidated HK$'000 (restated)
Allowance for inventory obsolescence and write off of inventories	–	–	–	–	–	19,041	19,041
Additions of property and equipment	7,137	–	608	7,350	15,095	20,026	35,121
Amortisation of intangible assets	1,830	–	–	–	1,830	–	1,830
(Reversal of allowance) Allowance for bad and doubtful debts	(1,139)	–	–	2,500	1,361	6,269	7,630
Depreciation of property and equipment	15,906	–	170	1,334	17,410	26,192	43,602
Amortisation of prepaid lease payments	–	–	–	557	557	89	646
Impairment loss recognised in respect of investment securities	–	15,500	–	–	15,500	12,060	27,560
Impairment loss recognised in respect of goodwill	–	10,000	–	–	10,000	–	10,000
Impairment loss recognised in respect of property and equipment	–	–	–	–	–	2,060	2,060
Loss on disposal of property and equipment	7	–	93	–	100	4,646	4,746

(4) Taxation (credit) charge

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong Profits Tax:						
Provision for the year	**941**	350	**–**	–	**941**	350
Underprovision in prior year	**–**	–	**–**	6	**–**	6
Deferred taxation	**(3,940)**	–	**–**	–	**(3,940)**	–
	(2,999)	350	**–**	6	**(2,999)**	356

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

(5) Discontinued operation

In May 2005, subsequent to the issuance of 83,000,000 shares of HK$0.02 each by CRMG on 6 April 2005, the issuance of 223,000,000 shares of HK$0.02 each by CRMG on 19 May 2005 and the exercise of share options resulting the issuance of 19,833,333 shares of HK$0.02 each by CRMG on 23 May 2005, the Company's interest in CRMG was reduced from 66.52% as at 31 December 2004 to 44.69% at end of May 2005. The Company's interest in CRMG was further reduced to 40.59% as at 31 December 2005. Accordingly, the retailing operation engaged by CRMG was reclassified as discontinued operation under HKFRS 5 *Non-current Assets Held For Sale and Discontinued Operation.* The comparative figures for 2004 were reclassified to conform with the current year presentation.

The loss for the year from discontinued operation is analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
Loss of retailing operation for the period/year	**(10,508)**	(82,617)
Loss on deemed disposal of CRMG	**(974)**	–
	(11,482)	(82,617)

The results of the retailing operations for the period from 1 January 2005 to 23 May 2005, which have been included in the consolidated income statement, were as follows:

	Period from 1.1.2005 to 23.5.2005	Year ended 31.12.2004
	HK$'000	*HK$'000* (restated)
Revenue	**374,525**	876,969
Cost of sales	**(248,565)**	(593,557)
Other operating, administrative and selling expenses	**(124,193)**	(336,793)
Depreciation of property and equipment	**(10,019)**	(26,192)
Finance costs	**(2,256)**	(3,038)
Loss before taxation	**(10,508)**	(82,611)
Taxation	**–**	(6)
Loss for the period/year	**(10,508)**	(82,617)

During the period ended 23 May 2005, CRMG paid HK$33,860,000 (2004: HK$26,058,000) in respect of the Group's operating cash flows, paid HK$71,578,000 (2004: HK$45,978,000) in respect of investing activities and received HK$104,429,000 (2004: HK$37,373,000) in respect of financing activities.

(6) Loss per share

From continuing and discontinued operations

The calculation of basic and diluted loss 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	2004
	HK$'000	*HK$'000*
		(restated)
Loss		
Loss for the purpose of basic and diluted loss per share (Loss for the year attributable to equity holders of the Company)	**(37,022)**	(143,954)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	**437,483,827**	384,959,237
Effect of dilutive potential ordinary shares on share options	**N/A**	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	**437,483,827**	384,959,237

Loss per share	**2005**	2004
Continuing and discontinued operations		
Basic and diluted loss per share	**HK$(0.08)**	HK$(0.37)

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Loss for the year attributable to equity holders of the Company	**(29,506)**	(88,989)

Loss per share	**2005**	2004
Continuing operations		
Basic and diluted loss per share	**HK$(0.06)**	HK$(0.23)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operation

The calculation of basic and diluted loss per share from discontinued operation attributable to the ordinary equity holders of the Company is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Loss for the year attributable to equity holders of the Company	**(7,516)**	(54,965)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

Loss per share	**2005**	2004
Discontinued operation		
Basic and diluted loss per share	**HK$(0.02)**	HK$(0.14)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

Diluted loss per share amount for the year ended 31 December 2005 equals to that of basic loss per share as no diluting event existed.

The calculation of diluted loss per share for 2004 did not:

(i) adjust the share of result of subsidiaries as the exercise prices of the outstanding share options of the subsidiaries were higher than the average market price of the subsidiaries shares; and

(ii) assume the exercise of the Company's outstanding share options as the exercise prices of these options were higher than the average market price of the shares of the Company.

The following table summarises the impact on basic and diluted loss per share as a result of adjustments arising from changes in accounting policies:

	2005	2004
Impact on basic and diluted loss per share		
Figures before adjustments	**HK$(0.10)**	HK$(0.37)
Adjustments arising from changes in accounting policies	**HK$0.02**	–
Reported/restated	**HK$(0.08)**	HK$(0.37)

(7) Account receivables

	2005	2004
	HK$'000	*HK$'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	**70,718**	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
Other account receivables	**188**	1,856
	469,772	365,047

Account receivables are netted off by allowance 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.

Included in account receivables from margin clients arising from the business of dealing in securities is an amount due from an entity in which Kwan Pak Hoo Bankee has a beneficial interest and is a Director. Details of the amount due from the entity are as follows:

Name of company	**Balance at 31.12.2005**	**Balance at 1.1.2005**	**Maximum amount outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Cash Guardian Limited ("Cash Guardian")	11,569	10,178	11,569

The above balances are secured by pledged securities and repayable on demand, and bear interest at commercial rates which are similar to the rates offered to other margin clients.

In respect of the commission receivables from brokerage of mutual funds and insurance-linked investment plans and products, account receivables arising from the business of provision of corporate finance services and other account receivables, the Group allows a credit period of 30 days. The aged analysis is as follows:

	2005	2004
	HK$'000	*HK$'000*
0-30 days	**2,373**	4,167
31-60 days	**436**	619
61-90 days	**5**	307
Over 90 days	**681**	575
	3,495	5,668

During the year, there was significant increase in the recoverable value of commission receivable due to significant economic recovery. As a result, a reversal of allowance for bad and doubtful debts of HK$702,000 (2004: nil) has been recognised in the current year.

The fair values of the Group's account receivables at 31 December 2005 approximate to the corresponding carrying amounts.

(8) Account payables

	2005	2004
	HK$'000	*HK$'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
Other account payables	**26,400**	168,084
	581,965	784,990

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.

The fair values of the account payables at the balance sheet date approximate to corresponding carrying amounts.

(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. The Directors monitor the foreign exchange risk and will enter into leveraged foreign exchange contracts to mitigate the foreign currency risk 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 borrowings, that are matured within 3 months and are collateralised by margin clients' securities, carry interest at variable rate which can mitigate the exposes the Group to cash flow interest rate risk. Also, certain of the bank borrowings carry fixed-rate interest. The Group currently does not have a cash flow interest rate risk hedging policy. However, management closely monitors its exposure to future cash flow as a result of changes on market interest rate of a financial instrument will fluctuate because of changes in market interest rates and will consider hedging changes in market interest rates should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of 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.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Company and subsidiaries

(a) Cheung Yiu Wing ("Cheung"), the former chairman and a shareholder of King Pacific International Holdings Limited ("KPI"), filed a statement of claim against the Company alleging that the Company had orally agreed to purchase from Cheung 50 million shares of KPI at a price of HK$1.90 per share and seeking relief against the Company for, inter alia, damages. No discussions had been made between the Company and Cheung in relation to any purchase or intention to purchase the said shares as claimed by Cheung and no agreement of whatever nature, oral or written, had been entered into between the Company and Cheung. In July 2005, the court had delivered the judgement in favour of the Company. Cheung had filed a notice of appeal and the hearing date was fixed by the court on 15 and 16 June 2006. The Directors are of the view that the appeal of Cheung would not be successful. Accordingly, no provision has been made in the financial statements.

(b) Pang Po King Cannie ("Pang") filed a statement of claim against Celestial Securities Limited ("CSL"), 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.

(c) During the year, Theodore J Marr ("Marr") filed a cross-summons in the United States against the Company and others alleging breaches fiduciary duties and/or fraudulent conveyances. Marr's claims in the cross-summons against the Company included US$900,000 arising out of an employment contract between ILUX Corporation, a subsidiary of the Company ("ILUX") and Marr, US$15,000,000 arising out of the dissolution of ILUX, exemplary and punitive damages of not less than US$5,000,000 in respect of each of Marr's heads of claim against cross-complainants, and interest. The Directors do not envisage the claim by Marr will be held to be valid. Accordingly, no provision was made in the financial statements.

Associate
(being contingent liabilities arising prior to the deemed disposal of CRMG)

(d) (i) In prior year, Bates Hong Kong Limited ("Bates HK") filed a statement of claim against, inter alia, Pricerite Stores Limited ("PSL"), the subsidiary of CRMG, as a second defendant, alleging that PSL had agreed to appoint Bates HK as its contracted advertising agent with monthly retainer fee in the sum of HK$320,000 payable to Bates HK. PSL had not appointed Bates HK as its contracted advertising agent and no agreement of whatever nature, oral or written, had been entered into between PSL and Bates HK to such effect.

(ii) Bates China Limited ("Bates China") filed a statement of claim against, inter alia, CRMG as a second defendant, alleging that CRMG had agreed to appoint Bates China as its contracted advertising agent with monthly retainer fee in the sum of HK$150,500 payable to Bates China. CRMG had not appointed Bates China as its contracted advertising agent and no agreement of whatever nature, oral or written, had been entered into between CRMG and Bates China to such effect.

The judgement was delivered in August 2005 in favour of the plaintiffs and the court concluded that the compensation awarded to Bates HK and Bates China were in a sum of approximately HK$3,471,000. However, the Directors had proceeded for appeal and PSL had made payment into the court in the sum of approximately HK$3,471,000 which shall not be paid out from the court until further order of the court. The execution of the judgement be stayed pending the final resolution of the appeal.

(e) Chan Pit Wah ("Chan") filed a statement of damages against PSL, alleging that a forklift truck of PSL rolled over Chan's right foot and he has claimed for damages of approximately HK$1,780,000 with interest and costs thereof. During the year ended 31 December 2004, the Group made a provision of HK$570,000. The case was settled during the year ended 31 December 2005, and the court concluded that the compensation awarded to Chan was in a sum of HK$1,150,000. The said sum had been fully recognised and paid up during the year.

(f) Innovision Products Limited ("Innovision") filed a statement of claim against PSL alleging that PSL owed Innovision of approximately HK$520,000 in respect of goods supplied to PSL and the interest on the said amount. During the year ended 31 December 2004, PSL made a provision of HK$249,000. The case has been settled during the year and PSL has made further provision of HK$264,000 and paid HK$438,000 and HK$75,000 for full and settlement of the claim and legal costs respectively.

(11) Commitments

(a) Underwriting commitment

At 31 December 2005, the Group had an underwriting commitment of HK$129,120,750 in respect of the 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 then fully discharged.

(b) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	2005 ***HK$'000***	2004 *HK$'000*
Capital expenditure commitment 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: Nil).

REVIEW AND OUTLOOK

Financial Review

For the year ended 31 December 2005, the Group ceased to consolidate the sales and operating results of our retail group subsequent to CASH Retail Management Group Limited (CRMG) being changed from a subsidiary to an associate company of the Group in May 2005.

The Group's financial services business (CFSG) 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. CFSG 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.

CRMG recorded a 1.3% slight decrease in turnover for 2005. The decrease in sales of household and furniture goods was brought about by the closure of 8 non-performing Pricerite's stores during the year under review, bringing the number of stores to 30 at the end of 2005. The closure of the non-performing stores has enabled CRMG to redefine its network strategy amid its already thin operating margin being eroded by the recent rampant rises in rental costs. During the year, CRMG had also finished revamping the product ranges and focused on choosing quality products with a view to helping customers keep their houses and living environments 'neat and clean'. The rationalisation of its retail network and product ranges had adversely affected the profit margin for 2005 but this would improve its operating efficiency and sharpen its competitive advantages in the retailing market in the long run. 3C Digital, CRMG's new chain stores selling trendy digital products, was still operating at a thin gross margins and had yet to contribute any profit to the Group for the year under review. Upon building up its brand awareness of selling quality digital products and distinguished customer service, 3C Digital had been appointed as one of the two distributors for some digital and electrical appliances products of a leading brand in the local market. Developing its retail business into the Mainland market has been the Group's long-term expansion strategy. During the year, CRMG completed the acquisition of the Oriental Kenzo (Beijing) Company Limited with its principal business of operating a department store in Beijing. To enable to concentrate its resources on the newly acquired business, CRMG had decided to close down all its retail outlets in Guangzhou and Shenzhen. CRMG reported a net operating loss for the year which was mainly attributable to its initial investment costs in 3C Digital and in its new retail chain stores named LifeZtore opened in the second half of 2005 retailing stylish furniture and household products, and the provisions made for the closure of non-performing Pricerite stores in Hong Kong, Guangzhou and Shenzhen.

Taking into account the profit from CFSG and its share of loss of CRMG and its persistent cost rationalisation across the board, the Group has managed to substantially contain a net loss attributable to shareholders for the whole year to HK$37.0 million from HK$144.0 million for the previous year.

Taking into account the reported loss for the year, the Group's total equity stood at HK$364.1 million on 31 December 2005. The cash and bank balances were HK$488.2 million at the end of the year, a reduction of HK$233.8 million as compared with the prior year-end. 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. The liquidity ratio on 31 December 2005 remained healthy at 1.3 times at the end of the year as compared with 1.2 times of the previous year-end.

Our total bank borrowings on 31 December 2005 increased to HK$251.3 million from HK$223.2 million on 31 December 2004. The increase in bank borrowings was mainly due to the directionless market, rendering the Hang Seng Index traded in its narrowest range of 16.4% since 1978, which made investors cautious in trading with margin financing. Most of these bank borrowings were collateralised by our margin clients' securities pledged to us for the purposes of securing financing from us. Apart from these largely of a back-to-back nature, we had no other bank borrowings as at the end of the year as we exercised prudence to abstain our financial resources from being strained.

During the year, CFSG 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 0.77 on 31 December 2005 as compared to 0.68 on 31 December 2004.

All of the Group's borrowings are mainly in HK dollar, with the interest rates priced at close to banks' funding costs. By using effective instrument to hedge any adverse changes in foreign exchange and interest rates, our exposure to both foreign currency and interest rate fluctuation was insignificant.

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.

As of the end of the year, the Group did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

In September 2005, CFSG announced a major transaction for the proposed acquisition of Netfield Technology Limited and its subsidiaries ("Netfield Group"), for a consideration of HK$110.0 million ("Netfield Acquisition") and several fund raising activities. The Netfield Group is an on-line game developer and operator in China. These transactions were approved by the shareholders at the special general meeting of CFSG 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 CFSG held by the Group 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 CFSG to the Group was then completed on 5 October 2005. The placing of 155 million shares in CFSG to various independent third parties at HK$0.40 each and the subscription of 120 million shares in CFSG by the Group 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 Netfield Acquisition, approximately HK$30.0 million was put into the operating capital of the Netfield Group, and the balance of approximately HK$28.0 million was used as the general working capital of CFSG. Subsequent to the balance sheet date on 18 January 2006, CFSG issued 60 million shares upon partial exercise by the noteholder of conversion right attaching to the convertible loan note issued by CFSG on 1 September 2004. Thus, the shareholding interest of the Group in CFSG was diluted to 46.30%, and CFSG ceased to be a subsidiary of the Group. On 15 September 2005, CFSG issued 132 million shares at a subscription price of HK$0.27 per share to the Group, raising a total of gross proceeds of HK$35.6 million. The proceeds were used as the general working capital of CFSG.

CRMG had the following transaction prior to its ceasing to be a subsidiary of the Group. In March 2005, CRMG announced a new share issue of 83 million new shares at a price of HK$0.28 per share to raise gross proceeds of HK$23.2 million for its general working capital. In April 2005, CRMG announced a placement of 223 million shares at a price of HK$0.30 per share to raise gross proceeds of HK$66.9 million for expansion of its retail businesses in the PRC and for its general working capital. The issue of the 83 million shares and the 223 million shares was completed on 6 April 2005 and 19 May 2005 respectively. In May 2005, CRMG announced a proposed cooperation to develop retail business in the PRC with AustChina Information Technology Pyt Limited and the issue of a convertible loan note for HK$108 million. The convertible loan note was issued on 15 August 2005. However, no investment opportunity had been identified by the parties and the agreement was expired on 31 October 2005.

In November 2004, the Group entered into a provisional sale and purchase agreement to sell an investment property located in Hong Kong at a consideration of HK$45.0 million. The transaction was completed in March 2005.

As at 31 December 2005, the Group was holding a portfolio of listed investments held for trading with market value of approximately HK$35.5 million and a loss on net loss on listed investments held for trading of HK$6.6 million was recorded for the year.

Subsequent to the balance sheet date in February 2006, the Group announced (i) a major transaction for proposed acquisition of the Hong Kong retailing business of CRMG at a consideration of the lower of HK$140.0 million, or the aggregate of adjusted combined value of the entire interests of the Hong Kong retailing business as at 31 December 2005 and a premium of HK$20 million ("Retail Acquisition"); and (ii) a discloseable transaction for disposal of around 5% equity interest in CRMG at a total consideration of about HK$30 million ("Disposal"), the proceeds of which were for financing part of the consideration for the Retail Acquisition. The Retail Acquisition is subject to (inter alia) approval by shareholders of the Company at a special general meeting of the Company to be convened whereas the Disposal was completed on 27 February 2006. Details of the transactions were set out in the Company's announcements dated 21 February 2006 and 28 February 2006 respectively.

Save as aforesaid, the Group did not make any material acquisitions or disposals during the year ended 31 December 2005. There was no significant investment held during the year. We do not have any future plans for material investments or capital assets.

Industry and Economic Review

In 2005, despite a global economic growth against a backdrop of high oil prices and rising interest rates, the Hong Kong stock market was lackluster, with the Hang Seng Index traded in its narrowest range of 16.4% since 1978.

On the other hand, the domestic 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 Hong Kong economy. The employment market continued to improve 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 Disneyland Hong Kong marked another milestone for Hong Kong to consolidate its position to be a tourist centre. While the growth of tourists from Mainland China fell short of expectations, inbound tourism remained robust.

However, the situation for the furniture and household markets was not so encouraging, with the sector recording negative growth of 0.5% for total retail sales in 2005. The Composite Consumer Price Index (Composite CPI) for durable goods also faltered in 2005 – recording a year-on-year 2.4% fall in December – despite a general Composite CPI increase of 1.1% for 2005 as a whole.

Business Review – Financial Services Business

Throughout 2005, CFSG remained on course on the strategy of product and revenue diversification, both with a view to better service our clients as well as to minimise the impact on business performance by market cycles.

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.

We also 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 financial service group.

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.

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 financial advisory services. 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, CFSG 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 for the Financial Services Business

Looking ahead into 2006, CFSG's 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 financial services 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.

Business Review – Retail Business

With the economy gradually recovering, consumption spending appeared strongest among the younger generation. With this in mind, the retail group repositioned our PSL, developed 3C Digital and created LifeZtore over the year to target the trendier and higher-spending younger generation of consumers.

In 2005, the retail group was also renamed CASH Retail Management Group (CRMG) to fully reflect our current business and future development as a leading retail services and management group.

Pricerite Stores (PSL) – Repositioned for Future Growth

After a series of re-engineering activities in previous years, PSL started to record a positive contribution to the retail group in 2005. PSL was further repositioned to become a "neat and clean" specialist as we continued to strengthen provision in the "neat and clean" product categories. In line with this move, PSL launched a "neat and clean" promotional campaign, including a series of advertisements and new brand spokespeople. Our stores also underwent layout and design renovations to reflect the new positioning. The redesign brought the added benefit of improved sales per square foot, increasing the efficiency of store usage.

Provision of electrical appliances was also enhanced. A year-on-year double-digit growth in sales saw PSL become one of the market leaders in this category, with one solely distributed 32" LCD TV named the bestseller in an independent survey at the end of 2005. We will continue to consolidate our leadership position in this area and to form strategic alliances with key suppliers, such as Haier, the world's second-largest supplier of electrical appliances in terms of turnover.

Meanwhile, a review of profit and costing structures and rationalisation of our network saw the closure of stores that did not meet internal key performance indicators (KPIs). By the end of the year under review, all of the 30 stores were contributing positively to the retail group.

In relation to supply chain management, we boosted efficiency through infrastructure changes to PSL's household and furniture sections following an operations and systems review. We also produced an operations manual for management and staff.

PSL is now in a good position to look at growth and expansion. We will continue to leverage on our strong supply chain network to develop more private-label products. We will also focus on expanding the depth of our "neat and clean" products in order to become the "neat and clean" specialist of first choice. In the coming year, we plan to strengthen the PSL network to further penetrate the market and boost PSL's presence in new residential areas. In this regard, high rental costs remain our prime concern and the major constraint on network development.

3C Digital – Capitalising on the Digital Boom

The year under review saw strong demand for 3C Digital's trendy digital products, with a 6.9% year-on-year growth for electrical goods and photographic equipment, as shown in the HKSAR Government's total retail sales figures for 2005.

3C Digital focuses on innovative products and personalised services, which cater for the needs of our consumers. We also extended the depth of our core product offerings, such as notebook computers and mobile phones, in response to a continuous increase in demand. We will continue to provide popular products by forming strategic alliances with key suppliers who hold dominant market positions.

In line with our aim to reach the younger generation, 3C Digital's location strategy focused on high-traffic malls in key shopping areas, such as Times Square in Causeway Bay, apm in Kwun Tong, and New Town Plaza in Shatin. In addition, we launched an aggressive marketing campaign to build a unique brand image by using a young pop star as our brand spokesperson to appeal to our target customers.

In our first year of business, 3C Digital has become a major player in the sector and a market leader in certain categories, such as flat panel LCD TVs. This encouraging market response thus lays a good foundation for further expansion of the 3C Digital network.

LifeZtore – Born To Be a New Force

Economic restructuring is moving Hong Kong up the value chain, creating more high-salaried jobs, according to the HKSAR Government research. This shows the total number of full-time employees with a monthly income of HK$15,000 or above rose from 470,000 in 1995 to 790,000 in 2005, or from 21% to nearly one-third of the total number of full-time employees in Hong Kong.

Moreover, as the burden of negative equity eases and employment prospects stabilise in Hong Kong, the middle class has regained its willingness and ability to spend. Most are also showing that spending on improvements in their living conditions, including their home environment and lifestyle, is a priority.

This change in the economic outlook was the main driver behind the launch of LifeZtore at the end of 2005, with three stores opening in Hong Kong.

LifeZtore is a contemporary lifestyle concept retailer that provides authentic design items at affordable prices and an inspiring shopping environment for people with a passion for quality. Leveraging on the retail group's well-developed operating platform (human resources, administration, information technology, logistics and other back office support), LifeZtore focuses on contemporary furniture and houseware, created by an international design team and backed by merchandising expertise.

Building Strength in Mainland China

We have been testing the Mainland mass market by opening pilot PSL shops in the Guangdong area but have now opted out of this operational route as the pattern of mass-market consumption in the Mainland differs from the current PSL business model. We are now consolidating our experience and re-modelling our Mainland business plan. As the Mainland gradually migrates from an export-driven economy to a consumption-driven economy, we believe there is great potential in its consumer market.

During the year under review, the retail group acquired the Oriental Kenzo Department Store in Beijing to kick start retail operations in northern China. This acquisition also brings a full retail business licence, which allows chain store operations throughout the PRC.

The year also saw our Shenzhen support centre become fully operational, providing efficient back-office functions for the retail group, with operating costs reduced and operating efficiency increased. The support centre has also improved our sourcing capabilities in the Mainland, which has further enhanced the efficiency of our supply chain management system.

The Winning Team

People are central to the Group, be they customers, employees, suppliers, or shareholders.

The Group's mission states "our customers' interests always come first" and we give top priority to customer satisfaction. As our employees are the most important bridge to our customers, we therefore place great emphasis on improving our employees' approach to customer service, leadership and management skills; building internal cohesion; and cultivating a strong culture of professional sales and quality service.

During 2005, intensive customer service training and team building exercises were carried out, together with a restructuring of our senior management team.

The success of our approach to customer service and satisfaction was further recognised when two PSL staff members received Outstanding Young Salesperson Awards from the Hong Kong Management Association. A PSL staff member also gained the Service and Courtesy Award from the Hong Kong Retail Management Association during 2005.

We will continue to enhance our service standards and quality of employees through staff training and service culture development.

Outlook for the retail business

Looking ahead, we are cautiously optimistic about the retail industry in Hong Kong. The gradual economic recovery has presented opportunities for us to build on our solid foundation, well-built infrastructure and cohesive staff team. Nonetheless, the high price of rent, labour, utilities and other operating costs in Hong Kong continues to make the operating environment a challenging one. We are confident that through our single operating platform, a blend of improved operating efficiencies, better use of technology and human resources, we shall move forward with increased momentum.

As such, in February 2006, it was proposed that our retail group focuses resources and well-established infrastructure on developing our retail business in the Mainland, while we, take up its Hong Kong retail business so as to better delineate resources for parallel growth and development.

EMPLOYEE INFORMATION

At 31 December 2005, the Group had 245 employees, of which 209 were at CFSG Group. Our employees were remunerated according to their performance, working experience and market conditions. In addition to basic salaries and Mandatory Provident Fund schemes, 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$105.7 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 Listing Rules. The Board had also in writing made specific enquiry 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.1.1	Full board meetings shall be convened to be held at least 4 times yearly at approximately quarterly intervals	• Before the Adoption Date, the Company convened to hold full Board meeting only twice for each financial year, and had not held a full Board meeting for the first quarter of 2005. • Since the Adoption Date, full Board meeting has been and will be convened to be held for each financial quarter.
A.2.1	The roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual	• Before the Adoption Date, the Chairman and the CEO had been the same person during the initial period of the CG Period. • Since the Adoption Date, the defined roles and responsibilities of the CEO shall be placed with a CEO other than the Chairman or if no CEO is appointed, shall be shared and jointly saddled by all Executive Directors ("ED(s)"). Since the Adoption Date, the Company has not maintained a CEO.
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 EDs, including the Chairman of the Board, shall retire, but be 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.

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 was made up.

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 our 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, 13 April 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 Li Yuen Cheuk Thomas, and the Independent Non-executive Directors are Mr Leung Ka Kui Johnny, Mr Wong Chuk Yan and Dr Chan Hak Sin.

Please also refer to the published version of this announcement in The Standard.