CO-WINNER ENTERPRISE LIMITED
滙盛實業有限公司*

(incorporated in Bermuda with limited liability)

Annual Report 2005

* *For identification purposes only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "GEM")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange takes no responsibility for the contents of this report makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Co-winner Enterprise Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to Co-winner Enterprise Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Tai Chi Ching
Mr. Tse Wai Kwok, Raymond

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Tok Beng Tiong
Mr. Shen Jiahui
Mr. Yang Dongli

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QUALIFIED ACCOUNTANT
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AUDIT COMMITTEE
Mr. Tok Beng Tiong
Mr. Shen Jiahui
Mr. Yang Dongli

COMPLIANCE OFFICER
Mr. Tai Chi Ching

AUTHORISED REPRESENTATIVES
Mr. Tai Chi Ching
Ms. Tse Wai Kwok, Raymond

COMPANY SECRETARY
Mr. Chan Wing Chung

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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GEM STOCK CODE
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Hong Kong

MANAGEMENT STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Co-winner Enterprise Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I hereby present the sixth annual report of the Group since the listing of the Company's shares on the GEM on 14 July 2000.

FINANCIAL RESULTS

For the year ended 31 December 2005, the Group recorded consolidated loss attributable to shareholders of approximately HK$14,136,000.

DIVIDENDS

No interim dividend was paid for the year ended 31 December 2005 and the Board does not recommend the payment of any final dividend.

MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS AND FUTURE PROSPECTS

For the year ended 31 December 2005, the Group's turnover amounted to approximately HK$25,985,000 (2004: HK$2,287,000) while the net loss attributable to the shareholders amounted to approximately HK$14,136,000 (2004: net loss of HK$14,023,000). The improvement in turnover was mainly the result of the increase in the phone sets subcontracting business in the PRC and sales of household products. The decrease in net loss was the result of the increase in new business of sale of household products and effective cost control implemented by the Group.

Owing to the unfavourable market sentiments prevailing in the information technology market, operations in that specific area were temporarily ceased during the period under review. The turnover of telephone sets subcontracting services recorded a healthy growth. Owing to the small operation scale, the telephone sets subcontracting business did not generate profit yet. On the other hand the fast growing and effective cost control in household products trading resulted from a profit.

PROSPECT

The Board is actively exploring ways to increase sale of household products, diversify its investments to broaden its revenue base. Given the strong economic rebound in Hong Kong during 2005 and 2006; the Group would keep on its cautions and prudent approach in evaluating any new investment opportunities.

Having its business operations widened, the management would focus on its existing operations, or may consider to cease or to dispose of any unprofitable operation, in order to strive for the long term returns for the Company and our shareholders.

MANAGEMENT STATEMENT

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 31 December 2005, cash and bank balances of the Group was approximately HK$392,000 (2004: HK$641,000), The Group has no bank borrowings throughout the year under review.

Total borrowing of the Group amounted to approximately HK$39,000 (2004: HK$50,000), representing obligation under a finance lease contract with an interest rate of approximately 4.5% per annum and average lease term of approximately five years. Except for the finance lease contract for the Group's office equipment, the Group did not have any mortgage or charge on assets as at 31 December 2005 (2004: Nil).

As at 31 December 2005, the Group's gearing ratio was 0.48% representing a percentage of long term liabilities over total assets (2004: 0.30%).

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Since the functional currencies of the Group's operations are HK Dollars, US Dollars and RMB, the Board considers that the exchange rate risk of the Group is minimal.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my deepest gratitude to all management and staff members for their precious commitments and contributions, and to thank shareholders for their continuing confidence in the Group. We will make every endeavor to explore potential opportunities for our business growth, creating a promising future for the Group as well as our valuable shareholders.

On behalf of the Board

Tai Chi Ching
Executive Director

Hong Kong
28 March 2006

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Mr. Tai Chi Ching, aged 46, was appointed as an executive director, compliance officer and authorized representative of the Company in February 2005. He is responsible for formulation of corporate strategy and the Group's management. He obtained a bachelor's degree in International Trade from Tamkang University and has approximately two decades of experience in financial field. Mr. Tai is presently the director of TIS Securities (Hong Kong) Limited. He was appointed as a director of AVANTA Investment Management Limited in May 2001. Mr. Tai is a responsible officer of Dealing in Securities, Dealing in Futures Contracts, Advising on Securities and Advising on Corporate Finance (Types 1, 2, 4 and 6) registered with the SFC under the Securities and Futures Ordinance, Cap. 571. He is also a qualified principal supervisor of the sponsor of GEM Board in Hong Kong Stock Exchange.

Mr. Tse Wai Kwok Raymond, aged 43, obtained a double degree in Seattle Pacific University in Computer Science and Intercultural Relations and has over 19 years of experience in supply chain management including business development, operations, sales and marketing. Past experience includes being the Chief Operating Officer for The Marketing Store Worldwide, Sourcing Executive for The Disney Company and Executive Vice President for Jensco International Company. Mr. Tse is now the Vice President of Norwood Promotional Products, Inc.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tok Beng Tiong, aged 34, is a CPA member of Australian Society of Certified Practising Accountants. Mr. Tok is currently Senior Vice President in Prosperity Materials (International) Limited. Mr. Tok holds a bachelor degree in Commerce majoring in accounting from University of New South Wales, Australia. Mr. Tok has over 11 years accounting and financial management experience.

Mr. Shen Jiahui, aged 34, is a member of China Institute of Internal Auditor. Mr. Shen has been working in China Aviation Technology Group Company since 1994 and responsible for financial management and analysis. Mr. Shen has over 11 years working experience.

Mr. Yang Dongli, aged 32, is currently a Production Department Manager and Senior Engineer in Beijing D&G Machinery Co., Ltd. Mr. Yang graduated in Air Industrial University North of China majoring in Management Engineering. Mr. Yang has over 9 years working experience.

COMPANY SECRETARY

Mr. Chan Wing Chung is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

DIRECTORS' REPORT

The directors herein present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year are set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's financial results for the year ended 31 December 2005 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 22 to 23.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results of the Group for the last five financial years and of the assets and liabilities of the Group for the last five financial years, respectively, prepared on the basis set out in the note 2.

Results

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**25,985**	2,287	1,020	3,444	3,300
LOSS BEFORE TAX	**(14,136)**	(14,141)	(9,961)	(23,456)	(22,496)
Taxation	**–**	–	–	–	–
LOSS AFTER TAX	**(14,136)**	(14,141)	(9,961)	(23,456)	(22,496)
MINORITY INTERESTS	**–**	118	121	619	177
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	**(14,136)**	(14,023)	(9,840)	(22,837)	(22,319)

Assets and Liabilities

	As at 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS	**373**	10,370	4,639	11,933	8,452
NET CURRENT (LIABILITIES)/ASSETS	**(6,623)**	(6,951)	10,724	8,285	5,549
NON-CURRENT LIABILITIES	**(26)**	(39)	(50)	(13)	(40)
NET (LIABILITIES)/ASSETS	**(6,276)**	3,380	15,313	20,205	13,961

Notes:

1. The results, assets and liabilities of the Group presented above have been prepared on the basis as if the group structure, at the time when the corporate reorganisation was completed prior to the listing of the shares of the Company on the GEM, had been in existence throughout the years concerned.

2. The results of the Group for the year ended 31 December 2001, 2002 and 2003 and the assets and liabilities of the Group as at 31 December 2001, 2002 and 2003 were extracted from the Company's annual report for the year ended 31 December 2001, 2002 and 2003. The above financial summary as of and for the year ended 31 December 2004 and 2005 have been extracted from the audited financial statements of the Group set out on pages 22 to 68 of the annual report.

FIXED ASSETS

Details of movements of the fixed assets of the Group are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 15 to the financial statements.

BORROWINGS

Details of the borrowings of the Group are set out in note 22 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and details of the share option scheme are set out in note 23 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company has no distributable reserve calculated under the Companies Act 1981 of Bermuda and the Company's bye-laws.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 87% of the total sales for the year and sales to the largest customer included therein amounted to 43%. Purchases from the Group's five largest suppliers accounted for 86% of the total purchases for the year and purchases from the largest supplier included therein amounted to 46%.

To the best of the directors' knowledge, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Tai Chi Ching	*(appointed on 16 February 2005)*
Mr. Tse Wai Kwok, Raymond	*(appointed on 1 April 2005)*
Mr. Zhao Ming	*(resigned on 15 July 2005)*
Ms. Kwong Wai Man, Karina	*(re-designated as non-executive director on 15 February 2005 and resigned as non-executive director on 17 May 2005)*

Non-executive directors:

Mr. Ng Ming Wah	*(resigned on 8 March 2005)*
Ms. Kwong Wai Man, Karina	*(re-designated as non-executive director on 15 February 2005 and resigned as non-executive director on 17 May 2005)*

Independent non-executive directors:

Mr. Tok Beng Tiong	*(appointed on 10 August 2005)*
Mr. Shen Jiahui	*(appointed on 10 August 2005)*
Mr. Yang Dongli	*(appointed on 1 September 2005)*
Mr. Chen Pei	*(resigned on 20 September 2005)*
Ms. Ma Lee	*(resigned on 17 May 2005)*
Mr. Peng Feng	*(resigned on 30 September 2005)*

In accordance with the Company's bye-laws, Mr. Tai Chi Ching, Mr. Tse Wai Kwok Raymond, Mr. Tok Beng Tiong, Mr. Shen Jiahui and Mr. Yang Dongli will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of Directors and Company Secretary of the Group are set out on pages 6 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Zhao Ming, being an executive director of the Company was appointed in October 2003, has entered into a service contract with the Company for an initial term of one year commencing from 8 October 2003. The service contract will continue thereafter until determined by either party giving to the other not less than three months prior written notice. Mr. Zhao Ming is resigned on 15 July 2005.

Mr. Tai Chi Ching, being an executive director of the Company was appointed in February 2005, has entered into a service contract with the Company for an initial term of three years commencing from 16 February 2005. The service contract can be terminated by either party giving to the other not less than three months prior written notice.

Save for the above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party during the year.

As at 31 December 2005, none of the directors had any direct or indirect interest in any assets which acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and the five highest paid individuals in the Group are set out in note 8 to the financial statements.

SHARE OPTION SCHEME

Pursuant to the new share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "New Share Option Scheme"), the Board of the Company may for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The New Share Option Scheme became effective for a period of 10 years commencing 24 May 2002 (the date on which the New Share Option Scheme was adopted).

The details and major provisions of the New Share Option Scheme were set out in the circular of the Company dated 6 May 2002.

No options under the New Share Option Scheme had been granted to any persons during the period under review and up to the date of this report.

In compliance with the amended Chapter 23 of the GEM Listing Rules, the New Share Option Scheme supersedes the previous share option scheme adopted by the shareholders of the Company on 29 June 2000 (the "Previous Share Option Scheme"). The Previous Share Option Scheme was terminated on 24 May 2002 accordingly. However, notwithstanding the termination of the Previous Share Option Scheme, the outstanding options previously granted under the Previous Share Option Scheme shall remain valid and exercisable in accordance with the provisions of the Previous Share Option Scheme.

As at 31 December 2005, there are no outstanding options neither being granted previously under the Previous Share Option Scheme nor the New Share Option Scheme.

No options granted pursuant to the Previous Share Option Scheme had been exercised up to 31 December 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the New Share Option Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 31 December 2005, none of the directors or chief executive of the Company held any share options.

INTEREST DISCLOSURE AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executives interests and short positions in shares and underlying shares

As at 31 December 2005, the interests and short positions of the directors and chief executives in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK$0.01 each of the Company

	Number of issued ordinary shares held				
Name of director	**Beneficial owner**	**Held by trust**	**Held by controlled corporation**	**Total**	**Percentage of issued share capital of the Company**
Mr. Tse Wai Kwok, Raymond	600,000	–	–	600,000	0.42%

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2005, other than a director or chief executive of the Company, the following persons had interests or short position in the Shares or underlying Shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the shares

Name	**Nature and capacity of interest**	**Number of shares held**	**Approximate percentage of interest** *(Note 1)*
True Allied Assets Limited	Beneficial owner	28,490,000	20.04%
Ms. Huang Ye Hua *(Note 2)*	Interest of controlled corporation	28,490,000	20.04%
Ms. Wu Lee Man *(Note 2)*	Interest of controlled corporation	28,490,000	20.04%
Mr. Leung Shu Keung *(Note 2)*	Interest of controlled corporation	28,490,000	20.04%

Note:

(1) The percentage is calculated by dividing the number of Shares interested or deemed to be interested by the existing 142,140,000 issued shares as at 31 December 2005.

(2) Ms. Huang Ye Hua, Ms. Wu Lee Man and Mr. Leung Shu Keung are interested by virtue of their beneficial interest in True Allied Assets Limited.

Save as disclosed above, as at the 31 December 2005, other than a director or chief executive of the Company, no persons had interests or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

EMPLOYEE INFORMATION

During the year, the Company had an average number of employees of 5 (2004: 5). They were remunerated in accordance with their performance and market condition. Other benefit available to eligible employees includes retirement benefits.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Since the functional currencies of the Group's operations are HK Dollars, US Dollars and RMB, the Board considers that the exchange rate risk of the Group is minimal.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules during the year under review.

CONTINGENT LIABILITIES

Details of contingent liabilities at the balance sheet date are set out in note 30 to the financial statements.

COMPETING INTEREST

None of the directors or the management shareholder of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in a business which competed or might compete with the business of the Group.

CHANGE OF COMPANY NAME

The name of the Company is changed from "Grandmass Enterprise Solution Limited" to "Co-winner Enterprise Limited" with effect from 10 January 2005. The stock short name of the Company under which the shares are traded on the Stock Exchange is changed to "CO-WINNER" with effect from 28 February 2005.

CAPITAL REORGANISATION

On 10 January 2005, every forty (40) issued shares in the Company are consolidated into one (1) consolidated share. The nominal value of each issued consolidated share was then reduced from HK$0.40 each to HK$0.01 each by way of a reduction of capital pursuant to the Companies Act of Bermuda. Accordingly, the issued share capital of the Company was reduced from an amount of HK$23,690,000 to HK$592,250 represented by 59,225,000 consolidated shares.

OPEN OFFER

59,225,000 new shares of the Company had been issued under the Open Offer on 24 February 2005, proceeds of approximately HK$3.55 million was being raised as working capital.

PLACING OF NEW SHARES

On 22 July 2005, the Company has placed under the general mandate a total of 23,690,000 new shares to eight placees at a price of HK$0.06 per share. Proceeds of approximately HK$1.42 million was being raised as working capital. The total issued share capital of the Company after the placing of new shares are 142,140,000 shares.

REFRESHMENT OF GENERAL MANDATE TO ALL OF AND ISSUE SHARES

An ordinary resolution was passed in the special general meeting held on 7 November 2005 to refresh the general mandate granted to directors to allot and issue shares of the Company.

EVENTS AFTER THE BALANCE SHEET DATE

Details of event after the balance sheet date are set out in note 34 to the financial statements.

AUDIT COMMITTEE

The Company set up an Audit Committee (the "Committee") on 7 July 2000 with written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. As at 31 December 2005, the Committee comprises three members, namely Mr. Tok Beng Tiong, Mr. Shen Jiahui and Mr. Yang Dongli, all of them being independent non-executive directors of the Company. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board, and had held meeting for several times during the year. The Group's financial statements for the year ended 31 December 2005 have been reviewed by the members of the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

Messrs. HLB Hodgson Impey Cheng and Messrs. Cheung & Siu Certified Public Accountants were appointed as joint auditors of the company on 21 March 2005 in succession to Messrs. RSM Nelson Wheeler which were resigned on 27 January 2005.

Messrs. HLB Hodgson Impey Cheng and Messrs. Cheung & Siu Certified Public Accountants retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. HLB Hodgson Impey Cheng and Messrs. Cheung & Siu Certified Public Accountants as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Tai Chi Ching
Executive Director

Hong Kong
28 March 2006

CORPORATE GOVERNANCE REPORT

The Group has complied with most of the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules ("CG Code"). This report describes its corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding securities transactions by the directors throughout the year ended 31 December 2005.

BOARD OF DIRECTORS

The Board comprises five directors, of whom two are executive directors and three are independent non-executive directors. The participation of independent non-executive directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of one years and is subject to termination by either party giving not less than two month's prior written notice to the other.

The Board considers that all of the independent non-executive directors are independent and has received from each of them the annual confirmation of independence required by the GEM Listing Rules.

The Board members at the year ended 31 December 2005 were:

Executive directors
Mr. Tai Chi Ching
Mr. Tse Wai Kwok, Raymond

Independent non-executive directors
Mr. Tok Beng Tiong
Mr. Shen Jiahui
Mr. Yang Dongli

The Board is responsible to the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at Board meetings.

The Board held a board meeting for each quarter. Details of the attendance of the Board are as follows:

Directors	**Attendance**
Mr. Tai Chi Ching	4/4
Mr. Tse Wai Kwok, Raymond	4/4
Mr. Tok Beng Tiong	2/2
Mr. Shen Jiahui	2/2
Mr. Yang Dongli	2/2

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Mr. Tai Chi Ching assumes the role of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Tai leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

– the Board acts in the best interests of the Group; and

– the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board.

The role of chairman and chief executive officer of the Group rests on the same individual which deviates from the code provision in the CG Code of not having a clear division of responsibilities. The Board is of the view that this has not compromised accountability and independent decision making for the following reasons:

– the independent non-executive directors form the majority of the Board of which three out of five are independent; and

– Audit Committee composed exclusively of independent non-executive directors;

– The independent directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

Mr. Tai, the executive chairman, has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

REMUNERATION COMMITTEE

The remuneration committee is established and comprising three independent non-executive directors, namely Mr. Tok Beng Tiong, Mr. Shen Jiahui and Mr. Yang Dongli.

The principal functions include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;

– to determine the remuneration packages of all executive directors and senior management of the directors and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of executive remuneration package include basic salary, discretionary bonus and share option. The emoluments of executive directors are based on skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive directors. During the year, no meeting was held and the remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held. A meeting of the remuneration committee will be convened in 2006.

NOMINATION OF DIRECTORS

The Board is empowered under the Company's bye laws to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

AUDITORS' REMUNERATION

An amount of approximately HK$315,000 (2004: HK$230,000) was charged to the Group's income statement for the year ended 31 December 2005. There was no significant non-audit service assignment undertaken by the auditors during the year.

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprises three independent non-executive directors, namely Mr. Tok Beng Tiong, Mr. Shen Jiahui and Mr. Yang Dongli. The chairman of the Audit Committee is Mr. Tok Beng Tiong.

The Audit Committee held four meetings in 2005, which were attended by all members. The Group's 2005 quarterly reports, 2005 half-yearly report and 2005 annual report have been reviewed by the Audit Committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements. The committee also monitored the Company's progress in implementing the code provisions on corporate governance practices as required under the GEM Listing Rules.

JOINT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower
The Landmark
11 Pedder Street, Central
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CS Cheung & Siu Certified Public Accountants
張、蕭會計師事務所
Room A, 15/F
Fortis Bank Tower
77-79 Gloucester Road,
Wanchai, Hong Kong

TO THE SHAREHOLDERS OF
CO-WINNER ENTERPRISE LIMITED
(Incorporated in Bermuda with limited liability)

We as joint auditors have audited the financial statements on pages 22 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility as joint auditors to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

JOINT AUDITORS' REPORT

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosure made in the financial statements concerning preparation of financial statements under the going concern basis. This basis may not be appropriate because the Group's current liabilities exceeded its current assets by HK$6,623,000 as at 31 December 2005. The validity of the going concern assumption depends upon future profitable operations and funding being available. The financial statements do not include any adjustment that would result from a failure to obtain future funding. Details of the circumstances relating to this fundamental uncertainty are described in Note 2(a) to the financial statements. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

OPINION

In our opinion as joint auditors of the Company the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 March 2006

Cheung & Siu
Certified Public Accountants

Hong Kong, 28 March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	4	**25,985**	2,287
Cost of sales		**(23,111)**	(2,149)
Gross profit		**2,874**	138
Other revenue	6	**3**	157
Other income	6	**793**	–
Administrative expenses		**(6,898)**	(5,015)
Impairment loss recognised in respect of goodwill of a subsidiary		**(9,948)**	–
Impairment loss recognised in respect of goodwill of an associate		**–**	(2,702)
Provision for obsolete inventories		**–**	(4,907)
Provision for amounts due from associates		**(3)**	(262)
Provision for loan to an associate		**–**	(279)
Other operating expenses		**(954)**	(1,403)
Loss from operations	6	**(14,133)**	(14,273)
Finance costs	7	**(3)**	(3)
Gain on deemed disposal of partial interest in an associate		**–**	135
Share of results of associates		**–**	–
Loss before taxation		**(14,136)**	(14,141)
Taxation	9	**–**	–
Loss for the year	10	**(14,136)**	(14,141)
Attributable to			
– Minority interests		**–**	(118)
– Equity holders of the parent		**(14,136)**	(14,023)
		(14,136)	(14,141)
Loss per share			
– basic	12	**HK$(0.12)**	HK$(0.25)

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	13	**373**	422
Goodwill	14	**–**	9,948
		373	10,370
Current assets			
Inventories	17	**2,293**	71
Trade receivables	18	**222**	436
Loan receivable	19	**–**	446
Prepayments, deposits and other receivables		**2,190**	338
Prepaid tax		**–**	563
Cash and bank balances		**392**	641
		5,097	2,495
Current liabilities			
Trade and other payables	20	**10,919**	9,252
Amount due to an associate	16	**2**	2
Tax payable		**186**	181
Short term loan from a shareholder	21	**600**	–
Obligations under finance lease – due within one year	22	**13**	11
		11,720	9,446
Net current liabilities		**(6,623)**	(6,951)
Total assets less current liabilities		**(6,250)**	3,419
Non-current liabilities			
Obligations under finance lease – due after one year	22	**26**	39
Net (liabilities)/assets		**(6,276)**	3,380
Equity			
Issued share capital	23	**1,421**	23,690
Reserves	24(a)	**(7,697)**	(20,310)
Equity attributable to equity holders of the parent		**(6,276)**	3,380
Minority interests		**–**	–
Total equity		**(6,276)**	3,380

Approved by the Board of Directors on 28 March 2006 and signed on its behalf by:

Tai Chi Ching
Director

Tse Wai Kwok, Raymond
Director

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2005

	Note	**2005**	2004
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	*13*	**38**	32
Interests in subsidiaries	*15*	**78**	2,038
		116	2,070
Current assets			
Prepayments		**110**	283
Bank balances		**10**	3
		120	286
Current liabilities			
Amounts due to subsidiaries	*15*	**2,932**	2,339
Amount due to an associate	*16*	**1,256**	1,256
Other payables	*20*	**500**	713
Short term loan from a shareholder	*21*	**600**	–
		5,288	4,308
Net current liabilities		**(5,168)**	(4,022)
Net liabilities		**(5,052)**	(1,952)
Equity			
Issued share capital	*23*	**1,421**	23,690
Reserves	*24(b)*	**(6,473)**	(25,642)
Total equity		**(5,052)**	(1,952)

Approved by the Board of Directors on 28 March 2006 and signed on its behalf by:

Tai Chi Ching
Director

Tse Wai Kwok, Raymond
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the parent							
	Share capital	Share premium	Contributed surplus	Accumulated losses	Exchange reserve	Total	Minority interest	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	21,600	22,859	36,527	(65,673)	–	15,313	–	15,313
Issue of shares *(Note 23)*	2,090	–	–	–	–	2,090	–	2,090
Minority interest – acquisition of subsidiary *(Note 25)*	–	–	–	–	–	–	118	118
Loss for the year	–	–	–	(14,023)	–	(14,023)	(118)	(14,141)
At 31 December 2004 and at 1 January 2005	23,690	22,859	36,527	(79,696)	–	3,380	–	3,380
Exchange difference arising from translation of financial statements of subsidiaries	–	–	–	–	(140)	(140)	–	(140)
Total expenses for the year recognised directly in equity	–	–	–	–	(140)	(140)	–	(140)
Loss for the year	–	–	–	(14,136)	–	(14,136)	–	(14,136)
Total income and expense for the year	–	–	–	(14,136)	(140)	(14,276)	–	(14,276)
Capital reduction *(Note 23)*	(23,098)	–	–	23,098	–	–	–	–
Premium arising from issue of new shares, net of expense	–	3,791	–	–	–	3,791	–	3,791
Issue of shares *(Note 23)*	829	–	–	–	–	829	–	829
At 31 December 2005	**1,421**	**26,650**	**36,527**	**(70,734)**	**(140)**	**(6,276)**	**–**	**(6,276)**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	**2005**	2004
		HK$'000	*HK$'000*
Cash flows from operating activities			
Loss before taxation		**(14,136)**	(14,141)
Adjustments for:			
Depreciation		**117**	277
Interest income		**(3)**	(74)
Impairment loss recognised in respect of goodwill of a subsidiary	14	**9,948**	–
Impairment loss recognised in respect of goodwill of an associate		**–**	2,702
Amortisation of goodwill		**–**	1,118
Provision for impairment in trade receivables		**137**	–
Bad debts written off		**245**	285
Provision for prepaid tax		**563**	–
Provision for amounts due from associates		**3**	262
Provision for loan to an associate		**–**	279
Provision for obsolete inventories		**–**	4,907
Gain on deemed disposal of partial interest in an associate		**–**	(135)
Interest element on finance lease		**3**	3
Exchange difference		**(146)**	–
Operating loss before working capital changes		**(3,269)**	(4,517)
(Increase)/decrease in inventories		**(2,222)**	177
(Increase)/decrease in trade receivables		**(168)**	2,673
Increase/(decrease) in trade and other payables		**1,667**	(8,688)
(Increase)/decrease in prepayments and deposits		**(1,852)**	5,013
Cash used in operations		**(5,844)**	(5,342)
Interest element on finance lease		**(3)**	(3)
PRC tax paid		**–**	(937)
Net cash used in operating activities		**(5,847)**	(6,282)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	**2005**	2004
		HK$'000	*HK$'000*
Cash flows from investing activities			
Acquisition of interest in a subsidiary	25	**–**	(4,025)
Repayment of loan receivable		**446**	766
Increase in amounts due from associates		**(3)**	(201)
Repayment from associate		**–**	744
Purchases of property, plant and equipment		**(57)**	(42)
Interest received		**3**	74
Net cash generated from/(used in) investing activities		**389**	(2,684)
Cash flows from financing activities			
Proceeds from issue of shares	23	**4,975**	–
Expenses paid in connection with shares issued		**(355)**	–
Increase in short term loan from a shareholder		**600**	–
Payment of finance lease liabilities		**(11)**	(11)
Net cash generated from/(used in) financing activities		**5,209**	(11)
Net decrease in cash and cash equivalents		**(249)**	(8,977)
Cash and cash equivalents at the beginning of the year		**641**	9,618
Cash and cash equivalents at the end of the year		**392**	641
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**392**	641

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

Co-winner Enterprise Limited (formerly known as Grandmass Enterprise Solution Limited) (the "Company") was incorporated in Bermuda on 19 April 2000 as an exempted company with limited liability under the Bermuda Companies Act 1981. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 15 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards (HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods begining on or after 1 January 2005. A summary of the effect on initial adoption of these new and revised HKFRSs is disclosed in Note 3 to the financial statements.

The preparation of financial statements in conformity with HKFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and 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 revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 32 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below.

(a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

At the balance sheet date, the Group's current liabilities exceeded its current assets by approximately HK$6,623,000.

Notwithstanding the above results, the financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when they fall due such that the Group can meet its future working capital and financing requirement and the continuing financial support from its shareholders. Subsequent to the balance sheet date, the Company raised approximately HK$1,702,000 by placing 28,420,000 shares at a placing price of HK$0.064 each (as detailed in Note 34). The directors are confident that the Group's future operations will be improved and will be able to generate sufficient cash flows in order to meet its obligations as and when they fall due over the next twelve months. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Minority interests, representing the interests of outside shareholders in the net assets and operating results of subsidiaries.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries and associates by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

In the Company's financial statements, the interests in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompany a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserve is recognised in reserve. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognised further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situation where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that property, plant and equipment.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the lease terms
Furniture and fixtures	20%
Office and computer equipment	30%
Machineries	18%
Motor vehicle	18%

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. 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 for 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out (FIFO) method/weighted average cost method and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

When inventories are sold, the carrying value of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, 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 that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited to 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.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

i. sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provide that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

ii. provision of telephone sets subcontracting services, when services are performed.

iii. interest income, on a time proportion basis using the effective interest rate method.

(n) Related parties

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. Related parties may be individuals (being member of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits

i. Employee leave entitlements

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

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

ii. Retirement benefits costs

The Group's contributions to the mandatory provident fund ("MPF") scheme and state-managed retirement benefit scheme are expensed as incurred.

iii. Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using a binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review, unless the original employees expense qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where the forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. The resulting translation differences are dealt with in the exchange reserve. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(r) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at bank and other financial institutions and cash in hand, net of outstanding bank overdrafts, and short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

(s) Financial assets

From 1 January 2005 onwards

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(s) **Financial assets** *(Continued)*

1. Financial assets at fair value through or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. At each balance sheet date, the fair value is re-measured with the resulting gains or losses on investments held for trading being recognised in the income statement.

2. Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in the current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

3. Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

4. Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within the next twelve months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial assets *(Continued)*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses, and corporate revenue.

3. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted the new and revised HKFRSs which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirement.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investment in associates
HKAS 32	Financial instruments: disclosures and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: recognition and measurement
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation – special purpose entities
HKAS-Int 15	Operating leases – incentives
HKAS-Int 21	Income taxes – recovery of revalued non-depreciated assets
HKFRS 2	Share-based payments
HKFRS 3	Business combination

The adoption of the above HKFRSs has no material impact on the accounting policies and the results and financial position of the Group, except for the following:

(a) HKAS 1 – Presentation of Financial Statements

The adoption of HKAS 1 has resulted in the presentational change in the Group's financial statements.

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance of HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective share of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax. The changes in presentation have been applied retrospectively.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) HKAS 1 – Presentation of Financial Statements *(Continued)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the Group's profit or loss attributable to shareholders (the equity holders of the Company).

With effect from 1 January 2005, in order to comply with HKASs 1 and 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company. These changes in presentation have been applied retrospectively with comparatives restated.

(b) HKFRS 3 – Business Combinations

The adoption of HKFRS 3 has resulted in a change in the accounting policy for positive goodwill and negative goodwill. In prior years, positive goodwill on acquisitions of subsidiaries was amortised on a straight-line basis over its useful economic life and was subject to impairment testing when there was indication of impairment.

In accordance with the provision of HKFRS 3, the Group ceased amortisation of positive goodwill from 1 January 2005. The accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in cost of positive goodwill. From the year ended 31 December 2005 onwards, positive goodwill will be tested annually for impairment, as well as when there is indication of impairment.

(c) HKASs 32 and 39 Financial instruments: disclosures and presentation; recognition and measurement

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. There are no material adjustments arising from the adoption of new policies for securities held for trading purpose, debt securities being held to maturity and unquoted investment not carried at fair value.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(d) HKAS 21 – The effects of changes in foreign exchange rates

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates using at the transaction dates. With effect from 1 January 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. In accordance with the transitional provision in the HKAS 21, the new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 January 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no material impact on the financial statements for the year ended 31 December 2005.

4. TURNOVER

The Group's turnover represents the income from provision of telephone sets subcontracting services and the net invoiced value of goods sold for household products, after allowance for returns and trade discounts where applicable. Turnover of prior year represent provision of telephone sets subcontracting services and the net invoiced value of goods sold for telephone sets, after allowance for returns and trade discounts where applicable. An analysis of the Group's turnover is as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover:		
Sales of telephone sets	**782**	182
Sales of household products	**22,656**	–
Provision of telephone sets subcontracting services	**2,547**	2,105
	25,985	2,287

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

(a) Business segments

The Group is principally engaged in the provision of telephone sets subcontracting services and the sales of household products.

	Provision of telephone sets subcontracting services		**Sales of household products**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue:						
External revenue	**3,329**	2,287	**22,656**	–	**25,985**	2,287
Results:						
Segment results	**(12,461)**	(4,806)	**2,037**	–	**(10,424)**	(4,806)
Unallocated corporate revenue					**766**	83
Unallocated corporate expenses					**(4,478)**	(9,624)
Operating loss excluding interest income/expense					**(14,136)**	(14,347)
Interest income					**3**	74
Interest expense					**(3)**	(3)
Gain on disposal of partial interest in an associate					**–**	135
Share of results of associates					**–**	–
Loss before taxation					**(14,136)**	(14,141)
Taxation					**–**	–
Loss for the year					**(14,136)**	(14,141)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	Provision of telephone sets subcontracting services		Sales of household products		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets:						
Segment assets	**2**	1,691	**4,689**	–	**4,691**	1,691
Interests in associates					**–**	–
Unallocated corporate assets					**779**	11,174
Consolidated total assets					**5,470**	12,865
Liabilities:						
Segment liabilities	**4,307**	6,497	**2,342**	–	**6,649**	6,497
Unallocated corporate liabilities					**5,097**	2,988
Consolidated total liabilities					**11,746**	9,485

	Provision of telephone sets subcontracting services		Sales of household products		Unallocated		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other information:								
Capital expenditure	1	10,408	4	–	52	16	57	10,424
Depreciation	51	27	–	–	66	250	117	277
Amortisation	–	3	–	–	–	1,150	–	1,153
Impairment loss in respect of								
– goodwill of a subsidiary	9,948	–	–	–	–	–	9,948	–
– goodwill of an associate	–	–	–	–	–	2,702	–	2,702

Segment assets consisted of trade receivables, inventories, prepayment and deposits.

Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings.

Capital expenditures comprise additions to property, plant and equipment, intangible assets and goodwill.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

During the year, the Group's turnover was derived from operations carried out in the People's Republic of China (the "PRC") and the United States of America ("USA"). All assets are located in the PRC (including Hong Kong). Over 90% of the Group's results, assets and capital expenditures are derived from operations carried out in the PRC. Accordingly, no further geographical segment information is presented in the financial statements except turnover.

	2005	2004
	HK$'000	*HK$'000*
Sales		
The PRC	**14,873**	2,287
USA	**11,112**	–
	25,985	2,287

Sales are allocated based on the countries in which customers are located.

6. LOSS FROM OPERATIONS

	2005	2004
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Depreciation:		
Owned fixed assets	**98**	265
Leased fixed assets	**19**	12
Amortisation of goodwill (included in other operating expenses):		
Subsidiary	**–**	434
Associate	**–**	684
Total depreciation and amortisation	**117**	1,395
Auditors' remuneration	**315**	230
Operating lease rentals in respect of land and buildings	**713**	1,020
Bad debts written off	**245**	285
Provision for impairment in trade receivables	**137**	–
Provision for prepaid tax	**563**	–
Provision for amounts due from associates	**3**	262
Provision for loan to associates	**–**	279
Staff costs, excluding directors' emoluments *(note 8)*	**2,188**	5,240
and after crediting:		
Other revenue:		
Interest income	**(3)**	(74)
Sundry income	**–**	(83)
	(3)	(157)
Other income:		
Reversal of provision for obsolete inventories	**(793)**	–

Included in staff costs above are contributions to mandatory provident fund of approximately HK$26,000 (2004: HK$49,000).

7. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on obligations under finance lease	**3**	3

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

The remuneration of every Director for the year ended 31 December 2005 and 2004 are set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Tai Chi Ching (Appointed on 16 February 2005)	–	171	–	8	179
Tse Wai Kwok Raymond (Appointed on 1 April 2005)	–	113	–	–	113
Zhao Ming (Resigned on 15 July 2005)	–	48	-	2	50
Kwong Wai Man, Karina (Re-designated as non-executive director on 15 February 2005)	112	–	–	2	114
Non-executive directors					
Kwong Wai Man, Karina (Resigned on 17 May 2005)	–	–	–	–	–
Ng Ming Wah, Ricky (Resigned on 8 March 2005)	18	–	–	–	18
Independent non-executive directors					
Tok Beng Tiong (Appointed on 10 August 2005)	47	–	–	–	47
Shen Jiahui (Appointed on 10 August 2005)	5	–	–	-	5
Yang Dongli (Appointed on 1 September 2005)	4	–	–	–	4
Chen Pei (Resigned on 20 September 2005)	–	–	-	–	–
Ma Lee (Resigned on 17 May 2005)	23	–	–	–	23
Peng Feng (Resigned on 30 September 2005)	–	–	–	–	–
Total for 2005	209	332	–	12	553

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Name of Director	Fees	Salary	Discretionary bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Kwong Wai Man, Karina	–	480	40	11	531
Zhao Ming	–	114	–	5	119
Non-executive director					
Ng Ming Wah, Ricky	96	–	–	4	100
Independent non-executive directors					
Chen Pei	–	–	–	–	–
Ma Lee (Appointed on 20 September 2004)	17	–	–	–	17
Peng Feng (Appointed on 11 November 2004)	–	–	–	–	–
Lau Kwok Kee (Resigned on 30 September 2004)	100	–	–	–	100
Total for 2004	213	594	40	20	867

At 31 December 2005 and 2004, none of the directors or chief executive of the Company had any share options granted under the share option schemes adopted by the Company.

No directors waived any emoluments during the year.

The five highest paid individuals included three directors (2004: three directors) during the year, whose emoluments are set out above. Details of the emoluments of the remaining two (2004: two) highest paid, non-director employees during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	**366**	779
Contributions to provident fund	**10**	24
	376	803

The emoluments of the remaining two (2004: two) highest paid, non-director employees fell within the band of HK$Nil to HK$1,000,000 for the year.

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Save as disclosed above, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAXATION

(a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2004: HK$ Nil).

Provision for overseas profits tax has not been made as the overseas subsidiaries did not generate any assessable profits during the year (2004: HK$Nil).

(b) Reconciliation between tax expenses and the Group's loss before taxation at applicable tax rates:

	2005		2004	
	HK$'000	%	*HK$'000*	%
Loss before tax	**(14,136)**		(14,207)	
Tax at applicable rate of 17.5% (2004: 17.5%)	**(2,474)**	**(17.50)**	(2,486)	(17.50)
Effect of different tax rates of 33% in other jurisdictions	**(1)**	**(0.01)**	145	1.02
Tax effect of non-taxable income	**(430)**	**(3.04)**	(567)	(3.99)
Tax effect of non-deductible expenses	**2,902**	**20.53**	2,908	20.47
Tax losses not recognised	**3**	**0.02**	–	–
Tax expense	**–**	**–**	–	–

(c) At the balance sheet date, the following temporary differences have not been recognised:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax losses	**31,700**	31,683	**17**	17
Deductible temporary differences	**784**	784	**–**	–
	32,484	32,467	**17**	17

9. TAXATION *(Continued)*

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group and the Company can utilise the benefits. The Group's tax losses amounting to HK$3,578,000 (2004: HK$3,578,000) expire 5 years from the year the tax losses were incurred. The remaining tax losses do not expire under the respective countries' tax legislation.

10. NET LOSS FOR THE YEAR

For the year ended 31 December 2005, net loss of approximately HK$7,720,000 (2004: HK$14,962,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2005 (2004: HK$Nil).

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss for the year of approximately HK$14,136,000 attributable to the equity holders of the Company (2004: loss of HK$14,023,000 attributable to the equity holders of the Company) and the weighted average of approximately 120,588,000 ordinary shares (2004: 55,613,000 ordinary shares) in issue during the year after adjusting for the effects of the share consolidation (note 23) on 10 January 2005. The basic loss per share for 2004 had been adjusted accordingly.

Diluted loss per share for the years ended 31 December 2005 and 2004 have not been shown as no share options outstanding during the years.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Machineries	Leasehold improvements	Motor vehicle	Furniture and fixtures	Office and computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:						
At 1 January 2004	–	99	–	155	596	850
Acquisition of a subsidiary	581	–	112	54	–	747
Additions	26	–	–	–	16	42
Disposals	–	–	–	(92)	(227)	(319)
At 31 December 2004 and 1 January 2005	607	99	112	117	385	1,320
Additions	–	51	–	1	5	57
Disposals	–	(99)	–	(63)	(106)	(268)
Exchange difference	18	–	3	2	–	23
At 31 December 2005	625	51	115	57	284	1,132
Accumulated depreciation and impairment losses:						
At 1 January 2004	–	31	–	123	392	546
Acquisition of a subsidiary	319	–	49	26	–	394
On disposals written back	–	–	–	(92)	(227)	(319)
Charge for the year	24	68	2	32	151	277
At 31 December 2004 and 1 January 2005	343	99	51	89	316	898
Disposals	–	(99)	–	(63)	(106)	(268)
Charge for the year	42	15	6	3	51	117
Exchange difference	10	–	1	1	–	12
At 31 December 2005	395	15	58	30	261	759
Net book value:						
At 31 December 2005	230	36	57	27	23	373
At 31 December 2004	264	–	61	28	69	422

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2005 was approximately HK$19,000 (2004: HK$37,000).

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Leaseland improvement *HK$'000*	Office and computer equipment *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2004	–	201	201
Additions	–	16	16
At 31 December 2004 and 1 January 2005	–	217	217
Additions	51	2	53
At 31 December 2005	**51**	**219**	**270**
Accumulated depreciation and impairment losses:			
At 1 January 2004	–	120	120
Charge for the year	–	65	65
At 31 December 2004 and 1 January 2005	–	185	185
Charge for the year	15	32	47
At 31 December 2005	**15**	**217**	**232**
Net book value:			
At 31 December 2005	**36**	**2**	**38**
At 31 December 2004	–	32	32

14. GOODWILL

	The Group
	HK$'000
Cost:	
At 1 January 2004	14,713
Additions for the year	10,382
At 31 December 2004 and 1 January 2005	25,095
Effect of adopting HKFRS 3	(15,147)
At 31 December 2005	**9,948**
Accumulated amortisation and impairment losses:	
At 1 January 2004	14,713
Impairment loss recognised for the year	434
At 31 December 2004 and 1 January 2005	15,147
Effect of adopting HKFRS 3	(15,147)
Impairment loss recognised for the year	9,948
At 31 December 2005	**9,948**
Net book value:	
At 31 December 2005	**–**
At 31 December 2004	9,948

(a) In 2004, positive goodwill on acquisition of subsidiaries are amortised on a straight-line basis over its useful life of eight years. The amortisation of positive goodwill for the year ended 31 December 2004 was included in "other operating expenses" in the consolidated income statement.

(b) As explained in Note 3 to the financial statements, with effect from 1 January 2005, the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

(c) With regard to the current market situation in the telephone set subcontracting industry, the directors reviewed the carrying value of the goodwill arising from the acquisition of Lucky Force Development Limited which was incorporated in the British Virgin Islands with its subsidiaries principally engaged in the provision of telephone sets subcontracting services. Based on their assessment which was by reference to the value in use of the operations, a full provision for impairment loss on goodwill of approximately HK$9,948,000 was recognised in the current financial year.

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**12,246**	12,168
Less: Provision for impairment loss	**(12,168)**	(10,130)
	78	2,038
Amounts due from subsidiaries	**63,677**	60,041
Less: Provision for amounts due from subsidiaries	**(63,677)**	(60,041)
	–	–
	78	2,038
Amounts due to subsidiaries	**2,932**	2,339

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

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid-up share capital/ registered capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities
Alwin Asia Investment Limited	British Virgin Islands	US$10,000	100%	100%	Investment holding
Grandmass Cyber Factory (China) Limited	Hong Kong	HK$2	100%	100%	Investment holding
Grandmass Enterprise System (Shanghai) Limited*	The PRC	HK$900,000	100%	100%	Dormant
Grandmass ERP Limited	British Virgin Islands	US$33,085	100%	100%	Investment holding
Grandmass Global Investment Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Grandmass iOMS Limited	British Virgin Islands	US$50,000	100%	100%	Investment holding
Grandmass iOMS (SZ) Co. Limited	The PRC	HK$1,000,000	100%	100%	Dormant
Grandmass Solution Limited	Hong Kong	HK$2	100%	100%	Dormant
Sun-iOMS Limited	Hong Kong	HK$80,000	100%	100%	Dormant
Sun-iOMS Maintenance Limited	Hong Kong	HK$2	100%	100%	Dormant
Lucky Force Development Limited	British Virgin Islands	US$100	100%	100%	Provision of telephone sets subcontracting services
Tedwood International Limited##	Hong Kong	HK$1	100%	100%	Sales of household products
Lang Fang Tian Feng Home Co. Limited	The PRC	US$128,660	100%	100%	Sales of household products
深圳新弘茂科技有限公司	The PRC	RMB1,500,000	66.7%	66.7%	Provision of telephone sets subcontracting services

subsidiary not audited by HLB Hodgson Impey Cheng and Cheung & Siu. The aggregate net assets of subsidiary not audited by HLB Hodgson Impey Cheng and Cheung & Siu amounted to approximately 0.9% of the Group's total assets and 44% of the Group's turnover.

* *A translation of the official Chinese name.*

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Other than Alwin Asia Investment Limited, Grandmass ERP Limited and Grandmass Global Investment Limited, all subsidiaries are indirectly held by the Company. All subsidiaries are private limited liability companies and principally operating in Hong Kong except for Grandmass iOMS (SZ) Co. Limited, Grandmass Enterprise System (Shanghai) Limited, Lucky Force Development Limited, 廊坊天豐家居有限公司 and 深圳新弘茂科技有限公司 which are principally operating in the PRC.

16. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net liabilities	**(66)**	(66)	**–**	–
Goodwill on acquisition of an associate less amortisation and impairment losses	**66**	66	**–**	–
	–	–	**–**	–
Amounts due from associates	**567**	564	**1,677**	1,674
Loan to an associate	**279**	279	**–**	–
Less: Provision for loan to an associate	**(279)**	(279)	**–**	–
Less: Provision for amounts due from associates	**(567)**	(564)	**(1,677)**	(1,674)
	–	–	**–**	–
Amount due to an associate	**2**	2	**1,256**	1,256

Notes:

(a) The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment.

(b) Pursuant to a loan restructuring agreement dated 12 November 2002, the Group made a loan of HK$1,000,000 to Grand Teton Limited to develop its subsidiary, IFS HK Limited. The loan was guaranteed by an independent third party and carried interest at prime rate less 1% per annum due on 31 December 2004. Based on the directors' assessment which was by reference to the value in use of the associate's operations, a full provision for the loan and interest receivable of approximately HK$279,000 was recognised in the year ended 31 December 2004.

16. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(c) The movement in goodwill arising on acquisition of an associate is as follows:

The Group

	HK$'000
Cost:	
At 1 January 2004 and 31 December 2004	5,478
Less: Effect of adopting HKFRS 3	(5,412)
At 31 December 2005	66
Accumulated amortisation and impairment losses:	
At 1 January 2004	2,026
Amortisation for the year ended 31 December 2004	684
Impairment loss for the year ended 31 December 2004	2,702
At 31 December 2004 and 1 January 2005	5,412
Less: Effect of adopting HKFRS 3	(5,412)
At 31 December 2005	–
Net book value:	
At 31 December 2005	**66**
At 31 December 2004	66

In 2004, goodwill on acquisition of an associate is amortised on a straight-line basis over its useful lives of eight years. In view of the economic condition and keen competition in the computer software industry, the directors reviewed the carrying value of goodwill on acquisition of an associate, Signking Science Limited, which was incorporated in the British Virgin Islands, with its associate principally engaged in software development and related services, and based on their assessment which was by reference to the value in use of the operations, an impairment loss on goodwill of approximately HK$2,702,000 has been identified and recognised in the consolidated income statement for the year ended 31 December 2004.

17. INVENTORIES

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Finished goods	**2,293**	71

18. TRADE RECEIVABLES

The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 60 days	**170**	436
61 – 90 days	**52**	–
	222	436

All sales and services rendered by the Group are due and payable upon presentation of invoices.

19. LOAN RECEIVABLE

The Group

On 26 October 2003, the Group entered into a loan agreement with a borrower, China Autocard Holdings Limited. The loan of HK$1,700,000 was guaranteed by a director of the borrower and carried interest at prime rate less 1% per annum. The amount was due for payment on 26 April 2004. Part of the loan amounted to HK$800,000 was repaid during the year ended 31 December 2004. The loan was fully settled during the year.

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**2,963**	2,469	**–**	–
Other payables	**7,956**	3,783	**500**	713
Purchase consideration payable	**–**	3,000	**–**	–
	10,919	9,252	**500**	713

20. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade payables at the balance sheet date:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 – 60 days	**423**	–	**–**	–
61 – 90 days	**–**	–	**–**	–
91 – 180 days	**–**	–	**–**	–
>180 days	**2,540**	2,469	**–**	–
	2,963	2,469	**–**	–

21. SHORT TERM LOAN FROM A SHAREHOLDER

The Group

The loan from the shareholder, True Allied Assets Limited, is unsecured, interest free and is repayable on 30 April 2006.

22. OBLIGATIONS UNDER FINANCE LEASE

The Group

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
– Within one year	**15**	15	**13**	11
– In the second to fifth years, inclusive	**31**	46	**26**	39
	46	61	**39**	50
Less: Future finance charges	**(7)**	(11)		
Present value of lease obligations	**39**	50		
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(13)**	(11)		
Amounts due for settlement after 12 months	**26**	39		

22. OBLIGATIONS UNDER FINANCE LEASE *(Continued)*

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The interest rate on finance lease was approximately 4.5% per annum and the term entered into was five years. Interest rate was fixed at the contract rate. The lease was on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

23. SHARE CAPITAL

Shares

	Number of shares *'000*	**Share capital** *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2004 and 31 December 2004	10,000,000	100,000
Increase in authorised share capital *(Note (ii)(a))*	40,000,000	400,000
At 31 December 2005	50,000,000	500,000
Issued and fully paid:		
At 1 January 2004	2,160,000	21,600
Issue of shares *(Note (i))*	209,000	2,090
At 31 December 2004 and at 1 January 2005	2,369,000	23,690
Share consolidation *(Note (ii)(b))*	(2,309,775)	–
Capital reduction *(Note (ii)(c))*	–	(23,098)
Issue of shares – open offer *(Note (iii))*	59,225	592
Placing of shares *(Note (iv))*	23,690	237
At 31 December 2005	142,140	1,421

Notes:

(i) Pursuant to a resolution passed in the special general meeting held on 14 June 2004, the Company issued 209,000,000 ordinary shares of HK$0.01 each as consideration shares for acquisition of the entire issued share capital of Lucky Force Development Limited.

23. SHARE CAPITAL *(Continued)*

(ii) Pursuant to a resolution passed in the special general meeting held on 10 January 2005,

(a) the authorised share capital of the Company was increased from HK$100,000,000 to HK$500,000,000 by the creation of an additional 40,000,000,000 unissued shares;

(b) every forty shares of the issued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.40 each;

(c) the nominal value of the issued shares of the Company of HK$0.40 each was reduced to HK$0.01 each by way of a reduction of capital pursuant to the Bermuda Companies Act 1981. As such, the issued of share capital of the Company as at 10 January 2005 was reduced from HK$23,690,000 (divided into 59,225,000 shares of HK$0.40 each) to HK$592,250 (divided into 59,225,000 shares of HK$0.01 each).

(iii) On 22 February 2005, the Company issued 59,225,000 shares of HK$0.01 each at an open offer price of HK$0.06 each for the purpose of increasing working capital for the Company.

(iv) On 22 July 2005, the Company, through a placing agent, placed 23,690,000 shares of HK$0.01 each at a placing price of HK$0.06 each for the purpose of increasing general working capital for daily operation.

Share options

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

No options under the Share Option Scheme had been granted to any person during the year.

24. RESERVES

(a) The Group

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

(b) The Company

	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	22,859	38,118	(71,657)	(10,680)
Loss for the year	–	–	(14,962)	(14,962)
At 31 December 2004 and at 1 January 2005	22,859	38,118	(86,619)	(25,642)
Capital reduction *(Note 23(ii)(c))*	–	–	23,098	23,098
Issue of shares – open offer *(Note 23(iii))*	2,742	–	–	2,742
Issue of shares – placing *(Note 23(iv))*	1,049	–	–	1,049
Loss for the year	–	–	(7,720)	(7,720)
At 31 December 2005	**26,650**	**38,118**	**(71,241)**	**(6,473)**

25. ACQUISITION OF A SUBSIDIARY

	2005	2004
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	–	353
Intangible assets	–	643
Inventories	–	5,155
Trade receivables	–	3,349
Prepayments, deposits and other receivables	–	5,212
Cash and bank balance	–	2,475
Trade payables	–	(5,666)
Accrued liabilities and other payables	–	(8,434)
Tax payable	–	(1,118)
Minority interest	–	(118)
Net identifiable assets and liabilities	–	1,851
Goodwill arising on consolidation	–	9,739
Total purchase price	–	11,590
Less: purchase price included in trade and other payables	–	(3,000)
Less: purchase price satisfied in shares	–	(2,090)
Total purchase price paid, satisfied in cash	–	6,500
Less: cash of the subsidiary acquired	–	(2,475)
Net cash outflow in respect of acquisition of a subsidiary	–	4,025

26. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 3 to 5 years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**892**	819
In the second to fifth years, inclusive	**2,694**	1,419
	3,586	2,238

The Company had no operating lease commitments at the balance sheet date (2004: HK$Nil).

27. NON-CASH TRANSACTIONS

During the year ended 31 December 2004, the Group settled the part of the purchase consideration for acquisition of Lucky Force Development Investment Limited of approximately HK$2,090,000 by issue of 209,000,000 ordinary shares of HK$0.01 each.

28. MATERIAL RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, the following is a summary of significant related party transactions which were entered into between the Group and its related parties:

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 8 is as follows:

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**708**	634
MPF Contribution	**20**	16
	728	650

Total remuneration is included in "Staff costs" (Note 8).

28. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b)

Name of related parties	**Nature of transaction**	*Note*	**2005** ***HK$'000***	2004 *HK$'000*
深圳國威電子有限公司	Provision for telephone sets subcontracting income		**1,677**	2,122
K.K. Lau & Co. (formerly known as Lau Lin & Co.)	Legal fee	*(i)*	**350**	150

Note:

(i) The legal fee paid to K.K. Lau & Co. was charged at rates negotiated by reference to market rates. Mr. Lau Kwok Kee, who resigned as an independent non-executive director of the Company on 30 September 2004, is a partner of K.K. Lau & Co..

(c) At 31 December 2004, the Group had credit card facility amounted to approximately HK$60,000 which was secured by personal guarantees of two ex-directors of the Company, Mr. Ng Ming Wah and Ms. Kwong Wai Man, Karina, to the extent of HK$180,000 at 31 December 2004.

29. RETIREMENT BENEFITS SCHEMES

The Group operates MPF scheme for all qualifying employees of its Hong Kong subsidiaries, in funds under the controls of trustee. Under the rules of the MPF scheme, the employer and its employee are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the MPF scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiary in the People's Republic of China are members of stated-managed retirement benefit scheme. The subsidiary is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

No forfeited contribution is available to reduce the contribution payable in future years.

The total cost charged to the income statement of approximately HK$26,000 (2004: HK$49,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

30. CONTINGENT LIABILITIES

At the balance sheet date, the Group has the following contingent liabilities:

(a) A wholly-owned subsidiary of the Company, Sun-iOMS Limited, was a defendant of a legal action brought by its customer. The directors consider that, after obtaining legal advice, the aforesaid subsidiary has a strong case in the aforesaid action. In addition, an ex-director of the Company, Mr. Yue Chung Wing, Patrick, has indemnified the Group in respect of all liabilities that may arise out of or in connection with any of the claims and legal costs that may be payable to the plaintiff and any legal cost to be incurred in respect of the abovementioned claim. In view of the above, the directors are of the opinion that the above legal action would not have any significant impact on the financial position of the Group, hence, no provision is considered necessary by the directors at the balance sheet date.

(b) On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of a wholly-owned subsidiary, Sun-iOMS Maintenance Limited, guaranteeing that the income accrued to the wholly-owned subsidiary arising from the sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, the wholly-owned subsidiary and the Company took legal action against the abovementioned independent third party and two executive directors resigned in 2001 in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. The case was dismissed during the year. The wholly-owned subsidiary and the Company are in the course of appealing the Order of dismissal. If the appeal is unsuccessful, the wholly-owned subsidiary and the Company shall be required to pay the legal costs of the defendants. The estimated legal costs of the defendants are approximately HK$1,390,000 (subject to taxation). Up to the date of approval of these financial statements, the case is pending for hearing. In the opinion of the Company's legal advisors, its is difficult to predict the outcome of the proceedings at this stage. In the opinion of the directors of the Company, no provision for legal costs are considered necessary by the directors at the balance sheet date.

Save as disclosed in above, the Company had no contingent liabilities at the balance sheet date.

31. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Foreign exchange risk

The Group's markets mainly located in the USA and Mainland China and its sales are mainly denominated in United States dollars and Renminbi respectively. It is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in overseas subsidiaries.

31. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that full deposits are received prior to delivery of goods to customers.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. As the Group has no significant interest bearing liabilities, the Group's exposure to market risk for changes in interest rates relates primarily to the cash and bank balances. Floating-rate interest income is charged to the income statement as incurred.

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Estimate of recoverable amounts of assets

The Group tests annually whether assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined on the value-in-use calculation. These calculations require use of estimate.

33. IMPACT OF HKFRSs ISSUED BUT NOT YET EFFECTIVE

The Group has not applied for the following new and revised HKFRSs that have been issued but are not yet effective to these financial statements. Unless otherwise stated, these HKFRSs are effective for accounting period commencing on or after 1 January 2006:

HKAS 1 Amendment	Capital disclosures
HKAS 19 Amendment	Actuarial gains and losses, group plans and disclosures
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS4 Amendments	Financial guarantee contracts
HKFRSs 1 & 6 Amendments	First-time adoption of Hong Kong Financial Reporting Standards and exploration for and evaluation of mineral resources
HKFRS 6	Exploration for and evaluation of mineral resources
HK (IFRIC)-Int 4	Determining whether an arrangement contains a lease
HK (IFRIC)-Int 5	Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
HK (IFRIC)-Int 6 (effective for accounting periods on or after 1 December 2005)	Liabilities arising from participating in a special market – waste electrical and electronic equipment

The HKAS 1 Amendment shall be effective for accounting periods commencing on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be effective for accounting periods commencing on or after 1 January 2007.

The Group is in the process of making an assessment of what the impact of the new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the HKAS 19 Amendment, HKAS 39 Amendments, HKFRSs 1 & 6 Amendments, HKFRS 6, HK (IFRIC) Int 5 & 6 do not apply to the activities of the Group. The Group expects that the adoption of the rest of them will not have any significant impact on the Group's results of operation and financial position.

34. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 27 February 2006, the Company entered into a placing agreement and a supplementary agreement with Oriental Patron Asia Limited (the "Placing Agent") pursuant to which the Company has conditionally agreed to place, through the Placing Agent, 28,420,000 shares to no less than 6 independent investors, at a price of HK$ HK$0.064 per share (the "Placing"). The Placing was completed on 20 March 2006 and for the purpose of increasing general working capital. The Company issued 28,420,000 shares to seven placees at a price of HK$0.064 per share. The Company received net proceeds of approximately HK$1,702,000.

(b) On 3 March 2006, the Board of Directors announced that the Board proposed to implement a share consolidation under which every two shares of HK$0.01 each in the issued and unissued share capital of the Company be consolidated into one share of HK$0.02 each in the issued and unissued share capital of the Company.

35. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2006.