Notes To The Accounts

31 December 2006

1. GENERAL INFORMATION

Incutech Investments Limited (the "Company") was incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies. The principal place of business in Hong Kong is located at Unit 506, 5th Floor, Unicorn Trade Centre, 127-131 Des Voeux Road Central, Hong Kong.

The principal activities of the Company and its subsidiaries during the year are investments in securities listed in the Stock Exchange and unlisted investments with a potential for earning growth and capital appreciation.

2. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They have been prepared under the historical cost convention, except that available-for-sale investments and investments held for trading are stated at fair value.

The preparation of financial statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The adoption of these new or revised HKFRSs did not result in significant changes to the Group's accounting policies applied in these accounts for the year presented.

Notes To The Accounts

31 December 2006

2. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

The Group has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group anticipate that the adoption of these new standards, amendments and interpretations will have no significant impact on the Group's operating results and financial position.

HKAS 1 (Amendment)	Note a	Capital disclosures
HKFRS 7	Note a	Financial Instruments: Disclosures
HKFRS 8	Note b	Operating segments
HK(IFRIC) – Int 7	Note c	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	Note d	Scope of HKFRS 2
HK(IFRIC) – Int 9	Note e	Reassessment of embedded derivatives
HK(IFRIC) – Int 10	Note f	Interim financial reporting and impairment
HK(IFRIC) – Int 11	Note g	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – Int 12	Note h	Service concession arrangements

Note a: effective for annual periods beginning on or after 1 January 2007
Note b: effective for annual periods beginning on or after 1 January 2009
Note c: effective for annual periods beginning on or after 1 March 2006
Note d: effective for annual periods beginning on or after 1 May 2006
Note e: effective for annual periods beginning on or after 1 June 2006
Note f: effective for annual periods beginning on or after 1 November 2006
Note g: effective for annual periods beginning on or after 1 March 2007
Note h: effective for annual periods beginning on or after 1 January 2008

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

(a) 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.

Notes To The Accounts

31 December 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

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

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

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

(b) 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.

(c) 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%.

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.

Notes To The Accounts

31 December 2006

2. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

(d) **Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation. Such assets are tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in respect of the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognised in the income statement 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.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement except where the asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

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.

(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 period.

(f) **Available-for-sale investments**

Available-for-sale investments are stated at fair value plus transaction cost, except for those securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. In such cases, these are stated at cost less impairment loss.

Notes To The Accounts

31 December 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Investments held for trading

Investments held for trading are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair values. At each balance sheet date, these are stated at their fair values and any gains and losses arising from changes in fair values are included in the profit and loss account during the year.

(h) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision. Provision is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(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.

(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.

Notes To The Accounts

31 December 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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

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 or paternity leave are not recognised until the time of leave.

(m) Deferred income tax

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.

Notes To The Accounts

31 December 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(o) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

Total revenues recognised during the year are as follows:

	2006 HK$	2005 HK$
Turnover:		
Interest income		
– commercial paper	4,176,089	–
– short term loans	144,881	–
Dividend income	662,994	975,761
	4,983,964	975,761
Other revenues:		
Gain on disposals of investments held for trading	4,188,310	–
Total revenues	9,172,274	975,761

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.

Notes To The Accounts

31 December 2006

4. FINANCE COSTS

	2006 HK$	2005 HK$
Interest on commercial paper	2,035,730	199,619
Interest on short term margin loans	152,443	553,537
Interest on short term loans (Note 24)	1,030,759	1,495,020
	3,218,932	2,248,176

5. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is stated after charging the following:

	2006 HK$	2005 HK$
Auditors' remuneration	187,000	182,300
Depreciation of fixed assets	2,839	4,254
Listing fees	145,000	145,000
Loss on disposal of fixed assets	3,862	–
Rental charges under operating leases of land and buildings	104,389	83,113
Share registration fees	163,318	73,518
Staff costs (including directors' remuneration)	300,000	300,000

6. INCOME TAX

Hong Kong profits tax is provided at the rate of 17.5% (2005: HK$nil) on the estimated assessable profit for the year.

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

	2006 HK$	2005 HK$
Hong Kong		
– Current year	1,005,082	–

Notes To The Accounts

31 December 2006

6. **INCOME TAX (Continued)**

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

	2006 HK$	2005 HK$
Profit/(loss) before taxation	8,479,948	(18,973,893)
Notional tax at the domestic tax rate of 17.5% (2005: 17.5%)	1,483,991	(3,320,431)
Tax effect of income not subject to taxation	(2,931,862)	(170,758)
Tax effect of non-deductible expenses	4,476,455	1,064,403
Tax effect of tax losses not recognised	403,610	2,426,786
Tax effect of temporary differences not recognised	(326)	–
Tax effect of prior year's tax losses utilised this year	(2,426,786)	–
Taxation in income statement	1,005,082	–

Deferred tax has not been provided because the Group had no significant temporary differences at the balance sheet date.

7. **PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS**

Of the profit/(loss) attributable to shareholders, a loss of HK$13,813,898 (2005: HK$2,223,687) has been dealt with in the accounts of the Company.

8. **EARNINGS/(LOSS) PER SHARE**

The calculation of the earnings/(loss) per share is based on the profit attributable to shareholders of HK$7,474,866 (2005: loss of HK$18,973,893). The basic earnings per share is based on the weighted average number of 72,000,000 (2005: 72,000,000) ordinary shares in issue during the year.

As the Company has not issued any warrants and options during the year, the calculation of diluted earnings per share is the same as the basic earnings per share.

Notes To The Accounts

31 December 2006

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:

	2006 HK$	2005 HK$
Executive Directors		
Choi Wai Yin	50,000	50,000
Wong Wai Kwong, David	50,000	50,000
Wong Wing Hong, Benny	50,000	50,000
Independent Non-executive Directors		
Kong Tze Wing	50,000	50,000
Siu Siu Ling, Robert	50,000	50,000
Ng Yick Man, Andy	50,000	50,000
	300,000	300,000

The above emoluments payable to directors of the Company are all directors' fees.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include five (2005: five) directors, whose emoluments have been reflected in the analysis presented in part (a).

Notes To The Accounts

31 December 2006

10. FIXED ASSETS

	Group and Company Furniture and fixtures HK$
Cost	
At 1 January 2005 and 31 December 2005	21,290
Disposals	(21,290)
At 31 December 2006	–
Accumulated depreciation	
At 1 January 2005	10,335
Charge for the year	4,254
At 31 December 2005	14,589
Charge for the year	2,839
Eliminated on disposals	(17,428)
At 31 December 2006	–
Net book value	
At 31 December 2006	–
At 31 December 2005	6,701

11. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK$	2005 HK$
Unlisted shares, at cost	23	31
Amounts due from subsidiaries	47,820,073	62,723,965
	47,820,096	62,723,996

Notes To The Accounts

31 December 2006

11. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Details of the subsidiaries, which were all incorporated in the British Virgin Islands and wholly-owned by the Company, as at 31 December 2006:

Name	Principal activities and operation	Particulars of issued share capital
Good Connection Traders Limited	Investment holding in Hong Kong	1 ordinary share of US$1 each
Excel Win Development Corporation	Investment holding in Hong Kong	1 ordinary share of US$1 each
Jointline Investment Limited	Investment holding in Hong Kong	1 ordinary share of US$1 each

In November 2006, the Group disposed its entire interest in a subsidiary, Hover Technologies Limited, which was a subsidiary of the Group and the related details are disclosed in note 20(b). The results of this disposed subsidiary included in the consolidated profit and loss account up to the effective date of disposal was loss of HK$10,440,630. The results of the corresponding period in 2005 was loss of HK$3,858,619.

12. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006 HK$	2005 HK$
Unlisted equity securities, at cost	30,882,000	76,720,002
Less: provision for impairment losses	(3,629,695)	(6,298,000)
	27,252,305	70,422,002

	Group	
	2006 HK$	2005 HK$
Non-current assets	27,252,305	14,562,002
Current assets	–	55,860,000
	27,252,305	70,422,002

Available-for-sale investments in unlisted equity securities are held for long term strategic purposes to the investee company in order to maintain good relationship with business counterparts and generate regular dividends in future years.

Notes To The Accounts

31 December 2006

12. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Details of unlisted equity securities (included in non-current assets) are as follows:

Name of investee company	Nature of business	Particulars of issued shares held	Interest held	Cost 2006 HK$	% of total assets of the Group
Super Plus Investments Limited	Distribution of consumer products in Greater China	10,000 (2005: 6,000) ordinary shares of US$1 each	20.00% (2005: 12.00%)	30,882,000 (2005: 16,250,000)	27.06% (2005: 15.23%)
Canton Glory Technology Limited	Engaged in design and installation of safe gas supply system, supply installation, repair and contract maintenance of stainless steel kitchen equipment	Nil (2005: 2) ordinary shares of HK$1 each	Nil (2005: 20%)	Nil (2005: 2)	Nil (2005: Nil)

Super Plus Investments Limited was incorporated in BVI and Canton Glory Technology Limited was incorporated in Hong Kong.

Notes To The Accounts

31 December 2006

13. INVESTMENTS HELD FOR TRADING

	Group 2006 HK$	Group 2005 HK$
Equity securities listed in Hong Kong, at fair values	28,052,013	31,836,942

The fair values of the investments held for trading are determined based on the quoted market values of the securities listed in the Stock Exchange at the balance sheet date. Details of investments held for trading, which were all incorporated in Cayman Islands, are as follows:

Name of investee company	Number of shares	2006 Fair value HK$'000	2006 Fair value gain HK$'000	2005 Fair value HK$'000	2005 Fair value gain/(loss) HK$'000	% of total assets of the Group	Net assets attributable to the Group HK$'000	Note
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil")	1,339,803 (2005: 10,366,931)	5,895	295	19,179	1,688	5.85% (2005: 17.97%)	2,260 (2005: 16,838)	1
UBA Investments Limited ("UBA Investments")	36,310,000 (2005: 36,310,000)	3,631	–	3,631	–	3.61% (2005: 3.04%)	3,859 (2005: 3,274)	2
Upbest Group Limited ("Upbest")	9,404,000 (2005: 9,304,000)	18,526	12,006	6,420	(9,490)	18.40% (2005: 6.02%)	4,032 (2005: 3,386)	3
Egana Jewellery & Pearls Limited ("Egana Jewellery")	Nil (2005: 2,328,000)	–	–	2,607	(405)	Nil (2005: 2.44%)	Nil (2005: 3,923)	
		28,052	12,301	31,837	(8,207)			

Notes To The Accounts

31 December 2006

13. INVESTMENTS HELD FOR TRADING (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

EganaGoldpfeil and its subsidiaries are 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 2006 was approximately HK$186,023,000 (six months ended 30 November 2005: HK$147,196,000). As at 30 November 2006, the unaudited net asset value of EganaGoldpfeil was approximately HK$2,428,383,000 (30 November 2005: HK$1,751,463,000).

Note 2: UBA Investments

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

The unaudited profit attributable to shareholders of UBA Investments for the six months ended 30 September 2006 was HK$9,927,313 (six months ended 30 September 2005: HK$1,771,794). As at 30 September 2006, the unaudited net asset value of UBA Investments was HK$112,631,795 (30 September 2005: HK$95,565,949).

Note 3: Upbest

Upbest and its subsidiaries are 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 2006 was approximately HK$24,301,000 (six months ended 30 September 2005: HK$61,324,000). As at 30 September 2006, the unaudited net asset value of Upbest was approximately HK$537,335,000 (30 September 2005: HK$429,538,000). Upbest is the ultimate holding company of the Group's investment manager, Upbest Asset Management Limited ("UAM").

Notes To The Accounts

31 December 2006

14. ACCOUNTS RECEIVABLE

The balance at 31 December 2006 comprised a short term loan of HK$17,000,000 to an investee company and the related interest receivable.

15. MARGIN ACCOUNTS PAYABLE

The margin accounts payable as at 31 December 2006 were secured by the Group's investments held for trading of HK$28,052,013 (2005: HK$31,836,942).

16. SHORT TERM LOANS

Short term loans were extended by Upbest Finance Company Limited ("UFC"), which is a fellow subsidiary of UAM, the Group's investment manager. The loans are unsecured, repayable on demand. Interest is charged at the rate at the Hong Kong prime rate plus 4% per annum (2005: Hong Kong prime rate plus 4% per annum).

17. SHARE CAPITAL

	2006 HK$	2005 HK$
Authorised:		
500,000,000 ordinary shares of HK$0.01 each	5,000,000	5,000,000
Issued and fully paid:		
72,000,000 ordinary shares of HK$0.01 each	720,000	720,000

18. RESERVES

	Group		
	Share premium HK$	Retained earnings HK$	Total HK$
At 1 January 2005	67,320,071	17,228,349	84,548,420
Loss for the year	–	(18,973,893)	(18,973,893)
At 31 December 2005	67,320,071	(1,745,544)	65,574,527
Profit for the year	–	7,474,866	7,474,866
At 31 December 2006	67,320,071	5,729,322	73,049,393

Notes To The Accounts

31 December 2006

18. RESERVES (Continued)

	Company		
	Share premium HK$	Retained earnings HK$	Total HK$
At 1 January 2005	67,320,071	(4,603,556)	62,716,515
Loss for the year	–	(2,223,687)	(2,223,687)
At 31 December 2005	67,320,071	(6,827,243)	60,492,828
Loss for the year	–	(13,813,898)	(13,813,898)
At 31 December 2006	67,320,071	(20,641,141)	46,678,930

Distributable reserves of the Company at 31 December 2006 according to the Company's Articles of Association amounted to HK$46,678,930 (2005: HK$60,492,828).

19. 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 2006 of HK$73,796,393 (2005: HK$66,294,527) and 72,000,000 (2005: 72,000,000) ordinary shares in issue as at year end.

Notes To The Accounts

31 December 2006

20. CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK$	2005 HK$
Profit/(loss) before taxation	8,479,948	(18,973,893)
Adjustments for:		
Interest income	(4,320,970)	–
Interest expenses	3,218,932	2,248,176
Depreciation of fixed assets	2,839	4,254
(Gain)/loss on disposal of investments held for trading	(4,188,310)	3,605,865
Gain on disposal of a subsidiary	(4,627,844)	–
Loss on disposal of fixed assets	3,862	–
Fair value (gain)/loss on investments held for trading	(12,301,207)	8,207,188
Provision for impairment losses	12,019,697	3,659,000
Operating loss before changes in working capital	(1,713,053)	(1,249,410)
Increase in accounts receivable	(16,443,464)	(700,671)
Increase in prepayments and other receivables	(156,896)	(31,021)
Increase/(decrease) in commercial paper	45,000,000	(19,000,000)
Decrease in investments held for trading	20,274,446	15,720,467
Decrease in margin accounts payable	(5,054,277)	(3,395,429)
(Decrease)/increase in short term loans	(4,943,919)	26,307,210
Decrease in creditors and accruals	(847,454)	(662,345)
Net cash inflow generated from operations	36,115,383	16,988,801
Interest paid	(3,218,932)	(2,248,176)
Net cash inflow from operating activities	32,896,451	14,740,625

Notes To The Accounts

31 December 2006

20. CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiary

In November 2006, the Group disposed of its entire interest in a subsidiary, Hover Technologies Limited. A summary of the effects of the disposal of the subsidiary is set out as follows:

	2006 HK$
Net liabilities disposed of:	
Available-for-sale investments	33,400,000
Accounts receivable	137,148
Bank balances and cash	198
Commercial paper	(45,000,000)
	(11,462,654)
Gain on disposal of a subsidiary	4,627,844
	(6,834,810)
Discharged by:	
Cash consideration paid	(6,834,810)
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(198)
Cash paid	(6,834,810)
	(6,835,008)

(c) Analysis of balance of cash and cash equivalents

	2006 HK$	2005 HK$
Bank balances and cash	157,014	40,711
Commercial paper*	28,016,110	–
	28,173,124	40,711

* Commercial paper represented receivable from an independent third party which was unsecured and matured on 29 March 2007, and bore interest at 7% per annum.

Notes To The Accounts

31 December 2006

21. CONTINGENT LIABILITIES

	Group		Company	
	2006 HK$	2005 HK$	2006 HK$	2005 HK$
Guarantees for bank overdrafts and margin accounts of subsidiaries at the balance sheet date	–	–	440,388	5,494,665

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

22. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2006, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases for its office as follows:

	Group and Company	
	2006 HK$	2005 HK$
Not later than one year	68,850	68,400

23. CONNECTED TRANSACTIONS

	Group and Company	
	2006 HK$	2005 HK$
Investment management fees paid to UAM (Note a)	1,081,787	1,155,692
Custodian fees paid to Wing Hang Bank, Limited (Note b)	60,000	60,000

Notes To The Accounts

31 December 2006

23. CONNECTED TRANSACTIONS (Continued)

Note:

(a) The Company signed an investment management agreement with UAM, the investment manager, for a period of three years commencing from 28 May 2005. 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.

(b) 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, although the custodian fee falls below the de-minimis threshold under Rule 14A of the Listing Rules.

24. RELATED PARTY TRANSACTIONS

In addition to note 23, the Group undertook the following transactions with related parties in the normal course of its business:

	2006 HK$	2005 HK$
Interest expenses on the extended short term loans (Note a)	1,030,759	1,495,020

Notes To The Accounts

31 December 2006

24. RELATED PARTY TRANSACTIONS (Continued)

Notes

a. Interest expenses on the extended short term loans, charged at the rate at the Hong Kong prime rate plus 4% per annum (2005: Hong Kong prime rate plus 4% per annum), were paid to UFC, which is a fellow subsidiary of the Group's investment manager, UAM.

b. The Group also has investments held for trading in Upbest of HK$18,526,000 (2005: HK$6,420,000) at the balance sheet date. As set out in note 13, Upbest is the ultimate holding company of the Group's investment manager, UAM.

25. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 18 April 2007.