

Notes to the Financial Statements

1. GENERAL

The Company was incorporated in the Cayman Islands on 7 February 2002 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 August 2002.

The principal investment objective of the Company is to achieve medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the People's Republic of China (the "PRC"). The Company held no listed investment as at 31 December 2003 and 2004.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

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

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong. The financial statements are prepared under the historical cost convention as modified with respect to the measurement of investments in securities as explained in the respective accounting policies below. The principal accounting policies adopted are as follows:

(a) Revenue recognition

Gains or losses on sale of other investments are recognised when a sale and purchase contract is entered into and title has passed.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Notes to the Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(b) Investments in securities**

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

At subsequent reporting dates, debts securities that the Company has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investments.

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

Other investments are measured at fair value with unrealised gains and losses included in net profit or loss of the year.

(c) Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(d) Interest receivables

Provision is made against interest receivables to the extent that they are considered to be doubtful. Interest receivables in the balance sheet are stated net of such provision.

(e) 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 profit and loss account because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes profit and loss items that are never taxable or deductible.

Notes to the Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Taxation *(Continued)*

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

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(f) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

(g) Related parties

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

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

Notes to the Financial Statements

4. TURNOVER AND REVENUES

The principal activity of the Company is investment holding. An analysis of the turnover and revenue of the Company is as follows:

	2004	2003
	HK\$	HK\$
Turnover		
Interest on convertible loans receivable	792,823	643,803
Other revenues		
Bank interest income	3,320	43,886
Gain on sale of other investments	380,151	247,141
	383,471	291,027
Total revenues	1,176,294	934,830

No segment information is presented as the entire turnover, contribution to operating results, assets and liabilities of the Company are attributable to investment activities which are carried out or originated principally in Hong Kong and the PRC.

Bank interest income and gain on sales of other investments had been included in turnover in prior year. However, as the principal investment objective of the Company is to achieve medium-term (from 3-5 years) capital appreciation through investment in listed and unlisted companies, bank deposit interest and income from other investment are reclassified to other revenues.

5. LOSS BEFORE TAXATION

	2004	2003
	HK\$	HK\$
Auditors' remuneration	65,000	50,000
Investment management fee	120,756	247,778
Provision for deposit of investment	-	100,000

Notes to the Financial Statements

6. TAXATION

- (a) No provision for Hong Kong profits tax has been made in the financial statements as the Company has no assessable profit for the year (2003: Nil).
- (b) The charge for the year can be reconciled to loss before taxation per profit and loss account as follow:

	2004 HK\$	2003 HK\$
Loss before taxation	(9,078,931)	(398,369)
Tax at the domestic income tax rate of 17.5%	(1,588,813)	(69,715)
Tax effect of non-deductible expenses	1,487,500	17,500
Tax effect of non-taxable income	(1,409)	(7,680)
Deferred tax assets not recognised	102,722	59,895
Taxation charge for the year	-	-

As at 31 December 2004, the Company had unused tax losses of HK\$629,411 (2003: HK\$342,255) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit stream. The unrecognised tax losses may be carried forward indefinitely.

7. DIVIDEND

No dividend has been paid or declared by the Company during the year (2003: nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$9,078,931 (2003: HK\$398,369) and the weighted average number of 199,944,000 (2003: 199,965,786) ordinary shares in issue.

No diluted loss per share for both years has been presented as the effect of any dilution is anti-dilutive.

Notes to the Financial Statements

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

	2004	2003
	HK\$	HK\$
Fees		
Executive directors	38,688	10,239
Independent non-executive directors	20,870	6,110
	59,558	16,349
Other emoluments of executive directors	-	-
	59,558	16,349

During the year ended 31 December 2003, in addition to the above emoluments, 3,000,000 and 1,600,000 options were granted to the executive and independent non-executive directors respectively under the share option scheme adopted by the Company on 18 July 2002. Each of the options entitled the holders to subscribe for one ordinary share of HK\$0.01 each in the Company at an exercise price of HK\$0.25 per share at any time during the period from 28 August 2003 to 27 August 2013. During the year, no further options were granted to the directors.

No value in respect of the share options granted is included in the above directors' emolument disclosure.

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

The five highest paid employees during the year included five directors (2003: five directors), details of whose emoluments are set out in above.

During the year ended 31 December 2004 and 2003, there were no amounts paid as compensation for loss of office and an inducement to join or upon joining the Company and no director waived any emoluments.

Notes to the Financial Statements

10. INVESTMENTS IN SECURITIES

	2004 HK\$	2003 HK\$
Unlisted equity securities, at fair value	18,000,000	18,000,000
Unlisted convertible loan notes, at cost	17,428,045	17,428,045
	35,428,045	35,428,045
Less: Provision	(8,500,000)	–
	26,928,045	35,428,045

The following is a list of the Company's investments as at 31 December 2004:

(a) Unlisted equity securities

Name of Investee company	2004			% of total assets of the Company	2003
	Cost HK\$	Impairment loss recognised HK\$	Fair value HK\$		Cost HK\$
Jinan LuGu (HK) Technology Development Limited (note (i))	9,000,000	–	9,000,000	24.6%	9,000,000
SNG Hong Kong Limited (note (ii))	9,000,000	–	9,000,000	24.6%	9,000,000

Notes to the Financial Statements

10. INVESTMENTS IN SECURITIES *(Continued)***(b) Unlisted convertible loan notes, unsecured:**

Name of issuer	Principal amount <i>HK\$</i>	Provision made <i>HK\$</i>	Net amount <i>HK\$</i>	Interest rate	Maturity date	% of total assets of the Company
King Tiger Technology Company Limited – unsecured <i>(note (iii))</i>	8,928,045	–	8,928,045	6.5% p.a.	15 January 2006	24.4%
China Ibonline Holding Co., Ltd. – unsecured <i>(note (iv))</i>	8,500,000	8,500,000	–	2.5% p.a.	3 August 2006	–

Notes:

(i) Jinan LuGu (HK) Technology Development Limited (“Jinan LuGu”)

Jinan LuGu is incorporated in Hong Kong and principally engaged in research and development as well as the sales of biopharmaceutical products, biomaterials and bio-skincare products.

The Company holds 125 ordinary shares in Jinan LuGu, representing 25% interest in the issued share capital of Jinan LuGu. Jinan LuGu is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, Jinan LuGu is accounted for as an unlisted equity security. No dividend was received during the year (2003: nil).

(ii) SNG Hong Kong Limited (“SNG”)

SNG is incorporated in Hong Kong and principally engaged in the distribution of internet games, delivering game information through various sources, such as internet, magazines, etc.

The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SNG. SNG is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, SNG is accounted for as an unlisted equity security. No dividend was received during the year (2003: nil).

Notes to the Financial Statements

10. INVESTMENTS IN SECURITIES *(Continued)***(b) Unlisted convertible loan notes, unsecured:** *(Continued)*

Notes: *(Continued)*

(iii) King Tiger Technology Company Limited (“King Tiger”)

King Tiger is incorporated in Taiwan and principally engaged in investment holding. It indirectly holds 49% interest in 安徽精通科技有限公司 (“安徽精通”). 安徽精通 is registered in the PRC as foreign investment enterprises by equity joint venture and is principally engaged in the manufacturing of solder ball by the Ball Grid Array technology.

The Company holds a convertible loan note with principal amount of USD1,144,000 carrying the right to convert the loan note into shares, directly or indirectly, in 安徽精通. The loan note is unsecured, bears interest at 6.5% per annum and has a maturity date on 15 January 2006. At any date before the maturity, King Tiger has the right to redeem the whole or part of the loan note. On or before the 6 months ended after the maturity date, the Company has the right to convert the outstanding principal amount of the loan note into shares, directly or indirectly, in 安徽精通. Interest is calculated on 31 December of each year and payable in cash.

On 15 November 2004, a supplemental agreement (the “First Supplemental Agreement”) was entered into for the accrued interest receivable from King Tiger. With the First Supplemental Agreement, the Company has the right to request King Tiger to settle accrued interest annually or settle in one lump sum on the maturity date. If the Company chooses to request settlement upon maturity, it has the right to request payment by cash or to convert the accrued interest into additional 2% interest in 安徽精通.

On 8 April 2005, a second supplemental agreement (the “Second Supplemental Agreement”) was entered into. With the Second Supplemental Agreement, if the Company chooses to convert the accrued interest upon maturity as mentioned in the First Supplemental Agreement, the additional percentage of interest in 安徽精通 will be adjusted so that the share of the net assets value of 安徽精通 at the date of conversion be equal to the aggregate amount of the principal and accrued interest thereon. Interest income recognised during the year amounted to HK\$580,323 (2003: HK\$556,474).

(iv) China Ibonline Holding Co., Ltd. (“China Ibonline”)

China Ibonline is incorporated in the British Virgin Islands and principally engaged in investment holding. Through its shareholders, China Ibonline currently holds 80% interest of 深圳市創銳實業有限公司 (“深圳市創銳”) which is incorporated in the PRC. China Ibonline had agreed to effect a restructure process for acquiring 100% interest in 深圳市創銳 as its wholly owned subsidiary. 深圳市創銳 is principally engaged in the installation and adjusting of wiring for build-in internet service of buildings.

The Company holds a convertible loan note with principal amount of HK\$8,500,000 carrying the right to convert the loan note into shares in China Ibonline. The loan note is unsecured, bears interest at 2.5% per annum and has a maturity date on 3 August 2006. At any date before the maturity, China Ibonline has the right to redeem the whole or part of the loan note. The Company has the right on any day after the maturity date to convert the outstanding principal amount of the loan note into shares in China Ibonline. Interest is calculated on 31 December of each year and payable in cash. Interest income recognised during the year amounted to HK\$212,500 (2003: HK\$87,329).

Up to the date of this report, China Ibonline had defaulted on the payment of interest since 31 December 2003. Further, the Company discovered that China Ibonline and 深圳市創銳 had silently moved out from their office and the Company loss contact with the director and management of China Ibonline and was unable to obtain latest financial information relating to China Ibonline and 深圳市創銳. In light of the above, the Company has made a full provision against this investment for the sake of prudence.

Notes to the Financial Statements

11. SHARE CAPITAL

	Number of shares	Amount <i>HK\$</i>
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 31 December 2003 and 2004	2,000,000,000	20,000,000
<i>Issued and fully paid:</i>		
At 1 January 2003	200,000,000	2,000,000
Repurchase of issued shares	(56,000)	(560)
At 31 December 2003 and 2004	199,944,000	1,999,440

During the year ended 31 December 2003, the Company repurchased 56,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK\$49,840. All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK\$560 during the year was set off with the issued share capital and the balance HK\$49,280 was paid out from the Company's share premium.

No issued share was repurchased during the year ended 31 December 2004.

12. SHARE OPTIONS

Under the share option scheme approved by the sole shareholder of the Company on 18 July 2002 (the "Scheme"), the board of directors of the Company may, at their discretion, invite any full-time employee, director (including non-executive director and independent non-executive director), any part time employee with weekly working hours of 15 hours and above of the Company or its subsidiaries, any advisor or consultant to the Company or to any of its subsidiaries and adviser, consultant, agent or business affiliates who has contributed to the Company to subscribe for shares in the Company.

Pursuant to the Scheme, the overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share options schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at any time. Any further grant of options in excess of this limit is subject to the shareholders' approval of the Company in a general meeting with such participant(s) and his associate(s) abstaining from voting.

Notes to the Financial Statements

12. SHARE OPTIONS *(Continued)*

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a consideration of HK\$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of (a) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share on the date of grant.

Details of the options granted under the Scheme and outstanding at 31 December 2004 are as follows:

Date of grant	Option period	Number of share options		Outstanding as at 31 December 2004	Price per share to be paid on exercise of options HK\$
		Outstanding as at 1 January 2004	Granted during the year		
29/1/2003	28/8/2003 – 27/8/2013	20,000,000	–	20,000,000	0.25

As at 31 December 2004, the number of shares issuable under the Scheme represented approximately 10% (2003: approximately 10%) of the Company's shares in issue as at that date.

No share options were exercised under the Scheme since its date of adoption.

13. NET ASSETS VALUE PER SHARE

The calculation of net assets value per share is based on the net assets value of the Company as at 31 December 2004 of HK\$36,533,115 (2003: HK\$45,612,046) and 199,944,000 (2003: 199,944,000) ordinary shares in issue at that date.

Notes to the Financial Statements

14. CONNECTED AND RELATED PARTY TRANSACTIONS

	2004 HK\$	2003 HK\$
Investment management fee paid to		
Hua Yu Investment Management Limited	–	190,746
China Everbright Securities (HK) Limited (<i>note a</i>)	120,756	57,032
	120,756	247,778
Custodian fee paid to		
Standard Chartered Bank	–	1,560
Brokerage commission paid to		
China Everbright Securities (HK) Limited (<i>note b</i>)	43,628	41,722
License fee paid to		
Restart International Investment Limited (<i>note c</i>)	459,000	–
License deposit paid to		
Restart International Investment Limited (<i>note c</i>)	102,000	–
Amount due from substantial shareholders		
Harvest Rise Investments Limited	–	30,403
WYSE Technology (Far East) Ltd.	–	30,402
	–	60,805

Note:

- (a) On 23 May 2003, the Company entered into investment management agreement with China Everbright Securities (HK) Limited ("CES") for a period of three years commencing from 1 June 2003 in consideration of a payment of a fee calculated at 0.25% per annum of the net assets value of the Company as at the last dealing date on the Stock Exchange in each calendar month or such other valuation date as considered appropriate by the Directors and payable on a monthly basis on a business date immediately after each valuation date. In addition, CES is entitled to a bonus fee equivalent to 10% of the audited profit before tax of each financial year of the Company payable on the business date immediately after the publication of the Company's final audited result for the year. CES is regarded as a connected person of the Company for the purpose of the Listing Rules.
- (b) Brokerage commission rate is charged at the rate ranged from 0.25% to 1% of the value of the transactions.

Notes to the Financial Statements

14. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

Note: (Continued)

- (c) During the year, the Company has entered into a license agreement with Restart International Investment Limited ("Restart"), a company of which a director of the Company, Mr. Xiang Xin is also a director (the "License Agreement"). Pursuant to the License Agreement, the Company was granted the right to occupy an office unit and to use the available furniture, equipment and general administrative services. In return, the Company shall pay a deposit of HK\$102,000 and a monthly license fee of HK\$1,000 to Restart. The License Agreement commenced on 1 April 2004 and may terminate when 30 days notice is given by either party. The deposit was included in the deposits and prepayment in the balance sheet.

15. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company was granted rights to acquire shares of a listed company in Hong Kong through a right issue by the listed company. The rights were related to the listed shares acquired and disposed of during the year by the Company. The Company has exercised the rights and sold the right shares. As such, the Company has realised a gain of approximately HK\$6.9 million.

16. APPROVAL OF ACCOUNTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 21 April 2005.