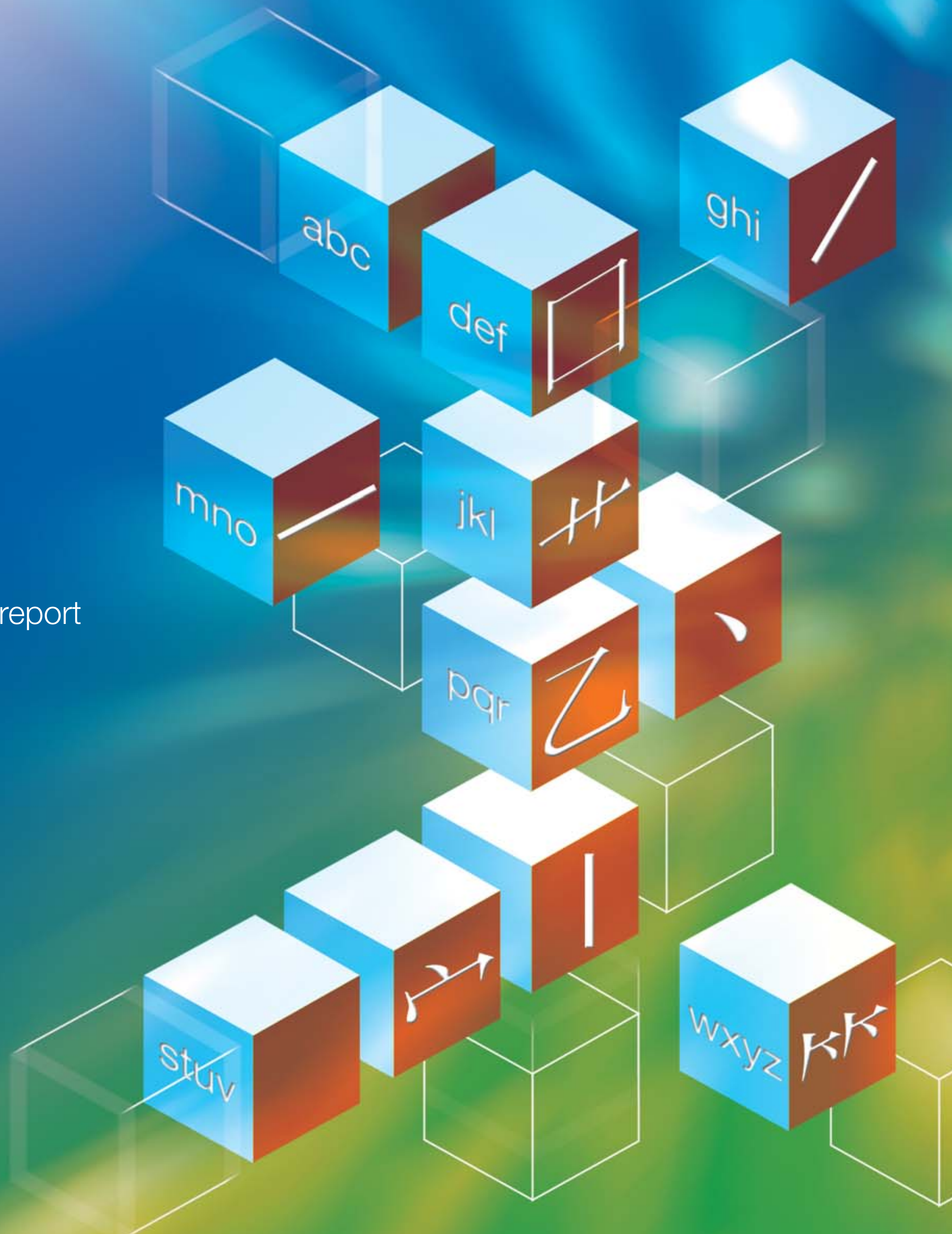
Q9 Technology Holdings Limited
(九方科技控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

(stock Code: 8129)

2005 annual report



*For identification purpose only

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

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 of the Stock Exchange 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. Listed companies are not generally required to issue paid announcements 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.

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HIGHLIGHTS OF THE YEAR

The Group recorded turnover of HK$4,622,000 for the year ended 31 December 2005, representing a decrease of 30.8% from the previous year.

The Group recorded HK$1,687,000 of OEM licensing revenue for the year 2005, representing a decrease of 51.8% over that of the previous year. OEM licensing revenue for the year 2005 represents about 36.5% of turnover for the year, as compared to 52.3% in the year of 2004. The significant decrease in OEM licensing revenue is mainly due to sharp decrease in the number of units of device manufactured and licensed by OEM manufacturers in the year 2005, and a number of OEM manufacturers who contributed significant OEM licensing revenue for the Group in 2004, did not continue to bundle Q9 CIS in their devices in 2005. Q9 CIS and Qcode CIS package sales and software licensing revenue to Institution Customers for the year 2005 recorded a slight decrease of 7.8% from the previous year.

The Group recorded a loss for the year 2005 of HK$7,360,000 (2004: HK$7,816,000). The Group's total operating expenses in 2005 reduced by HK$1,977,000 from 2004, representing a decrease of 14.0% from that of the previous year.

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31 December 2005 amounted to HK$4,622,000, representing a decrease of 30.8% from the previous year. Loss for the year 2005 was HK$7,360,000 compared to HK$7,816,000 in 2004. The loss per share was HK0.59 cent (2004: HK0.63 cent).

REVIEW OF OPERATIONS

During the year, the Group experienced substantially decrease in OEM Licensing revenue and a 30.8% reduction in the Group Revenue. The Group maintained a small team to promote Q9 CIS in the Greater China market and reduced its total operating expenses by 14.0% as compared with the previous year.

Management's Discussion and Analysis

The following represents significant events underlying the Group's performance during the financial year 2005:

— The Group marketing efforts on OEM manufacturers of mobile phones experienced some set-back during the year. Due to the downturn and downward pricing pressure of the mobile phone market which significantly affect many mobile phone manufacturers, some of who are customers of the Group. The Group maintains a presence in the OEM market with minimum resources invested.

— The Group's OEM licensing revenue decreased significantly from previous year, as the number of units of device manufactured and licensed by OEM manufacturers in the year 2005 decreased sharply, and a number of OEM manufacturers who contributed significant OEM licensing revenue for the Group in 2004, did not continue to bundle Q9 CIS in their devices in 2005.

— The Group does not have any borrowings as at the end of the period under review, and the Group has no material funding requirements for capital expenditure commitments.

— The Group's cash, bank balance, and certificate of deposits amounting to HK$17,001,000. As at the end of the period under review, and the majority of the bank balance are held as Hong Kong dollar short term deposits and certificate of deposits. The Group's certificate of deposits has a principal of HK$10,000,000, and presented as a financial asset at fair value through profit or loss of HK$9,729,000 in the Group's Balance Sheet as at 31 December 2005.

PROSPECTS

The focus of the Group's efforts for the year 2006 will be to expand its products and service offerings related to the Education market to derive new sources of revenue, and continue its marketing effort in promoting Q9 CIS to customers, and the end user markets. Due to the disposal of Q9 Technology Corporation in Taiwan, and the unfavorable market trend in the OEM licensing business, it is difficult to turnaround the financial performance of the Group in 2006 if the Group does not diversify and expand its products and service offerings. Management intends to expand the product and service offerings by the Group, based on the core competences, market channels and goodwill accumulated by the Group in marketing Q9 CIS as a high quality technology and education product.

Commitments

The Group has no credit facilities and no borrowing outstanding as at 31 December 2005 (31 December 2004: Nil).

(a) Capital commitment

The Group has no significant capital commitment as at 31 December 2005 (31 December 2004: Nil).

(b) Commitments under operating leases

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of the Group were payable as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**746**	1,412
In the second to fifth year	**—**	746
	746	2,158

(c) Other commitment

As at 31 December 2005, the Group had no other commitment (31 December 2004: Nil).

Liquidity and financial resources

The Group has no interest bearing debt and has no change in share capital. The Group relies on the internal resources, the net proceeds from its IPO and the subsequent issue of warrants as sources of funding. The Group keeps most of its cash in Hong Kong dollars as short term fixed deposit at banks, and balances of cash are kept in bank accounts as working capital of the Group. The Group kept a minimum amount of cash as working capital in a bank account of its subsidiary in China in Renminbi and the balance in Hong Kong dollars.

There is no charge on the Group's assets as at 31 December 2005 (31 December 2004: Nil).

The Group has no debt as at 31 December 2005 (31 December 2004: Nil).

The gearing ratio of the Group, based on total debt to shareholder's equity, was nil as at 31 December 2005 (31 December 2004: Nil).

Order book

Due to the nature of the Group's business, the Group does not maintain an order book (prospects for new business was discussed in the Management's Discussion and Analysis section).

Investment

There was no significant investment made during the year.

Disposal of a subsidiary and an associate

Pursuant to a share purchase agreement dated 30 June 2005 (the "Agreement"), Q9 Technology (BVI) Limited, a subsidiary of the Company, agreed to transfer the 100% direct equity interest in Qcode Technology Services Limited ("Qcode TSL") at a consideration of US$1 to a shareholder of Q9 Technology Corporation ("Q9 TC"), a disposed associate of the Group. As at 30 June 2005, the amounts payable to the Company and Qcode Information Technology Limited ("Qcode ITL") by Qcode TSL were approximately HK$1,733,000 and HK$28,000 respectively. In accordance with the Agreement, these outstanding amounts were waived by the Company and Qcode ITL with mutual consent in connection with the disposal.

Qcode TSL had 42.5% direct equity interest in Q9 TC, an associate of the Group disposed of during the year.

In prior years, Q9 TC had incurred significant losses and the Group had taken up its share of the losses up to the carrying value of its investment in associate as the Group had no obligation to share further losses of the associate exceeding the carrying amount of its investment in associate. Accordingly, the Group's interest in the associate was stated at nil as at 31 December 2004.

As at 31 December 2004, there was an amount due from the associate of HK$733,000, which was unsecured, interest free and repayable on demand. Full allowance for impairment has been made against the amount due from the associate.

The results of the subsidiary disposed of during the year had no significant impact on the Group's consolidated turnover or loss after income tax for the year.

Save as disclosed above, the Group did not have any material acquisition and disposal of subsidiaries or affiliated companies for the year ended 31 December 2005 (31 December 2004: Nil).

Human resources

Staff number

As at 31 December 2005, the Group employed 27 staff (31 December 2004: 33). Total staff costs, including directors' emoluments were approximately HK$6,000,000 for the year ended 31 December 2005 as compared with that of approximately HK$6,400,000 for the last year.

Remuneration policies

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share options may be granted to eligible staff by reference to the Group's performance as well as individual's performance.

Future plans for material investments and capital assets

The Group does not have any plan for material investments or acquisition of capital assets at present.

Hedging policy

The Group does not have any material exposure to fluctuations in exchange or interest rates. Therefore, no hedging measures have been taken at present.

Contingent liabilities

The Group does not have any significant contingent liabilities as at 31 December 2005 (31 December 2004: Nil).

Credit policy

The credit terms given to customers are generally based on the financial strengths of individual customers. The Group allows an average credit term of 30 days to its trade customers.

Segmental information

Details of the segmental information are set out in note 5 to the financial statements.

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan (Chairman)
Dr. Lim Yin Cheng (Chief Executive Officer)
Mr. Tam Kam Biu William
Mr. Leung Lap Fu Warren
Mr. Lau Man Kin
Mr. Lun Pui Kan
Mr. Fung Siu To Clement
Mr. Kwan Po Lam Phileas
Mr. Wan Xiaolin
Mr. Kwan Kin Chung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Woo Wei Chun Joseph

COMPLIANCE OFFICER

Mr. Tam Kam Biu William

AUDIT COMMITTEE

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Woo Wei Chun Joseph

REMUNERATION COMMITTEE

Dr. Lim Yin Cheng
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

AUTHORIZED REPRESENTATIVES

Dr. Lim Yin Cheng
Mr. Tam Kam Biu William

COMPANY SECRETARY

Ms. Chiu Yuk Ching, ACIS

QUALIFIED ACCOUNTANT

Mr. Tam Kam Biu William

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark,
11 Pedder Street, Central
Hong Kong

REGISTERED OFFICE

PO Box 309
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George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

22nd Floor, Asia Orient Tower
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33 Lockhart Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

as to Hong Kong law
Stephenson Harwood & Lo
18th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to Cayman Islands law
Maples and Calder Asia
1504 One International Finance Centre
1 Harbour View Street
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
673 Nathan Road
Mongkok, Kowloon
Hong Kong

DBS Bank Ltd, Hong Kong Branch
16/F Man Yee Building
68 Des Voeux Road Central
Hong Kong

STOCK CODE

Share 8129

WEBSITE ADDRESS

www.q9tech.com
www.qcode.com

Chairman's Statement

Dear Shareholders,

During the past year, the Group experienced significant decline in revenue and incurred a loss comparable to that of the year 2004. The operating results of the Group in 2005 is below our expectation. The Group will continue to market Q9 CIS, and focus its attention and efforts to expand the products and services offerings of the Group in 2006 related to its core competences and technologies, which require minimum financial resources.

Management believes the Group has sufficient resources and ability to expand its products and services offering, and derives new sources of revenue for the Group in the near future.

Leung Lap Yan
Chairman

Hong Kong, 27 March 2006

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules ("Code") takes effect from 1 January 2005. The Company are committed to maintain a high stand of corporate governance. To maintain a good and solid framework of corporate governance will ensure the Company to run its business in the best interests of the shareholders. Throughout the financial year under review, the Company has complied with the Code.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adapted Rules 5.48 to 5.67 of the GEM Listing Rule as the code of conduct for securities transactions by Directors of the Company ("Code for Director's Dealings"). The Company has made specific enquiry with all Directors and all Directors have complied with the requirements set out in the Code for Director's Dealing for the year under review.

BOARD OF DIRECTORS

The Board comprises of ten executive Directors and three independent non-executive directors. The brief biographical details and the relationship between the directors are described on page 14 to 16 of this annual report. Two executive Directors of the Company namely Mr. Leung Lap Yan and Dr. Lim Yin Cheng take up the role of Chairman and Chief Executive Officer respectively. The Chairman's roles are convening meetings of the Board and make decision on the Group's business strategies. The Chief Executive Officer's responsibilities are to participate in the decision on essential matters of the Company and to monitor and manage daily business of the Company. The roles and responsibilities of the two posts are well distinct.

The Board of directors is accountable to shareholders for the activities and performance of the Group and for the preparation of financial statements which give a true and fair view. It oversees the Group's overall strategic plans, reviews the financial performance, supervise the management of the business and affairs and to approve the strategic plans. The Board delegate corporate matters to Management of the Group, including preparation of annual, interim and quarterly accounts, execution of business strategies and adopted by the Board, implementation of internal controls system and compliance with relevant statutory requirements, rules and regulations. Management is required to present an annual budget, and any proposal for major investment, addition of capital assets, and change in business strategies for the Board's approval.

During the year, the Board held four meetings to exercise their duties including discussing and making decisions on the Group's business strategic development, finance matters, material operational matters and other matters as required.

Currently, at every annual general meeting of the Company, all directors including the independent non-executive Directors shall retire from office by rotation. A retiring director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat.

All the three independent non-executive directors ("INDs") come from professional backgrounds and one of them has appropriate accounting and financial management expertise. The INDs render valuable expertise and experience for promoting the best interests of the Group. There is no service contract between the INDs and the Company. The INDs are not appointed for a specific term but are subject to retirement by rotation and re-election at every annual general meeting of the Company. The Company has received from each of the independent non-executive directors an annual confirmation of his independent pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive directors are independent.

The Board conducts four regular Board meetings at approximately quarterly a year in addition to other Board meetings to review the performance and finance matters of the Groups, and for statutory purpose.

The Board has established committees, namely Audit Committee and Remuneration Committee to oversee particular aspects of the Company's affairs.

Statistics of Director's attendance at the regular Board Meeting:

Name of director	**Title**	**Attendance at Board Meetings/No. of Board Meeting held**
Mr. Leung Lap Yan	Chairman	4/4
Dr. Lim Yin Cheng	Chief Executive Officer	4/4
Mr. Tam Kam Biu William	Executive Director	4/4
Mr. Leung Lap Fu Warren	Executive Director	4/4
Mr. Lau Man Kin	Executive Director	4/4
Mr. Lun Pui Kan	Executive Director	3/4
Mr. Fung Siu To Clement	Executive Director	2/4
Mr. Kwan Po Lam Phileas	Executive Director	3/4
Mr. Wan Xiaolin	Executive Director	1/4
Mr. Kwan Kin Chung	Executive Director	1/4
Mr. Ip Chi Wai	Independent non-executive director	3/4
Mr. Tse Wang Cheung, Angus	Independent non-executive director	2/4
Mr. Woo Wei Chun, Joseph	Independent non-executive director	4/4

REMUNERATION COMMITTEE

The Remuneration Committee was established in March 2005 with defined terms of reference. It's role is to review and determines the policy for the remuneration of directors and senior management. Currently, it comprises the Chief Executive Officer and two independent non-executive directors Mr. Ip Chi Wai and Mr. Tse Wang Cheung, Angus with the Chief Executive Officer as the Chairman.

The Committee held one meeting during the financial year under review to discuss the policy and structure of the remuneration of the directors and senior management.

The Remuneration Committee is mainly responsible for:

(a) Making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and as the establishment of a formal and transparent procedure for developing policy as such remuneration.

(b) Determining the specific remuneration packages of an executive directors and senior management and make recommendation to the Board of the remuneration of the non-executive directors.

(c) Reviewing and approving the performance-based remuneration.

(d) Review and approving the compensation payable to executive director and senior management in connection with any loss or termination of office or appointment.

(e) Reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct.

NOMINATION OF DIRECTORS

In considering the nomination of a new director, the Board will take into account the qualification, ability, working experience, and professional ethics of the candidates. Currently the full Board is responsible for selection and approval of candidates for appointment as executive director to the Board. The Board will arrange meeting for nomination of director on an as-needed basis. During the year no new director was appointed and accordingly no meeting for nomination of director was held.

AUDIT COMMITTEE

The Audit Committee was established since listing of the Company on the GEM Board. Currently, it comprises three independent non-executive directors, namely Ip Chi Wai (as the Chairman of the Committee), Tse Wang Cheung, Angus and Woo Wei Chun, Joseph. A term of reference described the authority and duties of the Audit Committee were adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountant and the Code Provision published by the Stock Exchange of Hong Kong Limited.

The Committee meets regularly reviewing the reporting of financial and other information to shareholders.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that an adequate system of internal controls is maintained with the Group, and for reviewing its effectiveness through the Audit Committee.

The internal control system of the Group comprises of a well defined management structure with specified limits of authority and control procedures, designed to achieve the following objectives : (a) ensure proper maintenance of account records; (b) ensure the completeness and accuracy of accounting transactions recorded in the accounting system, and timely reporting of actual financial results of the Group with comparison against budgets; (c) safeguard the Group's assets and Management acts within their limits of authority; and (d) ensure compliance with relevant legislation, regulations and Listing rules, including but not limited to the present a balanced, clear and understandable assessment and regular review of the Group's financial reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Management maintains and monitors the system of internal controls on an ongoing basis. Based on the evaluations made by the board of directors and external auditors, the Audit Committee was satisfied that the Group has fully complied with the Code Provisions on internal controls during the year under review as set forth in the Code; except that an internal audit function has not been set up in the internal control system of the Group. Nothing has come to its attention to cause the Audit Committee to believe that the system of internal control is inadequate or ineffective.

The Audit Committee has met three times during the period under review and all the members had presented at all the meetings. It discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Group.

EXTERNAL AUDITORS

During the year, the external auditors Grant Thornton provided annual audit services, review of the interim results and taxation advisory service to the Group. The Audit Committee is responsible for considering the appointment of the external auditors and review any non-audit functions performed by the external auditors of the Group. In particular, the Committee will consider, in advance of them being contracted for such service, whether such non-audit service could lead to any potential material conflict of interest. Nothing has come to its attention to cause the Audit Committee to believe that the non-audit services provided by the external auditors affect their independence, objectivity and effectiveness in the auditing process in accordance with applicable standard.

The remuneration in respect of services provided by Grant Thornton for the Group for the year ended 31 December 2005 are as follow:

	2005 **HK$**
Annual audit services	**258,000**
Taxation advisory services	**22,900**
Review of Interim results	**31,500**

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan, aged 57, is one of the founders of the Group and the chairman of the Company. He is responsible for the overall product development strategy and management of the Group. Apart from being an inventor, Mr. Leung is a well known script writer, having written such dramas as New Justice Pao, Dynasty and The Pride of Chao Zhou. From 1978 to 1980, Mr. Leung was employed as the manager of programme planning in Rediffusion Television and from 1986 to 1989 as the assistant to the controller of production in Television Broadcasts Limited. During the period 1983 to 1986 he was the director (drama) of the Singapore Broadcasting Corporation. In 1993 he moved to Taiwan where he developed the first version of QCode, a character input system. A year later he worked together with Mr. Lau Man Kin to upgrade QCode and founded the Group with Mr. Lau Man Kin in 1995. He is the brother of Mr. Warren Leung Lap Fu.

Dr. Lim Yin Cheng, aged 61, joined the Group in January 2000 as a director. In April 2001, Dr. Lim became the chief executive officer of the Company and is responsible for the overall strategic planning and management of the Group. He is the deputy chairman of Asia Standard International Group Limited ("Asia Standard"), Asia Orient Holdings Limited ("Asia Orient") and Asia Standard Hotel Group Limited. Dr. Lim has a doctorate degree in Philosophy from University of Washington, U.S.A.. He has over twenty-five years of experience in engineering, project management and administration.

Mr. William Tam Kam Biu, aged 49, joined the Group in January 2000 as a non-executive director. In August 2000, Mr. Tam became the chief financial officer and in September 2000 as an executive director of the Company. He is also an independent non-executive director of Soluteck Holdings Limited and Rexcapital International Holdings Limited (to be changed to China Solar Energy Holdings Limited). Immediately before he joined the Group on a full time basis, Mr. Tam was the chief financial officer, company secretary and executive director of ViaGOLD Capital Limited, a company listed on the Australian Stock Exchange, which became the largest shareholder of Culturecom Holdings Limited in December 1998. Mr. Tam has remained a non-executive director of ViaGOLD Capital Limited. Mr. Tam has over eighteen years of experience in financial management and corporate finance, gained with a number of Hong Kong listed companies and international groups. Mr. Tam obtained a degree in Master of Business Administration in 1981 from York University in Toronto, Canada and became an associate member of the Hong Kong Institute of Certified Public Accountants in September 1987 and an associate of the Association of Chartered Certified Accountants in May 1988.

Mr. Warren Leung Lap Fu, aged 55, joined the Group in 1996 and is responsible primarily for sales and marketing and administration of the Group. For most of the 1970's, Mr. Leung worked for multinational companies, Wallem Ship Management Company Limited and C.N. Company, a member of the Swire Group, as a marine engineer specialising in automatic control systems projects. Between 1979 and 1981, he was a business manager with a subsidiary of the Kowloon Development Group. Thereafter he worked as a plant superintendent first with HSBC Property (Asia) Limited, then as senior engineer with the Macau Jockey Club and lastly with the Lee Garden Hotel Management Group. He has a number of engineering and technical qualifications, including being a high-tension electrical engineering worker registered by Electrical & Mechanical Services Department of Hong Kong Government. He is the brother of Mr. Leung Lap Yan.

Biographical Details of Directors

Mr. Lau Man Kin, aged 36, is one of the founders of the Group and is responsible for advice on Chinese technology. As a student, Mr. Lau won a number of computer competitions both locally and overseas. After he graduated from the University of Hong Kong in 1992 with a bachelor of science degree in computer science, he joined Compufont Limited, a subsidiary of Taiwan Dynalab Incorporation, as part of its research team developing a Chinese stroke based outline font. Later he was seconded to Microsoft's headquarters in Seattle, the United States where he contributed to the development of the Chinese true type system font for Microsoft's Windows Chinese edition. In 1994 he started his own software development company and later that year decided to co-operate with Mr. Leung Lap Yan, which later resulted in their forming the Group in 1995. In 1999, he was awarded as one of the Ten Outstanding Young Digi Persons in Hong Kong by Hong Kong Productivity Council and Hong Kong Junior Chamber.

Mr. Lun Pui Kan, aged 42, is the finance director of Asia Standard and Asia Orient. Mr. Lun has over fifteen year's experience in accounting and finance. He is a graduate of the University of Hong Kong where he was awarded a bachelor of science degree in engineering. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He joined the Group in January 2000.

Mr. Clement Fung Siu To, aged 57, is the chairman of Asia Standard and Asia Orient and director of Asia Standard Hotel Group Limited. Mr. Fung is a holder of a bachelor of applied science degree in civil engineering. He has over twenty years of experience in project management and construction. He joined the Group in November 2000.

Mr. Phileas Kwan Po Lam, aged 47, is a director of Asia Orient and Asia Standard. Mr. Kwan has over ten years of experience in property sales, leasing and real estate management. He holds a diploma in business. He joined the Group in April 2001.

Mr. Wan Xiaolin, aged 48, is executive director of Culturecom Holdings Limited and is responsible for its administration, human resources and training, accounts and finance and information technology related management activities. Mr. Wan holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC. He joined the Group in September 2004.

Mr. Kwan Kin Chung, aged 36, joined Culturecom Holdings Limited as vice president in December 1998 and was responsible for the restructuring of the group businesses and corporate investment. He holds a Bachelor of Arts in Economics from Zhongshan University, Guangzhou, the PRC. He joined the Group in February 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai, aged 38, graduated from the University of Hong Kong with a bachelor's degree in law. He is a solicitor admitted in Hong Kong and has over ten years of experience in the legal profession. He was appointed as an independent non-executive director of the Company in September 2000.

Mr. Angus Tse Wang Cheung, aged 40, worked in a law firm prior to becoming a partner in the law firm of Angus Tse, Yuen & To. He was appointed as an independent non-executive director of the Company in September 2000.

Mr. Joseph Woo Wei Chun, aged 41 is currently the director of a private company. He has about eighteen years of experience in accounting, auditing, financing investment and management. Mr. Woo is registered as a certified public accountant in the State of Illinois in U.S.A. and is an associated member of the Hong Kong Institute of Certified Public Accountants. Mr. Woo holds a bachelor degree in Accounting with Computing and a master degree in Business Administration. He was appointed as an independent non-executive director of the Company in September 2004.

Note:

Mr. Leung Lap Yan, Mr. Leung Lap Fu Warren and Mr. Lau Man Kin are directors of Step Up Company Limited. Dr. Lim Yin Cheng, Mr. Fung Siu To Clement and Mr. Lun Pui Kan are directors of Mega Fusion Limited. Both Step Up Company Limited and Mega Fusion Limited have interests in the share capital of the Company disclosable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

The Directors present their report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 and the state of its affairs of the Group and the Company at that date are set out in the financial statements on pages 29 to 70.

The Directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on page 33 and note 24 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for last five financial years is set out on page 71.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2005, determined in accordance with Section 34 of the Companies Law (2001 Revision) of the Cayman Islands, amounted to approximately HK$1,129,000 (2004: HK$9,943,000). The payment of a dividend and distribution out of the share premium account is however subject to a solvency test of the Company and the provisions of the Articles of Association of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or the Company's Articles of Association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The Directors of the Company during the year were as follows:

Executive Directors:
Mr. Leung Lap Yan
Dr. Lim Yin Cheng
Mr. Tam Kam Biu William
Mr. Leung Lap Fu Warren
Mr. Lau Man Kin
Mr. Lun Pui Kan
Mr. Fung Siu To Clement
Mr. Kwan Po Lam Phileas
Mr. Kwan Kin Chung
Mr. Wan Xiaolin

Independent non-executive directors:
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Woo Wei Chun Joseph

In accordance with Article 116 of the Company's Articles of Association, all the Directors retire by rotation and, being eligible, offer themselves for re-election.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out on pages 14 to 16.

DIRECTORS' SERVICE CONTRACTS

Mr. Tam Kam Biu William and Dr. Lim Yin Cheng have entered into a letter of employment and letter of appointment respectively with the Group whereby Mr. Tam Kam Biu William was employed as the Chief Financial Officer and Dr. Lim Yin Cheng was appointed as the Chief Executive Officer of the Group.

None of the Directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

	Number of shares held					
Director	Personal interests	Family interests	Corporate interests *(Note 1)*	Other interests	Total	Approximate percentage of holding
Leung Lap Yan	Nil	Nil	283,390,000	Nil	283,390,000	22.73%

Note:

1. The shares are held by Step Up Company Limited. Mr. Leung Lap Yan has a controlling interest (41.25%) in Step Up Company Limited and is deemed to have interest in all the shares held by Step Up Company Limited.

(ii) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

(a) Pre-IPO Share Option Scheme and the First Post-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 5 May 2001 which was terminated on 7 May 2001 and replaced on the same date by the first Post-IPO Share Option Scheme (the Pre-IPO Share Option Scheme and the first Post-IPO Share Option Scheme are together called the "Old Share Option Schemes"). The first Post-IPO Share Option Scheme was terminated on 30 April 2002 and replaced on the same date by a second Post-IPO Share Option Scheme (the "New Share Option Scheme") which remained in force as at 31 December 2005.

As at 31 December 2005, information on the share options which had been granted to Directors under the Old Share Option Schemes and which remained outstanding was as follows:

Director	Number of share options outstanding as at 31 December 2005	Exercise price	Option exercise period	Date of grant
Dr. Lim Yin Cheng	84,480,000	HK$0.36	See note 2(a) below	5/5/2001
Mr. Leung Lap Yan	71,720,000	HK$0.36	See note 2(a) below	5/5/2001
Mr. Leung Lap Fu Warren	14,470,000	HK$0.36	See note 2(b) below	5/5/2001
Mr. Lau Man Kin	13,390,000	HK$0.36	See note 2(a) below	5/5/2001
Mr. Tam Kam Biu William	6,400,000	HK$0.36	See note 2(b) below	5/5/2001
Mr. Fung Siu To Clement	2,560,000	HK$0.36	See note 2(b) below	5/5/2001
Mr. Kwan Kin Chung	1,150,000	HK$0.36	See note 2(b) below	5/5/2001
Mr. Kwan Po Lam Phileas	1,000,000	HK$0.45	18/5/2001 to 17/5/2011	18/5/2001
Mr. Lun Pui Kan	1,920,000	HK$0.36	See note 2(b) below	5/5/2001
Mr. Lun Pui Kan	3,000,000	HK$0.45	18/5/2001 to 17/5/2011	18/5/2001

Notes:

(1) Options were granted to each grantee in consideration of HK$1.00. No options granted pursuant to the Old Share Option Schemes had been exercised or lapsed during the year ended 31 December 2005.

(2) Option exercise period commenced from the date of grant, terminating ten years thereafter.

The options may be exercised at any time within the option period provided that the options have been vested. The vesting dates of the options and the percentage of options vested or vesting on such dates are set out below.

Date of vesting of the options (that is, the date when the options become/became exercisable)	**Percentage of options vested/vesting on such dates**	
	Note (a)	*Note (b)*
18 November 2001	10%	10%
18 May 2002	10%	20%
18 November 2002	10%	20%
18 May 2003	20%	20%
18 November 2003	20%	20%
18 May 2004	20%	10%
18 November 2004	10%	—

(b) New Share Option Scheme

Details of the New Share Option Scheme are set out in the sub-section headed "New Share Option Scheme" under the section headed "Share Option Schemes" below.

No option had been granted to the Directors or the chief executive under the New Share Option Scheme for the year ended 31 December 2005.

Save as disclosed above, as at 31 December 2005, none of the Directors or the chief executive of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules. During the year, no debt securities had been issued by the Group.

SHARE OPTION SCHEMES

(a) Old Share Option Schemes

As at 31 December 2005, options to subscribe for up to an aggregate of 218,500,000 shares of HK$0.01 each at a subscription price ranging between HK$0.142 and HK$0.45 per share had been granted to certain Directors, employees and advisors under the Old Share Option Schemes. Details of the options are set out as follows:

Grantee	Date of grant	Exercise price	Exercise period *(Note 1)*	Outstanding as at 1 January 2005	Lapsed	Outstanding as at 31 December 2005
Directors	5/5/2001	HK$0.36	See note 3(a) below	169,590,000	—	**169,590,000**
Directors	5/5/2001	HK$0.36	See note 3(b) below	26,500,000	—	**26,500,000**
Directors	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	4,000,000	—	**4,000,000**
Employees	5/5/2001	HK$0.36	See note 3(b) below	6,280,000	1,150,000 *(Note 2)*	**5,130,000**
Employee	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	720,000	—	**720,000**
Employee	11/10/2001	HK$0.142	11/10/2001 to 10/10/2011	100,000	100,000 *(Note 2)*	**—**
Advisors	5/5/2001	HK$0.36	See note 3(b) below	12,560,000	—	**12,560,000**
				219,750,000	1,250,000	**218,500,000**

Notes:

(1) The exercise period is, unless otherwise stated in that column, from 5 May 2001, the date of grant of the options (subject to such options having vested, details of which are set out below), to 4 May 2011, ten years from the date of grant.

(2) Options granted to employees are lapsed when the employees cease their employment with the Company.

(3) The vesting dates of the options and the percentage of options vested or vesting on such dates are set out below.

Date of vesting of the options (that is, the date when the options become/became exercisable)	**Percentage of options vested/vesting on such dates** Note (a)	Note (b)
18 November 2001	10%	10%
18 May 2002	10%	20%
18 November 2002	10%	20%
18 May 2003	20%	20%
18 November 2003	20%	20%
18 May 2004	20%	10%
18 November 2004	10%	—

Details of options granted to Directors under the Old Share Option Schemes are set out in the sub-section headed "Long Position in Underlying Shares of the Company" under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

(b) New Share Option Scheme

The first Post-IPO Share Option Scheme has been terminated at the 2002 annual general meeting on 30 April 2002 without prejudice to the rights and benefits of and attached to those options granted thereunder which are outstanding as at that date. At the annual general meeting of the Company held on 30 April 2002, an ordinary resolution was duly passed under which a new share option scheme ("New Share Option Scheme") was adopted and approved by the shareholders. A summary of the New Share Option Scheme is as follows:

1. Purpose

   Motivate the eligible participants to utilize their performance and efficiency for the benefit of the Group and attract and retain/maintain on-going relationship with the eligible participants.

2. Eligible participants

   (i) any director (whether executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or advisers of or contractor to the Group or any entity in which any member of the Group holds any interest;

   (ii) any discretionary trust whose discretionary objects include any director (whether executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group; and

   (iii) a company beneficially owned by any director (whether executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group.

3. Total number of shares available for issue

   The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme must not in aggregate exceed 125,000,000 shares, representing about 10.03% of the shares in issue at the date of this report.

4. Maximum entitlement of each eligible participant

   Unless approved by the shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 months period must not exceed 1 per cent of the shares in issue.

5. Time of exercise of option

   An option shall be exercisable at any time during such period to be notified by the Board to each grantee, provided that no option shall be exercisable later than ten years after its date of grant.

6. Minimum period for which any option must be held

   Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum period for which an option must be held before such an option can be exercised.

7. Amount payable upon acceptance of option

   HK$1.00 is payable by each eligible participant to the Company on acceptance of an offer of an option, which shall be paid within 21 days from the date of the offer.

8. Basis of determining the exercise price

   The exercise price must be at least the higher of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a business day, and (b) the average of the closing prices of the shares as shown on the daily quotations sheet of the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share.

9. The remaining life of the New Share Option Scheme

   The New Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

As at 31 December 2005, options to subscribe for up to an aggregate of 10,000,000 shares of HK$0.01 each at a subscription price HK$0.042 per share had been granted to certain advisors under the New Share Option Scheme. During the year, no option had been granted, exercised or lapsed.

Grantee	Date of grant	Exercise price	Exercise period	Outstanding as at 1 January 2005	Lapsed	Outstanding as at 31 December 2005
Advisors	10/7/2003	HK$0.042	10/7/2003 to 9/7/2013	10,000,000	—	10,000,000

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the Directors and chief executive) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long positions in shares of the Company

Name of shareholder	Number of shares	Approximate percentage holding
Mega Fusion Limited	400,000,000	32.09%
Asia Orient Holdings Limited *(Note (i))*	400,200,000	32.10%
Mr. Poon Jing *(Note (ii))*	400,200,000	32.10%
Step Up Company Limited *(Note (iii))*	283,390,000	22.73%
Winway H.K. Investments Limited	300,635,000	24.12%
Culturecom Holdings Limited *(Note (iv))*	300,635,000	24.12%

Notes:

(i) Mega Fusion Limited is a wholly-owned subsidiary of Asia Orient Holdings (BVI) Limited, which is, in turn, a wholly-owned subsidiary of Asia Orient Holdings Limited. Asia Orient Holdings (BVI) Limited and Asia Orient Holdings Limited is deemed to be interested in 400,200,000 shares through its controlling interest (100%) in Mega Fusion Limited and in Asia Orient Company Limited.

(ii) Mr. Poon Jing is deemed to be interested in 400,200,000 shares through his controlling interest (32.11%) in Asia Orient Holdings Limited.

(iii) Mr. Leung Lap Yan is deemed to be interested in 283,390,000 shares through his controlling interest (41.25%) in Step Up Company Limited.

(iv) Winway H.K. Investments Limited is a wholly-owned subsidiary of Culturecom Investments Limited, which is, in turn, a wholly-owned subsidiary of Culturecom Holding (BVI) Limited. Culturecom Holding (BVI) Limited is a wholly-owned subsidiary of Culturecom Holding Limited. Each of Culturecom Investments Limited, Culturecom Holding (BVI) Limited and Culturecom Holdings Limited is deemed to be interested in 300,635,000 shares through its controlling interest (100%) in Winway H.K. Investments Limited.

Save as disclosed above, as at 31 December 2005, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
- the largest supplier	33.2%
- five largest suppliers combined	87.3%
Sales	
- the largest customer	8.8%
- five largest customers combined	30.5%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company has complied with the minimum standards of good practice concerning the general management responsibilities of the board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the independent non-executive directors of the Company and the Company considers all existing independent non-executive directors to be independent.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on page 10 to 13 of the annual report.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Ip Chi Wai, Mr. Tse Wang Cheung, Angus and Mr. Woo Wei Chun, Joseph. The terms of reference of the audit committee have been established with regard to Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures. During the year ended 31 December 2005, three meetings were held. The audit committee has reviewed with the management this audited annual reports.

AUDITORS

The financial statements have been audited by Grant Thornton who retire and, being eligible, offer themselves for re-appointment.

PricewaterhouseCoopers were auditors of the Company for the year ended 31 December 2002.

On behalf of the Board

Leung Lap Yan
Chairman

Hong Kong, 27 March 2006

Certified Public Accountants
Hong Kong Member Firm of Grant Thornton International

Grant Thornton
均富會計師行

TO THE MEMBERS OF Q9 TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 70 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 to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body 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 judgments 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.

OPINION

In our opinion 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.

Grant Thornton
Certified Public Accountants
Hong Kong

27 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Revenue	5	**4,622**	6,683
Cost of sales		**(334)**	(514)
Gross profit		**4,288**	6,169
Other operating income	6	**541**	213
Selling and distribution expenses		**(2,799)**	(3,310)
Research and development expenses		**(1,254)**	(1,489)
General and administrative expenses		**(7,128)**	(7,474)
Other operating expenses		**(1,008)**	(1,893)
Operating loss		**(7,360)**	(7,784)
Finance costs		**—**	(32)
Loss before income tax	7	**(7,360)**	(7,816)
Income tax expense	8	**—**	—
Loss for the year	9	**(7,360)**	(7,816)
Loss per share	10		
- Basic		**(HK0.59 cent)**	(HK0.63 cent)
- Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**500**	943
Interest in an associate	25	**—**	—
		500	943
Current assets			
Inventories	15	**186**	350
Short term investment	16	**—**	283
Financial assets at fair value through profit or loss	17	**9,906**	—
Trade receivables	18	**609**	1,423
Prepayments, deposits and other receivables		**927**	1,673
Amount due from a related company	21	**—**	56
Cash and cash equivalents	19	**7,272**	22,040
		18,900	25,825
Current liabilities			
Trade payables	20	**35**	64
Other payables and accrued expenses		**1,426**	1,398
Amounts due to related companies	21	**75**	82
		1,536	1,544
Net current assets		**17,364**	24,281
Total assets less current liabilities		**17,864**	25,224
EQUITY			
Share capital	22	**12,464**	12,464
Reserves	24	**5,400**	12,760
Total equity		**17,864**	25,224

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Balance Sheet

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current asset			
Investments in subsidiaries	14	**5,500**	7,501
Current assets			
Other receivables		**150**	—
Amounts due from subsidiaries	14	**12,230**	21,222
Cash and cash equivalents	19	**144**	144
		12,524	21,366
Current liabilities			
Other payables and accrued expenses		**182**	210
Net current assets		**12,342**	21,156
Total assets less current liabilities		**17,842**	28,657
EQUITY			
Share capital	22	**12,464**	12,464
Reserves	24	**5,378**	16,193
Total equity		**17,842**	28,657

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000
Cash flows from operating activities		
Loss before income tax	**(7,360)**	(7,816)
Adjustments for:		
Interest income	**(443)**	(207)
Interest expense	**—**	32
Depreciation	**478**	700
Provision for impairment of amount due from an associate	**—**	733
Provision for impairment of trade receivables	**849**	503
Unrealised holding loss on short term investment	**—**	169
Loss on disposal of property, plant and equipment	**2**	12
Operating loss before working capital changes	**(6,474)**	(5,874)
Decrease in inventories	**164**	135
Increase in financial assets at fair value through profit or loss	**(9,623)**	—
Decrease/(Increase) in trade receivables, prepayments, deposits and other receivables	**711**	(1,346)
Decrease in amount due from a related company	**56**	25
Decrease in amount due from an associate	**—**	2
(Decrease)/Increase in trade and other payables and accrued expenses	**(1)**	494
(Decrease)/Increase in amounts due to related companies	**(7)**	82
Cash used in operating activities	**(15,174)**	(6,482)
Interest paid	**—**	(32)
Net cash used in operating activities	**(15,174)**	(6,514)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(37)**	(40)
Purchase of short term investment	**—**	(452)
Interest received	**443**	207
Net cash from/(used in) investing activities	**406**	(285)
Net decrease in cash and cash equivalents	**(14,768)**	(6,799)
Cash and cash equivalents at beginning of year	**22,040**	28,839
Cash and cash equivalents at end of year	**7,272**	22,040

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Warrants reserve HK$'000	Reorganisation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	12,464	87,601	37	6,250	3,000	(76,312)	33,040
Loss for the year (Total recognised income and expense for the year)	—	—	—	—	—	(7,816)	(7,816)
At 31 December 2004 and 1 January 2005	12,464	87,601	37	6,250	3,000	(84,128)	25,224
Loss for the year (Total recognised income and expense for the year)	—	—	—	—	—	(7,360)	(7,360)
At 31 December 2005	**12,464**	**87,601***	**37***	**6,250***	**3,000***	**(91,488)***	**17,864**

* The aggregated amount of the above balances of HK$5,400,000 (2004: HK$12,760,000) represented the reserves in the consolidated balance sheet.

1. CORPORATE INFORMATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is 22nd floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in computer software and embedded systems development, and sales and licensing of the software and systems.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 27 March 2006.

2. ADOPTION OF NEW OR REVISED HKFRSs

From 1 January 2005, the Group has adopted the new or revised standards and interpretations of HKFRSs, which are relevant to its operations. These include the following new, revised and renamed standards:

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 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
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
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC) Int-15	Operating Leases - Incentives

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above with respect to presentation, recognition and measurement of accounts are described in the following notes:

2.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of financial statements and other disclosures.

2.2 Adoption of HKAS 39

Prior to the adoption of HKAS 39, the Group has recorded its non-trading securities at cost less any provision for impairment losses and other securities at fair values with changes in value being recognised in the income statement as they arise.

On the adoption of HKAS 39, the Group classified its investments into the following categories : held-to maturity, available for sale and fair value through profit or loss and measured its financial assets at either fair value or at amortised cost according to the classification.

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of retained earnings on 1 January 2005 and the comparative figures have not been restated.

2.3 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, the Group did not recognise the financial effect of share options until they were exercised.

HKFRS 2 requires all goods and services received in the course of share-based payment transactions to be measured at fair value and recognised as an expense in the financial statements with a corresponding credit to equity, unless the transaction is cash settled share-based payment. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted which is determined at the date of grant of the share options.

According to the transitional provisions of HKFRS 2, the Group applies HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 January 2005.

All equity-settled share-based payments granted by the Group after 7 November 2002 had vested before 1 January 2005. Accordingly, the adoption of HKFRS 2 had no effect on the financial statements presented. The new accounting policy for equity-settled share-based payments are summarised in note 3.17 to the financial statements.

2. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

2.4 Other standards adopted

The adoption of other new or revised standards or interpretations did not result in significant alterations to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2.5 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits - 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]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments : Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments – Disclosures[1]
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 annual periods beginning on or after 1 January 2007

2 Effective for annual periods beginning on or after 1 January 2006

3 Effective for annual periods beginning on or after 1 December 2005

4 Effective for annual periods beginning on or after 1 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

3.4 Associates *(Continued)*

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of an associate are included in the Group's income statement to the extent of dividends received and receivable. The Company's interest in an associate is treated as non-current asset and is stated at cost less any impairment losses.

3.5 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation on property, plant and equipment is provided to write off the cost over their estimated useful lives using the straight-line method, at the following rates per annum:

Leasehold improvements	18%-20%
Furniture, fixtures and office equipment	18%-20%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost, computed using the first-in, first-out basis, comprises direct materials and, where applicable, direct labour and those overheads that have been 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 any applicable selling expenses.

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

3.7 Financial assets

Prior to January 2005, the Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities as short term investments.

Short term investments are securities that are held for trading purposes and are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Gains or losses of short term investments are accounted for in the income statement as they arise.

From 1 January 2005 onwards, the Group classifies its financial assets other than hedging instruments, into the following categories: receivables and financial assets at fair value through profit or loss. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised on their trade date. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either held for trading or are designated by the Group to be carried at fair value through profit or loss upon initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

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

3.7 Financial assets *(Continued)*

(ii) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

3.8 Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3.9 Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products commencing from the date when the products are put into commercial production.

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

3.10 Impairment testing of property, plant and equipment and investments in subsidiaries

The property, plant and equipment and investments in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Individual assets or cash-generating units are tested 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 or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. An impairment loss is recognised as an expense immediately. An impairment loss is reversed in subsequent period if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11 Leases

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the leases. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

3.12 Foreign currency translation

The financial statements are presented in Hong Kong dollars (HK$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity 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 of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement under "other operating income" or "administrative expenses", respectively.

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the translation reserve in equity.

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

3.13 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. However, in accordance with the rules set out in HKAS 12, no deferred taxed are recognised in relation to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

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

3.14 Employee benefits

(i) Employee entitlements

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

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. Contributions are made based on a percentage of the employees' basic salary to the maximum mandatory contributions as required by the MPF Scheme and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as highly liquid investments such as bank deposits.

3.16 Equity

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

3.17 Share-based employee compensation

Under the transitional provision provided for under HKFRS 2, all share-based payment arrangements granted after 7 November 2002 and have not yet vested at 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in income statement with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as share premium.

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

3.18 Income and expense recognition

Revenue from the sale of goods is recognised when the goods are delivered to the customers.

Revenue from licensing is recognised in accordance with the underlying licensing agreement, which is generally when the rights to receive payment are established.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and the interest rate applicable.

Operating expenses are charged to the income statement when incurred.

3.19 Financial liabilities

The Group's financial liabilities include trade payables, other payables and accrued expenses and amounts due to related companies.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in the income statement.

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

3.20 Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

  (i) controls, is controlled by, or is under common control with, the Group;

  (ii) has an interest in the Group that gives it significant influence over the Group; or

  (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

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

3.20 Related parties *(Continued)*

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES

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

The Company 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.

(i) Net realisable value of inventories

This estimate is based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses the estimations at the balance sheet dates.

(ii) Allowance for irrecoverable trade receivables

The Company's management determines the allowance for irrecoverable trade receivables. This estimate is based on the credit history of the Group's customers, past default experience and the current market condition. The Company's management reassesses the estimations at the balance sheet dates.

5. REVENUE AND SEGMENT INFORMATION

	2005	2004
	HK$'000	*HK$'000*
Revenue - Turnover		
Sale of goods	**2,935**	3,185
Licensing income	**1,687**	3,498
	4,622	6,683

In accordance with the Group's internal financial reporting, the Group has determined that business segment is presented as the primary reporting format and geographic segment as the secondary reporting format.

No business segment analysis is provided as sales and licensing of software and embedded systems is the Group's only business segment.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical segment analysis for the year ended 31 December 2005 is as follows:

	Hong Kong	Mainland China	Taiwan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:				
Sales to external customers	**3,593**	**72**	**957**	**4,622**
Segment results	**(4,575)**	**(769)**	**(1,219)**	**(6,563)**
Unallocated costs				**(797)**
Operating loss				**(7,360)**
Segment assets	**6,840**	**2,357**	**297**	**9,494**
Unallocated assets				**9,906**
Total assets				**19,400**
Capital expenditure	**37**	**—**	**—**	**37**

Geographical segment analysis for the year ended 31 December 2004 is as follows:

	Hong Kong	Mainland China	Taiwan	Total
Segment revenue:				
Sales to external customers	5,985	698	—	6,683
Segment results	(7,106)	(10)	—	(7,116)
Unallocated costs				(668)
Operating loss				(7,784)
Segment assets	23,279	3,206	—	26,485
Unallocated assets				283
Total assets				26,768
Capital expenditure	40	—	—	40

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Sales are based on the country in which the Group's customers are located and segment assets and capital expenditure are where the assets are located.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and exclude short term investment and financial assets at fair value through profit or loss.

Capital expenditure comprises additions to property, plant and equipment.

6. OTHER OPERATING INCOME

	2005	2004
	HK$'000	*HK$'000*
Interest income	**443**	207
Sundry income	**98**	6
	541	213

7. LOSS BEFORE INCOME TAX

	2005	2004
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Auditors' remuneration		
- current year	**258**	240
- under/(over) provision in prior year	**3**	(11)
Depreciation	**478**	700
Finance costs - interest charges on securities financing	**—**	32
Staff costs (including directors' remuneration – note 12 (a))	**5,774**	6,382
Loss on disposal of property, plant and equipment	**2**	12
Unrealised holding loss on short term investment	**—**	169
Change in fair value of financial assets at fair value through profit or loss	**377**	—
Operating lease charges in respect of land and building	**1,301**	1,371
Write-down of inventories to net realisable value*	**23**	39
Written-off of obsolete inventories*	**132**	—
Provision for impairment of trade receivables*	**849**	503
Provision for impairment of amount due from an associate*	**—**	733

* *included in other operating expenses*

8. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil).

During the year, provision for the profits tax of subsidiaries operating outside Hong Kong has not been provided as the subsidiaries did not generate any assessable profits in the respective jurisdictions during the year (2004: Nil).

Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	2005	2004
	HK$'000	*HK$'000*
Loss before income tax	**(7,360)**	(7,816)
Tax at the statutory rate of 17.5% in Hong Kong (2004: 17.5%)	**(1,288)**	(1,368)
Tax effect of non-deductible expenses	**413**	122
Tax effect of non-taxable revenue	**(76)**	(34)
Tax effect of temporary differences not recognised	**35**	76
Tax effect of tax losses not recognised	**916**	1,204
Actual tax expense	**—**	—

At 31 December 2005, the Group has deferred tax assets mainly arising from tax losses of approximately HK$66,600,000 (2004: HK$61,000,000). However, the deferred tax assets have not been recognised as it is uncertain whether sufficient future taxable profit will be available for utilising the accumulated tax losses. Under the current tax legislation, the tax losses can be carried forward indefinitely.

9. LOSS FOR THE YEAR

Of the loss for the year of HK$7,360,000 (2004: HK$7,816,000), a loss of HK$10,815,000 (2004: HK$7,758,000) has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK$7,360,000 (2004: HK$7,816,000) and on 1,246,350,000 (2004: 1,246,350,000) ordinary shares of the Company in issue during the year.

No diluted loss per share is presented as the exercise of the subscription rights attached to the share options and warrants would not have a dilutive effect on the loss per share.

11. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2005	2004
	HK$'000	*HK$'000*
Wages and salaries	**5,671**	6,201
Pension costs – defined contribution plans	**103**	181
	5,774	6,382

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

(a) Directors' emoluments

The emoluments paid or payable to the directors were as follows :

	Fees	Salaries and allowances	Contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005				
Executive directors				
Leung Lap Yan	—	300	12	312
Lim Yin Cheng	—	924	12	936
Tam Kam Biu, William	—	708	12	720
Leung Lap Fu, Warren	—	480	12	492
Lau Man Kin	—	60	3	63
Lun Pui Kan	—	—	—	—
Fung Siu To, Clement	—	—	—	—
Kwan Po Lam, Phileas	—	—	—	—
Kwan Kin Chung	—	—	—	—
Wan Xiaolin	—	—	—	—
Sub-total	—	2,472	51	2,523
Independent non-executive directors				
Ip Chi Wai	60	—	—	60
Tse Wang Cheung, Angus	60	—	—	60
Woo Wei Chun, Joseph	60	—	—	60
Sub-total	180	—	—	180
Total	180	2,472	51	2,703

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT *(Continued)*

(a) Directors' emoluments *(Continued)*

	Fees	Salaries and allowances	Contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004				
Executive directors				
Leung Lap Yan	—	300	12	312
Lim Yin Cheng	—	924	12	936
Tam Kam Biu, William	—	695	12	707
Leung Lap Fu, Warren	—	480	12	492
Lau Man Kin	—	60	3	63
Lun Pui Kan	—	—	—	—
Fung Siu To, Clement	—	—	—	—
Kwan Po Lam, Phileas	—	—	—	—
Kwan Kin Chung	—	—	—	—
Wan Xiaolin	—	—	—	—
Sub-total	—	2,459	51	2,510
Independent non-executive directors				
Ip Chi Wai	30	—	—	30
Tse Wang Cheung, Angus	15	—	—	15
Woo Wei Chun, Joseph [(1)]	15	—	—	15
Sub-total	60	—	—	60
Total	60	2,459	51	2,570

Notes:

1. Appointed on 21 September 2004.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT
(Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2004: four) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: remaining one) highest paid individual during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, allowances and other benefits in kind	351	325
Contributions to pension scheme	12	12
	363	337

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Emolument band		
HK$nil – HK$1,000,000	1	1

During the year, no emoluments were paid by the Group to the Company's directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2004: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements	Furniture, fixtures and office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004			
Cost	1,834	3,671	5,505
Accumulated depreciation	(1,204)	(2,686)	(3,890)
Net book amount	630	985	1,615
Year ended 31 December 2004			
Opening net book amount	630	985	1,615
Additions	24	16	40
Disposal	—	(12)	(12)
Depreciation	(268)	(432)	(700)
Closing net book amount	386	557	943
At 31 December 2004			
Cost	1,858	3,585	5,443
Accumulated depreciation	(1,472)	(3,028)	(4,500)
Net book amount	386	557	943
Year ended 31 December 2005			
Opening net book amount	386	557	943
Additions	8	29	37
Disposals	—	(2)	(2)
Depreciation	(201)	(277)	(478)
Closing net book amount	193	307	500
At 31 December 2005			
Cost	1,866	3,595	5,461
Accumulated depreciation	(1,673)	(3,288)	(4,961)
Net book amount	**193**	**307**	**500**

14. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

Company

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	7,501	7,501
Less: Provision for impairment	(2,001)	—
	5,500	7,501

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

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

Name of subsidiary	Place of incorporation/ registration and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company Directly	Percentage of issued capital held by the Company Indirectly	Principal activities and place of operations
Q9 Technology (BVI) Limited	British Virgin Islands, limited liability company	100 ordinary share of US$1 each	100%	—	Investment holding in Hong Kong
Qcode Information Technology Limited	Hong Kong, limited liability company	500,000 ordinary shares of HK$1 each	—	100%	Development, sales and licensing of computer software in Hong Kong
Qcode Chinese Computer Limited	Hong Kong, limited liability company	600,000 ordinary shares of HK$1 each	—	100%	Holding of patents in Hong Kong
Q9 Technology (Shenzhen) Limited	People's Republic of China ("PRC"), wholly-owned foreign enterprise	HK$2,000,000	—	100%	Development, sales and licensing of computer software in the PRC

Pursuant to a share purchase agreement dated 30 June 2005, the Company disposed of its indirect equity interest in a wholly-owned subsidiary, Qcode Technology Services Limited to a third party (as further detailed in note 25 to the financial statements).

15. INVENTORIES

Group

	2005 HK$'000	2004 HK$'000
Merchandise	**55**	3
Finished goods	**131**	347
	186	350

16. SHORT TERM INVESTMENT

Short term investment at 31 December 2004 is set out below. Upon the adoption of HKAS 39 on 1 January 2005, short term investment was reclassified to financial assets at fair value through profit or loss.

Group

	2004 HK$'000
Listed equity securities in Hong Kong, at market value	283

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	2005
	HK$'000
Listed equity securities in Hong Kong	177
Certificate of deposits	9,729
	9,906
Market value of listed equity securities	177

The carrying amounts of the above financial assets are classified as follows:

	2005
	HK$'000
Held for trading	177
Designated as fair value through profit or loss on initial recognition	9,729
	9,906

The certificate of deposits bears interest at a fixed rate of 3.05% per annum from date of deposit to 25 May 2007. The bank has an option to extend the deposit period for one year to 25 May 2008 at a fixed interest rate of 3.06% per annum. The certificate of deposits is eligible for immediate redemption at a price quoted by the bank with accrued interest income. Fair value of the certificate of deposits as at 31 December 2005 has been determined by reference to the quotation provided by the bank.

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

Changes in fair value of financial assets at fair value through profit or loss are recorded in other operating income or expenses in the income statement.

18. TRADE RECEIVABLES

Group

	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**2,887**	2,119
Less: provision for impairment of receivables	**(2,278)**	(696)
Trade receivables – net	**609**	1,423

The Group allows an average credit term of 30 days to its trade customers. At 31 December 2005, the ageing analysis of the net trade receivables was as follows.

	2005	2004
	HK$'000	*HK$'000*
Current	**240**	379
31 – 90 days	**72**	360
91 – 180 days	**—**	552
Over 180 days	**297**	132
	609	1,423

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

Group

	2005	2004
	HK$'000	*HK$'000*
Cash at banks and in hand	**2,081**	12,040
Short-term bank deposits	**5,191**	10,000
	7,272	22,040

Company

	2005	2004
	HK$'000	*HK$'000*
Cash at banks and in hand	**144**	144

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate their fair values.

Included in cash and cash equivalents of the Group are HK$2,019,000 (2004: HK$1,916,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the Mainland China. The RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE PAYABLES

Group

	2005	2004
	HK$'000	*HK$'000*
Trade payables	**35**	64

At 31 December 2005, the ageing analysis of the trade payables was as follows:

	2005	2004
	HK$'000	*HK$'000*
Current	**23**	10
31 – 90 days	**11**	32
91 – 180 days	**1**	20
Over 180 days	**—**	2
	35	64

21. BALANCES WITH RELATED COMPANIES

Particulars of the amount due from a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	**31 December 2005**	Maximum amount outstanding during the year	1 January 2005
	HK$'000	*HK$'000*	*HK$'000*
China InfoBank Limited	**—**	56	56

China InfoBank Limited is a subsidiary of Asia Orient Holdings Limited, a substantial shareholder of the Company.

The balances with related companies are unsecured, interest free and repayable on demand.

22. SHARE CAPITAL

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
1,246,350,000 ordinary shares of HK$0.01 each	**12,464**	12,464

23. SHARE-BASED EMPLOYEE COMPENSATION

The Company adopted the Pre-IPO Share Option Scheme on 5 May 2001 which was terminated on 7 May 2001 and replaced on the same date by the first Post-IPO Share Option Scheme (the Pre-IPO Share Option Scheme and the first Post-IPO Share Option Scheme are together called the "Old Share Option Schemes"). The first Post-IPO Share Option Scheme was terminated on 30 April 2002 and replaced on the same date by a second Post-IPO Share Option Scheme (the "New Share Option Scheme") which remained in force as at 31 December 2005.

23. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The following are details of outstanding share options granted under the Old Share Option Schemes and the New Share Option Scheme as at 31 December 2005:

Grantee	Date of grant	Exercise price	Exercise period	Outstanding as at 1 January 2005	Lapsed	Outstanding as at 31 December 2005
Old Share Option Schemes:						
Directors						
Dr. Lim Yin Cheng	5/5/2001	HK$0.36	Note 1 (a)	84,480,000	—	**84,480,000**
Mr. Leung Lap Yan	5/5/2001	HK$0.36	Note 1 (a)	71,720,000	—	**71,720,000**
Mr. Leung Lap Fu, Warren	5/5/2001	HK$0.36	Note 1 (b)	14,470,000	—	**14,470,000**
Mr. Lau Man Kin	5/5/2001	HK$0.36	Note 1 (a)	13,390,000	—	**13,390,000**
Mr. Tam Kam Biu, William	5/5/2001	HK$0.36	Note 1 (b)	6,400,000	—	**6,400,000**
Mr. Fung Siu To, Clement	5/5/2001	HK$0.36	Note 1 (b)	2,560,000	—	**2,560,000**
Mr. Kwan Kin Chung	5/5/2001	HK$0.36	Note 1 (b)	1,150,000	—	**1,150,000**
Mr. Kwan Po Lam, Phileas	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	1,000,000	—	**1,000,000**
Mr. Lun Pui Kan	5/5/2001	HK$0.36	Note 1 (b)	1,920,000	—	**1,920,000**
Mr. Lun Pui Kan	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	3,000,000	—	**3,000,000**
Employees	5/5/2001	HK$0.36	Note 1 (b)	6,280,000	(1,150,000)*	**5,130,000**
Employee	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	720,000	—	**720,000**
Employee	11/10/2001	HK$0.142	11/10/2001 to 10/10/2011	100,000	(100,000)*	**—**
Advisors	5/5/2001	HK$0.36	Note 1 (b)	12,560,000	—	**12,560,000**
New Share Option Scheme:						
Advisors (note 2)	10/7/2003	HK$0.042	10/7/2003 to 9/7/2013	10,000,000	—	**10,000,000**
				229,750,000	(1,250,000)	**228,500,000**

23. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

No share options were granted under the New Share Option Scheme and therefore no consideration in respect of the share options were received.

No share options granted under the Old Share Option Schemes and the New Share Option Scheme were exercised during the year.

* The 1,250,000 share options lapsed upon resignation of the employees of the Group.

The following are details of outstanding share options granted under the Old Share Option Schemes and the New Share Option Scheme as at 31 December 2004:

Grantee	Date of grant	Exercise price	Exercise period	Outstanding as at 1 January 2004	Lapsed	Outstanding as at 31 December 2004
Old Share Option Schemes						
Directors						
Dr. Lim Yin Cheng	5/5/2001	HK$0.36	Note 1(a)	84,480,000	—	**84,480,000**
Mr. Leung Lap Yan	5/5/2001	HK$0.36	Note 1(a)	71,720,000	—	**71,720,000**
Mr. Leung Lap Fu, Warren	5/5/2001	HK$0.36	Note 1(b)	14,470,000	—	**14,470,000**
Mr. Lau Man Kin	5/5/2001	HK$0.36	Note 1(a)	13,390,000	—	**13,390,000**
Mr. Tam Kam Biu, William	5/5/2001	HK$0.36	Note 1(b)	6,400,000	—	**6,400,000**
Mr. Fung Siu To, Clement	5/5/2001	HK$0.36	Note 1(b)	2,560,000	—	**2,560,000**
Mr. Kwan Kin Chung	5/5/2001	HK$0.36	Note 1(b)	1,150,000	—	**1,150,000**
Mr. Kwan Po Lam, Phileas	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	1,000,000	—	**1,000,000**
Mr. Lun Pui Kan	5/5/2001	HK$0.36	Note 1(b)	1,920,000	—	**1,920,000**
Mr. Lun Pui Kan	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	3,000,000	—	**3,000,000**
Employees	5/5/2001	HK$0.36	Note 1(b)	6,910,000	(630,000)	**6,280,000**
Employee	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	720,000	—	**720,000**
Employee	11/10/2001	HK$0.142	11/10/2001 to 10/10/2011	100,000	—	**100,000**
Advisors	5/5/2001	HK$0.36	Note 1(b)	12,560,000	—	**12,560,000**

23. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Grantee	Date of grant	Exercise price	Exercise period	Outstanding as at 1 January 2004	Lapsed	Outstanding as at 31 December 2004
New Share Option Scheme:						
Advisors (note 2)	10/7/2003	HK$0.042	10/7/2003 to 9/7/2013	10,000,000	—	**10,000,000**
				230,380,000	(630,000)	**229,750,000**

Notes:

(1) Option exercise period commenced from the date of grant and will terminate ten years thereafter. Options may be exercised at any time within the option period provided that the options have been vested. The vesting dates of the options and the percentage of options vested on such dates are set out below:

Date of vesting of the options (that is, the date when the options became exercisable)	Percentage of options vested on such dates (a)	(b)
18 November 2001	10%	10%
18 May 2002	10%	20%
18 November 2002	10%	20%
18 May 2003	20%	20%
18 November 2003	20%	20%
18 May 2004	20%	10%
18 November 2004	10%	—

(2) The closing price of the shares immediately before the date of grant of the option was HK$0.035.

24. RESERVES

Group

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 33 of the financial statements.

Company

	Share premium	Warrants reserve	Reorganisation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	87,601	6,250	2,501	(72,401)	23,951
Loss for the year	—	—	—	(7,758)	(7,758)
At 31 December 2004 and 1 January 2005	87,601	6,250	2,501	(80,159)	16,193
Loss for the year	—	—	—	(10,815)	(10,815)
At 31 December 2005	**87,601**	**6,250**	**2,501**	**(90,974)**	**5,378**

Notes:

(a) The warrants reserve of the Group and the Company represents the proceeds from the issue of 250,000,000 warrants on 5 February 2002. The subscription period of the warrants expired on 7 August 2003 and no warrants were exercised up to the date of expiry.

(b) The reorganisation reserves of the Group and the Company represents the difference between the nominal value of the shares of the subsidiaries acquired and the HK$7,500,000 loan capitalized and the nominal value of the shares issued by the Company as the consideration therefor.

25. DISPOSAL OF A SUBSIDIARY AND AN ASSOCIATE

Pursuant to a share purchase agreement dated 30 June 2005 (the "Agreement"), Q9 Technology (BVI) Limited, a subsidiary of the Company, agreed to transfer its 100% direct equity interest in Qcode Technology Services Limited ("Qcode TSL") at a consideration of US$1 to a shareholder of Q9 Technology Corporation ("Q9 TC"), a disposed associate of the Group. As at 30 June 2005, the amounts payable to the Company and its subsidiary, Qcode Information Technology Limited ("Qcode ITL") by Qcode TSL were approximately HK$1,733,000 and HK$28,000 respectively. In accordance with the Agreement, these outstanding amounts were waived by the Company and Qcode ITL with mutual consent in connection with the disposal.

Qcode TSL had 42.5% direct equity interest in Q9 TC, an associate of the Group disposed of during the year.

In prior years, Q9 TC had incurred significant losses and the Group had taken up its share of the losses up to the carrying value of its investment in associate as the Group had no obligation to share further losses of the associate exceeding the carrying amount of its investment in associate. Accordingly, the Group's interest in the associate was stated at nil as at 31 December 2004.

As at 31 December 2004, there was an amount due from the associate of HK$733,000, which was unsecured, interest free and repayable on demand. Full allowance for impairment has been made against the amount due from the associate.

	2005 *HK$'000*
Net liabilities disposed of:	
Investment in an associate	—
Amount due to ultimate holding company	(1,734)
Amount due to a fellow subsidiary	(28)
Net liabilities	(1,762)
Gain on disposal of a subsidiary	—
Total consideration	1,762
Satisfied by:	
Cash	—
Waiver of amounts due by the disposed subsidiary to the Group	(1,762)
	(1,762)

The results of the subsidiary disposed of during the year had no significant impact on the Group's consolidated turnover or loss after income tax for the year.

26. OPERATING LEASE COMMITMENTS

Group

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings were payable as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**746**	1,412
In the second to the fifth year	**—**	746
	746	2,158

The Group lease certain premises under a number of operating leases. The leases run for an initial period of two to five years, with an option to renew the leases at the expiry date or at dates mutually agreed between the Group and the landlord. None of the leases include contingent rentals.

Company

The Company did not have any significant operating lease commitments as at 31 December 2005 and 2004.

27. CAPITAL COMMITMENTS

The Group and the Company had no significant capital commitments as at 31 December 2005 and 2004.

28. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as at 31 December 2005 and 2004.

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year :

	Note	**2005**	2004
		HK$000	*HK$'000*
Office and warehouse rental expenses			
- Culturecom Centre Limited (warehouse)	(i)	**90**	90
- Tilpifa Company Limited	(i)	**438**	438
		528	528
Building management fees			
- Prosperity Land Estate Management Limited	(ii)	**157**	157
Company secretarial fees			
- Asia Orient Company Limited	(ii)	**96**	96
Consultancy fees			
- Globalactive Technology Limited	(iii)	**—**	262
- Leader Media Production Company Limited	(iii)	**—**	840

Notes:

(i) Office and warehouse rental agreements were entered into with Tilpifa Company Limited and Culturecom Centre Limited, subsidiaries of Asia Orient Holdings Limited and Culturecom Holdings Limited, substantial shareholders of the Company, with rental charged at fixed monthly fees.

(ii) Building management and company secretarial fees were paid to Prosperity Land Estate Management Limited and Asia Orient Company Limited, subsidiaries of Asia Orient Holdings Limited, a substantial shareholder of the Company, and were charged at fixed monthly rates.

(iii) For the year ended 31 December 2004, consultancy fees were paid to Leader Media Production Company Limited ("LMP") and Globalactive Technology Limited ("GTL") for providing marketing, public relationship services and technology consultancy services to the Group at a fixed monthly fee of HK$70,000 and HK$22,000 respectively. Mr. Leung Lap Yan was former director and shareholder of LMP and Mr. Lau Man Kin was former director and shareholder of GTL. Mr. Leung Lap Yan and Mr. Lau Man Kin disposed their equity interests in LMP and GTL respectively and resigned as directors with effect from 30 December 2004.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meet periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

(a) Foreign currency risk

The Group has no significant foreign currency risk due to limited foreign currency transactions.

(b) Interest rate risk

The Group has no significant interest rate risk as there are no significant long term external borrowings which bear floating interest rates.

(c) Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. The carrying amounts of trade receivables, deposits and other receivables, cash and cash equivalents included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk. The Group monitors the trade receivables on an ongoing basis and only trades with creditworthy third parties. In addition, all the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the Mainland China. Accordingly, the Group has no significant concentrations of credit risk.

(d) Fair values

The fair values of finance assets at fair value through profit or loss, cash and cash equivalents, trade receivables, deposits and other receivables, balances with related companies, trade payables, other payables and accrued expenses, are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

Financial Summary

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Loss for the year	**(7,360)**	(7,816)	(4,807)	(32,145)	(19,549)
Assets and liabilities					
Property, plant and equipment	**500**	943	1,615	3,023	2,953
Other assets	**18,900**	25,825	32,393	36,715	63,972
Total liabilities and minority interests	**(1,536)**	(1,544)	(968)	(1,891)	(2,121)
Total equity	**17,864**	25,224	33,040	37,847	64,804

Note:

The financial summary of the Group for the years 2000 and 2001 has been prepared on the basis that the structure and business activities of the Group immediately after the completion of the reorganisation in May 2001 had been in existence throughout the relevant years.