

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, certain investments in securities are stated at fair value.

In the current year, the Group adopted SSAP 12 “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group’s accounting policies and the effect of adopting this new policy are set out below.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast the majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(d) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Furniture and fixtures are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis at an annual rate of 20%.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) **Impairment and gain or loss on sale**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) **Investments in securities**

(i) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-down or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks and bank overdraft.

(j) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. When the contributions do not fall due wholly within twelve months after the end of period in which the employees render the related service, the contributions are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior period, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that comparatives presented have been restated to conform to the changed policy.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) **Deferred taxation** *(Continued)*

As detailed in note 20 to the accounts, the Group's opening retained earning at 1 January 2003 has been reduced by HK\$94,093, which represents the unrecognised deferred tax liability for the Group. This change has resulted in an increase in the Group's deferred tax liability as at 31 December 2002 by HK\$94,093. The Group's profit for the period ended 31 December 2002 has been reduced by HK\$94,093. Similarly, the Company's opening accumulated losses at 1 January 2003 has been increased by HK\$2,532, which represents the unrecognised deferred tax liability for the Company. This change has resulted in an increase in the Company's deferred tax liability as at 31 December 2002 by HK\$2,532. The Company's loss for the period ended 31 December 2002 has been increased by HK\$2,532.

(m) **Revenue recognition**

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Gains or losses on sale of investment securities and other investments are recognised on the transfer of risks and rewards of ownership which generally coincides with the time when investments are delivered and title has passed.

(n) **Segment reporting**

In accordance with the Group's internal financial reporting the Group has adopted geographical reporting format for the segmental reporting purpose. Assets are classified based on their locations.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group principally invests in securities listed on the Stock Exchange and unlisted securities including equity securities, notes and bonds issued by corporate entities in Hong Kong and the PRC. It also extends short term loans to the investee companies.

Total revenues recognised during the year/period are as follows:

	For the year ended 31 December 2003 HK\$	For the period from 5 December 2001 to 31 December 2002 HK\$
Turnover		
Interest income from		
– bank deposits	13,984	144,157
– debt securities	392,876	23,014
– short term loans	456,723	1,445,221
Dividend income	613,518	–
	1,477,101	1,612,392
Other revenues		
Gain on sale of investments	10,545,288	26,253
Negative goodwill arising from acquisition of subsidiaries	–	212,810
	12,022,389	1,851,455

In prior period, the Group had investments in the following two geographical areas:

Hong Kong – listed and unlisted securities

PRC – unlisted equity investments and investment deposits

There were no sales between the geographical segments. During the year, the Group has disposed its direct investments in the PRC operations, and maintained its portfolio investments with interests in investee companies having operations and activities in Hong Kong, Taiwan, PRC and certain Asian countries. The Group's operations are now all located in Hong Kong and, therefore, all assets and liabilities are classified in the Hong Kong segment.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical segments

	Total assets	
	2003	2002
	HK\$	HK\$
Hong Kong	93,073,106	42,990,000
PRC	–	13,100,000
Total assets	93,073,106	56,090,000

No material income was earned or costs incurred during the year other than the Hong Kong segment. Therefore, no analysis on turnover, results and capital expenditure for each segment is presented.

3. UNREALISED (LOSS)/GAIN ON OTHER INVESTMENTS

The amount represents net unrealised (loss)/gain arising from changes in fair values of other investments during the year/period.

4. FINANCE COSTS

	For the year	For the
	ended	period from
	31 December	5 December
	2003	2001 to
	HK\$	31 December
		2002
	HK\$	HK\$
Bank overdraft	11,474	–
Short term margin loans	123,154	–
Short term loan (Note 18)	495,835	–
	630,463	–

Notes to the Accounts

5. PROFIT BEFORE TAXATION

Profit before taxation for the year/period is stated after charging the following:

	For the year ended 31 December 2003 HK\$	For the period from 5 December 2001 to 31 December 2002 HK\$
Staff costs (including directors' remuneration)	350,849	416,599
Listing fee	170,000	84,583
Share registration fee	123,913	68,864
Depreciation on owned fixed assets	4,260	1,819
Auditors' remuneration	134,100	100,000
Retirement benefit costs	3,500	12,497

There was no forfeited contribution in respect of the defined contribution plan available at the year end to reduce future contribution. There were no outstanding contributions to the plan at the year end.

Notes to the Accounts

6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

The amount of taxation charged to the consolidated profit and loss account represents:

	For the year ended 31 December 2003 HK\$	As restated For the period from 5 December 2001 to 31 December 2002 HK\$
Current taxation – Hong Kong profits tax	636,284	–
Deferred taxation relating to the origination and reversal of temporary differences	1,075,128	94,093
Deferred taxation resulting from an increase in tax rate	8,821	–
	1,720,233	94,093

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate is as follows:

	For the year ended 31 December 2003 HK\$	For the period from 5 December 2001 to 31 December 2002 HK\$
Profit before taxation	8,295,050	157,223
Calculated at a taxation rate of 17.5% (2002: 16%)	1,451,634	25,156
Income not subject to taxation	(100,319)	(57,115)
Expenses not deductible for taxation purpose	22,798	12,234
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	8,821	–
Others	337,299	113,818
	1,720,233	94,093

Notes to the Accounts

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders a loss of HK\$2,015,294 (2002: HK\$588,420) has been dealt with in the accounts of the Company.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$6,574,817 (2002: HK\$63,130).

The basic earnings per share is based on the weighted average of 61,578,082 (2002: 56,250,000) ordinary shares in issue during the year. As the Company has not issued any warrants and options during the year, the calculation of diluted earnings per share is the same as the basic earnings per share.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year/period are as follows:

	For the year ended 31 December 2003 HK\$	For the period from 5 December 2001 to 31 December 2002 HK\$
Fees	275,000	166,665

Directors' fees disclosed above include HK\$100,000 (2002: HK\$66,666) paid to independent non-executive directors.

Notes to the Accounts

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year/period include four (2002: three) directors, whose emoluments are reflected in the analysis presented in part (a). The emoluments paid to the remaining one (2002: two) former employees during the year/period are presented in the analysis below:

	For the year ended 31 December 2003 HK\$	For the period from 5 December 2001 to 31 December 2002 HK\$
Basic salaries, other allowances and benefits in kind	55,000	249,934
Contributions to retirement scheme	2,750	12,497
	57,750	262,431

The individual emoluments payable to the former employee are within the band of HK\$Nil to HK\$1,000,000. The former employee is not a director of a subsidiary within the Group nor a director of the Company and their emoluments are therefore not reflected in the analysis presented in part (a).

Notes to the Accounts

10. FIXED ASSETS

	Group & Company Furniture and fixtures HK\$
Cost	
At 1 January 2003 and 31 December 2003	21,290
Accumulated depreciation	
At 1 January 2003	1,819
Charge for the year	4,260
At 31 December 2003	6,079
Net book value	
At 31 December 2003	15,211
At 31 December 2002	19,471

11. OTHER ASSET

	Group	
	2003 HK\$	2002 HK\$
Deposit for an investment project (<i>Note</i>)	–	10,000,000

Note:

The deposit placed with a company in the period ended 31 December 2002 for future investment purposes has been disposed via the sale of a subsidiary during this year as disclosed in note 23(c).

Notes to the Accounts

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$	2002 HK\$
Investments at cost:		
Unlisted shares	31	31
Amounts due from subsidiaries	66,808,037	25,323,877
Amounts due to subsidiaries	–	(245,320)
	66,808,068	25,078,588

The amounts due from and to subsidiaries are unsecured, interest free and have no fixed repayment terms.

The following is a list of the subsidiaries at 31 December 2003:

Name	Place of incorporation	Principal activities and operation	Particulars of issued share capital	Interest held
Good Connection Traders Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%*
Excel Win Development Corporation	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%*
Hover Technologies Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%*
Jointline Investment Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%*

* Shares held directly by the Company.

In August 2003, the Group disposed its entire interests in Bright Ceder Limited and Star Track International Limited which were subsidiaries of the Group and the related details are disclosed in note 23(c). The result of these disposed subsidiaries included in the consolidated profit and loss account up to the effective date of disposal was HK\$5,451,028. The results of the corresponding period in 2002 was HK\$404,231.

Notes to the Accounts

13. INVESTMENT SECURITIES

	Group	
	2003 HK\$	2002 HK\$
Investment securities, at cost:		
Equity securities, unlisted	51,510,000	1,500
Loan to an investee company	–	3,098,500
	51,510,000	3,100,000

	Company	
	2003 HK\$	2002 HK\$
Investment securities, at cost:		
Equity securities, unlisted	–	1,500
Loan to an investee company	–	3,098,500
	–	3,100,000

Equity securities are classified as investment securities which are held for long term strategic purposes to the investee company in order to maintain good relationships with business counterparts and generate regular dividends in future years.

Details of the unlisted equity securities are as follows:

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest held	Cost 2003 HK\$	% of total assets of the Group	Net assets attributable to the Group HK\$'000
Super Plus Investments Limited	British Virgin Islands	Distribution of consumer products in Greater China	4,500 ordinary shares of US\$1 each (2002: Nil)	9% (2002: Nil)	11,250,000 (2002: Nil)	9.55% (2002: Nil)	11,426 (2002: Nil)

Notes to the Accounts

13. INVESTMENT SECURITIES (Continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest held	Cost 2003 HK\$	% of total assets of the Group	Net assets attributable to the Group HK\$'000
Tonga Group Holding Limited	British Virgin Islands	Distribution of building material and commodity products in China and Indonesia	75 ordinary shares of US\$1 each (2002: Nil)	3.75% (2002: Nil)	11,100,000 (2002: Nil)	9.42% (2002: Nil)	10,941 (2002: Nil)
Charming Sunlit Inc.	British Virgin Islands	Investment fund with participation in and access to high-end consumer products distribution network and public facilities in Guangzhou	3,250 ordinary shares of US\$1 each (2002: Nil)	6.50% (2002: Nil)	10,660,000 (2002: Nil)	9.05% (2002: Nil)	10,675 (2002: Nil)
Jetpower Finance Limited	British Virgin Islands	Investment fund with participation in and access to high-end consumer products distribution network and public facilities in Taiwan	2,500 ordinary shares of US\$1 each (2002: Nil)	5.00% (2002: Nil)	7,500,000 (2002: Nil)	6.37% (2002: Nil)	7,608 (2002: Nil)
Express Logistics Corporation	British Virgin Islands	Investment fund with participation in and access to high-end consumer products distribution network and public facilities in Shanghai and South China	5,000 ordinary shares of US\$1 each (2002: Nil)	10.00% (2002: Nil)	11,000,000 (2002: Nil)	9.34% (2002: Nil)	10,099 (2002: Nil)
Waltin (HK) Limited	Hong Kong	Chinese medicine health care center in the PRC	Nil (2002: 1,500 ordinary shares of HK\$1 each)	Nil (2002: 15%)	Nil (2002: 1,500)	Nil (2002: 5.53%)	Nil (2002: 2,208)

Notes to the Accounts

14. OTHER INVESTMENTS

	Group	
	2003 HK\$	2002 HK\$
Equity securities, at fair value		
– Listed in Hong Kong	41,316,697	15,815,006
Market value of listed equity securities	41,316,697	15,815,006

Details of other investments held are as follows:

Name of investee company	Place of incorporation	Number of shares	Market value HK\$'000	Unrealised gain/(loss) HK\$'000	% of total assets of the Group	Net assets attributable to the Group HK\$'000	Note
As at 31 December 2003							
Shares							
EganaGoldpfeil (Holdings) Limited							
Limited	Cayman Islands	10,068,931	17,923	2,776	15.22%	11,741	1
Egana Jewellery & Pearls Limited							
Limited	Cayman Islands	5,584,000	11,168	(2,438)	9.48%	8,751	2
UBA Investments Limited	Cayman Islands	36,310,000	3,631	(396)	3.08%	3,232	3
Upbest Group Limited	Cayman Islands	17,190,000	8,595	(57)	7.30%	2,279	4
			41,317	(115)			
As at 31 December 2002							
Shares							
EganaGoldpfeil (Holdings) Limited							
Limited	Cayman Islands	4,484,000	6,322	(204)	11.27%	5,183	
Prime Success International Group Limited							
Limited	Cayman Islands	22,500,000	2,408	369	4.29%	4,906	
Tonic Industries Holdings Limited							
Limited	Cayman Islands	6,899,200	1,587	330	2.83%	4,420	
Tysan Holdings Limited	Bermuda	5,150,000	798	94	1.42%	4,553	
Upbest Group Limited	Cayman Islands	1,000,000	4,700	(17)	8.38%	1,264	
			15,815	572			

Notes to the Accounts

14. OTHER INVESTMENTS (Continued)

A brief description of the business and financial information of the listed investee companies, based on their published annual or interim reports, is as follows:

Note 1: EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil”)

EganaGoldpfeil is principally engaged in design, assembly, manufacturing and distribution of timepieces, jewellery and leather products; licensing or assignment of brand names to third parties; and trading of timepiece components, jewellery and consumer electronic product.

The unaudited profit attributable to shareholders of EganaGoldpfeil for the six months ended 30 November 2003 was approximately HK\$72,966,000. As at 30 November 2003, the unaudited net asset value of EganaGoldpfeil was approximately HK\$1,326,531,000.

Note 2: Egana Jewellery & Pearls Limited (“Egana Jewel”)

Egana Jewel is principally engaged in design, manufacturing, distribution and trading of jewellery products and licensing or assignment of brand names to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces.

The unaudited profit attributable to shareholders of Egana Jewel for the six months ended 30 November 2003 was approximately HK\$40,422,000. As at 30 November 2003, the unaudited net asset value of Egana Jewel was approximately HK\$486,171,000.

Note 3: UBA Investments Limited (“UBA Investments”)

UBA Investments and its subsidiaries are principally engaged in the investments in listed and unlisted securities, including equity securities and convertible bonds.

The unaudited profit attributable to shareholders of UBA Investments for the six months ended 30 September 2003 was HK\$5,800,250. As at 30 September 2003, the unaudited net asset value of UBA Investments was HK\$94,568,438.

Note 4: Upbest Group Limited (“Upbest”)

Upbest is principally engaged in the provision of a wide range of financial services including securities broking, futures broking, margin financing, money lending, corporate finance advisory and assets management.

The unaudited profit attributable to shareholders of Upbest for the six months ended 30 September 2003 was approximately HK\$12,541,000. As at 30 September 2003, the unaudited net asset value of Upbest was approximately HK\$148,507,000. Upbest is the ultimate holding company of the Group's investment manager, Upbest Asset Management Limited.

Notes to the Accounts

15. SHORT TERM DEBT SECURITIES

Amount represents an unlisted convertible bond which permits the holder to convert the bond to the shares of the issuer at a specified date. During the year, the bond has been fully redeemed at cost.

Details of the convertible bond as at 31 December 2002 were as follows:

Name of issuer	Security	Nature & business	Principal amount HK\$'000	Maturity date	% of total asset of the Group
Chief Finance Limited	Secured	Provision of commercial financing services	10,000	18 December 2003	17.8%

16. BANK OVERDRAFT

As at 31 December 2003, the bank overdraft was secured by the Group's other investments of HK\$6,140,520 (2002: Nil).

17. MARGIN ACCOUNTS PAYABLE

As at 31 December 2003, the margin accounts payable were secured by the Group's other investments of HK\$35,176,177 (2002: Nil).

18. SHORT TERM LOAN

The short term loan was extended by Upbest Finance Company Limited ("UFC"), which is a fellow subsidiary of the Group's investment manager, Upbest Assets Management Limited ("UAM"). The loan is unsecured, repayable on demand and carries a fixed interest rate at 9% per annum.

Notes to the Accounts

19. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 31 December 2002 and 31 December 2003	500,000,000	5,000,000
	Issued and fully paid ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 5 December 2001	–	–
Issue of shares		
– to substantial shareholders	30,000,000	300,000
– to the public for subscription	30,000,000	300,000
At 31 December 2002	60,000,000	600,000
Placement of shares	12,000,000	120,000
At 31 December 2003	72,000,000	720,000

On 14 November 2003, 12,000,000 ordinary shares of HK\$0.01 each were placed to independent investors at a premium of HK\$1.09 each for financing future investments. These shares rank pari passu with the existing shares.

Notes to the Accounts

20. RESERVES

	Share premium HK\$	Group Retained earnings HK\$	Total HK\$
At 5 December 2001	–	–	–
Issue of shares			
– to substantial shareholders	29,700,000	–	29,700,000
– to the public for subscription	29,700,000	–	29,700,000
– share issue expenses	(4,997,929)	–	(4,997,929)
Profit for the period, as previously reported	–	157,223	157,223
Change in accounting policy			
– deferred taxation charge (note 1(l))	–	(94,093)	(94,093)
At 31 December 2002, as restated	54,402,071	63,130	54,465,201
	Share premium HK\$	Group Retained earnings HK\$	Total HK\$
At 1 January 2003, as previously reported	54,402,071	157,223	54,559,294
Change in accounting policy			
– provision for deferred tax liabilities (note 1(l))	–	(94,093)	(94,093)
At 1 January 2003, as restated	54,402,071	63,130	54,465,201
Placement of shares	13,080,000	–	13,080,000
Placing commission	(162,000)	–	(162,000)
Profit for the year	–	6,574,817	6,574,817
At 31 December 2003	67,320,071	6,637,947	73,958,018
Representing:			
Company and subsidiaries, at 31 December 2003	67,320,071	6,637,947	73,958,018

Notes to the Accounts

20. RESERVES (Continued)

	Share premium HK\$	Company Accumulated losses HK\$	Total HK\$
At 5 December 2001	–	–	–
Issue of shares			
– to substantial shareholders	29,700,000	–	29,700,000
– to the public for subscription	29,700,000	–	29,700,000
– share issue expenses	(4,997,929)	–	(4,997,929)
Loss for the period, as previously reported	–	(585,888)	(585,888)
Change in accounting policy			
– deferred taxation charge (note 1(l))	–	(2,532)	(2,532)
At 31 December 2002, as restated	54,402,071	(588,420)	53,813,651
	Share premium HK\$	Company Accumulated losses HK\$	Total HK\$
At 1 January 2003, as previously reported	54,402,071	(585,888)	53,816,183
Change in accounting policy			
– provision for deferred tax liabilities (note 1(l))	–	(2,532)	(2,532)
At 1 January 2003, as restated	54,402,071	(588,420)	53,813,651
Placement of shares	13,080,000	–	13,080,000
Placing commission	(162,000)	–	(162,000)
Loss for the year	–	(2,015,294)	(2,015,294)
At 31 December 2003	67,320,071	(2,603,714)	64,716,357

Note: Distributable reserves of the Company at 31 December 2003 according to the Company's Articles of Association amounted to HK\$64,716,357.

Notes to the Accounts

21. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax liabilities account is as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
At 1 January 2003/5 December 2001	94,093	–	2,532	–
Deferred taxation charged to profit and loss account	1,083,949	94,093	(2,532)	2,532
Release of deferred tax liability due to disposal of a subsidiary	(1,178,042)	–	–	–
At 31 December	–	94,093	–	2,532

The movement in deferred tax liabilities (prior to offsetting of balances within the same taxation jurisdiction) for the Group during the year/period is as follows:

Deferred tax liabilities	Accelerated tax depreciation		Others		Total	
	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2003/5 December 2001	2,532	–	91,561	–	94,093	–
Charged to profit and loss account	–	2,532	1,086,481	91,561	1,086,481	94,093
Credited to profit and loss account	(2,532)	–	–	–	(2,532)	–
Release of deferred tax liability due to disposal of a subsidiary	–	–	(1,178,042)	–	(1,178,042)	–
At 31 December	–	2,532	–	91,561	–	94,093

Notes to the Accounts

21. DEFERRED TAXATION *(Continued)*

In prior period, the deferred tax liabilities were expected to be recovered within 12 months. Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$2.7 million (2002: approximately HK\$700,000) arising from the operating losses of the Company and its subsidiaries. The tax losses can be carried forward indefinitely against future taxable income.

The movement in deferred tax liabilities (prior to offsetting of balances within the same taxation jurisdiction) for the Company during the year/period is as follows:

Deferred tax liabilities	Accelerated tax depreciation	
	2003 HK\$	2002 HK\$
At 1 January 2003/5th December 2001	2,532	–
Charged to profit and loss account	–	2,532
Credited to profit and loss account	(2,532)	–
At 31 December	–	2,532

22. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of the Group as at 31 December 2003 of HK\$74,678,018 (2002: HK\$55,159,294) and 72,000,000 (2002: 60,000,000) ordinary shares in issue as at year end.

Notes to the Accounts

23. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities during the year/period are as follows:

	For the year ended 31 December 2003	For the period from 5 December 2001 to 31 December 2002
	HK\$	HK\$
Profit before taxation	8,295,050	157,223
Interest income	(863,583)	(1,612,392)
Interest expense	630,463	–
Negative goodwill arising from the acquisition of subsidiaries	–	(212,810)
Depreciation of owned fixed assets	4,260	1,819
Release of deferred tax liability due to disposal of a subsidiary	(1,178,042)	–
Operating profit/(loss) before working capital changes	6,888,148	(1,666,160)
Decrease/(increase) in short term debt securities	10,000,000	(10,000,000)
Increase in prepayments and receivables	(55,991)	(145,000)
Increase in other investments	(25,501,691)	(15,815,006)
Increase in margin accounts payable	6,764,387	–
Increase in short term loan	7,926,239	–
Increase in creditors and accruals	661,852	930,706
Net cash inflow/(outflow) generated from operations	6,682,944	(26,695,460)
Interest paid	(630,463)	–
Net cash inflow/(outflow) from operating activities	6,052,481	(26,695,460)

Notes to the Accounts

23. CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year/period are as follows:

	Share capital including premium HK\$
As at 5 December 2001	–
Shares issued	55,002,071
As at 31 December 2002 and 1 January 2003	55,002,071
Placement of shares	13,038,000
As at 31 December 2003	68,040,071

(c) Disposal of subsidiaries:

In August 2003, the Group disposed of its entire interests in its subsidiaries, Star Track International Limited and Bright Ceder Limited, and assigned its interests in receivables from these subsidiaries to independent third parties for considerations of HK\$5,801,026 and HK\$24,941,109 respectively. The total cash received from these transactions amounted to HK\$30,742,135. The assets and liabilities of the subsidiaries disposed of are as follows:

	2003 HK\$
Other investments	21,974,425
Other asset	10,000,000
Total assets	31,974,425
Amounts due to Group companies	24,941,109
Deferred tax liabilities	1,178,042
Total liabilities	26,119,151
Net assets disposed of	5,855,274
Loss on disposal of subsidiaries	(54,248)
Consideration for disposal of subsidiaries	5,801,026
Satisfied by Cash	5,801,026

Notes to the Accounts

24. CONNECTED TRANSACTIONS

	For the year ended 31 December 2003	For the period from 5 December 2001 to 31 December 2002
	HK\$	HK\$
Investment management fees		
– Upbest Assets Management Limited (<i>Note a</i>)	886,321	471,478
Advisory fee		
– Upbest Securities Company Limited (<i>Note b</i>)	750,000	750,000
Custodian fee		
– Wing Hang Bank, Limited (<i>Note c</i>)	60,206	35,000

Note (a):

The Company signed an investment management agreement with UAM, the investment manager, for a period of three years commencing from 15 May 2002. This agreement can be terminated by either the Company or the investment manager serving not less than three month's notice in writing prior to the expiration of the three years period.

Pursuant to this agreement, the Company pays to the investment manager a monthly management fee at 1.5% of the consolidated net asset value of the Company at the agreed valuation date.

Note (b):

Pursuant to the renewed advisory agreement signed between Upbest Securities Company Limited ("USC") ("the advisor"), which is a wholly owned subsidiary of the Upbest, and the Company, the advisor agreed to provide advisory services to the Group for public relations, investor relations and media communication services for a fixed fee of HK\$750,000 per annum. The advisory agreement was expired on 31 December 2003.

Note (c):

Pursuant to a custodian agreement dated 15 May 2002 between the Company and a custodian, the custodian agrees to provide securities custodian services to the Company including the safe custody of the Group's securities and the settlement of the securities of the Group, the collection of dividends and other entitlements on behalf of the Group. The appointment of the custodian commenced on the date of commencement of trading of the Company's shares on the Stock Exchange and will continue in force until it is terminated by either party giving a written notice to the other party at any time.

The custodian is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules, but the custodian fee falls below the de-minimis threshold under Rule 14.24(5) of the Listing Rules.

Notes to the Accounts

25. RELATED PARTY TRANSACTIONS

In addition to note 24, the Group undertook the following transactions with related parties in the normal course of its business:

	For the year ended 31 December 2003	For the period from 5 December 2001 to 31 December 2002
	HK\$	HK\$
Placing commission (<i>Note a</i>)	162,000	–
Interest expenses on short term loan extended (<i>Note b</i>)	495,835	–
Brokerage commission expenses (<i>Note c</i>)	104,073	–

Note (a):

Pursuant to the placing agreement dated 30 October 2003, USC, acted as the placing agent for placing 12,000,000 shares of the Company and received a placing commission of HK\$162,000 in November 2003. USC is a fellow subsidiary of the investment manager, UAM.

Note (b):

Interest expense was paid on the short term loan extended by UFC at a fixed interest rate of 9% per annum. UFC is a fellow subsidiary of the investment manager, UAM.

Note (c):

The Group has also paid brokerage commission to USC at approximately 0.25% of the values of the transaction undertaken by USC on behalf of the Group.

Note (d):

The Group also held other investments in Upbest of HK\$8,595,000 (2002: HK\$4,700,000) as at year end. As set out in note 14, Upbest is the holding company of the investment manager, UAM.

26. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 21 April 2004.