The Hong Kong Building and Loan Agency Limited

2005 Annual Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Akihiro Nagahara *(Chairman)*
Stephen Lo Kam Fai *(Chief Executive)*
Edwin Lo King Yau

Independent Non-Executive Directors
Chan Bo Ching
Li Chak Hung
Yuen Wai Ho

EXECUTIVE COMMITTEE

Akihiro Nagahara *(Chairman)*
Stephen Lo Kam Fai
Edwin Lo King Yau

AUDIT COMMITTEE

Li Chak Hung *(Chairman)*
Chan Bo Ching
Yuen Wai Ho

NOMINATION COMMITTEE

Yuen Wai Ho *(Chairman)*
Chan Bo Ching
Li Chak Hung

REMUNERATION COMMITTEE

Chan Bo Ching *(Chairman)*
Li Chak Hung
Yuen Wai Ho

COMPANY SECRETARY

Stephen Lo Kam Fai

QUALIFIED ACCOUNTANT

Eddie Wong Tak Fai

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
Fubon Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

SOLICITORS

P. C. Woo & Co.

SHARE REGISTRAR

Tengis Limited
Level 25, Three Pacific Place
1 Queen's Road East
Hong Kong

REGISTERED OFFICE

Room 2101, 21st Floor
Allied Kajima Building
138 Gloucester Road
Wanchai, Hong Kong

STOCK CODE

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WEBSITE

http://www.hkbla.com.hk

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I have pleasure in presenting to the shareholders the annual report of the Company for the year ended 31st December, 2005.

BUSINESS REVIEW

The domestic and global economy continued to improve in 2005. The Hong Kong economy further benefited from influx of tourist arrivals from the Mainland China in particular the period from the grand opening of Hong Kong Disneyland. However, the significant rebound in property market in 2004 seemed to have cooled down in the final quarter of 2005 as a result of successive increases in market interest rate.

During the year, the Company and its subsidiaries (the "Group") managed to make profit on its treasury investments though at a lesser amount than that achieved in 2004. The competitive environment in mortgage finance business remained keen and difficult amid successive increases in interest rate in Hong Kong which had a dampening effect on property price and transaction volume.

In anticipation of the continuing appreciation of Renminbi, the Hong Kong dollars strengthened against all major foreign currencies in 2005 and as a result the Group recorded a HK$2.8 million in exchange loss as compared with the HK$2.2 million exchange gain in 2004.

For the year under review, the Group's revenue was HK$73.6 million and the profit attributable to equity holders of the Company was HK$1.2 million. The Group was debt-free and maintained a strong liquidity position.

DIVIDEND

The Directors do not recommend the payment of a final dividend as the Company still carries accumulated losses as at 31st December, 2005.

The annual general meeting of the Company (the "AGM") will be held on 12th May, 2006 and there will be no closure of the Register of Members of the Company as no final dividend is being paid.

PROSPECTS

We are cautiously optimistic that Hong Kong economy is expected to keep its growth momentum well into next year. With general expectation of approaching the end of cycle for increase in interest rate in 2006, the Group keeps on looking for investment opportunities in order to increase the return from the Group's treasury investments. As regards mortgage loan business, the Group will grasp the opportunities for expanding its mortgage loan portfolio once they arise when there is general picking up of property transactions in Hong Kong.

APPRECIATION

On behalf of the Board of Directors (the "Board"), I would like to express my sincere appreciation to the management and our staff for their dedicated service during the year.

Akihiro Nagahara
Chairman
Hong Kong, 24th March, 2006

The Hong Kong economy continued to benefit from the implementation of the Closer Economic Partnership Arrangement between the Mainland China and Hong Kong and increases in tourists arrivals in particular from the Mainland China. The Group continued to achieve positive return on its treasury investments. For the year ended 31st December, 2005, the Group recorded a profit attributable to equity holders of the Company of HK$1.2 million (2004: HK$8.3 million) with revenue of HK$73.6 million (2004: HK$189.7 million).

RESULTS FOR THE YEAR

Principal businesses of the Group remained as mortgage finance and treasury investments.

The mortgage finance market remained competitive and interest margin continued to stay low as the property transaction volume was affected by the successive increases in interest rates in the market. The revenue contributed by mortgage finance dropped to HK$0.2 million (2004: HK$0.5 million) and profit contributed by mortgage finance also decreased to HK$0.3 million (2004: HK$0.6 million).

The revenue contributed by the treasury investments dropped to HK$73.4 million (2004: HK$189.2 million) as a result of decrease in securities trading activities and hence profit contributed by treasury investments also dropped to HK$5.5 million (2004: HK$17.1 million).

As Hong Kong dollars strengthened, the Group liquidated all its investments which were denominated in foreign currencies and recorded an exchange loss of HK$2.8 million during the year, as compared with an exchange gain of HK$2.2 million in 2004.

TOTAL ASSETS

As at 31st December, 2005, total assets increased slightly to HK$221.4 million (2004: HK$220.7 million). All assets are denominated in Hong Kong dollars and henceforth there was no exposure to exchange rate risk.

The Group maintained a very strong liquidity position throughout the year. As at the balance sheet date, the Group had listed investments amounting to HK$41.5 million (2004: HK$22.8 million) and cash and bank balances amounting to HK$170.9 million (2004: HK$168.1 million).

CAPITAL STRUCTURE

Currently, the Group is debt-free. There were no charges on the Group's assets and the Group had no material capital commitment or contingent liabilities outstanding at the end of the year (2004: Nil).

The net asset value of the Group as at 31st December, 2005 increased by 0.56 per cent. to HK$220.6 million (2004: HK$219.4 million) with the net asset value per share stood at HK$0.98 (2004: HK$0.98).

STAFF AND REMUNERATION

The Group had 10 (2004: 16) employees as at 31st December, 2005 and total staff costs incurred during the year amounted to HK$1.4 million which was 27 per cent. lower than the HK$1.9 million recorded in 2004. The Group offers competitive remuneration packages to its employees. Currently, there is no share option scheme for employees.

OUTLOOK

There are challenges and opportunities so far as the Hong Kong economy is concerned in 2006. We are cautiously optimistic that the improving domestic economy as a result of continuing increase in tourist arrivals and more consumption spending should enable the Group to perform well in 2006. On the other hand, we shall stay alert of the threats that persistently high level of oil prices and successive hikes in interest rates might dampen the global and domestic economic growth. The management is wary of these factors but will make best efforts to achieve its objective of delivering satisfactory results for the shareholders in 2006.

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which came into effect on 1st January, 2005, the previous and existing Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31st December, 2005, except for certain deviations as specified with considered reasons for such deviations as explained below.

THE BOARD

The Board currently comprises six Directors and its composition is set out as follows:

Executive Directors	:	Akihiro Nagahara *(Chairman)* Stephen Lo Kam Fai *(Chief Executive)* Edwin Lo King Yau
Independent Non-Executive Directors ("INEDs")	:	Chan Bo Ching Li Chak Hung Yuen Wai Ho

The brief biographical details of the Directors are set out in the "Brief Biographical Details of Directors and Senior Management" section on pages 18 to 19.

The INEDs provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgement on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has three INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, six Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/eligible to attend
Executive Directors:	
Akihiro Nagahara ^ *(Chairman)*	1/1
Stephen Lo Kam Fai ^ *(Chief Executive)*	1/1
Edwin Lo King Yau ^	1/1
David T. Yeh *	3/5
Lee Jark Pui, O.B.E., J.P. *	4/5
Jonathan Miles Foxall *	5/5
Ng Tai Chiu *	3/5
Non-Executive Directors:	
Ning Gaoning *	0/5
Chan Wai Lam *	2/5
Leon Chan Nim Leung *	5/5
Michael Chan Kwok Shung +	1/2
INEDs:	
Chan Bo Ching ^	1/1
Li Chak Hung ^	1/1
Yuen Wai Ho ^	1/1
Leung Nai Kong, B.B.S., J.P. *	3/5
Tsui King Fai *	5/5
Victor Yung Ha Kuk *	4/5

^ Appointed on 12th October, 2005
* Resigned on 12th October, 2005
+ Retired by rotation on 3rd June, 2005

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the daily operations and administration to the executive management under the supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in October 2005. The Board will review the same once a year.

Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors and to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same will be tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. In addition, a written procedure was established in October 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separate to reinforce their respective independence and accountability. The Chairman of the Company is Mr. Akihiro Nagahara who is primarily responsible for the leadership of the Board, while the function of the Chief Executive is performed by Mr. Stephen Lo Kam Fai who is responsible for the executive management of the Company's operations. The division of responsibilities between the Chairman and Chief Executive has been set out in writing and approved by the Board in June 2005.

Appointment and Re-election of Directors

The Nomination Committee has been established in June 2005 and currently consists of three members, Messrs. Yuen Wai Ho (Chairman), Chan Bo Ching and Li Chak Hung, all of whom are INEDs.

The major roles and functions of the Nomination Committee are:

(i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(iii) to assess the independence of INEDs;

(iv) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive;

(v) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and

(vi) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The terms of reference of the Nomination Committee were adopted in June 2005 and have been posted on the Company's website.

The Nomination Committee shall meet before the holding of an AGM where appointment of Directors will be considered and additional meetings shall be held as and when necessary. Since the Nomination Committee has been established subsequent to the Company's last AGM held on 3rd June, 2005, thus no meeting was held in 2005.

Every newly appointed Director of the Company will receive an information package from the Company Secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a director pursuant to the Companies Ordinance, Listing Rules and Securities and Futures Ordinance (the "SFO"). In addition, this information package includes materials to briefly describe the operations and business of the Company. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

The former Non-Executive Directors (other than the three former INEDs appointed with a term of two years) had no fixed term of office prior to their resignations on 12th October, 2005, but retired from office on a rotational basis in accordance with the relevant provision of the Articles of Association of the Company, save for the former Chairman of the Company, Mr. Ning Gaoning, was not subject to retirement by rotation and re-election at the Company's last AGM held on 3rd June, 2005. According to the Articles of Association of the Company then in effect prior to 3rd June, 2005, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation at each AGM, but the Directors were not required to retire by rotation at least once every three years. Further, any Director appointed to fill a casual vacancy shall hold office only until the next following AGM, and shall then be eligible for re-election.

To comply with the code provision A.4.1 of the CG Code, all the existing INEDs had been appointed on 12th October, 2005 with a fixed term of office, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure fully compliance with the code provision A.4.2 of the CG Code, the Articles of Association of the Company have been amended on 3rd June, 2005 to provide, inter alia, that every Director shall be subject to retirement by rotation at least once every three years. Furthermore, relevant amendments will be proposed for the shareholders' approval at the forthcoming AGM in order that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

Board Committees

In addition to the Nomination Committee, the Board has established three committees, being the Remuneration Committee, Audit Committee and Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 8 in the section "The Board" above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee has been established in June 2005 in order to comply with the code provision B.1.1 of the CG Code. It currently consists of three members, including Messrs. Chan Bo Ching (Chairman), Li Chak Hung and Yuen Wai Ho, all of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) to consult the Chairman and/or the Chief Executive of the Company about their proposals relating to the remuneration of Executive Directors and the senior management (which should refer to the same category of persons as referred to in the Company's annual report and is required to be disclosed under paragraph 12 of Appendix 16 or other rule(s) from time to time of the Listing Rules) of the Company (the "Senior Management");

(ii) to make recommendations to the Board on the policy and structure for all remuneration of the Directors and the Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(iii) have the delegated responsibility to determine the specific remuneration packages of all Executive Directors and the Senior Management, including (but not limited to) benefits in kind, pension rights and compensation payments (such as compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Non-Executive Directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

(iv) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(v) to ensure that no Director or any of his associates is involved in deciding his own remuneration. For this purpose, the remuneration of any member of the Committee shall be determined by the Board;

(vi) to advise shareholders of the Company on how to vote with respect to any service contracts of Directors that require shareholders' approval under Rule 13.68 or other rule(s) from time to time of the Listing Rules; and

(vii) to review and approve performance-based remuneration by reference to the goals and objectives resolved by the Board from time to time.

The terms of reference of the Remuneration Committee were adopted in June 2005 and have been posted on the Company's website.

The Remuneration Committee shall meet at least once a year. Two committee meetings were held in 2005 to (i) approve the directors' fee payable to the former Directors; and (ii) review and discuss the existing policy and structure for the remuneration of Directors and Senior Management, the remuneration packages of the Executive Directors and Senior Management and the attendance of each member is set out as follows:

Committee member	**Number of Committee meetings attended/eligible to attend**
Chan Bo Ching ^ *(Chairman)*	1/1
Li Chak Hung ^	1/1
Yuen Wai Ho ^	1/1
Leon Chan Nim Leung *	1/1
Victor Yung Ha Kuk *	1/1
Leung Nai Kong, B.B.S., J.P. *	1/1
Tsui King Fai *	1/1

^ Appointed on 12th October, 2005
* Resigned on 12th October, 2005

The remuneration payable to the Directors will depend on their respective contractual terms under their employment or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements.

Audit Committee

The Audit Committee has been established some time ago. To retain independence and objectivity, the Audit Committee currently consists of three members and all of them are INEDs and which has been chaired by Mr. Li Chak Hung who has the appropriate professional qualifications or accounting or related financial management expertise. The other members of the Audit Committee are Messrs. Chan Bo Ching and Yuen Wai Ho. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit Committee are:

(i) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;

(ii) to consider and discuss with the external auditors the nature and scope of each year's audit;

(iii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(iv) to review the interim and annual financial statements before submission to the Board;

(v) to consider any significant or unusual items that are, or may need to be, reflected in the interim and annual financial statements, and any matters the external auditors, the Company's Qualified Accountant or compliance officer may wish to discuss;

(vi) to review the external auditors' management letters and management's response;

(vii) to review the Group's financial controls, internal control and risk management systems; and

(viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

The terms of reference of the Audit Committee of the Company were revised in June 2005 to comply with the code provision C.3.3 of the CG Code and which have been posted on the Company's website.

The Audit Committee shall meet at least twice a year. Two committee meetings were held in 2005 and the attendance of each member is set out as follows:

Committee member	**Number of Committee meetings attended/eligible to attend**
Victor Yung Ha Kuk * *(Former Chairman)*	2/2
Leon Chan Nim Leung *	2/2
Leung Nai Kong, B.B.S., J.P. *	2/2
Tsui King Fai *	2/2
Michael Chan Kwok Shung +	1/1

* Resigned on 12th October, 2005
\+ Retired by rotation on 3rd June, 2005

During the meetings held in 2005, the Audit Committee had performed the work as summarised below:

(i) reviewed and recommended to the Board for approval the new and revised accounting policies of the Group following the adoption of new Hong Kong Financial Reporting Standards; and

(ii) reviewed the financial reports for the year ended 31st December, 2004 and for the six months ended 30th June, 2005 and recommended the same to the Board for approval.

Executive Committee

The Executive Committee has been established in October 2005 and currently consists of three Executive Directors, being Messrs. Akihiro Nagahara (Chairman), Stephen Lo Kam Fai and Edwin Lo King Yau. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board of the Company, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

The Executive Committee meets as and when necessary to discuss the operating affairs of the Group. It is mainly responsible for undertaking and supervising the day-to-day management and is empowered:

(i) to formulate and implement policies for the business activities, internal control and administration of the Group; and

(ii) to plan and decide on strategies to be adopted for the business activities of the Group.

Codes for Securities Transactions by Directors and Relevant Employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

To comply with the code provision A.5.4 of the CG Code, the Company has also established and adopted in June 2005 the Model Code, to regulate dealings in the securities of the Company by all employees of the Company and its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from the Accounts Department, the financial statements of the Group. The financial statements for the year ended 31st December, 2005 have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance.

The reporting responsibilities of the Company's external auditors, Messrs. Deloitte Touche Tohmatsu, are set out in the Auditors' Report on page 24.

External Auditors' Remuneration

During the year, the remuneration paid/payable to the Company's existing external auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered for the Group	**Fee paid/payable**
	HK$'000
Audit services	230
Non-audit services including:	
Taxation service	15
Review requirements under the Listing Rules	34
Total	279

During the year, the remuneration paid/payable to the Company's former external auditors, Messrs. Ernst & Young is as follows:

Services rendered for the Group	**Fee paid/payable**
	HK$'000
Audit services	9
Non-audit services including:	
Review requirements under the Listing Rules	15
Total	24

Communication with Shareholders

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. As a channel to further promote effective communication, the corporate website is maintained to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

The AGM is a valuable forum for the Board to communicate directly with the shareholders. The chairman of the AGM actively participates in the AGM to answer any questions from the shareholders. A separate resolution is proposed by the chairman of the AGM in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The chairman of the AGM explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

Mr. Ning Gaoning, the former Chairman of the Company, was unable to attend the AGM held on 3rd June, 2005 as he was out of town during that period, and thus there is a deviation from the code provision E.1.2 of the CG Code that the chairman of the board should attend the AGM. The existing Chairman of the Company, Mr. Akihiro Nagahara, will use his best endeavours to attend all future AGMs.

Corporate Governance Enhancement

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.

On behalf of the Board

Akihiro Nagahara
Chairman
Hong Kong, 24th March, 2006

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and the Company for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in investment holding, treasury investments and the provision of mortgage finance and other related services. The principal activities and other particulars of the Company's subsidiaries are set out in note 23 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by principal activity and geographical area for the year ended 31st December, 2005 is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 25.

The Directors do not recommend the payment of final dividend for the year (2004: Nil). No interim dividend was declared for the year (2004: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years ended 31st December, 2005, as extracted from the audited consolidated financial statements, is set out on page 60.

PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 21 to the financial statements.

RESERVE

Details of movements in the reserve of the Company and of the Group during the year are set out in note 22 to the financial statements and the Consolidated Statement of Changes in Equity, respectively.

RESERVE (continued)

As at 31st December, 2005, there were no reserves of the Company available for distribution, calculated in accordance with Section 79B of the Companies Ordinance (2004: Nil).

SUBSIDIARIES

During the year, the Company has acquired a wholly-owned subsidiary, The Building and Loan Agency (Asia) Limited (formerly known as Goldnet Investment Limited), a company incorporated in Hong Kong. Particulars of the Company's subsidiaries are set out in note 23 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:	
Akihiro Nagahara *(Chairman)*	(appointed on 12th October, 2005)
Stephen Lo Kam Fai *(Chief Executive)*	(appointed on 12th October, 2005)
Edwin Lo King Yau	(appointed on 12th October, 2005)
David T. Yeh	(resigned on 12th October, 2005)
Lee Jark Pui, O.B.E., J.P.	(resigned on 12th October, 2005)
Jonathan Miles Foxall	(resigned on 12th October, 2005)
Ng Tai Chiu	(resigned on 12th October, 2005)
Non-Executive Directors:	
Ning Gaoning	(resigned on 12th October, 2005)
Chan Wai Lam	(resigned on 12th October, 2005)
Leon Chan Nim Leung	(resigned on 12th October, 2005)
Michael Chan Kwok Shung	(retired by rotation in accordance with the Company's Articles of Association on 3rd June, 2005)
INEDs:	
Chan Bo Ching	(appointed on 12th October, 2005)
Li Chak Hung	(appointed on 12th October, 2005)
Yuen Wai Ho	(appointed on 12th October, 2005)
Leung Nai Kong, B.B.S., J.P.	(resigned on 12th October, 2005)
Tsui King Fai	(resigned on 12th October, 2005)
Victor Yung Ha Kuk	(resigned on 12th October, 2005)

In accordance with Article 110 of the Company's Articles of Association, all existing Directors who have been appointed subsequent to the last AGM, and before the date of this report, will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Akihiro Nagahara, aged 65, was appointed as the Chairman and an Executive Director of the Company since October 2005. He is the managing director of United Asia Finance Limited ("UAF"), the Company's indirect holding company. He holds a law degree from the National Taiwan University and a Master's degree from the Graduate School in Law of the National Hitotsubashi University of Japan, where he also completed his doctorate courses. He is an acknowledged expert in the consumer finance business in Hong Kong and is credited with the successful establishment of Public Finance Limited (formerly known as JCG Finance Company, Limited). He is also the chairman of The Hong Kong S.A.R. Licensed Money Lenders Association Limited since its establishment in 1999, which is the only industry representative association of licensed money lenders in Hong Kong.

Stephen Lo Kam Fai, aged 44, was appointed as the Chief Executive and an Executive Director of the Company since October 2005 and as the Company Secretary of the Company since September 2005. He is a member of the Institute of Chartered Accountants of England and Wales and a fellow member of both The Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. He holds a Master of Business Administration degree from the Hong Kong Polytechnic and a Bachelor of Science degree in Economics with First Class Honours from the University of London. He has over 20 years' experience in the auditing and accounting profession. He started his career in one of the big four international auditing firms and subsequently joined and worked for a sizeable listed company for a number of years in various postings including internal audit, acquisition advisory, financial controller, management and budgetary controller, etc. He is currently a director of UAF, the Company's indirect holding company, and has worked for UAF as the financial controller for 10 years.

Edwin Lo King Yau, aged 45, was appointed as an Executive Director of the Company since October 2005. He is a chartered company secretary and holder of a Master's degree in Applied Finance from Macquarie University, Australia. He had served various executive roles in several companies in Hong Kong including as company secretary for public listed companies. He is also an executive director of Allied Group Limited ("Allied Group"), the Company's ultimate holding company, and Tian An China Investments Company Limited, both are companies listed on the Stock Exchange.

Chan Bo Ching, aged 47, was appointed as an INED of the Company since October 2005. He had over 15 years' experience in the banking and financial fields in Hong Kong and Southeast Asia region. Mr. Chan holds a bachelor degree in laws and a Master's degree in laws from the University of London. He obtained a Master's degree in business administration from the Chinese University of Hong Kong through the Executive MBA programme. Mr. Chan was qualified as an associate of the Chartered Institute of Bankers in 1985 and is also an associate of the Hong Kong Institute of Bankers. Mr. Chan was awarded the Council Prize from the Chartered Institute of Bankers for the highest aggregate marks on completion of Credit Card Certificate in 1984. Mr. Chan is currently a practising barrister in Hong Kong. Prior to joining the legal profession, he held various senior executive and responsible positions in banks and finance related companies. Mr. Chan is also a member of the Hong Kong Institute of Directors, an associate member of the Taxation Institute of Hong Kong and a member of the Hong Kong Securities Institute.

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Li Chak Hung, aged 41, was appointed as an INED of the Company since October 2005. Mr. Li holds a bachelor degree in business administration and is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants in the United Kingdom. He has over 17 years' experience in auditing, accounting and financial management. Mr. Li is also an independent non-executive director of Shanghai Allied Cement Limited, Quality HealthCare Asia Limited and Orient Industries Holdings Limited, all are companies listed on the Stock Exchange.

Yuen Wai Ho, aged 46, was appointed as an INED of the Company since October 2005. He holds two Master's degrees, one in business administration from the University of Bath in England and the other in electronic commerce from the Open University of Hong Kong. Mr. Yuen is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants in the United Kingdom and the Taxation Institute of Hong Kong respectively and is also an associate member of the Chartered Institute of Management Accountants and the Institute of Chartered Secretaries and Administrators. Mr. Yuen has more than 20 years' experience in auditing, accounting, taxation and financial management, of which 15 years was served as senior financial executives in various multinational companies and listed companies in Hong Kong. Mr. Yuen is currently a group financial controller of a listed company in Hong Kong and an independent non-executive director of Rexcapital Financial Holdings Limited, a company listed on the Stock Exchange. Mr. Yuen was an executive director of Huabao International Holdings Limited, a company listed on the Stock Exchange.

Eddie Wong Tak Fai, aged 47, was appointed as the Qualified Accountant of the Company since October 2005. He is a fellow member of both The Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Social Sciences degree from the University of Hong Kong. He has over 20 years of accounting experience in the banking and finance industry.

DIRECTORS' INTERESTS

As at 31st December, 2005, none of the Directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its fellow subsidiaries or subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of granting of share options to subscribe for shares in the Company's ultimate holding company, Allied Group, under the share option scheme of Allied Group.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December, 2005, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate percentage of the issued share capital	Notes
UAF	171,313,538	76.139	1
Allied Group	171,313,538	76.139	2 and 3
Lee and Lee Trust	171,313,538	76.139	2 and 4

Notes:

1. The 171,313,538 shares were held by Island New Finance Limited ("INFL"), a wholly-owned subsidiary of Onspeed Investments Limited which in turn was a wholly-owned subsidiary of UAF. UAF was therefore deemed to have an interest in the shares in which INFL was interested.

2. The figure refers to the same interest of UAF in 171,313,538 shares of the Company.

3. UAF was a 50.91 per cent. owned subsidiary of UAF Holdings Limited, a wholly-owned subsidiary of AG Capital Holding Limited which in turn was a wholly-owned subsidiary of Allied Group. Allied Group was therefore deemed to have an interest in the shares in which UAF was interested.

4. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust. They together owned approximately 40.06 per cent. interest in the issued share capital of Allied Group and were therefore deemed to have an interest in the shares in which Allied Group was interested.

5. The interest stated above represents a long position. As at 31st December, 2005, no short positions were recorded in the register required to be keep under Section 336 of the SFO.

On 16th January, 2006, INFL was beneficially interested in 174,766,013 shares of the Company which represented approximately 77.673 per cent. of the issued share capital of the Company. On the same day, INFL has placed out 6,018,000 shares of the Company at the price of HK$1.0933 per share. Following completion of the placement, INFL became the beneficial owner of 168,748,013 shares of the Company which represented approximately 74.999 per cent. of the issued share capital of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors of the Company was considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors of the Company proposed for re-election at the forthcoming AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONNECTED TRANSACTION

During the year, the Company and the Group had the following continuing connected transaction:

On 16th December, 2002, a tenancy agreement (the "Tenancy Agreement") was entered into between the Company and Prime Power Investment Limited ("Prime Power"), a wholly-owned subsidiary of Lippo China Resources Limited which in turn had been the previous intermediate holding company of the Company until 12th September, 2005 pursuant to which Prime Power agreed to let to the Company a portion of Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 3,316 square feet for a term of two years from 1st February, 2003 to 31st January, 2005, both days inclusive, at a monthly rental of HK$55,709, exclusive of rates, service charges and all other outgoings, for office use. During the year, the Company paid rental expense in respect of the Tenancy Agreement of HK$55,709 (2004: HK$669,000) to Prime Power. The Tenancy Agreement was in accordance with the pricing policy of the Company which was determined by reference to the then prevailing open market rentals. Pursuant to the waiver granted by the Stock Exchange in February 2003, the INEDs have confirmed that (i) the above tenancy was entered into in accordance with the terms of the Tenancy Agreement by the relevant parties in the ordinary and usual course of their business; (ii) the above tenancy was undertaken on normal commercial terms and on terms that were fair and reasonable so far as the shareholders of the Company were concerned; and (iii) the rental paid in respect of the Tenancy Agreement for the year did not exceed the cap amount as stated in the above waiver. Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transaction of the Group and the auditors have reported their factual findings on these procedures to the Board of Directors. The INEDs have reviewed the continuing connected transaction and the factual findings report of the auditors and the INEDs have confirmed that the transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreement governing such transaction that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the financial statements, there were no other contracts of significance in relation to the Company's business, to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party, subsisting at the end of the year or at any time during the year, and in which a Director or the controlling shareholders of the Company or any of their respective subsidiaries, directly or indirectly, had a material interest.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries has been made.

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

EMOLUMENT POLICY

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements respectively.

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31st December, 2005, the Group's revenue attributed to the five largest customers accounted for less than 30 per cent. of the Group's total revenue. The Group had no major suppliers due to the nature of principal activities of the Group.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's retirement benefit costs charged to the consolidated income statement for the year are set out in note 28 to the financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 6 to 15.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITORS

Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, have resigned with effect from 13th January, 2006 and Messrs. Deloitte Touche Tohmatsu have been appointed as auditors of the Company with effect from 13th January, 2006 to fill the casual vacancy until the conclusion of the next AGM. A resolution will be submitted to the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

The financial statements for the year were audited by Deloitte Touche Tohmatsu who will retire at the conclusion of the forthcoming AGM and, being eligible, will offer themselves for re-appointment.

On behalf of the Board

Stephen Lo Kam Fai
Chief Executive
Hong Kong, 24th March, 2006

Deloitte.
德勤

TO THE MEMBERS OF THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 25 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 24th March, 2006

	Notes	2005 HK$'000	2004 HK$'000
Revenue	6	**73,559**	189,682
Interest income		**4,289**	1,618
Net realised gain on disposal of investments held-for-trading		**1,067**	–
Net realised gain on disposal of other investments in securities		**–**	13,431
Unrealised gain on investments held-for-trading		**2,159**	–
Unrealised loss on other investments in securities		**–**	(622)
Other investment income		**937**	1,207
Other income		**201**	91
Administrative expenses		**(2,459)**	(2,938)
Other operating expenses		**(2,170)**	(2,210)
Net exchange (losses) gains		**(2,789)**	2,194
Impairment loss on investment securities		**–**	(3,600)
Profit before taxation	8	**1,235**	9,171
Taxation	9	**–**	(886)
Profit for the year		**1,235**	8,285
Attributable to:			
Equity holders of the Company		**1,235**	8,285
		HK cents	*HK cents*
Earnings per share	13		
Basic		**0.5**	3.7
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Plant and equipment	*14*	**10**	52
Mortgage loans	*15*	**723**	1,764
Investment securities	*17*	**–**	–
Deferred tax asset	*25*	**3,396**	3,396
		4,129	5,212
CURRENT ASSETS			
Mortgage loans	*15*	**4,457**	1,288
Investments held-for-trading	*18*	**41,495**	–
Other investments in securities	*19*	**–**	45,334
Prepayments, deposits and other receivables		**423**	741
Cash and bank balances	*20*	**170,940**	168,144
		217,315	215,507
CURRENT LIABILITIES			
Other creditors and accruals	*26*	**834**	1,344
NET CURRENT ASSETS		**216,481**	214,163
		220,610	219,375
CAPITAL AND RESERVE			
Share capital	*21*	**225,000**	225,000
Reserve		**(4,390)**	(5,625)
		220,610	219,375

The financial statements on pages 25 to 59 were approved and authorised for issue by the Board of Directors on 24th March, 2006 and are signed on its behalf by:

Akihiro Nagahara
Director

Stephen Lo Kam Fai
Director

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Plant and equipment	14	**10**	52
Mortgage loans	15	**723**	1,764
Interests in subsidiaries	23	**2**	1
Deferred tax asset	25	**3,396**	3,396
		4,131	5,213
CURRENT ASSETS			
Mortgage loans	15	**4,457**	1,288
Investments held-for-trading	18	**41,495**	–
Other investments in securities	19	**–**	22,806
Amounts due from subsidiaries	24	**34**	22,386
Prepayments, deposits and other receivables		**423**	300
Cash and bank balances	20	**170,939**	168,144
		217,348	214,924
CURRENT LIABILITIES			
Other creditors and accruals	26	**829**	1,181
NET CURRENT ASSETS		**216,519**	213,743
		220,650	218,956
CAPITAL AND RESERVE			
Share capital	21	**225,000**	225,000
Reserve	22	**(4,350)**	(6,044)
		220,650	218,956

Akihiro Nagahara
Director

Stephen Lo Kam Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the Company		
	Share capital	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2004	225,000	(13,910)	211,090
Profit for the year	–	8,285	8,285
At 31st December, 2004 and 1st January, 2005	225,000	(5,625)	219,375
Profit for the year	–	1,235	1,235
At 31st December, 2005	225,000	(4,390)	220,610

	Note	2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**1,235**	9,171
Adjustments for:			
Depreciation		**16**	16
Loss on disposal of plant and equipment		**38**	–
Impairment allowances for mortgage loans		**34**	–
Written back of allowance for bad and doubtful debts for mortgage loans		**–**	(27)
Unrealised gain on investments held-for-trading		**(2,159)**	–
Unrealised loss on other investments in securities		**–**	622
Impairment loss on investment securities		**–**	3,600
Operating cash flow before movements in working capital		**(836)**	13,382
(Increase) Decrease in mortgage loans		**(2,162)**	1,962
Decrease in investments held-for-trading/other investments in securities		**5,998**	40,113
Decrease in prepayments, deposits and other receivables		**318**	5,750
Decrease in other creditors and accruals		**(510)**	(161)
NET CASH FROM OPERATING ACTIVITIES		**2,808**	61,046
INVESTING ACTIVITIES			
Purchase of plant and equipment		**(12)**	(65)
Disposal of subsidiaries	*29*	**–**	–
NET CASH USED IN INVESTING ACTIVITIES		**(12)**	(65)
INCREASE IN CASH AND CASH EQUIVALENTS		**2,796**	60,981
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		**168,144**	107,163
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		**170,940**	168,144
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**170,940**	168,144

1. GENERAL

The Company is a limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is disclosed in the corporate information of the annual report. The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The principal activities of the Company and its subsidiaries (the "Group") are investment holding, treasury investments and the provision of mortgage finance and other related services.

Prior to 12th September, 2005, the ultimate holding company of the Company was Lippo Cayman Limited which is incorporated in the Cayman Islands. Subsequent to the completion of acquisition of 74.8 per cent. shareholdings in the Company on 12th September, 2005, the ultimate holding company of the Company has been changed to Allied Group Limited ("Allied Group"), a limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group and the Company have applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The application of the new HKFRSs has resulted in changes to the Group's and the Company'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:

Financial instruments

In the current year, the Group and the Company have applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st 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 application of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities
The Group and the Company have 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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

Following the application of HKAS 39, the Group has reclassified all investment securities which are previously grouped under "investment securities" to "available-for-sale financial assets" on 1st January, 2005. There is no effect on remeasurement as the investments have been fully impaired as at 31st December, 2004. The Group and the Company have also reclassified its investments in listed and unlisted securities of HK$45,334,000 which are held for trading purpose and are previously grouped under "other investments in securities" to "investments held-for-trading" on 1st January, 2005. There is no material effect on remeasurement as the accounting policy on measurement of the Group's and the Company's other investments in securities as at 31st December, 2004 is the same as that for investments held-for-trading.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group and the Company have 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.

Bad and doubtful debts

In previous years, allowance for bad and doubtful debts was made having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's and the Company's portfolio of loans and advances. In determining the level of allowance required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of loan portfolio and prior loan loss experience.

On application of HKAS 39, impairment allowances for advances assessed individually are calculated using a discounted cash flow analysis at original effective interest rate. Collective assessment of impairment for individual insignificant items or items where no impairment has been identified on an individual basis is made using formula based approaches and statistical methods. Impairment allowances for advances will be presented as individually assessed and collectively assessed instead of specific and general allowances. There will be no significant change in the net charge for allowances to the income statement.

Effect of the changes in accounting policies

The above changes to the Group's and the Company's accounting policies as a result of the new HKFRSs have had no material effect on the Group's and the Company's financial results for the year.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Potential impact arising on the new accounting standards not yet effective

The Group and the Company have not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards and interpretations will have no material impact on the financial statements.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2006.

[3] Effective for annual periods beginning on or after 1st December, 2005.

[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of the subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(ii) dealings in securities and disposals of investments are recognised on the trade dates when the relevant contract notes are exchanged.

(iii) dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when they fall due.

Foreign currencies

In preparing the financial statements of each individual group entity, transaction in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group and the Company are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's and the Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include investments held-for-trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including mortgage loans, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price 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, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group and the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities are set out below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities
The Group's and the Company's other financial liabilities include other creditors and accruals which are subsequently measured at amortised cost, using the effective interest rate method.

Impairment losses

At each balance sheet date, the Group and the Company review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Operating leases

Rental payable under such operating leases are charged to profit or loss on the straight-line basis over term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

Taxation

As at 31st December, 2005, a deferred tax asset of HK$3,396,000 in relation to unused tax losses has been recognised in the Group's and the Company's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a reversal or additional recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal or additional recognition takes place.

Impairment allowances for mortgage loans

The policy for impairment allowances for mortgage loans of the Group and the Company is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these mortgage loans, including the current creditworthiness, and the past collection history of each loan. If the financial conditions of customers of the Group and the Company were to deteriorate, resulting in an impairment of their ability to make repayments, additional allowances may be required.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's major financial instruments include mortgage loans, listed equity securities and unlisted investment funds. 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

(i) Currency risk

The Group and the Company had listed equity securities and unlisted investment funds denominated in foreign currencies, which expose the Group and the Company to foreign currency risk. To minimize currency risk exposure, management of the Group and the Company have disposed all the non Hong Kong listed securities and investment funds which were denominated in foreign currencies during the year. As at the balance sheet date, all assets and liabilities of the Group and the Company are denominated in Hong Kong dollars and henceforth there was no exposure to exchange rate risk. The Group and the Company currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(ii) Fair value and cash flow interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Company have no material exposure to fair value interest rate risk as the fixed-rate mortgage loan is repayable within 6 months. The Group's and the Company's exposure to cash flow interest rate risk is caused by both the mortgage loans and bank deposits. Interest income will fluctuate because of changes in market interest rates. The Group and the Company are currently debt-free and the management of the Company believes that the Group's and the Company's exposure to the cash flow interest rate risk is insignificant as most mortgage loans and bank deposits are relatively short term.

(iii) Equity price risk

The Group's and the Company's investments held-for-trading are measured at fair value at each balance sheet date. Therefore, the Group and the Company are exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st 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 and balance sheet. In order to minimize the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue loans. In addition, the Group and the Company review the recoverable amount of each individual loan and advance at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

6. REVENUE

Revenue represents interest income on mortgage loans and gross income on treasury investments which includes sales proceeds from securities trading, interest income on bank deposits and dividend income.

An analysis of the revenue of the Group by principal activity is as follows:

	2005	2004
	HK$'000	*HK$'000*
Mortgage finance:		
Interest on mortgage loans	**205**	482
Treasury investments:		
Interest on bank deposits	**4,084**	1,136
Sales proceeds of investments held-for-trading	**68,333**	–
Sales proceeds of other investments in securities	**–**	186,857
Other investment income	**937**	1,207
	73,559	189,682

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions – mortgage finance and treasury investments. These divisions are the basis on which the Group reports its primary segment information. Principal activities are as follows:

(a) the mortgage finance segment engages in the provision of mortgage finance and other related services; and

(b) the treasury investments segment includes securities trading, interest income on bank deposits and dividend income.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below:

	2005			
	Mortgage finance *HK$'000*	Treasury investments *HK$'000*	Corporate and other operations *HK$'000*	Total *HK$'000*
Revenue	205	73,354	–	73,559
Other income	128	73	–	201
	333	73,427	–	73,760
Segment result/profit before taxation	299	5,482	(4,546)	1,235
Taxation				–
Profit for the year				1,235
Segment assets	5,207	212,652	3,585	221,444
Segment liabilities	364	–	470	834
Other information:				
Capital additions	–	–	(12)	(12)
Depreciation	–	–	(16)	(16)
Impairment allowances for mortgage loans	(34)	–	–	(34)
Loss on disposal of plant and equipment	–	–	(38)	(38)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	2004			
	Mortgage finance *HK$'000*	Treasury investments *HK$'000*	Corporate and other operations *HK$'000*	Total *HK$'000*
Revenue	482	189,200	–	189,682
Other income	91	–	–	91
	573	189,200	–	189,773
Segment result/profit before taxation	573	17,069	(8,471)	9,171
Taxation				(886)
Profit for the year				8,285
Segment assets	3,052	213,543	4,124	220,719
Segment liabilities	522	128	694	1,344
Other information:				
Capital additions	–	–	(65)	(65)
Depreciation	–	–	(16)	(16)
Written back of allowance for bad and doubtful debts for mortgage loans	27	–	–	27
Unrealised loss on other investments in securities	–	(622)	–	(622)
Impairment loss on investment securities	–	–	(3,600)	(3,600)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the services:

	2005				
	Hong Kong	**Singapore**	**Japan**	**Other**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue and other income	**29,782**	**30,788**	**13,129**	**61**	**73,760**
Segment result/profit before taxation	**4,201**	**(2,496)**	**(428)**	**(42)**	**1,235**
Taxation					**–**
Profit for the year					**1,235**
Segment assets	**221,444**	**–**	**–**	**–**	**221,444**
Other information:					
Capital additions	**(12)**	**–**	**–**	**–**	**(12)**

	2004				
	Hong Kong	Singapore	Japan	Other	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue and other income	88,132	57,584	30,994	13,063	189,773
Segment result/profit before taxation	5,327	4,885	3,611	(4,652)	9,171
Taxation					(886)
Profit for the year					8,285
Segment assets	178,143	26,080	13,100	3,396	220,719
Other information:					
Capital additions	(65)	–	–	–	(65)

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after crediting (charging):

	2005	2004
	HK$'000	*HK$'000*
Employee benefits expense (including Directors' emoluments *(note 10)*):		
Wages and salaries	**(1,344)**	(1,859)
Retirement benefit costs *(note 28)*	**(28)**	(33)
	(1,372)	(1,892)
Depreciation	**(16)**	(16)
Auditors' remuneration	**(239)**	(170)
Loss on disposal of plant and equipment	**(38)**	–
Operating leases payments	**(832)**	(669)
Impairment allowances for mortgage loans	**(34)**	–
Written back of allowance for bad and doubtful debts for mortgage loans	**–**	27

9. TAXATION

	2005 HK$'000	2004 HK$'000
Hong Kong		
Current tax	–	–
Deferred tax: *(note 25)*		
Current year	–	886
	–	886

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. Tax losses carried forward amount to approximately HK$41,311,000.

Hong Kong Profits Tax is calculated at 17.5 per cent. (2004: 17.5 per cent.) of the estimated assessable profit for the year.

The tax charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2005 HK$'000	2004 HK$'000
Profit before taxation	**1,235**	9,171
Tax at the domestic income tax rate of 17.5 per cent. (2004: 17.5 per cent.)	**216**	1,605
Effect of different tax rates in other jurisdictions	–	630
Tax effect of income not taxable for tax purpose	**(892)**	(1,978)
Tax effect of expenses not deductible for tax purpose	**697**	682
Utilisation of tax losses previously not recognised	**(21)**	–
Others	–	(53)
Tax charge for the year	–	886

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 17 (2004: 11) Directors were as follows:

	Directors' fees	
	2005	2004
	HK$'000	*HK$'000*
Executive Directors:		
Akihiro Nagahara *(Chairman)*	**2**	–
Stephen Lo Kam Fai *(Chief Executive)*	**2**	–
Edwin Lo King Yau	**2**	–
David T. Yeh	**–**	15
Lee Jark Pui, O.B.E., J.P.	**–**	15
Jonathan Miles Foxall	**–**	15
Ng Tai Chiu	**–**	15
Non-Executive Directors:		
Ning Gaoning	**200**	100
Chan Wai Lam	**12**	15
Leon Chan Nim Leung	**156**	200
Michael Chan Kwok Shung	**6**	15
Independent Non-Executive Directors:		
Chan Bo Ching	**13**	–
Li Chak Hung	**13**	–
Yuen Wai Ho	**13**	–
Leung Nai Kong, B.B.S., J.P.	**63**	21
Tsui King Fai	**63**	20
Victor Yung Ha Kuk	**63**	20
Total emoluments	**608**	451

There were no arrangements under which a Director waived or agreed to waive any emoluments.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2004: one) were Directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2004: four) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits in kind	**518**	1,061
Retirement benefit costs	**21**	30
	539	1,091

Their emoluments were within the following band:

	2005	2004
	Number of employees	*Number of employees*
Nil – HK$1,000,000	**3**	4

12. DIVIDENDS

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

13. EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit for the year attributable to equity holders of the Company of HK$1,235,000 (2004: HK$8,285,000) and on 225,000,000 (2004: 225,000,000) ordinary shares in issue during the year.

No diluted earnings per share is presented for the years ended 31st December, 2005 and 2004 as there were no dilutive potential ordinary shares during these two years.

14. PLANT AND EQUIPMENT

	The Group and the Company Furniture and equipment *HK$'000*
COST	
At 1st January, 2004	282
Additions	65
At 31st December, 2004	347
Additions	12
Eliminated on disposals	(348)
At 31st December, 2005	11
DEPRECIATION	
At 1st January, 2004	279
Provided for the year	16
At 31st December, 2004	295
Provided for the year	16
Eliminated on disposals	(310)
At 31st December, 2005	1
CARRYING VALUES	
At 31st December, 2005	10
At 31st December, 2004	52

Furniture and equipment are depreciated on a straight-line basis at 20 per cent. to $33^1/_3$ per cent. per annum.

15. MORTGAGE LOANS

	The Group and the Company	
	2005	2004
	HK$'000	*HK$'000*
Fixed-rate loan receivable	**4,000**	–
Variable-rate loan receivables	**1,180**	3,052
	5,180	3,052
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the balance sheet date)	**4,457**	1,288
Non-current assets (receivables after 12 months from the balance sheet date)	**723**	1,764
	5,180	3,052

Fixed-rate loan receivable and variable-rate loan receivables are secured by mortgage loan properties, bearing interest at effective market interest rates.

Included in the carrying amount of loan receivables as at 31st December, 2005 is accumulated impairment allowances of HK$151,000 (Allowance for bad and doubtful debts in 2004: HK$465,000).

The aged analysis of the mortgage loans, based on payment due date, and net of allowance, is as follows:

	The Group and the Company	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**4,483**	1,070
31 – 180 days	**552**	868
181 – 365 days	**145**	250
Over 365 days	**–**	864
	5,180	3,052

The fair value of the Group's and the Company's mortgage loans, determined based on the present value of the estimated future cash flows discounted using the effective interest rate at 31st December, 2005 approximates to the carrying amount of the loans.

16. IMPAIRMENT ALLOWANCES/ALLOWANCE FOR BAD & DOUBTFUL DEBTS FOR MORTGAGE LOANS

	The Group and the Company				
	2005		2004		
	Impairment allowances		Allowance for bad & doubtful debts		
	Individual	**Collective**	Specific	General	Total
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	–	–	390	102	492
Allowance written back during the year	–	–	–	(27)	(27)
Transfer	–	–	13	(13)	–
At 1st January, 2005, as originally stated	–	–	403	62	465
Effect of application of HKAS 39	**403**	**62**	(403)	(62)	–
At 1st January, 2005, as restated	**403**	**62**	–	–	465
Allowance during the year	**–**	**34**	–	–	34
Amounts written off	**(348)**	**–**	–	–	(348)
Transfer	**91**	**(91)**	–	–	–
As 31st December, 2005	**146**	**5**	–	–	151

17. INVESTMENT SECURITIES

Investment securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investment securities were reclassified to available-for-sale financial assets (see note 2 for details).

	The Group
	HK$'000
Unlisted equity securities, at cost	7,798
Impairment loss	(7,798)
	–

18. INVESTMENTS HELD-FOR-TRADING

Investments held-for-trading as at 31st December, 2005 include:

	The Group and the Company
	HK$'000
Equity securities listed in Hong Kong	**41,495**

The fair value of the above investments held-for-trading is determined based on the quoted market bid prices available on the relevant exchange.

19. OTHER INVESTMENTS IN SECURITIES

Other investments in securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, other investments in securities were reclassified to investments held-for-trading (see note 2 for details).

	The Group	The Company
	HK$'000	*HK$'000*
Listed equity securities, at market value:		
Hong Kong	6,154	6,154
Overseas	16,652	16,652
Unlisted investment funds, at fair value	22,528	–
	45,334	22,806

20. CASH AND BANK BALANCES

The amounts comprise cash held by the Group and the Company and short-term bank deposits at market interest rates with an original maturity of three months or less. The carrying amount of these assets at 31st December, 2005 approximates to the corresponding fair value.

21. SHARE CAPITAL OF THE COMPANY

	2005 & 2004
	HK$'000
Authorised:	
300,000,000 ordinary shares of HK$1.00 each	**300,000**
Issued and fully paid:	
225,000,000 ordinary shares of HK$1.00 each	**225,000**

22. RESERVE

	The Company Accumulated losses HK$'000
At 1st January, 2004	(14,258)
Profit for the year	8,214
At 1st January, 2005	(6,044)
Profit for the year	1,694
At 31st December, 2005	(4,350)

23. INTERESTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**2**	1

Particulars of subsidiaries as at 31st December, 2005 are as follows:

Name of Company	Place of Incorporation	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company	Principal activities
Winbest Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
The Building and Loan Agency (Asia) Limited (formerly known as Goldnet Investment Limited) ("BLA (Asia)") *(Note)*	Hong Kong	HK$2	100%	Money lending

Note: On 7th December, 2005, the Group and the Company acquired 100 per cent. of the issued share capital of, a shell company, BLA (Asia) for a cash consideration of HK$30,000 with a bank balance amounted to HK1,000. The difference between the consideration and bank balance is expensed to the income statement.

24. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**7,906**	66,576
Provision for impairment loss	**(7,872)**	(44,190)
	34	22,386

The amounts due from subsidiaries are unsecured, interest-free, have no fixed repayment terms and are expected to be settled within one year.

25. DEFERRED TAXATION

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	The Group and the Company	
	2005	2004
	HK$'000	*HK$'000*
At 1st January	**3,396**	4,282
Deferred tax charged for the year *(note 9)*	**–**	(886)
At 31st December	**3,396**	3,396

Deferred tax asset has arisen from unused tax losses available for offsetting against future taxable profit.

At the balance sheet date, the Group and the Company have unused tax losses of approximately HK$41,311,000 (2004: HK$41,433,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$19,408,000 (2004: HK$19,408,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$21,903,000 (2004: HK$22,025,000) due to the unpredictability of future profit streams, and the unrecognised tax losses may be carried forward indefinitely.

26. OTHER CREDITORS AND ACCRUALS

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Other creditors and accruals	**834**	1,344

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Other creditors and accruals	**829**	1,181

Included in the Group's other creditors and accruals are other creditors of HK$583,000 (2004: HK$711,000), the aged analysis of which, based on payment due date, is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**583**	711

The carrying amount of the Group's and the Company's other creditors and accruals at 31st December, 2005 approximates to the corresponding fair value.

27. OPERATING LEASES

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**57**	56

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**22**	56

Operating lease payments represent rentals payable by the Group and the Company for certain of its office properties. Leases are negotiated for an average term of one year and rentals are fixed for an average of one year.

28. RETIREMENT BENEFIT SCHEME

The Group and the Company participate in a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group and the Company, in funds under the control of trustee.

For members of the MPF Scheme, the Group and the Company contribute 5 per cent. of relevant payroll costs to the scheme, which contribution is matched by the employee.

The total cost charged to the income statement of HK$28,000 (2004: HK$33,000) represents contributions payable to the scheme by the Group and the Company in respect of the current accounting period.

29. DISPOSAL OF SUBSIDIARIES

During the year, the Company disposed its subsidiaries, Galawin Limited, Sunshine Asia Limited, AAM Investments Limited, Goldjade Investment Limited and Smart Dragon Limited to Lippo China Resources Limited ("LCR"), a previous intermediate holding company of the Company, at an aggregate cash consideration of HK$123. There was no asset value of these subsidiaries at the date of disposal. The gain on disposal of these subsidiaries was HK$123.

During the year, these subsidiaries contributed HK$22,476,000 revenue and a loss of HK$700,000 to the Group's profit before tax from the beginning of the year to the date of disposal.

30. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company entered into the following transactions with related parties:

(A) Income and expense items:

		The Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Rental paid to a previous intermediate holding company	*(a)*	**660**	669
Commission paid to a previous fellow subsidiary	*(b)*	**276**	803
Rental paid to an intermediate holding company	*(c)*	**15**	–
Commission paid to a fellow subsidiary	*(d)*	**6**	–

30. RELATED PARTY TRANSACTIONS (continued)

Notes:

(a) On 16th December, 2002, a tenancy agreement (the "Tenancy Agreement") was entered into between the Company and Prime Power Investment Limited ("Prime Power"), a wholly-owned subsidiary of LCR which in turn had been the previous intermediate holding company of the Company until 12th September, 2005 pursuant to which Prime Power agreed to let to the Company a portion of Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 3,316 square feet for a term of two years from 1st February, 2003 to 31st January, 2005, both days inclusive, at a monthly rental of HK$55,709, exclusive of rates, service charges and all other outgoings, for office use. On 16th January, 2005, the Tenancy Agreement was renewed for another two years from 1st February, 2005 to 31st January, 2007 at a monthly rental of HK$79,500 and subsequently both parties to it agreed on 18th June, 2005 to terminate the tenancy on 18th September, 2005 before its contractual expiry date. Rental expenses are charged in accordance with market rates.

(b) On 16th March, 2005, standard trading accounts agreements were entered into between the Company (for itself and its subsidiaries) and each of Lippo Securities Limited ("Lippo Securities") and Lippo Futures Limited ("Lippo Futures"), both are wholly-owned subsidiaries of Hongkong Chinese Limited which in turn is a subsidiary of LCR. Pursuant to the above trading accounts agreements, the Company and/or its subsidiaries would trade securities and/or futures investments through trading accounts operated by Lippo Securities and Lippo Futures for a term commencing from 31st March, 2004 to 31st December, 2006 with trading commissions paid and payable to Lippo Securities and Lippo Futures in respect of trading of securities and futures based on the relevant market rates at the time of each transaction. During the year, no futures transactions were entered into in accordance with the trading accounts agreement relating to trading of futures. The standard trading accounts agreements were terminated on 1st March, 2006. Commission paid is in accordance with market rates.

(c) On 15th August, 2005, a tenancy agreement was entered into between the Company and United Asia Finance Limited ("UAF"), the intermediate holding company of the Company pursuant to which UAF and the Company agreed to lease the premises at Room 2101, 21/F., Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong at a monthly rental of HK$3,000 for the period from 15th August, 2005 to 14th August, 2006. On 19th December, 2005, another tenancy agreement was entered into between BLA (Asia), one of the wholly-owned subsidiary of the Company, and UAF whereby BLA (Asia) agreed with UAF to lease the premises at Room 2102, 21/F., Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong at a monthly rental of HK$3,000 for the period from 19th December, 2005 to 18th December, 2006. Rental expenses are charged in accordance with market rates.

(d) On 21st November, 2005, standard client agreement relating to the sale and purchase of securities was entered into between the Company and Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect non-wholly owned subsidiary of Allied Group which is the ultimate holding company of the Company. Pursuant to the above client agreement, the Company would trade securities trading and investments through a trading account operated by SHKIS with trading commissions paid and payable to SHKIS in respect of trading of securities based on the relevant market rates at the time of each transaction. Commission paid is in accordance with market rates.

30. RELATED PARTY TRANSACTIONS (continued)

(B) The Group and the Company acquired a wholly-owned subsidiary from a fellow subsidiary at a cash consideration of HK$30,000.

(C) The Group and the Company disposed of five subsidiaries to a previous intermediate holding company of the Company at an aggregate cash consideration of HK$123 (note 29).

31. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The key management of the Group comprises all Directors, details of their remuneration are disclosed in note 10. The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31st December, 2005, as extracted from the audited consolidated financial statements, is as set out below.

	2005	2004	2003	2002	2001
RESULTS	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**73,559**	189,682	74,390	90,476	74,154
Net profit (loss) attributable to equity holders of the Company	**1,235**	8,285	5,013	(16,333)	(32,116)
	HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
Earnings (loss) per share	**0.5**	3.7	2.2	(7.3)	(14.3)
ASSETS AND LIABILITIES	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**221,444**	220,719	212,595	207,707	225,808
Total liabilities	**(834)**	(1,344)	(1,505)	(1,630)	(3,398)
Net assets	**220,610**	219,375	211,090	206,077	222,410