

# Notes to the Accounts

For the Year ended 31 December 2004

## 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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost conversion except that, as disclosed in the accounting policies below, investment securities are stated at fair value.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (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 half 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 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.

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

For the Year ended 31 December 2004

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (c) Negative goodwill

Negative goodwill represents the excess of fair value of the Group's share of net assets acquired over the cost of acquisition, and is recognised in the profit and loss account immediately.

#### (d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rate used for this purpose is 33<sup>1</sup>/<sub>3</sub>%.

Major costs incurred in restoring fixed assets to its normal working condition to allow continued use are expensed as incurred.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in 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.

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.

#### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

## Notes to the Accounts

For the Year ended 31 December 2004

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (f) Investment securities

##### (i) *Investment securities*

Investment securities which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

##### (ii) *Trading securities*

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

#### (g) 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, deposits held at call with banks and bank overdraft.

## Notes to the Accounts

For the Year ended 31 December 2004

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (h) 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, 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.

#### (i) 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 in these cases are dealt with in the profit and loss account.

#### (j) Revenue recognition

Proceeds from sale of trading securities is recognised when the sale transaction is executed and completed.

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.

#### (k) Provisions

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, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## Notes to the Accounts

For the Year ended 31 December 2004

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (l) Employee benefits

##### (i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

##### (ii) *Pension obligations*

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contribution payable by the Company to the fund.

#### (m) Contingent liabilities

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 recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## Notes to the Accounts

For the Year ended 31 December 2004

### 2 TURNOVER AND REVENUE

The Group is principally engaged in the investments in listed and unlisted companies. Revenues recognised during the year are as follows:

	2004 HK\$	2003 HK\$
Turnover		
Proceeds from sale of trading securities	125,003,049	15,525,940
Other revenues		
Interest income	398	185
Dividend income from investment securities	1,016,819	182,130
	1,017,217	182,315
Total revenues	126,020,266	15,708,255

All of the Group's turnover, contribution to operating profit/(loss), assets and liabilities are attributable to the investments in listed and unlisted companies and accordingly no analysis of the Group's turnover, contribution to operating profit/(loss), assets and liabilities by principal activities is provided.

No geographical analysis is presented as all Group operations are carried out in Hong Kong.

### 3 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2004 HK\$	2003 HK\$
Crediting		
Negative goodwill recognised	369,016	–
Charging		
Auditors' remuneration	240,000	195,000
Depreciation	170,294	153,408
Loss on disposal of fixed assets	3,838	–
Staff costs, including directors' remuneration	586,076	1,104,200
Operating leases – land and buildings	740,796	894,286

## Notes to the Accounts

For the Year ended 31 December 2004

### 4 FINANCE COSTS

	2004 HK\$	2003 HK\$
Interest on bank overdraft	698,334	806,535
Interest on other loans	480,657	–
	<b>1,178,991</b>	806,535

### 5 TAXATION

Hong Kong profits tax has not been provided in the accounts as the Group has no estimated assessable profit during the year (2003: nil).

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 HK\$	2003 HK\$
Loss before taxation	<b>(16,810,024)</b>	(25,433,132)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>(2,941,754)</b>	(4,450,798)
Income not subject to taxation	<b>(178,013)</b>	(31,905)
Expenses not deductible for taxation purposes	<b>5,250</b>	8,391
Utilisation of previously unrecognised tax losses	<b>(401,233)</b>	–
Unrecognised tax losses ( <i>Note 17</i> )	<b>3,515,750</b>	4,474,312
Taxation	–	–

### 6 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$3,619,966 (2003: Loss of HK\$25,310,179).

## Notes to the Accounts

For the Year ended 31 December 2004

### 7 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's profit attributable to the shareholders of HK\$16,810,024 (2003: HK\$25,433,132).

The basic loss per share is based on the weighted average of 233,651,275 (2003: 167,101,831 being adjusted to reflect the effect of rights issue in November 2004) ordinary shares in issue during the year.

Diluted loss per share has not been presented for the year as there was no dilutive effect.

### 8 STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2004 HK\$	2003 HK\$
Wages and salaries	43,310	87,000
Pension costs – defined contribution plan	2,166	32,700
	<b>45,476</b>	119,700

The pension costs charged to the profit and loss account represent contributions paid or payable by the Group to the Mandatory Provident Fund Scheme (the "MPF Scheme").

During the year, the Group's contributions charged to the profit and loss account amounted to HK\$15,166 (2003: HK\$32,700). As at 31 December 2004, there was no contribution payable to the MPF Scheme (2003: Nil).



## Notes to the Accounts

For the Year ended 31 December 2004

### 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

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

	2004 HK\$	2003 HK\$
Fees	135,000	131,000
Other emoluments	405,600	886,200
	<b>540,600</b>	1,017,200

Directors' fees disclosed above include HK\$135,000 (2003: HK\$131,000) paid to independent non-executive directors.

All emoluments of directors fell within the emolument band of HK\$Nil to HK\$1,000,000 for the year ended 31 December 2004 and 2003.

None of the directors waived emoluments in respect of the year ended 31 December 2004 and 2003.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: four) directors whose emoluments are reflected in the analysis presented in note 9(a) above. The emoluments payable to the remaining individuals were as follows:

	2004 HK\$	2003 HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	43,310	114,000
Contributions to pension scheme	2,166	5,700
	<b>45,476</b>	119,700

## Notes to the Accounts

For the Year ended 31 December 2004

### 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(Continued)

#### (c) Share options granted to the directors of the Company

Under the share option scheme (the "Scheme") approved by the shareholders of the Company in 2003, the directors of the Company may grant options to those participants who, in the opinion of the Board, have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest. No share options were granted under the Scheme during the year.

### 10 FIXED ASSETS

	Leasehold improvements <i>HK\$</i>	Group and Company		Total <i>HK\$</i>
		Office equipment <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	
Cost				
At 1 January 2004	167,170	129,834	163,681	460,685
Additions	–	62,999	–	62,999
Disposals	–	(16,388)	–	(16,388)
<b>At 31 December 2004</b>	<b>167,170</b>	<b>176,445</b>	<b>163,681</b>	<b>507,296</b>
Accumulated depreciation				
At 1 January 2004	69,243	53,597	81,758	204,598
Charge for the year	55,668	60,119	54,507	170,294
Disposals	–	(9,550)	–	(9,550)
<b>At 31 December 2004</b>	<b>124,911</b>	<b>104,166</b>	<b>136,265</b>	<b>365,342</b>
Net book value				
<b>At 31 December 2004</b>	<b>42,259</b>	<b>72,279</b>	<b>27,416</b>	<b>141,954</b>
At 31 December 2003	97,927	76,237	81,923	256,087

## Notes to the Accounts

For the Year ended 31 December 2004

### 11 INVESTMENTS IN SUBSIDIARIES

	Company 2004 HK\$	2003 HK\$
Investments at cost – Unlisted shares	79	78
Loans to subsidiaries	20,574,394	144,390
	<b>20,574,473</b>	144,468

The loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of details of subsidiaries held by the Company at 31 December 2004:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held	
				2004	2003
Moving Target Co., Ltd.	The British Virgin Islands, limited liability company	Investment holding in Hong Kong	10 ordinary shares of US\$1 each	100% <sup>1</sup>	100% <sup>1</sup>
Vision Gate Enterprises Limited	The British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100% <sup>1</sup>	–
Anchor Talent Limited	The British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%	–

<sup>1</sup> Shares held directly by the Company

## Notes to the Accounts

For the Year ended 31 December 2004

### 12 INVESTMENT SECURITIES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Equity securities:				
Listed in Hong Kong, at market value	<b>56,753,110</b>	81,313,638	<b>56,753,110</b>	81,313,638
Unlisted in Hong Kong, at cost	<b>20,000,000</b>	–	–	–
Less: Provision for impairment loss	<b>(20,000,000)</b>	–	–	–
Total investment securities	<b>56,753,110</b>	81,313,638	<b>56,753,110</b>	81,313,638

As at 31 December 2004, the carrying amount of interests in the following companies exceeded 10% of total assets of the Group and the Company.

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
Yugang International Limited	Bermuda	Packaging business and property investment business	Ordinary shares of HK\$0.01 each	4.2%
Hennabun Management International Limited (formerly named as Hennabun Management Inc) ("HMI") (Notes)	The British Virgin Islands	Provision of brokerage and financial services	Ordinary shares of US\$0.1 each	3.0%

Notes:

During the year, the Group invested HK\$20 million to purchase 3.37% interest in HMI, a company incorporated in the British Virgin Islands with limited liability, which principally engaged in investment holding and its subsidiaries engaged in securities trading, investment holding and provision of brokerage and financial services.

## Notes to the Accounts

For the Year ended 31 December 2004

### 12 INVESTMENT SECURITIES *(Continued)*

Several other transactions/relationships with HMI, in relation to the Company's operation and investments, have been noted and are disclosed as follows:

- (a) HMI was the holding company of CU Investment Management Limited ("CUIM"), which is the investment manager of the Company, as at 31 December 2003; and is the holding company CU Corporate Finance Limited, Chung Nam Securities Limited and Radland, which are the financial advisor and securities brokers of the Company respectively, as at 31 December 2004.
- (b) Wong Ying Seung, Asiong, an independent non-executive director of the Company, is also a director of CUIHL which held 42.03% interest in HMI as at 31 December 2004.

During the year, the Group disposed all its shares in CUIHL (2003: 20,880,080 shares).

- (c) Radford Capital Investment ("Radford"), being a substantial shareholder of the Company as disclosed in the Report of the Directors, was a former subsidiary of HMI with 29% interests as at 31 December 2003. During the year, HMI disposed its interests in Radford and is not a subsidiary as at 31 December 2004. In addition, the Company was holding an investment in Radford which is included in the note of trading securities (note 13).

## Notes to the Accounts

For the Year ended 31 December 2004

### 13 TRADING SECURITIES

	Group and Company	
	2004	2003
	HK\$	HK\$
Equity securities, at market value		
Listed in Hong Kong (Notes)	<b>53,600,270</b>	30,808,536

Notes:

- (a) At 31 December 2004, the carrying amount of interests in the following listed equity securities exceeded 10% of total assets of the Group and the Company.

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
China Sci-Tech Holdings Limited ("China Sci-Tech")	Bermuda	Property investment, holding investment in trading securities and provision of brokerage and financial services	Ordinary shares of HK\$0.01 each	14.3%

- (b) The balance included investments in Heritage and Radford of HK\$1,998,500 and HK\$159,600 respectively.
- (c) Lo Ki Yan, Karen, a substantial shareholder of the Company, is also a substantial shareholder of China Sci-Tech and Heritage during the year. On 1 March 2005, Lo Ki Yan, Karen also became a director of Heritage.

### 14 PLEDGE OF ASSETS

As at 31 December 2004, margin facilities from a financial institution were granted to the Company which were secured by the Company's investment and trading securities. As at 31 December 2004, a total amount of HK\$3,876,000 has been utilised against these facilities.

## Notes to the Accounts

For the Year ended 31 December 2004

### 15 SHARE CAPITAL

	2004 HK\$	2003 HK\$
Authorised: 400,000,000 (2003: 400,000,000) ordinary shares of HK\$0.1 each	<b>40,000,000</b>	40,000,000
Issued and fully paid: 384,000,005 (2003: 200,000,004) ordinary shares of HK\$0.1 each	<b>38,400,000</b>	20,000,000

A summary of movement of the Company's issued share capital is as follows:

	<b>Ordinary shares of HK\$0.1 each</b>	
	<i>No. of shares</i>	<i>HK\$</i>
At 1 January 2003	200,000,004	20,000,000
Issue of shares	–	–
At 31 December 2003 and 1 January 2004	200,000,004	20,000,000
Placements of new shares ( <i>Note (a)</i> )	88,000,000	8,800,000
Rights issue ( <i>Note (b)</i> )	96,000,001	9,600,000
<b>At 31 December 2004</b>	<b>384,000,005</b>	<b>38,400,000</b>

Notes:

- (a) Pursuant to the two placement agreements dated 18 December 2003 and 27 February 2004, 40,000,000 and 48,000,000 new ordinary shares of HK\$0.1 each were allotted and issued for cash to independent third parties at a price of HK\$0.148 and HK\$0.20 per share on 8 January 2004 and 30 March 2004, respectively, for total cash considerations of HK\$15,520,000 before share issue expenses.
- (b) 96,000,001 ordinary shares (the "Rights Shares") were issued at a price of HK\$0.14 per rights share on the basis of one rights share for every three ordinary shares held on 24 November 2004 for total cash considerations of approximately HK\$13,440,000 before share issue expenses.

## Notes to the Accounts

For the Year ended 31 December 2004

### 16 RESERVES

#### (a) Group

	Share premium HK\$	Investment revaluation reserve HK\$	Retained earnings/ (Accumulated losses) HK\$	Total HK\$
At 1 January 2003	74,031,922	23,090,522	7,419,860	104,542,304
Deficit on revaluation of investment securities	–	(1,331,575)	–	(1,331,575)
Loss for the year	–	–	(25,433,132)	(25,433,132)
At 31 December 2003	74,031,922	21,758,947	(18,013,272)	77,777,597
At 1 January 2004	74,031,922	21,758,947	(18,013,272)	77,777,597
Deficit on revaluation of investment securities	–	(1,756,620)	–	(1,756,620)
Loss for the year	–	–	(16,810,024)	(16,810,024)
Issues of shares	10,560,000	–	–	10,560,000
Share issue expenses	(1,256,479)	–	–	(1,256,479)
<b>At 31 December 2004</b>	<b>83,335,443</b>	<b>20,002,327</b>	<b>(34,823,296)</b>	<b>68,514,474</b>



## Notes to the Accounts

For the Year ended 31 December 2004

### 16 RESERVES (Continued)

#### (b) Company

	Share premium HK\$	Investment revaluation reserve HK\$	Retained earnings/ (Accumulated losses) HK\$	Total HK\$
At 1 January 2003	74,031,922	23,090,522	7,441,375	104,563,819
Deficit on revaluation of investment securities	–	(1,331,575)	–	(1,331,575)
Loss for the year	–	–	(25,310,179)	(25,310,179)
At 31 December 2003	74,031,922	21,758,947	(17,868,804)	77,922,065
At 1 January 2004	74,031,922	21,758,947	(17,868,804)	77,922,065
Deficit on revaluation of investment securities	–	(1,756,620)	–	(1,756,620)
Profit for the year	–	–	3,619,966	3,619,966
Issues of shares	10,560,000	–	–	10,560,000
Share issue expenses	(1,256,479)	–	–	(1,256,479)
<b>At 31 December 2004</b>	<b>83,335,443</b>	<b>20,002,327</b>	<b>(14,248,838)</b>	<b>89,088,932</b>

The Company had a distributable reserve of HK\$69,086,605 as at 31 December 2004 (2003: HK\$56,163,118), represented by the sum of share premium and retained earnings/(accumulated losses) of the Company. Under the Companies Law of the Cayman Islands, share premium of the Company is distributable to the shareholders, which is subject to a solvency test.

### 17 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has estimated unrecognised tax losses of HK\$31,611,322 (2003: HK\$28,095,572) to carry forward against future taxable income. These estimated tax losses have not been accounted for in the accounts due to uncertainty on their future realisation.

## Notes to the Accounts

For the Year ended 31 December 2004

### 18 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating profit/(loss) to net cash outflow generated from operations

	2004 HK\$	2003 HK\$
Operating loss	(15,631,033)	(24,626,597)
Depreciation	170,294	153,408
Loss on disposals of fixed assets	3,838	–
Unrealised (gain)/loss on trading securities	(14,787,456)	27,038,224
Impairment loss of investment securities	20,000,000	–
Interest income	(398)	(185)
Dividend income	(1,016,819)	(182,130)
Negative goodwill	(369,016)	–
Operating (loss)/profit before working capital changes	(11,630,590)	2,382,720
Decrease/(Increase) in trading securities	1,364,722	(8,059,260)
Decrease in deposits, prepayments and other receivables	84,553	1,625,977
Increase/(decrease) in sundry payables and accruals	4,498,340	(265,778)
Net cash outflow generated from operations	(5,682,975)	(4,316,341)

#### (b) Analysis of changes in financing during the year

	Share capital including premium	
	2004 HK\$	2003 HK\$
At 1 January	94,031,922	94,031,922
Net cash inflow from rights issue and placements of shares	27,703,521	–
At 31 December	121,735,443	94,031,922

## Notes to the Accounts

For the Year ended 31 December 2004

### 18 CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (c) Purchases of subsidiaries

	2004 HK\$
Net assets acquired	
Trading securities	9,369,016
Negative goodwill	(369,016)
	9,000,000
Satisfied by cash	9,000,000

The subsidiaries acquired during the year contributed HK\$8,999,984 to the Group's net operating cash flow.

Analysis of the net outflow in respect of the purchases of subsidiaries:

	2004 HK\$
Cash consideration	9,000,000
Bank balances and cash in hand acquired	(16)
Net cash outflow in respect of purchases of subsidiaries	8,999,984

### 19 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 HK\$	2003 HK\$
Not later than one year	740,796	620,796
Later than one year and not later than five years	679,718	13,864
	1,420,514	634,660

## Notes to the Accounts

For the Year ended 31 December 2004

### 20 RELATED PARTY TRANSACTIONS

Except as disclosed in note 12 and elsewhere in these accounts, significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Note	2004 HK\$	2003 HK\$
Investment management fee paid to a related company	(a)	995,386	1,105,139
Interest expense paid to a related company	(b)	64,390	—

Notes:

- (a) Pursuant to an investment management agreement (the "Agreement") dated 5 November 2003 between the Company and CU Investment Management Limited ("CUIM"), CUIM has been providing the Group with investment management services from 5 November 2003 to 4 November 2004. Under this arrangement, CUIM was entitled to a monthly management fee payable in advance at 1% per annum of the net asset value of the Group at the end of preceding month on the basis of actual number of days in the relevant calendar month over a year of 365 days. The Agreement was expired on 4th November 2004 and a new agreement was entered on 5 November 2004. Under this new agreement, a flat rate of HK\$50,000 is charged on a monthly basis.

Dr. Pang Shuen Wai, Nichols, an executive director of the Company, is a director of CUIM, which was a former subsidiary of HMI (see note 12).

- (b) A loan of HK\$5 million has been drawn from Double Smart Finance Limited ("Double Smart"), a subsidiary of Heritage, during the year at an interest of prime plus 2% per annum. The whole amount was fully settled before the year end with a total interest expense of HK\$64,390.

### 21 SUBSEQUENT EVENTS

#### (i) Issue of new shares

On 10 January 2005, the Company entered into an agreement with an independent third party (the "Subscriber") to issue 15,998,000 ordinary shares of HK\$0.10 each at HK\$0.14 per share, raising net proceeds of approximately HK\$2.18 million which will be utilised for working capital purpose. The subscription shares were subsequently allotted and issued to the Subscriber on 28 January 2005.

## Notes to the Accounts

For the Year ended 31 December 2004

### 21 SUBSEQUENT EVENTS *(Continued)*

#### (ii) Proposed increase in authorised share capital, proposed capital reorganisation and refreshment of share option mandate limit

On 11 January 2005, the Company announced that it intended to put forward the following proposals:

- (a) to increase the authorised share capital to HK\$500,000,000 by creation of ordinary shares of HK\$0.01 each in the capital of the Company as shall be necessary;
- (b) to reduce the issued share capital of the Company by cancelling the issued and paid-up capital to the extent of HK\$0.09 on each issued share thereby reducing the nominal value of each issued share from HK\$0.10 to HK\$0.01;
- (c) to subdivide every unissued share into 10 new shares; and
- (d) to refresh the share option scheme mandate limit.

The proposals were subsequently approved by the shareholders of the Company in an extraordinary general meeting held on 28th February 2005. The proposed capital reorganisation, however, is subject to the fulfilment of the following conditions:

- (a) Compliance with any conditions which the Grand Court of the Cayman Islands may impose;
- (b) The confirmation of the capital reduction by the Grand Court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the court order and the minute containing the particulars required under the Companies Laws; and
- (c) The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new shares.

#### (iii) Additional investment of HK\$3,000,000 made to HMI

On 14 January 2005, the Group further invested HK\$3,000,000 to purchase 4,000,000 additional shares of HMI, at a price of HK\$0.75 per share.

### 22 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 18 March 2005.