



Notes to the Financial Statements

For the year ended 31st December 2004

1. GENERAL

The Company is a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in investment holding and securities trading.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004.

The Group has considered these new HKFRSs but does not expect that the issuance of these HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of 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 significant intercompany transactions and balances between group companies are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Notes to the Financial Statements

For the year ended 31st December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Sales proceeds of investments in securities are recognised on a trade date basis.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

Dividend income from investments in securities is recognised when the Group's rights to receive payment have been established.

Borrowing costs

All borrowing costs are recognised as expenses in the year in which they are incurred.

Retirement benefit schemes

The retirement benefit costs charged to the income statement represent the Group's contributions payable in respect of the current year to the retirement funds scheme.

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 net 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 income statement items that are never taxable or deductible.

Notes to the Financial Statements

For the year ended 31st December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable the taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative 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 recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is 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 the 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 year when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognized impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates:

Leasehold improvement	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicle	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31st December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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. 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 that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in debt securities/securities

Investments in debt and equity securities held for an identified long-term or strategic purpose are stated at cost less provision for impairment in value. Results of investments are accounted for to the extent of dividend and interest income.

Investments in debt securities/securities are recognised on a trade-date basis and are initially measured at cost.

All investment other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For non-trading securities, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31st December 2004

4. TURNOVER

The Group is principally engaged in the investment holding and security trading. An analysis of turnover is as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Proceeds from sale of investments in securities	153,036,629	53,820,898
Dividend income from investments in securities	1,048,737	1,087,068
	<u>154,085,366</u>	<u>54,907,966</u>

5. OTHER OPERATING INCOME

Included in other operating income are as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Other interest income	105,619	550,603
Sundry income	47,860	–
	<u>153,479</u>	<u>550,603</u>

6. SEGMENT INFORMATION

The Group is principally engaged in investment holding and securities trading mostly in Hong Kong for the Year and hence no segment information is presented.

Notes to the Financial Statements

For the year ended 31st December 2004

7. LOSS FROM OPERATIONS

	THE GROUP	
	2004	2003
	HK\$	HK\$
Loss from operations has been arrived at after charging and (crediting):		
Auditors' remuneration	181,200	125,000
Depreciation of property, plant and equipment	114,527	98,891
Loss on disposal of property, plant and equipment	107,782	–
Operating lease rentals in respect of rented premises	270,288	326,598
Net unrealised holding loss on investments in unlisted securities	37,961,905	–
Staff costs		
Wages and salaries	1,760,193	1,753,100
Pension costs	47,365	57,490
Net unrealised holding gain on investments in listed securities	<u>(25,207,137)</u>	<u>(13,334,365)</u>

8. FINANCE COSTS

	THE GROUP	
	2004	2003
	HK\$	HK\$
Interest on borrowings wholly repayable within five years	<u>205,757</u>	<u>130,468</u>

Notes to the Financial Statements

For the year ended 31st December 2004

9. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2004	2003
	HK\$	HK\$
Fees		
Executive directors	–	–
Independent non-executive directors	356,891	240,000
Other emoluments of executive directors		
Management remuneration	807,489	684,100
Contributions to pension schemes	24,800	23,800
Total emoluments	<u>1,189,180</u>	<u>947,900</u>

The aggregate emoluments of each of the directors during the Year were within the emoluments band ranging from HK\$ nil to HK\$1,000,000.

During the Year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director had waived any emoluments during the Year.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining two individuals were as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Basic salaries and other benefits	594,000	772,190
Contributions to pension schemes	22,800	33,010
Total emoluments	<u>616,800</u>	<u>805,200</u>

The aggregate emoluments of each of the employees during the Year were within the emoluments band ranging from HK\$ nil to HK\$1,000,000.

Notes to the Financial Statements

For the year ended 31st December 2004

11. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit for the Year.

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

The taxation for the Year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2004	2003
	HK\$	HK\$
Loss before taxation	(28,435,675)	(1,386,612)
Tax at applicable rate	(4,976,243)	(242,657)
Tax effect of non-deductible expenses	7,610,970	(231)
Tax effect of non-taxable revenues	(4,654,704)	(2,333,514)
Tax effect on temporary differences not recognised	(795,340)	(33,923)
Tax effect of tax losses not recognised	2,815,317	2,610,325
	<u> </u>	<u> </u>
Tax credit for the year	<u> </u>	<u> </u>

At the balance sheet date, the Group has unused estimated tax losses of HK\$30,860,000 (2003: HK\$19,320,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

12. DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2003: nil).

13. BASIC LOSS PER SHARE

The calculation of basic loss per share for the Year is based on the loss for the Year of HK\$28,435,675 (2003: HK\$1,386,612) and on the weighted average number of 1,378,860,710 (2003: 1,018,862,137) shares in issue during the Year.

Notes to the Financial Statements

For the year ended 31st December 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Office equipment <i>HK\$</i>	Motor Vehicle <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP AND THE COMPANY					
COST					
At 1st January 2004	32,990	12,240	60,472	392,914	498,616
Additions	–	–	–	473,664	473,664
Disposals	–	–	–	(392,914)	(392,914)
At 31st December 2004	32,990	12,240	60,472	473,664	579,366
DEPRECIATION AND IMPAIRMENT					
At 1st January 2004	13,746	5,304	16,858	78,582	114,490
Charge for the year	6,598	2,448	12,094	93,387	114,527
Write back on disposals	–	–	–	(85,131)	(85,131)
At 31st December 2004	20,344	7,752	28,952	86,838	143,886
NET BOOK VALUE					
At 31st December 2004	12,646	4,488	31,520	386,826	435,480
At 31st December 2003	19,244	6,936	43,614	314,332	384,126

Notes to the Financial Statements

For the year ended 31st December 2004

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$	2003 HK\$
Overseas unlisted shares, at cost	10,000,039	31
Less: Impairment loss	(10,000,039)	(31)
	–	–
Amount due from subsidiaries less provision	172,071,833	140,742,632
	172,071,833	140,742,632

Details of the subsidiaries are set out as follows:

Name of subsidiary	Place of incorporation	Paid up issued/ registered ordinary share capital US\$	Percentage of equity attributable to the Company		Principal activities and place of operation
			Direct %	Indirect %	
Winning Horsee Limited	British Virgin Islands	1	100	–	Security trading in Hong Kong
Fortuneway Limited	British Virgin Islands	1	100	–	Investment holdings
Sunluck Investments Limited	British Virgin Islands	1	100	–	Investment holdings
Wellsmart Limited	British Virgin Islands	1	100	–	Dormant
Next Method Limited	British Virgin Islands	1	100	–	Investment holdings
Win-Win Business Limited	British Virgin Islands	1	100	–	Dormant
Bio Gateway Limited	British Virgin Islands	1	–	100	Investment holdings
Winning Point Limited	British Virgin Islands	1	–	100	Investment holdings

Notes to the Financial Statements

For the year ended 31st December 2004

16. INVESTMENTS IN DEBT SECURITIES/SECURITIES

	THE GROUP	
	2004	2003
	HK\$	HK\$
Equity securities		
Listed	157,056,248	126,778,991
Unlisted	4,704,000	–
	<u>161,760,248</u>	<u>126,778,991</u>
Debt securities		
Listed	–	–
Unlisted	–	19,017,640
	<u>–</u>	<u>19,017,640</u>
Total:		
Listed, Hong Kong	157,056,248	126,778,991
Unlisted	4,704,000	19,017,640
	<u>161,760,248</u>	<u>145,796,631</u>
Market value of listed securities as at 31st December	<u>157,056,248</u>	<u>126,778,991</u>
Carrying amount analysed for reporting purposes		
Current	161,760,248	130,796,631
Non-current	–	15,000,000
	<u>161,760,248</u>	<u>145,796,631</u>

Notes to the Financial Statements

For the year ended 31st December 2004

16. INVESTMENTS IN DEBT SECURITIES/SECURITIES (continued)

Particulars of the 10 largest investments as at 31st December 2004 are as follows:

Name of investee company	Number of shares held	Proportion of investee's capital owned	Cost HK\$	Market value HK\$	Unrealised holding gain/(loss) arising on revaluation	Dividend received/receivable during the year
					HK\$	HK\$
(a) Asia Standard Hotel Group Limited	100,800,000	2.00%	20,230,668	36,288,000	16,057,332	-
(b) 139 Holdings Limited	927,820,000	9.94%	34,601,007	25,978,960	(8,622,047)	-
(c) China United International Holdings Limited	105,983,363	7.74%	36,489,080	25,118,057	(11,371,023)	-
(d) China Sci-Tech Holdings Limited	623,500,000	4.90%	18,786,396	19,328,500	542,104	-
(e) Yugang International Limited	122,640,000	1.28%	3,728,078	15,330,000	11,601,922	259,932
(f) Wonson International Holdings Limited	341,000,000	4.99%	20,532,285	14,663,000	(5,869,285)	-
(g) China Strategic Holdings Limited	16,340,000	1.85%	1,639,719	8,987,000	7,347,281	-
(h) Y.T. Realty Group Limited	9,256,000	1.16%	4,179,951	7,219,680	3,039,729	138,840
(i) Unity Investments Holdings Limited	33,878,666	8.82%	6,954,507	2,778,051	(4,176,456)	-
(j) Silver Grant International Industries Limited	350,000	0.02%	1,483,689	1,365,000	(118,689)	-

A brief description of the business and financial information of the listed investee companies which represents a significant proportion of the Group's assets, based on their latest published annual reports is as follows:

- a) Asia Standard Hotel Group Limited ("Asia Standard Hotel") was incorporated in Bermuda and principally engaged in hotel, catering services and travel agency operations.

For the year ended 31st March 2004, the audited consolidated net loss attributable to shareholders of Asia Standard Hotel was HK\$11,960,000 and the basic loss per share was HK0.24 cents. As at 31st March 2004, its audited consolidated net asset value was HK\$2,006,442,000.

Notes to the Financial Statements

For the year ended 31st December 2004

16. INVESTMENTS IN DEBT SECURITIES/SECURITIES (continued)

- b) 139 Holdings Limited ("139 Holdings") was incorporated in Bermuda and principally engaged in (i) investment holding; and (ii) manufacture and trading of car audio products.

For the year ended 31st March 2004, the audited consolidated profit from ordinary activities attributable to shareholders of 139 Holdings was HK\$1,204,000 and the basic earnings per share was HK0.01 cents. As at 31st March 2004, its audited consolidated net asset value was approximately HK\$228,385,000.

- c) China United International Holdings Limited ("China United") was incorporated in Hong Kong and principally engaged in (i) property related investments; (ii) investment in securities; and (iii) provision of brokerage and financial services.

For the year ended 31st December 2003, the audited consolidated loss from ordinary activities attributable to shareholders of China United was HK\$33,739,000 and the basic loss per share was HK9 cents. As at 31st December 2003, its audited consolidated net asset value was HK\$303,782,000.

- d) China Sci-Tech Holdings Limited ("Sci-Tech") was incorporated in the Cayman Islands and principally engaged in (i) investment holding; (ii) secretarial services; (iii) securities investment; and (iv) property investment.

For the year ended 31st March 2004, the audited consolidated loss from ordinary activities attributable to shareholders of Sci-Tech was HK\$60,534,000 and the basic loss per share was HK0.88 cents. As at 31st March 2004, its audited consolidated net asset value was HK\$107,523,000.

- e) Yugang International Limited ("Yugang") was incorporated in Bermuda and principally engaged in (i) packaging business; (ii) property investment business; (iii) infrastructure business; and (iv) treasury investment.

For the year ended 31st December 2004, the audited consolidated profit from ordinary activities attributable to shareholders of Yugang was HK\$227,416,000 and the basic earnings per share was HK2.69 cents. As at 31st December 2004, its audited consolidated net asset value was HK\$2,011,341,000.

Notes to the Financial Statements

For the year ended 31st December 2004

16. INVESTMENTS IN DEBT SECURITIES/SECURITIES (continued)

- f) Wonson International Holdings Limited ("Wonson") was incorporated in Bermuda and principally engaged in (i) investment holding; (ii) developing and trading of communication equipment; (iii) metals trading; (iv) provision of marketing consultancy services; and (v) securities investment.

For the year ended 31st December 2003, the audited consolidated loss attributable to shareholders of Wonson was HK\$199,424,000 and the basic loss per share was HK2.9 cents. As at 31st December 2003, its audited consolidated net asset value was HK\$54,708,000.

- g) China Strategic Holdings Limited ("China Strategic") was incorporated in Hong Kong and principally engaged in (i) investment holding; (ii) manufacture of cement; (iii) hotel operation; (iv) property development; (v) manufacture of tires; (vi) production of flour, monosodium glutamate and related food products; (vii) construction and operation of toll highway; (viii) development, holding and trading of properties; and (ix) manufacture and trading of Chinese and western pharmaceutical products.

For the year ended 31st December 2003, the audited consolidated loss attributable to shareholders of China Strategic was HK\$189,528,000 and the basic loss per share was HK23 cents. As at 31st December 2003, its audited consolidated net asset value was HK\$1,533,380,000.

- h) Y.T. Realty Group Limited ("Y.T. Realty") was incorporated in Bermuda and principally engaged in (i) property investment; and (ii) property trading and investment holding.

For the year ended 31st December 2004, the audited consolidated profit from ordinary activities attributable to shareholders of Y.T. Realty was HK\$102,886,000 and the earnings per share was HK12.9 cents. As at 31st December 2004, its audited consolidated net asset value was HK\$1,961,842,000.

- i) Unity Investments Holdings Limited ("Unity") was incorporated in Cayman Islands and principally engaged in investment holdings.

For the year ended 31st December 2004, the audited consolidated loss from ordinary activities attributable to shareholders of Unity was HK\$16,810,024 and the basic loss per share was HK7.19 cents. As at 31st December 2004, its audited consolidated net asset value was HK\$106,914,474.

Notes to the Financial Statements

For the year ended 31st December 2004

16. INVESTMENTS IN DEBT SECURITIES/SECURITIES (continued)

- j) Silver Grant International Industries Limited ("Silver") was incorporated in Hong Kong and principally engaged in (i) property and other investments; and (ii) security trading.

For the year ended 31st December 2003, the audited consolidated profit attributable to shareholders of Silver Grant was HK\$182,816,000 and the basic earnings per share was HK13.9 cents. As at 31st December 2003, its audited consolidated net asset value was HK\$2,239,018,000.

17. SHARE CAPITAL

	2004 HK\$	2003 HK\$
Authorised share capital:		
5,000,000,000 shares of HK\$0.02 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
	Number of shares of HK\$0.02 each	HK\$
At 31st December 2002 and 1st January 2003	1,020,000,000	20,400,000
Repurchase of shares	<u>(8,440,000)</u>	<u>(168,800)</u>
At 31st December 2003 and 1st January 2004	1,011,560,000	20,231,200
Issue of shares by exercising the share options	80,000,000	1,600,000
Issue of shares by placing and open offer	<u>1,173,230,000</u>	<u>23,464,600</u>
At 31st December 2004	<u>2,264,790,000</u>	<u>45,295,800</u>

Notes to the Financial Statements

For the year ended 31st December 2004

17. SHARE CAPITAL (continued)

In 2003, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of shares	Price per share		Aggregate consideration
		Highest	Lowest	paid (before expenses)
		HK\$	HK\$	HK\$
7th November 2003	2,040,000	0.196	–	399,840
14th November 2003	6,060,000	0.154	0.151	927,180
26th November 2003	340,000	0.078	–	26,520
	<u>8,440,000</u>			<u>1,353,540</u>

On 12th May 2003, a resolution was passed by the shareholders to authorise the Company to repurchase its own shares not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company within the relevant period.

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18. RESERVES THE GROUP

	Share premium <i>HK\$</i>	Capital redemption reserves <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 31st December 2002 and 1st January 2003	162,931,990	–	(39,815,622)	123,116,368
Repurchase of shares during November 2003	(1,358,577)	168,800	–	(1,189,777)
Loss for the year	–	–	(1,386,612)	(1,386,612)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003 and 1st January 2004	161,573,413	168,800	(41,202,234)	120,539,979
Issue of shares by exercising the share options	2,400,000	–	–	2,400,000
Issue of shares by placing and open offer	22,183,000	–	–	22,183,000
Loss for the year	–	–	(28,435,675)	(28,435,675)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2004	<u>186,156,413</u>	<u>168,800</u>	<u>(69,637,909)</u>	<u>116,687,304</u>

Notes to the Financial Statements

For the year ended 31st December 2004

18. RESERVES (continued)

THE COMPANY

	Share premium <i>HK\$</i>	Capital redemption reserves <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 31st December 2002 and 1st January 2003	162,931,990	–	(39,815,622)	123,116,368
Repurchase of shares during November 2003	(1,358,577)	168,800	–	(1,189,777)
Loss for the year	–	–	(1,386,612)	(1,386,612)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003 and 1st January 2004	161,573,413	168,800	(41,202,234)	120,539,979
Issue of shares by exercising the share options	2,400,000	–	–	2,400,000
Issue of shares by placing and open offer	22,183,000	–	–	22,183,000
Loss for the year	–	–	(17,938,071)	(17,938,071)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2004	<u>186,156,413</u>	<u>168,800</u>	<u>(59,140,305)</u>	<u>127,184,908</u>

At 31st December 2004, the Company's reserves available for cash distribution amounted to HK\$127,184,908(2003: HK\$120,539,979). Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Notes to the Financial Statements

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19. ACQUISITION OF A SUBSIDIARY

On 9th July 2004, the Group acquired 100% of the issued share capital of Winning Point Limited for consideration of HK\$2,000,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of negative goodwill as a result of the acquisition was HK\$21,037.

	2004
	HK\$
NET ASSETS ACQUIRED	
Trade and other receivables	849,165
Investments in securities	1,171,872
	<hr/>
	2,021,037
Negative Goodwill	(21,037)
	<hr/>
	<u>2,000,000</u>
Satisfied by:	
Cash	2,000,000
	<hr/>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration	<u>2,000,000</u>

The subsidiary acquired during the year contributed HK\$1,056,165 and HK\$102,809 to the Group's turnover and the Group's loss from operations respectively.

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20. COMMITMENTS

- (i) At the balance sheet date, the Group had outstanding minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2004	2003
	HK\$	HK\$
Within one year	270,288	270,288
In the second to fifth years inclusive	225,240	495,528
	495,528	765,816

Operating leases are negotiated and payment are fixed for an average of 3 years. The Company had no operating lease commitment at the balance sheet date (2003: nil).

- (ii) Pursuant to the investment management agreement dated 3rd November 2003 made between CU Investment Management Limited (the "Investment Manager") and the Company, the Company will pay to the Investment Manager an investment management fee for the three years payable monthly in HK Dollars in advance at 1% per annum of the net asset value of the Company as at the day immediately preceding the last dealing day of the Stock Exchange in each calendar month or such other dealing day as considered appropriate by the Board of Directors, and for the purpose of calculating the net asset value of the Company, on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The investment management fee is payable on or before the fifth day in each calendar month.

21. PLEDGE OF ASSETS

At the balance sheet date, the Group's investments in securities with an aggregate net book value of HK\$144,543,248 (2003: HK\$121,508,631) were pledged to two broker firms to secure margin financing provided to the Company. Further details are set out in note 23.

22. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

Notes to the Financial Statements

For the year ended 31st December 2004

23. RELATED PARTY TRANSACTIONS

The Group had the following related party transactions during the Year which were carried out in the normal course of the Group's business:

Name of related party	Nature of transaction	2004 HK\$	2003 HK\$
Chung Nam Securities Limited (Note a, f)	Interest expenses	45,300	123,147
	Brokerage fee	392,661	230,076
Radland International Limited (Note a, f)	Interest expenses	2,735	2,061
CU Corporate Finance Limited (Note b, f)	Investment advisory fee	30,000	120,000
CU Investment (Holdings) Limited (Note c)	Administrator expenses	–	841,200
CU Investment Management Limited (Note d)	Investment management fee	1,718,602	223,019
	Research consultant fee	–	1,348,897
Pacific Kingdom Investments Limited (Note e)	Rental expenses	–	281,500

Notes to the Financial Statements

For the year ended 31st December 2004

23. RELATED PARTY TRANSACTIONS *(continued)*

- (a) The Group had utilised the services of each of Chung Nam Securities Limited ("CNSL") and Radland International Limited ("Radland") through the opening of margin trading accounts with CNSL and Radland to deal in securities of listed companies in accordance with the investment objective and policies of the Group. The Group had entered into margin financing facilities arrangement with CNSL and Radland to finance investments in accordance with the investment objective and policies of the Group. As a result of the aforesaid transactions, the Group paid to CNSL and Radland brokerage fees totalling HK\$392,661 (2003: HK\$230,076) and HK\$nil (2003: HK\$nil) respectively and net interest to CNSL and Radland on margin facilities amounted to HK\$45,300 (2003: HK\$123,147) and HK\$2,735 (2003: HK\$2,061) respectively in respect of the margin trading accounts during the year.

As at the balance sheet date, securities of the Group with aggregate net book value of HK\$140,580,748 (2003: HK\$109,047,101) and HK\$3,962,500 (2003: HK\$12,461,530) were pledged to CNSL and Radland respectively for the margin financing facilities granted.

- (b) Investment advisory fee were paid to CU Corporate Finance Limited for preparation of announcements of and providing advisory services to the Group in compliance with the Listing Rules respectively.
- (c) Pursuant to the administrative services agreement made between CU Investment (Holdings) Limited ("the Service Limited") and the Company on 11th February 2002, the Service Limited agreed to provide general administrative services including accounting, secretarial, personnel and administrative services to the Company for a term from 28th February 2002 to and including 31st December 2004 at an initial monthly fee of HK\$140,200. In July 2003, this administrative services agreement was terminated.
- (d) Pursuant to the investment management agreement entered into between CU Investment Management Limited ("CUIM") and the Company dated 3rd November, 2003, CUIM was appointed as the investment manager of the Company for three years and would receive an annual fee of 1% of the net asset value of the Company payable monthly in advance.

Research consultant fee was paid monthly to CUIM for providing research reports to the Company and the Company's Investment Manager on investment opportunities. This research consultant agreement was terminated on 2nd November 2003.

Notes to the Financial Statements

For the year ended 31st December 2004

23. RELATED PARTY TRANSACTIONS (continued)

- (e) On 11th February 2002, the Group entered into a tenancy agreement with Pacific Kingdom Investments Limited ("Pacific Kingdom") for a term of two years commencing from 1st January 2002 at a monthly rent of HK\$28,155. This tenancy agreement was terminated in October 2003. The Group renewed a tenancy agreement with Pacific Kingdom for a term of two years commencing from 1st November 2003 at a monthly rent of HK\$22,524.

Pacific Kingdom was an indirectly wholly-owned subsidiary of China United International Holdings Limited ("CUIHL") which is listed on the Stock Exchange. CUIHL has been the controlling shareholder of Hennabun Management Inc ("HMI"). Since HMI was a former substantial shareholder of the Company, the transaction between Pacific Kingdom and the Company constituted a connected transaction under the Listing Rules until Pacific Kingdom was sold by CUIHL in October 2003.

- (f) CNSL, Radland, CU Corporate Finance Limited and CU Investment (Holdings) Limited were the wholly owned subsidiaries of HMI, the former substantial shareholder of the Company. Therefore, the transactions between CNSL, Radland, CU Corporate Finance Limited constituted connected transactions under the Listing Rules until CUIM was sold by HMI on 8th June, 2004.
- (g) On 7th July 2004, the Group entered into a sale and purchase agreement with an independent third party Ho to acquire the entire issued share capital of Winning Point Limited at a consideration of HK\$2,000,000. Mr. Nakajima Toshiharu and Ms. Tong So Yuet, the executive director and company secretary of the Company respectively, were former directors of Winning Point Limited.