

Notes to the Accounts

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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 convention, except that, as disclosed in the accounting policies below, certain investments in 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 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 the 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(b) Consolidation** *(Continued)*

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.

(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 in these cases 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 account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(d) 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 cost over their estimated useful lives on a straight-line basis at an annual rate of 20%.

(e) 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.

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1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Operating lease

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 period.

(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 account when the circumstances and events that led to the write-downs 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.

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

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(j) 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, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Contingent liabilities and contingent assets

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, 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 recognised 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.

(l) Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognized 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 or paternity leave are not recognized until the time of leave.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) **Employee benefits** *(Continued)*

(ii) *Pension obligations*

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.

(m) **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.

(n) **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.

Notes to the Accounts

2. TURNOVER, REVENUES 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 are as follows:

	2004	2003
	HK\$	HK\$
Turnover		
Interest income from		
– bank deposits	–	13,984
– debt securities	–	392,876
– short term loans	–	456,723
Dividend income	2,040,506	613,518
	2,040,506	1,477,101
Other revenues		
Gain on sale of investments	–	10,545,288
Other income	2,000	–
Total revenues	2,042,506	12,022,389

Since the principal activity of the Group is investing in Hong Kong securities with over 90% of its turnover and contribution to results derived from such activity in Hong Kong, no separate disclosure of geographical nor business segment information is presented.

3. UNREALISED GAIN/(LOSS) ON OTHER INVESTMENTS

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

Notes to the Accounts

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4. FINANCE COSTS

	2004	2003
	HK\$	HK\$
Bank overdraft	20,523	11,474
Commercial paper	128,326	–
Short term margin loans	680,196	123,154
Short term loan (Note 16)	1,499,918	495,835
	2,328,963	630,463

5. PROFIT BEFORE TAXATION

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

	2004	2003
	HK\$	HK\$
Staff costs (including directors' remuneration)	308,333	350,849
Listing fee	145,000	170,000
Share registration fee	97,311	123,913
Depreciation on owned fixed assets	4,256	4,260
Operating lease – land and buildings	22,977	43,722
Auditors' remuneration	177,200	134,100
Provision for impairment losses (Note 12)	2,639,000	–
Retirement benefit costs	–	3,500

Notes to the Accounts

6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2004 HK\$	2003 HK\$
Current taxation – Hong Kong profits tax	–	636,284
Over provision in prior year	(636,284)	–
Deferred taxation relating to the origination and reversal of temporary differences	–	1,075,128
Deferred taxation resulting from an increase in tax rate	–	8,821
	(636,284)	1,720,233

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

	2004 HK\$	2003 HK\$
Profit before taxation	9,954,118	8,295,050
Calculated at a taxation rate of 17.5% (2003: 17.5%)	1,741,971	1,451,634
Income not subject to taxation	(4,258,967)	(100,319)
Expenses not deductible for taxation purpose	1,748,394	22,798
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	–	8,821
Over provision in prior year	(636,284)	–
Effect of loss not available for taxation purposes	768,602	337,299
	(636,284)	1,720,233

Notes to the Accounts

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7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders a loss of HK\$1,999,842 (2003: HK\$2,015,294) 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\$10,590,402 (2003: HK\$6,574,817).

The basic earnings per share is based on the weighted average of 72,000,000 (2003: 61,578,082) 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 are as follows:

	2004	2003
	HK\$	HK\$
Fees	308,333	275,000

Directors' fees disclosed above include HK\$129,167 (2003: HK\$100,000) paid to independent non-executive directors.

The individual emoluments payable to the Directors are within the band of HK\$Nil to HK\$1,000,000.

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 include five (2003: four) directors, whose emoluments are reflected in the analysis presented in part (a). In 2003, the Group had one employee who fell into this category:

	2004 HK\$	2003 HK\$
Basic salaries, other allowances and benefits in kind	–	55,000
Contributions to retirement scheme	–	2,750
	–	57,750

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 his emoluments are therefore not reflected in the analysis presented in part (a).

Notes to the Accounts

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10. FIXED ASSETS

	Group & Company Furniture and fixtures HK\$
Cost	
At 1 January 2004 and 31 December 2004	21,290
Accumulated depreciation	
At 1 January 2004	6,079
Charge for the year	4,256
At 31 December 2004	10,335
Net book value	
At 31 December 2004	10,955
At 31 December 2003	15,211

11. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$	HK\$
Investments at cost:		
Unlisted shares	31	31
Amounts due from subsidiaries	64,964,265	66,808,037
	64,964,296	66,808,068

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

Notes to the Accounts

11. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following is a list of the subsidiaries at 31 December 2004:

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.

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12. INVESTMENT SECURITIES

	Group	
	2004 HK\$	2003 HK\$
Equity securities, unlisted		
Investment securities, at cost	62,040,002	51,510,000
Less: provision for impairment losses	(2,639,000)	—
	59,401,002	51,510,000

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 2004 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	6,000 ordinary shares of US\$1 each (2003: 4,500)	12.00% (2003: 9.00%)	16,250,000 (2003: 11,250,000)	13.68% (2003: 9.55%)	16,454 (2003: 11,426)
Tonga Group Holding Limited	British Virgin Islands	Distribution of building material and commodity products in China and Indonesia	100 ordinary shares of US\$1 each (2003: 75)	5.00% (2003: 3.75%)	14,800,000 (2003: 11,100,000)	12.46% (2003: 9.42%)	14,805 (2003: 10,941)
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	4,875 ordinary shares of US\$1 each (2003: 3,250)	9.75% (2003: 6.50%)	15,990,000 (2003: 10,660,000)	13.46% (2003: 9.05%)	15,039 (2003: 10,675)

Notes to the Accounts

12. INVESTMENT SECURITIES (Continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest held	Cost 2004 HK\$	% of total assets of the Group	Net assets attributable to the Group HK\$'000
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	5,000 ordinary shares of US\$1 each (2003: 2,500)	10.00% (2003: 5.00%)	15,000,000 (2003: 7,500,000)	12.63% (2003: 6.37%)	15,592 (2003: 7,608)
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	nil (2003: 5,000 ordinary shares of US\$1 each)	nil (2003: 10.00%)	nil (2003: 11,000,000)	nil (2003: 9.34%)	nil (2003: 10,099)
Canton Glory Technology Limited	Hong Kong	Engaged in design and installation of safe gas supply system, supply installation, repair and contract maintenance of stainless steel kitchen equipment	2 ordinary shares of HK\$1 each (2003: nil)	20.00% (2003: nil)	2 (2003: nil)	0.00% (2003: nil)	Nil (2003: nil)

Notes to the Accounts

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13. OTHER INVESTMENTS

	Group	
	2004 HK\$	2003 HK\$
Equity securities, at fair value		
– Listed in Hong Kong	59,370,462	41,316,697
Market value of listed equity securities	59,370,462	41,316,697

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 2004							
Shares							
EganaGoldpfeil (Holdings)							
Limited	Cayman Islands	16,160,931	26,344	1,834	22.17%	20,980	1
UBA Investments Limited	Cayman Islands	36,310,000	3,631	(396)	3.06%	3,065	2
Upbest Group Limited	Cayman Islands	17,190,000	29,395	20,743	24.74%	2,735	3
			59,370	22,181			
As at 31 December 2003							
Shares							
EganaGoldpfeil (Holdings)							
Limited	Cayman Islands	10,068,931	17,923	2,776	15.22%	11,741	
Egana Jewellery &							
Pearls Limited	Cayman Islands	5,584,000	11,168	(2,438)	9.48%	8,751	
UBA Investments Limited	Cayman Islands	36,310,000	3,631	(396)	3.08%	3,232	
Upbest Group Limited	Cayman Islands	17,190,000	8,595	(57)	7.30%	2,279	
			41,317	(115)			

Notes to the Accounts

13. 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 2004 was approximately HK\$88,691,000. As at 30 November 2004, the unaudited net asset value of EganaGoldpfeil was approximately HK\$1,532,580,000.

Note 2: 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 loss attributable to shareholders of UBA Investments for the six months ended 30 September 2004 was HK\$10,891,718. As at 30 September 2004, the unaudited net asset value of UBA Investments was HK\$89,466,708.

Note 3: 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 2004 was approximately HK\$15,263,000. As at 30 September 2004, the unaudited net asset value of Upbest was approximately HK\$178,173,000. Upbest is the ultimate holding company of the Group's investment manager, Upbest Asset Management Limited.

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14. BANK OVERDRAFT

As at 31 December 2004, the bank overdraft was unsecured. As at 31 December 2003, the bank overdraft was secured by the Group's other investments of HK\$6,140,520.

15. MARGIN ACCOUNTS PAYABLE

As at 31 December 2004, the margin accounts payable were secured by the Group's other investments of HK\$59,368,218 (2003: HK\$35,176,177).

16. 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.

17. COMMERCIAL PAPER

A commercial paper was issued on 27 November 2004. The commercial paper is repayable and has been repaid on 25 February 2005 and carries a fixed interest rate at 7% per annum.

18. SHARE CAPITAL

	2004 HK\$	2003 HK\$
Authorised: 500,000,000 (2003: 500,000,000) ordinary shares of HK\$0.01 each	5,000,000	5,000,000
Issued and fully paid: 72,000,000 (2003: 72,000,000) ordinary shares of HK\$0.01 each	720,000	720,000

Notes to the Accounts

19. RESERVES

	Share premium HK\$	Group Retained earnings HK\$	Total HK\$
At 1 January 2003	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
At 1 January 2004	67,320,071	6,637,947	73,958,018
Profit for the year	–	10,590,402	10,590,402
At 31 December 2004	67,320,071	17,228,349	84,548,420
Representing:			
Company and subsidiaries at 31 December 2004	67,320,071	17,228,349	84,548,420

Notes to the Accounts

19. RESERVES (Continued)

	Share premium HK\$	Company Accumulated losses HK\$	Total HK\$
At 1 January 2003	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
At 1 January 2004	67,320,071	(2,603,714)	64,716,357
Loss for the year	–	(1,999,842)	(1,999,842)
At 31 December 2004	67,320,071	(4,603,556)	62,716,515

Note: Distributable reserves of the Company at 31 December 2004 according to the Company's Articles of Association amounted to HK\$62,716,515 (2003: HK\$64,716,357).

20. 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%).

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

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
At 1 January	–	94,093	–	2,532
Deferred taxation charged/(credited) to profit and loss account	–	1,083,949	–	(2,532)
Release of deferred tax liability due to disposal of a subsidiary	–	(1,178,042)	–	–
At 31 December	–	–	–	–

Notes to the Accounts

20. DEFERRED TAXATION *(Continued)*

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

Deferred tax liabilities	Accelerated tax depreciation		Others		Total	
	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January	-	2,532	-	91,561	-	94,093
Charged /(credited) to profit and loss account	-	(2,532)	-	1,086,481	-	1,083,949
Release of deferred tax liability due to disposal of a subsidiary	-	-	-	(1,178,042)	-	(1,178,042)
At 31 December	-	-	-	-	-	-

The Group has unrecognised tax losses of approximately HK\$2.4 million (2003: HK\$2.7 million) arising from the operating losses of the Company and its subsidiaries. The tax losses can be carried forward indefinitely against future taxable income.

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20. DEFERRED TAXATION *(Continued)*

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

Deferred tax liabilities	Accelerated tax depreciation	
	2004	2003
	HK\$	HK\$
At 1 January	–	2,532
Credited to profit and loss account	–	(2,532)
At 31 December	–	–

21. 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 2004 of HK\$85,268,420 (2003: HK\$74,678,018) and 72,000,000 (2003: 72,000,000) ordinary shares in issue as at year end.

Notes to the Accounts

22. CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation to net cash inflow from operating activities during the year are as follows:**

	2004 HK\$	2003 HK\$
Profit before taxation	9,954,118	8,295,050
Interest income	–	(863,583)
Interest expense	2,328,963	630,463
Depreciation of owned fixed assets	4,256	4,260
Provision for impairment losses	2,639,000	–
Release of deferred tax liability due to disposal of a subsidiary	–	(1,178,042)
Operating profit before working capital changes	14,926,337	6,888,148
Decrease in short term debt securities	–	10,000,000
Decrease/(increase) in prepayment and receivables	177,003	(55,991)
Increase in other investments	(18,053,765)	(25,501,691)
Increase in margin accounts payable	2,125,707	6,764,387
(Decrease)/increase in short term loan	(4,571,450)	7,926,239
Increase in Commercial paper	19,000,000	–
Increase in creditors and accruals	552,306	661,852
Net cash inflow generated from operations	14,156,138	6,682,944
Interest paid	(2,200,637)	(630,463)
Net cash inflow from operating activities	11,955,501	6,052,481

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

	2004 HK\$	2003 HK\$
As at 1 January	68,040,071	55,002,071
Placement of shares	–	13,038,000
As at 31 December	68,040,071	68,040,071

Notes to the Accounts

22. CONSOLIDATED CASH FLOW STATEMENT (Continued)

(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. There is no such transactions in 2004. The assets and liabilities of the subsidiaries disposed of are as follows:

	2004 HK\$	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

23. CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Guarantees for bank overdrafts and margin accounts of subsidiaries as at 31 December	–	–	8,890,094	8,240,007

The management anticipate that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

Notes to the Accounts

24. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2004	2003
	HK\$	HK\$
Not later than one year	46,512	–
	46,512	–

25. CONNECTED TRANSACTIONS

	2004	2003
	HK\$	HK\$
Investment management fee		
– Upbest Assets Management Limited (<i>Note a</i>)	1,051,370	886,321
Advisory fee		
– Upbest Securities Company Limited (<i>Note b</i>)	–	750,000
Custodian fee		
– Wing Hang Bank, Limited (<i>Note c</i>)	60,000	60,206

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. UAM is a wholly owned subsidiary of Upbest in which the Group has an investment. 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.

The investment manager is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the investment management agreement constituted a connected transaction for the Company under the Listing Rules.

Notes to the Accounts

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25. CONNECTED TRANSACTIONS *(Continued)**Note (b):*

Pursuant to the renewed advisory agreement signed between Upbest Securities Company Limited (“USC”) (“the advisor”), which is a wholly owned subsidiary of 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.

The advisor is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the advisory agreement constitutes a connected transaction for the Company under the Listing Rules.

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.

26. RELATED PARTY TRANSACTIONS

In addition to note 25, the Group undertook the following transactions with related parties in the normal course of its business:

	2004	2003
	HK\$	HK\$
Placing commission <i>(Note a)</i>	–	162,000
Interest expenses on short term loan extended <i>(Note b)</i>	1,499,918	495,835
Brokerage commission expenses <i>(Note c)</i>	–	104,073

Notes to the Accounts

26. RELATED PARTY TRANSACTIONS *(Continued)**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. No brokerage commission was paid to USC upon the expiry of the renewed advisory agreement set out in Note 25(b) on 31 December 2003.

Note (d):

The Group also held other investments in Upbest of HK\$29,395,000 (2003: HK\$8,595,000) as at year end. As set out in note 14, Upbest is the holding company of the investment manager, UAM.

Note (e):

The Group also held investment securities in Super Plus Investments Limited of HK\$16,250,000 (2003: HK\$11,250,000) as at year end. Mr. Wong Wing Hong, Benny, an executive director of the Company, is also an executive director of Super Plus Investments Limited.

Note (f):

The Group purchased investment securities in Charming Sunlit Inc. of HK\$5,330,000 (2003: Nil) from World Crown Limited. World Crown Limited is a wholly owned subsidiary of Super Plus Investments Limited.

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25 April 2005.