Notes to the Financial Statements

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands and the Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. Its principal investment objective 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 financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

2. IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS (" HKASs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new HKFRSs, HKASs and Interpretations that are effective for accounting periods beginning on or after 1 January 2005. The Company has adopted the following HKFRSs and HKASs which are pertinent to its operations and relevant to these financial statements.

– HKAS 1	Presentation of Financial Statements
– HKAS 7	Cash Flow Statements
– HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
– HKAS 10	Events after the Balance Sheet Date
– HKAS 12	Income Taxes
– HKAS 17	Leases
– HKAS 18	Revenue
– HKAS 21	The Effects of Changes in Foreign Exchange Rates
– HKAS 24	Related Party Disclosures
– HKAS 32	Financial Instruments: Disclosure and Presentation
– HKAS 33	Earnings per Share
– HKAS 36	Impairment of Assets
– HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
– HKAS 39	Financial Instruments: Recognition and Measurement
– HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
– HKFRS 2	Share-based Payment

The adoption of HKASs 7, 8, 10, 12, 17, 18, 21, 33, 36 and 37 has had no material impact on the Company's accounting policies and the methods of computation, presentation and disclosure in the Company's financial statements. The major effects on adoption of the other HKFRSs and HKASs are summarised as follows:

(a) The adoption of HKAS 1 requires the disclosure of judgements (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.

(b) The adoption of HKAS 24 affects the identification of related parties and the disclosure of related party transactions. These related party disclosures are presented in note 18 to the financial statements.

Notes to the Financial Statements

2. IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS (" HKASs") *(Continued)*

(c) The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Company are presented for current and prior accounting periods. HKAS 39 which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below.

The Company has applied the relevant transitional provisions of HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Company classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debts and equity securities are classified as investment in securities, other investment or held to maturity investments as appropriate. Investments in securities are carried at cost less impairment loss (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Company classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" are carried at fair value, with changes in fair values recognised in income statement. "Available-for-sale financial assets" are carried at fair value with changes in fair values recognised in equity, except for certain investments in unlisted securities which are carried at cost less impairment when there are absence of quoted market prices in an active market and whose fair value cannot be reliably measured. The adoption of the transitional provisions in HKAS 39 has resulted in reclassification of all investment in securities to "available-for-sales financial asses", and had no material effect on how the Company's results for prior accounting periods are prepared and presented. For current year, impairment loss of HK$4,500,000 was recognised during the six months period ended 30 June 2005 will not reverse in subsequent periods and was carried forward to 31 December 2005.

On 1 January 2005, investment in securities classified under non-current assets with carrying amount of HK$26,928,045 was reclassified to available-for-sale financial assets accordingly.

(d) The adoption of HKFRS2 has resulted in a change in accounting policy for share options. Prior to this, no recognition and measurement of share-based transactions in which share options granted over shares in the Company was required until such options were exercised, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when advisors and directors render service as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with advisors and directors is measured by reference to the fair value at the date of which the instruments are granted.

Notes to the Financial Statements

2. IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS (" HKASs")

(Continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant advisors and directors become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Company has not applied HKFRS 2 to share options that were granted after 7 November 2002 and vested before 1 January 2005 in accordance with the relevant transitional provisions.

The Company has not early applied the following new HKFRSs that have been issued by the HKICPA but not yet effective. The directors of the Company has considered these standards and interpretations but does not expect that they will have a material effect on the results of operation and financial position of the Company.

– HKS 1 (Amendment)	Capital Disclosures[1]
– HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
– HKAS 21 (Amendment)	The effects of changes in foreign exchange rates – Net investment in a foreign operation[2]
– HKFRS 6	Exploration for and evaluation of mineral resources[2]
– HKFRS 7	Financial instruments: Disclosures[1]
– HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
– HKAS 39 (Amendment)	The Fair Value Option[2]
– HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
– HK(IFRIC) – INT 4	Determining whether an arrangement contains a Lease[2]
– HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
– HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste, electrical and electronic equipment[3]
– HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies[4]

[1] Effective for the annual period beginning on or after 1 January 2007
[2] Effective for the annual period beginning on or after 1 January 2006
[3] Effective for the annual period beginning on or after 1 December 2005
[4] Effective for the annual period beginning on or after 1 March 2006

Notes to the Financial Statements

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 directors of the Company make estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Estimate of impairment of investment in unlisted debts and securities

In the absence of information of an active market for unlisted debts and securities, the directors of the Company determine the amount within a range of reasonable impairment estimates by considering information from a variety of sources including:

(i) Bi-annual review on the operating results and net assets value of an invested entity on balance sheet date;

(ii) Historical operating performance and dividend distribution of the invested entity; and

(iii) Gearing position and liquidity to meet working capital requirement of an invested entity.

4. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The financial statements have been prepared in accordance with HKFRS. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(a) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recongised immediately in profit or loss.

Financial assets

The Company's financial assets are mainly classified into financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. All regular way purchase and sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchase or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Notes to the Financial Statements

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Financial instruments *(Continued)*

Financial asset at fair value through profit or loss

The investment that acquired principally for purpose of selling in the near term are classified as financial asset at fair value through profit or loss. They are measured at fair value without any deduction for transaction costs it may incur on sale or other disposal. At each balance sheet date subsequent to initial recognition, financial asset at fair value through profit or loss are measure at fair value, with changes in fair value recognised directly in the profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable (including dividend, interest and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets in equity securities or are not classified in any of the other three categories under the scope of HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. For investments where there is no active market and whose fair value cannot be reliably measured, such investments are measured at cost less any impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

Notes to the Financial Statements

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Revenue recognition

Gains or losses on sale of investments are recognised upon the execution of a legally binding and irrevocable contract of sale.

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

Interest income is accrued on a time basis, by reference to the principal outstanding amount and the effective interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(c) 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 and expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 bases 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 the initial recognition of 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 profit 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 or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(d) Foreign currencies

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognsied directly in equity, in which case, the exchange differences are also recognised directly in equity.

Notes to the Financial Statements

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals (being members 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 Company where those parties are individuals, and post-employment benefits plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

(f) Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company's operations. Employees (including directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to the Financial Statements

5. REVENUE AND TURNOVER

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

	2005 HK$	2004 HK$ (As restated)
Turnover		
Interest on convertible loans receivable	**577,980**	792,823
Bank interest income	**117,026**	3,320
Realised and unrealised gain on other investments	**–**	380,151
Realised and unrealised gain on financial assets at fair value through profit or loss	**6,779,548**	–
	7,474,554	1,176,294

No segment information is presented as the Company has only one business activity, namely investment holding, which is principally operating in Hong Kong and the PRC.

Bank interest income, realised and unrealised gain on other investment had been included in other income in prior year. However, in the opinion of the directors, as an investment company, all income arising from investments including bank deposits should be turnover from the principal activity of the Company. The comparative figures for the year ended 31 December 2004 were restated to conform with current year presentation.

6. OTHER OPERATING EXPENSES

	2005 HK$	2004 HK$
Other operating expenses include the following:		
Auditors' remuneration	**65,000**	65,000
Licence fee	**612,000**	459,000
Legal and professional fee	**843,648**	641,045

Notes to the Financial Statements

7. TAXATION

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Company has no assessable profit for both years.

(b) The taxation on the Company's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the principal place of Company's operations, as follows::

	2005 HK$	2004 HK$
Loss before taxation	**(9,511,663)**	(9,078,931)
Tax at the domestic income tax rate of 17.5%	**(1,664,541)**	(1,588,813)
Tax effect of non-taxable income	**(20,777)**	(1,409)
Deferred tax assets not recognised	**1,685,318**	1,590,222
Taxation charge for the year	**–**	–

As at 31 December 2005, the Company had unused tax losses of HK$19,059,631 (2004: HK$9,429,240) 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. There were no other significant temporary differences arising during the year or at the balance sheet date.

8. DIVIDEND

No dividend has been paid or declared by the Company during the year (2004: nil).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK$9,511,663 (2004: HK$9,078,931) and the weighted average number of 199,944,000 (2004: 199,944,000) ordinary shares in issue.

No diluted loss per share has been presented as the Company has no dilutive potential ordinary shares during both years.

Notes to the Financial Statements

10. DIRECTORS' EMOLUMENTS

	2005 HK$	2004 HK$
Fees		
Executive directors	27,062	38,688
Non-executive directors	5,055	–
Independent non-executive directors	13,840	20,870
	45,957	59,558
Other emoluments of executive directors	–	–
	45,957	59,558

The directors' fee of each director for the years ended 31 December 2005 and 2004 are set out below:

	2005 HK$	2004 HK$
Executive directors		
Xiang Xin	5,001	7,280
Ng Kwong Chue, Paul	5,001	7,280
Luo Xiu Qing	2,002	7,280
Li Tong Yu	2,002	7,280
Chan Cheong Yee	5,001	7,280
Cheng Gang *(note e)*	–	2,288
Kwok Chi Hung *(note a)*	5,000	–
Ng Tin Sang *(note b)*	3,000	–
Si Wei *(note c)*	55	–
	27,062	38,688
Non-executive director		
Yap Shun Chung *(note a)*	5,000	–
Wang Qing Yu *(note c)*	55	–
	5,055	–
Independent non-executive directors		
Peng Xue Jun *(note f)*	15	5,969
Wang Xin, David	5,001	7,280
Chan Ming Fai *(note g)*	15	4,999
Yeung Chin Cheung *(note h)*	987	1,311
Zang Hong Liang	5,000	1,311
Wong Wang Tai *(note d)*	2,822	–
	13,840	20,870
	45,957	59,558

Notes to the Financial Statements

10. DIRECTORS' EMOLUMENTS *(Continued)*

Note:

(a) Appointed on 30 December 2004
(b) Appointed on 27 May 2005
(c) Appointed on 28 December 2005
(d) Appointed on 9 June 2005
(e) Resigned on 31 December 2003
(f) Resigned on 27 September 2004
(g) Resigned on 30 December 2004
(h) Resigned on 14 March 2005

During both years, no further options were granted to the directors.

The five highest paid employees during the year included five directors (2004: five directors), details of whose emoluments are set out in above.

During the years ended 31 December 2005 and 2004, 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 or agreed to waive any emoluments.

11. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

	2005	2004
	HK$	HK$
Unlisted equity securities	**13,500,225**	18,000,000
Unlisted convertible notes	**8,928,045**	17,428,045
Less: impairment loss recognised	**8,928,045**	8,500,000
	–	8,928,045
	13,500,225	26,928,045
Classified as:		
Investment in securities	**–**	26,928,045
Available-for-sale investments	**13,500,225**	–
	13,500,225	26,928,045

Notes to the Financial Statements

11. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES *(Continued)*

The following is a list of the Company's investments as at 31 December 2005:

(a) Unlisted equity securities

Name of Investee company	2005 Cost HK$	2005 Impairment loss recognised HK$	2005 Carrying amount HK$	2005 % of total assets of the Company	2004 Cost HK$
Jinan LuGu (HK) Technology Development Limited (note (i))	**9,000,225**	–	**9,000,225**	**33.3%**	9,000,000
SNG Hong Kong Limited (note (ii))	**9,000,000**	**4,500,000**	**4,500,000**	**16.6%**	9,000,000

(b) Unlisted convertible notes, unsecured:

Name of issuer	Principal amount *HK$*	Provision made *HK$*	Net amount *HK$*	Interest rate	Maturity date	% of total assets of the Company
King Tiger Technology Company Limited – unsecured *(note (iii)*	8,928,045	8,928,045	–	6.5% p.a.	15 January 2006	–

Notes:

(i) Jinan LuGu (HK) Technology Development Limited ("LuGu")

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 in the prior years. From this year, LuGu changed its principal activity to investment holding. At 31 December 2005, it indirectly held 59.5% interest in a company incorporated in the People's Republic of China ("PRC"), of which the principal activity is manufacturing and trading of 陶瓷微電路基板，微電路模塊，陶瓷電子元(組)件.

The Company originally holds 125 ordinary shares in LuGu, representing 25% interest in the issued share capital of LuGu. During 2005, LuGu allotted further 500 ordinary shares to its members and the Company was allotted with 125 ordinary shares. After the allotment, the Company maintains its shareholding of 25% interest in the issued share capital of LuGu. The investment in LuGu is measured at cost less impairment at the balance sheet date because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

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, investment in LuGu is classified as available-for-sale/investment in securities in the financial statements. No dividend was received during the year (2004: nil).

Notes to the Financial Statements

11. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES *(Continued)*

Notes: (Continued)

(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. During this year, SNG is also engaged in investment holding. At 31 December 2005, SNG indirectly held 38.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 發光二極管芯片. The investment in SNG is measured at cost less impairment at the balance sheet date because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

When the Company prepared the interim report for the six months period, the directors have carried out a review on the value of the investment in SNG and an impairment loss of HK$4,500,000 in value of the investment has been recognised.

The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SGN. 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, investment in SNG is classified available-for-sale investment/investment in securities in the financial statements. No dividend was received during the year (2004: nil).

(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.

With two supplemental agreements signed on 15 November 2004 and 8 April 2005 respectively, 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 percentage of interest in 安徽精通 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.

King Tiger has defaulted on the payment of interest since 31 December 2003. Further, the Company was informed by King Tiger that there were certain disputes between the shareholders of 安徽精通 which hindered the conversion of the shareholding to King Tiger or to the Company directly. The latest unaudited financial information related to 安徽精通 available to the Company shows that there were significant net liabilities at 31 December 2005. On 29 March 2006, the Company received a written confirmation from King Tiger which confirmed that King Tiger would make their best effort to ensure that the converted interest of the Company in 安徽精通 should not be less than 20%. However, it is the opinion of the directors that it is unrealistic to recover any monetary compensation from King Tiger since it is only a vehicle for a single indirect investment purpose. In light of the above, the Board formed a view that, for the sake of prudence, the value of this investment should be treated as fully impaired. Interest income recognised during the year amounted to HK$577,980 (2004: HK$580,323).

Notes to the Financial Statements

11. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES *(Continued)*

Notes: (Continued)

(iv) China Ibonline Holding Co., Ltd. ("China Ibonline")

The Company holds a convertible loan note issued by China Ibonline with face value of HK$8,500,000. Due to reasons stated in the 2004 Annual Report, a full provision against this investment was provided in prior years. Given that the chance of recovery is very remote, the Board further resolved that the investment should be written off.

12. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005	2004
	HK$	HK$
Equity securities, listed in Hong Kong, at fair value	**218,200**	–

13. OTHER FINANCIAL ASSETS

Interest and other receivables

The fair value of the Company's interest and other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

Cash and bank balances

Bank balances comprise short-term bank deposits at prevailing market interest rates. The fair value of these assets at 31 December 2005 was approximate to the corresponding carrying amount.

Notes to the Financial Statements

14. SHARE CAPITAL

	Number of shares	Amount HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	**2,000,000,000**	20,000,000
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 31 December 2005	**199,944,000**	1,999,440

15. 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.

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.

Notes to the Financial Statements

15. SHARE OPTIONS *(Continued)*

Details of the options granted under the Scheme and outstanding at 31 December 2005 are as follows:

		Number of share options			
Date of grant	Option period	Outstanding as at 1 January 2005	Granted during the year	Outstanding as at 31 December 2005	Price per share to be paid on exercise of options HK$
29/1/2003	28/8/2003– 27/8/2013	20,000,000	–	20,000,000	0.25

As at 31 December 2005, the number of shares issuable under the Scheme represented approximately 10% (2004: 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.

16. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset value of the Company as at 31 December 2005 of HK$27,021,452 (2004: HK$36,533,115) and 199,944,000 (2004: 199,944,000) ordinary shares in issue at that date.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include investments in listed and unlisted securities, interest and other receivables and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Price risk*

The Company's financial assets fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Company is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

(ii) *Interest rate risk*

The Company's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

In addition, the Company has exposure to fair value interest rate risk through the impact of the rate changes on unlisted convertible notes which are carried at fixed interest rate.

The Company has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) *Foreign currency risk*

Foreign currency risk is the risk that the value of financial instrument will fluctuate due to the change in foreign exchange rates. The Company's asset and liabilities are denominated in either Hong Kong dollars or United State dollars. The Company does not expect any significant movement in the exchange rate of United State dollars to Hong Kong dollars.

Notes to the Financial Statements

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recongised financial assets is the carrying amount of those assets as stated in the balance sheet. The Company reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

18. CONNECTED AND RELATED PARTY TRANSACTIONS

	2005	2004
	HK$	HK$
Investment management fee paid to China Everbright Securities (HK) Limited (note a)	**106,428**	120,756
Brokerage commission paid to China Everbright Securities (HK) Limited (note b)	**28,367**	43,628
License fee paid to New Times Investment Management Limited (note c) (formerly known as Restart International Investment Limited)	**612,000**	459,000
License deposit paid to New Times Investment Management Limited	**102,000**	102,000

Note:

(a) The Company has entered into an 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 asset 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 Board 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.

(c) The Company has entered into a license agreement with New Times Investment Management Limited (formerly known as Restart International Investment Limited) ("NTIML"), 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$51,000 to NTIML. 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 deposit and prepayment in the balance sheet.

Details of compensation of key management personnel are set out in note 10.