TECHNOLOGIES

UNIVERSAL

Universal Technologies Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8091

ANNUAL REPORT

2006

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-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 at "www.hkgem.com" in order to obtain up-to-date information on GEM-listed issuers.

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

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

Contents

Highlights *of the Year*

- Turnover for the year ended 31 December 2006 amounted to approximately HK$40.5 million (2005: HK$7.8 million), representing an increase of approximately 423% over the last fiscal period.
- As at 31 December 2006, the Group had net current assets of approximately HK$34.7 million (2005: net current liabilities: HK$0.7 million), including cash and bank balances of approximately HK$56.1 million (2005: HK$21.8 million).
- As at 31 December 2006, the Group had total assets of approximately HK$114.4 million (2005: HK$77.5 million).
- Net profit for the year ended 31 December 2006 was approximately HK$5.56 million (2005: loss attributable to shareholders of HK$9.38 million). The main reason for the increase in net profit was attributable to the effective control of costs and the increase in profit derived from the booming internet payment services.
- Basic and diluted earnings per share for the year ended 31 December 2006 amounted to approximately HK0.71 cents and HK0.68 cents respectively. Loss per share for the period ended 31 December 2005 amounted to approximately HK1.4 cents.
- The board of directors does not recommend payment of any dividend for the year ended 31 December 2006 (2005: Nil).

Corporate *Information*

BOARD OF DIRECTORS

Executive Directors:

Lau Sik Suen *(Chairman)*
Liu Rui Sheng
Luan Yumin

Non-Executive Director:

Zhou Zhiyun

Independent Non-Executive Directors:

Meng Li Hui
Wan Xie Qiu
Fong Heung Sang

COMPANY SECRETARY

Wong Wai Man

COMPLIANCE OFFICER

Lau Sik Suen

QUALIFIED ACCOUNTANT

Wong Wai Man

AUDIT COMMITTEE

Meng Li Hui *(Chairman)*
Wan Xie Qiu
Fong Heung Sang

AUTHORISED REPRESENTATIVES

Lau Sik Suen
Wong Wai Man

AUDITORS

PKF
Certified Public Accountants

WEBSITE

www.uth.com.hk

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 231-233, Building 2, Phase 1,
No. 1 Science Park West Avenue,
Hong Kong Science Park, Shatin,
New Territories,
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square,
Hutchins Drive, P.O. Box 2681 GT,
George Town, Grand Cayman,
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
Butterfield House
Fort Street, P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

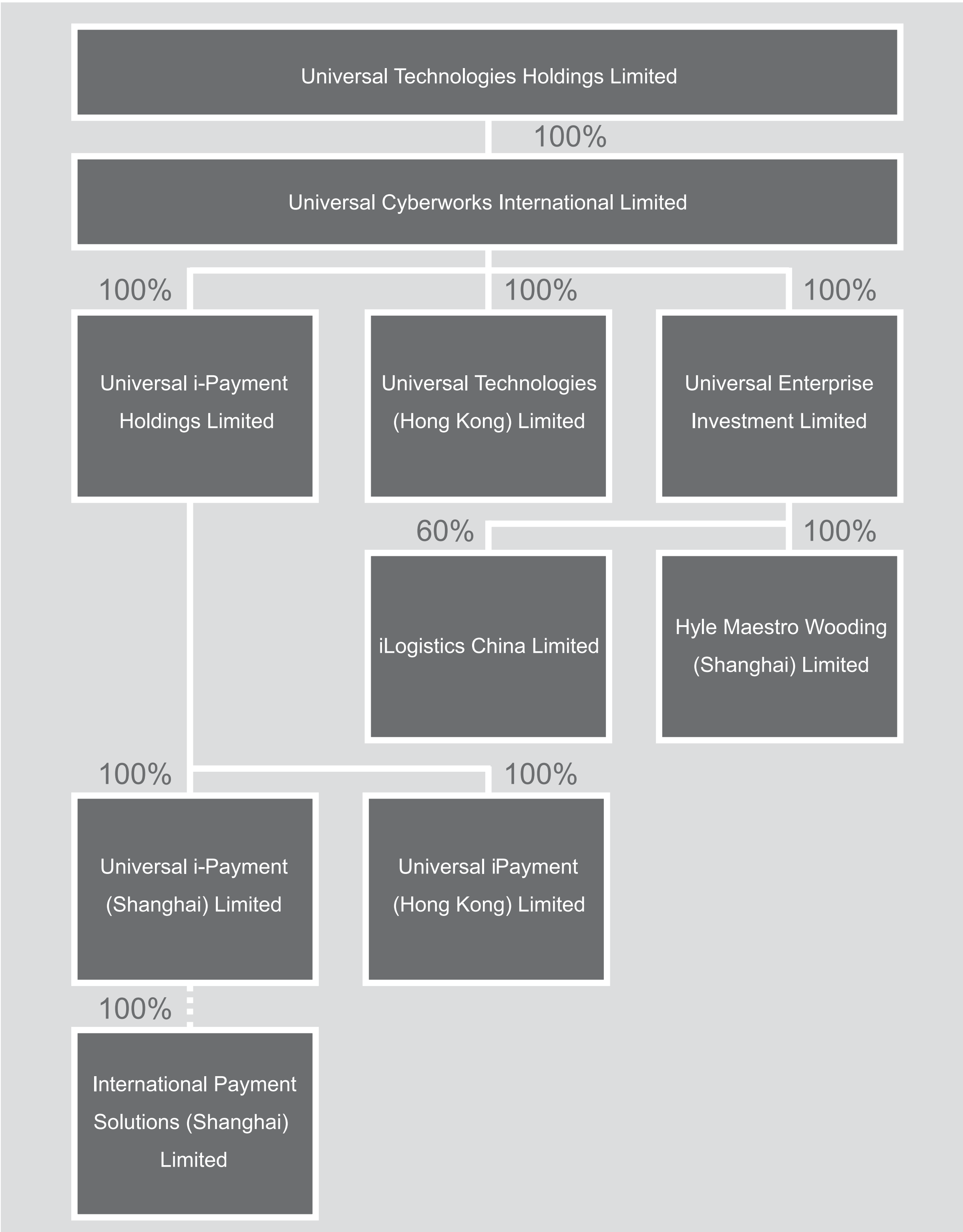
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
46/F, Hopewell Centre,
183, Queen's Road East, Wan Chai,
Hong Kong

PRINCIPAL BANKER

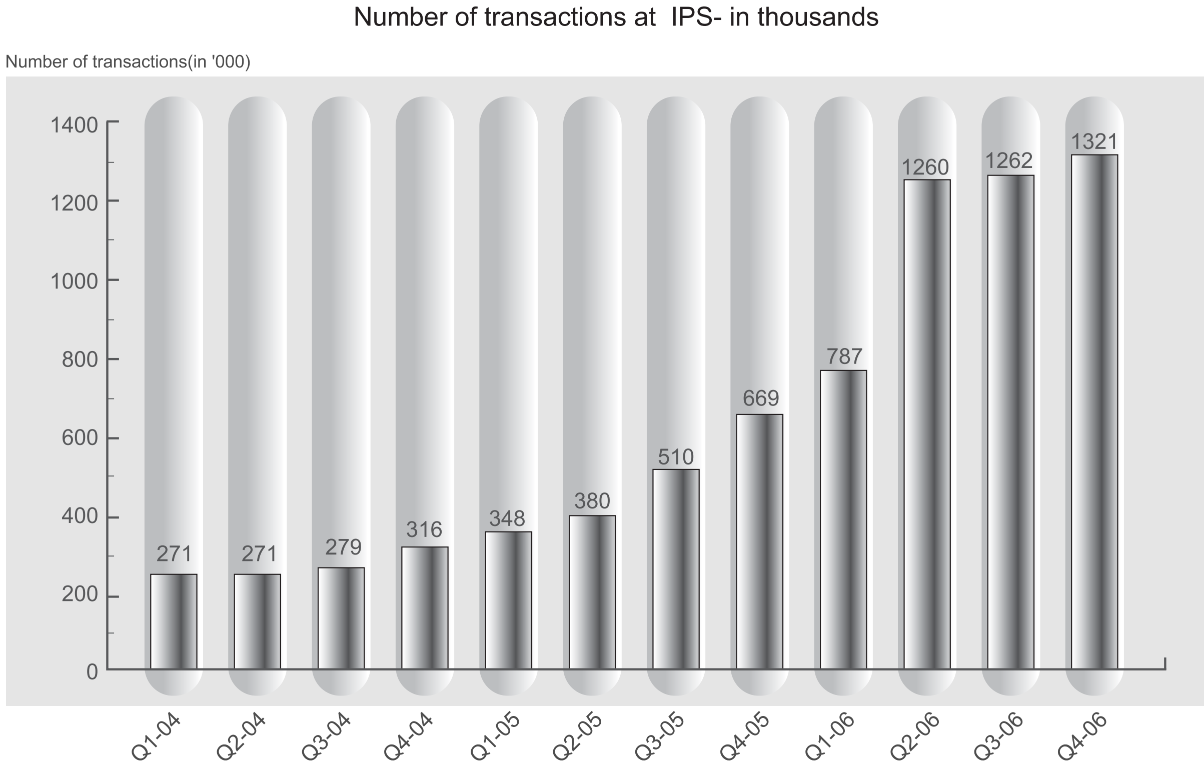
Standard Chartered Bank

Corporate *Structure*



Transaction *Performance*

Quarterly Transaction Performance for the past 3 years (2004 to 2006)



On Behalf of the Board of Directors, I have pleasure in presenting the annual report of the Company and its subsidiaries for the year ended 31 December 2006.

Review

The fiscal year of 2006 is the most important transition year since the Group listed in 2001. On the one hand, we have an inspiriting achievement on the financial results; on the other hand, we stepped out our business diversification and developed a broader space for the Group's future development.

As an important transition year, the Group made an unprecedented progress in this year. Firstly, our net assets increased three times over last year attributed from our successful business operation and capital financing. The assets foundation of the Group is strengthened so that we are able to support the financial demand of our future development. Secondly, the Group has an outstanding business performance. This year's revenue is five times over the last year. Thirdly, operation scale of the Group expanded obviously. Number of staff increased rapidly which already broke through hundred persons. Although the Group's expansion tendency in this year is obviously, our effective cost control tradition also obtained remarkable success. Despite the Group suffered from operating loss in the first quarter, the Group has achieved solid profit onward for a consecutive of three quarters since the second quarter. Current year became the first profit year since the Group listed in 2001. The Group also aware the huge market potential in China and the Group believes investment is fundamental to future harvest. In current year, the accumulated capital injection to subsidiaries in PRC was around twenty-three million Hong Kong dollars.

As an important transition year, the Group started to explore the opportunities for business diversification and the result is satisfactory. The business activities of the Group have been diversified into several industries, which include online payment, internet content provider and timber trading and processing. These several industries gradually formed the coordinating effect between different business sectors within the Group. Along with the rapid development of the Chinese economy, the Group realized many business opportunities when we developed our existing business. Our management believes that diversification shall be the best way to cope with the rapid economic and political changes in market environment. During the year, the Group organized a special team to carry on the new business development, and the future directions of the Group have been determined. In the second half of the year, the Group has increased its capital investment to a subsidiary in China by means of business acquisition to engage in timber material trading and processing. Our effort in this trading business is expected to be captured and realized in next year and in the future. Moreover, through our cautious research, the Group decided to cooperate with oversea strategic partners to carry on the development of internet content services, especially based on the demand of the WEB2.0 content within the Chinese market. The Group believes there will have a prosperity market in this area.

As a foundation to our turning point, a tremendous performance in our core business is crucial. Besides offices in Hong Kong, Shanghai and Shenzhen, the Group established a new office in Beijing and extended our operation to Northern China. In order to ensure that the Group can be able to cover the entire China effectively, we have divided our operation into several regions: Hong Kong is the headquarter of the Group and overseas service development center; Shanghai is the Group's major operation center; Beijing is the business development center for the Northern China and government public relation resources center; and, Shenzhen is the service development center for the Southern China. Secondly, the Group has achieved the requirement of ISO9001:2000 quality control system. The Company's information flow and control procedures have been systematized, leveraging standardization and efficiency within the Company. Thirdly, the Group has input a lot of resources and manpower in research and development, and brilliant achievements have been obtained. Meanwhile, the Group also aware the necessities to protect this intellectual property rights, and patent has been applied to preserve our intellectual property and to enhance the Company's value. Fourthly, the Group focuses on development of individual user market. Through our strategic market propaganda, the Group's popularity and reputation has been enhanced. Mainstream internet media reported our Group's related information over hundred times. Fifthly, the Group obtained high praise from customers and users. Several awards have been obtained, which include: "Top Ten E-Commerce Services Provider in China", "The Best Payment Gateway", "Online Payment Trustworthy Award", "2006 The Most Valuable Online Project Award" and "The Most Secure Online Payment Award" etc. Finally, the Group formed strategic partnership with several business partners which include Industrial Bank, China Mobile, China Unicom and China Telecom etc.

PROSPECTS

The economic growth rate of China has surpassed 10% in last year. The market anticipates China will sustain continuous growth in the future five years. Our management believes that the Group can have great achievement based on our expertise and well-established team in China. During the year, the Group has recruited a lot of talented employee. In order to ensure that appropriate responsibilities have been assigned to capable individual, the Group has re-organized its hierarchy during the year. The management believes that the Group must be able to capture the booming market opportunities and sustain the tremendous growth of current year. Moreover, the Group will further explore the new business opportunities and realize long-term growth.

The Group foresees that along with the maturity of online payment industry, related government regulations will become consummate. The Chinese government may probably impose certain rules and restrictions on the business. The Group will vigorously gather information concerning the legislation process, so that we can ensure the Group can adopt a suitable strategy to cope with the uncertainty in the future.

Appreciation

On behalf of the Board, I would like to take this opportunity to express our sincere thanks to our shareholders, investors, clients and strategic partners for their support. At the same time, sincere thanks are due to all employees for their loyal and reliable service.

Lau Sik Suen
Chairman

Hong Kong, 19 March 2007

OVERVIEW

The Group continues to capture the market opportunities of the existing business, while, in the mean time, develop and promote new business aggressively. During the year, the Group gradually transforms into a conglomerate which engaged in different business sectors, which includes: providing online payment solutions to individual and enterprise customers, system integration and related consultancy services, and timber trading and processing business. The Boards believes that the Group must be able to grasp the opportunities arising from the speedy growth of China economy to realize greater development.

FINANCIAL OVERVIEW

During the current fiscal year, the Group recorded a turnover of approximately HK$40,546,000, representing an increase of approximately 423% as compared to the last fiscal period.

The profit attributable to shareholders of HK$5,562,000 in the current year while comparing with net loss attributable to shareholders of HK$9,380,000 in the last fiscal period. The significant growth in turnover and profit was mainly attributable to the booming internet payment business, as well as the results from the business diversification.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had net current assets of approximately HK$34,725,000. Current assets comprised inventories of approximately HK$2,207,000, debtors of approximately HK$2,970,000, deposits, prepayments and other receivables of approximately HK$2,397,000, pledged time deposits of HK$104,000, unpledged time deposits of HK$2,000,000 and cash and bank balances of approximately HK$56,092,000. Current liabilities comprised deposits received, sundry creditors and accruals of approximately HK$31,045,000.

The Group's primary source of financing is from the initial placing proceeds of the listing in October 2001 and the placing proceeds in May 2002. The Group had issued interest bearing convertible bonds on 29 June 2004 and 1 March 2005 totaling HK$10,000,000. All of these convertible bonds have been converted into ordinary shares during the current fiscal year.

As at 10 February 2006 and 23 November 2006, the Company completed private issue of 69,000,000 and 130,600,000 new ordinary shares with placing proceeds of total HK$31,012,000.

The gearing ratio (defined as a percentage of total liabilities over total assets) of the Group as at 31 December 2006 was 48% (2005: 87%).

The Board considers that the Group's existing financial resources are sufficient to fulfill its commitments, current working capital requirements and further development. In the long term, the Board believes that the Group will continue to fund its foreseeable expenditures through cash flow from operations. However, for a more massive scale of expansion and development, debt or equity financing may be required.

Management *Discussion and Analysis*

BUSINESS REVIEW AND PROSPECTS

1. BUSINESS REVIEW

Besides Hong Kong, Shanghai and Shenzhen, the Group established a new office in Beijing and extended our operation to Northern China. In order to ensure that the Group can be able to cover the entire China effectively, we have divided our operation and administration into several regions: Hong Kong is the headquarter of the Group and overseas service development center; Shanghai is the Group's major operation center; Beijing is the business development center for the Northern China and government public relation resources center; and, Shenzhen is the service development center for the Southern China.

During the year, the Group begins to explore the opportunities for business diversification and the result is satisfactory. The business activities of the Group have been diversified into several industries, which include online payment, internet content provider, wooden material trading and processing, and system integration and related trading. These several industries gradually formed the coordinating effects between different business sectors within the Group.

Online payment business remains to be the core income source of the Group. During the year, online payment business has resulted in brilliant achievements. The accumulated volume and accumulated number of transaction both increased over 70% compared with last year. Secondly, the Group focuses on the development of specific market sectors in order to stay competitive in term of our marketing positioning. For the telecom sectors, we co-operated with China Mobile, China Unicom and China Telecom to provide value added payment gateway to phone recharging in several key provinces and cities. For the utilities sectors, we commenced to provide payment collection channels for utilities in several cities within Zhejiang Province. For the travel ticketing sectors, we succeeded to sign with certain famous travel ticketing companies, such as Mangocity.com. It enabled the Group to grasp the opportunities to provide services relating to the traveling industry's transformation from paper ticket to electronic ticket. For the telemarketing sectors, we participated in the industry forum several times, and the Group maintained close business relationship with several key enterprises which has obtained the telemarketing business license in China. For the insurance sectors, the Group was granted license of concurrent – business insurance agency from China Insurance Regulatory Commission, and the Group signed with several well-known insurance companies to establish an independent online insurance channel. Thirdly, the Group believes that there is a keen relationship between business development and quality and comprehensiveness of our services. In current year, the Group formed strategic partnership with several banks in China, and successfully launched the telephone payment service system. Fourthly, in order to improve the quality of our services, the Group developed the IPS3.0 system. This new payment platform provides a more user friendly system for backend enquiry to our customers. The Group was also aware the necessity to protect this intellectual property rights, and patent has been applied to preserve our intellectual property and to enhance the company's value. Fifthly, the Group also re-organized our company structure according to our short-term, medium-term and long-term business target. We newly established two special divisions, VIP Customer Department and Product Department to cater for different customers. The VIP Customer Department is responsible for exploiting and maintaining the relationship with those VIP customers, while the Product Department targets at developing and introducing new products to cater for the ever changing needs of our customers.

During the year, the Group exploited vigorously value added services through the internet, which includes internet security services, download of movies and music, and internet website storage services etc; and the Group looked for the opportunities to co-operate with oversea strategic partners. Some internet value-added service businesses are expected to be commenced in 2007.

Relying on the abundant natural resources in South-East Asia, the Group commenced the trading and processing business of timber and furniture products in current year. The Group believes that we have superiority in this industry in terms of raw material cost and product quality. Through our strengthened manufacturing process management, the Group will certainly be able to produce quality commodities with the lowest cost. The high profit margin in this wooden business will be ensured by our constructive marketing promotion strategy. The Group believes that the timber business will be contributing to the Group's future revenue growth.

System integration and the related trading business continue to operate in current year. The Group will capture the opportunities and seek suitable new products within the area to realize the sustained growth.

2. PROSPECTS

During the year, the Group stepped out our business diversification. As a result of this diversification, the Board believes the Group can further enhance our profitability within our current business as well as the ability to cope with the turmoil resulted from the market risk and uncertainty.

For the online payment business, the Group believes that the high speed development can be sustained in the future three years. The Group plans to expand our business in the following three aspects: Firstly, in depth development of our online payment services: we will identify certain business sectors such as traveling ticket, insurance and telemarketing, which are particularly suitable for the online payment. Secondly, design of online payment derivative products: these derivative products refer to the provision of new value added services to our current account holders. Thirdly, consolidate the online and off-online payment services for materializing payment product. The management believes break-through in any one of these aspects above will possibly bring the outburst to the Company growth, and these will enable the Group to be the "Global Intelligent Payment Expert" to solve payment solutions. On the other hand, our management also aware the possibility of industrial regulation imposed by the government and the Group is well prepared for the future changes.

For the internet content aspect, we will begin on the provision of legal download of music and video. The Group will form strategic partnership with a Korea company in this business. The management hopes the Group to be a leader in legal music and video download services and content provider in China.

2007 is a crucial moment for our timber trading and processing business. In addition to the improvement of the product quality, we plan to enhance the dynamics of the sales and marketing promotion. Moreover, we will increase the proportion in retail market in order to realize the increment in both revenue and profit.

For the system integration and related trading business, we will look for appropriate new services and products to further expand our scale in the industry.

EMPLOYEES

As at 31 December 2006, the total number of employees of the Group was 112 (31 December 2005: 81). The dedication and contribution of the Group's staff during the year are greatly appreciated and recognized.

Employees (including directors) are remunerated according to their performance and working experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to the Group's performance as well as the individual's performance. In addition, the Group also provides social security benefits to its staff such as mandatory provident fund scheme in Hong Kong and the pension scheme in China.

TREASURY POLICIES

The Group adopted a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the current fiscal year, the Group injected capital of RMB19,000,000 to International Payment Solutions (Shanghai) Limited (IPSSH), a subsidiary of the Group to enlarge its share capital. The registered capital of IPSSH increased from RMB1,000,000 to RMB20,000,000. The Group believes the registered capital increment is in line with the growth of online payment business, and the investment will enhance the competitiveness of IPSSH.

During the year, the Group further acquired 40% equity interest in a subsidiary, Hyle Maestro Wooding (Shanghai) Limited (originally, Universal iLogistics (Shanghai) Limited). After the acquisition, Hyle Maestro Wooding (Shanghai) Limited became the wholly owned subsidiary of the Group. The Group further injected approximately HK$3,900,000 in the company to carry on its timber trading and processing business.

CHARGES ON GROUP'S ASSETS

Time deposit of HK$104,000 as at 31 December 2006 (31 December 2005: HK$204,000) was pledged to a bank to secure general banking facilities granted to a subsidiary.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group had no detailed future plans for material investment or capital assets as at 31 December 2006.

EXCHANGE RISK

Currently, the market anticipates moderate appreciation pressure on Renminbi. After the Group's re-structuring on 18 October 2005, purchase consideration of approximately RMB22 million for acquisition of a subsidiary was still payable as at 31 December 2006. The Group has not implemented any formal policy in dealing with this foreign exchange risk. However, in view of the Group's core business is mainly transacted in Renminbi and significant portion of assets are denominated in Renminbi, the exposure of the Group's risk from exchange rate fluctuation was minimal. For the year ended 31 December 2006, the Group did not enter into any arrangement to hedge its foreign exchange exposure.

CONTINGENT LIABILITES

The Directors consider that the Group had no contingent liabilities as at 31 December 2006.

Directors, *Senior Management and Consultants*

DIRECTORS

Executive Directors

Mr. Lau Sik Suen

Mr. Lau, aged 36, is one of the founders, the Chairman of the Board, an executive director, compliance officer and authorized representative of the Group. Mr. Lau is responsible for the overall business development of the Group. Before founding the Group, Mr. Lau worked for a conglomerate company in Hong Kong and was responsible for business development in the PRC. Mr. Lau has substantial experience and knowledge of the internet industry and of investment in technology companies in the PRC. He holds a Bachelor of Social Science degree from the Chinese University of Hong Kong. Mr. Lau is the nephew of Mr. Liu Rui Sheng, an executive director of the Company.

Mr. Liu Rui Sheng

Mr. Liu, aged 62, is an executive director of the Group. Mr. Liu is mainly responsible for the overall strategic planning of the Group. Mr. Liu is a businessman in the PRC, with years of solid experiences gained from e-commerce related companies in the PRC. Mr. Liu is the uncle of Mr. Lau Sik Suen, an executive director of the Company. Mr. Liu joined the Group in March 2004.

Madam Luan Yumin

Madam Luan, aged 30, holds a Bachelor Degree of Human Resource from Nanjing University of Science and Technology. Before joining the Group, Madam Luan was the human resources supervisor in AMD. She has assumed the office of human resources manager, business executive and senior management since she joined the Group in 2001. With a profound understanding of the market and business pattern of payment industry and experience, Madam Luan does a great job in expanding business while handling the risks well under control.

Non-executive Director

Madam Zhou Zhiyun

Madam Zhou, aged 30, graduated from Guangdong University of Finance. Madam Zhou has worked in finance and administration department in companies such as trust & investment companies and finance companies. She has experience in management and knowledge in finance. In July 2001, Madam Zhou was employed as an administration supervisor in Calico Development Limited ("Calico"), and is responsible for supervising Calico's daily capital flow and property management at present.

Independent non-executive Directors

Mr. Meng Li Hui

Mr. Meng Li Hui, aged 44, is currently a General Manager of a Company jointly established by several professors of Fudan University in Shanghai, the PRC. The principal activity of that company is the provision of consultancy services on ecological environment protection to both private companies and local government authorities in various cities in the PRC. Mr. Meng holds a Bachelor of Arts degree from Shanghai Fudan University.

Mr. Wan Xie Qiu

Mr. Wan Xie Qiu, aged 51, is currently a Professor and Dean of School of Finance in Suzhou University. Mr. Wan also acts as a committee member of the Economics Committee of Jiangsu Province, the Financial Committee of Jiangsu Province and the Taxation Committee of Jiangsu Province.

Mr. Fong Heung Sang

Mr. Fong, aged 47, holds a Master Degree in Business Administration and a Master Degree in Accountancy from two famous universities in the United States of America. Mr. Fong is a Certified Public Accountant in the United States of America. Mr. Fong has extensive experience in corporate finance, accounting and auditing field. Mr. Fong worked for international accounting firms and a number of public listed companies for more than 20 years. Mr. Fong is a director of Iceberg Investment Consultants at present.

QUALIFIED ACCOUNTANT

Mr. Wong Wai Man

Mr. Wong, aged 37, is the qualified accountant, the company secretary and one of the authorized representatives. Mr. Wong joined the Group as its Financial Controller in July 2006. Mr. Wong is a fellow member of the Hong Kong Institute of Certificate Public Accountants, an associate member of the American Institute of Certified Public Accountants. Mr. Wong has over 10 years experience in accounting and auditing.

CONSULTANTS

Mr. Zhang Wei Dong

Mr. Zhang, aged 43, is the Investment Consultant of the Group. He holds a Master Degree in International Economics from Renmin University of China, and finished the Program for Management Development in Harvard University. He has over ten years commercial banking and investment experience. He is currently a director of Alpha Alliance Finance Holding Ltd. in Hong Kong. Mr. Zhang was invited to be the Group's Investment Consultant in March 2005.

Mr. Li Di

Mr. Li, aged 35, is the Group Technical Advisor. He holds a Master Degree in Computer Engineering from the University of New South Wales, Australia. He has over twelve years experience in enterprise technical infrastructure management and software engineering and he had worked for Shenzhen Huawei Technology Ltd. And Hewlett-Packard (Canada) Ltd. He is currently a Lead Enterprise Architect, Director in JP Morgan Chase-Bank One. Mr. Li became the Group Technical Advisor in March 2005.

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding and those of the subsidiaries are set out in note 16 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and of the Group as at 31 December 2006 are set out in the financial statements on pages 32 to 82.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2006.

FINANCIAL SUMMARY

The summary of the consolidated results of the Group for each of the three years ended 31 March 2005 and the period ended 31 December 2005 and the year ended 31 December 2006 and the assets and liabilities of the Group as at 31 March 2003, 2004 and 2005 and 31 December 2005 and 2006 are set out on page 83.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND USE RIGHT

The Group and the Company purchased property, plant and equipment amounting to approximately HK$4,415,000 and HK$670,000 respectively during the year. Details of movements in property, plant and equipment and prepaid land use right during the year are set out in notes 13 and 14 to the financial statements respectively.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 23 to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company who held office during the year and up to the date of this report were:–

Executive directors:

Mr. Lau Sik Suen	
Mr. Liu Rui Sheng	
Madam Luan Yumin	*(appointed on 1 July 2006)*

Non-executive director:

Mr. Zhang Wen Bing	*(resigned on 2 July 2006)*
Madam Zhou Zhiyun	*(appointed on 1 July 2006)*

Independent non-executive directors:

Mr. Meng Li Hui	
Mr. Wan Xie Qiu	
Mr. Wong Wai Man	*(resigned on 2 July 2006)*
Mr. Fong Heung Sang	*(appointed on 1 July 2006)*

Mr. Lau Sik Suen has entered into a service contract with the Company for an initial term of two years commencing from 18 October 2001 and will continue thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Liu Rui Sheng has entered into a service contract with the Company for an initial term of two years commencing from 8 March 2004 and will continue thereafter on an annual basis until terminated by not less than two months' notice in writing served by either party on the other.

Madam Luan Yumin has entered into a service contract with the Company for an initial term of two years commencing from 1 July 2006 and will continue thereafter on an annual basis until terminated by not less than two months' notice in writing served by either party on the other.

The non-executive director, Madam Zhou Zhiyun, was appointed for an initial term of two years commencing from 1 July 2006 and will continue thereafter on an annual basis until terminated by not less than two months' notice in writing served by either party on the other.

The independent non-executive director, Mr. Fong Heung Sang, was appointed for an initial term of two years commencing from 1 July 2006 which is renewable after the expiry of the initial term of appointment.

The remaining independent non-executive directors were appointed for an initial term of twelve months which is renewable after the expiry of the initial term of appointment.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

In accordance with article 86 of the Company's Articles of Association, Madam Luan Yumin, Madam Zhou Zhiyun and Mr. Fong Heung Sang shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 87 of the Company's Articles of Association, Mr. Wan Xie Qiu and Mr. Meng Li Hui for the time being shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

All independent non-executive directors have confirmed their independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") (the "GEM Listing Rules") for the year ended 31 December 2006 and the Company considers the independent non-executive directors to be independent.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and top five highest paid individuals of the Group are set out in note 6 to the financial statements.

CONNECTED TRANSACTIONS

No connected transactions to be disclosed under the GEM Listing Rules during the year.

SHARE OPTIONS

Pursuant to the written resolutions passed by all the shareholders of the Company on 12 October 2001, the Company adopted the following share option schemes:–

(A) Share Option Scheme

The purpose of the Share Option Scheme is to advance the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward all the directors (whether executive or non-executive and whether independent or not), the employees (whether full-time or part-time), any consultants or advisers of or to any company in the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid ("Eligible Persons")) and any other persons who, in the absolute opinion of the Board, have contributed to the Group and to provide to the Eligible Persons a performance incentive for continued and improved service with the Group and by enhancing such persons' contribution to increase profits by encouraging capital accumulation and share ownership. The directors may at their discretion, invite any Eligible Persons to take up options to subscribe for shares.

The maximum entitlement for any one participant (including both exercised and outstanding options) in any twelve-month period shall not exceed 1% of the total number of shares in issue.

The period within which the shares must be taken up under the option must not be more than ten years from the date of grant of the option. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The subscription price for shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion may determine save that such price shall not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option.

SHARE OPTIONS *(Continued)*

(A) Share Option Scheme *(Continued)*

A summary of the movements of the share options granted under the Share Option Scheme during the year is as follows:–

Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options: Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2006
Initial management shareholder and employees	7 February 2002	Fully vested on 7 February 2002	7 February 2002 to 6 February 2012	HK$1.300	350,000	–	–	–	350,000
Senior management and staff of the Group	9 April 2002	Fully vested on 9 April 2002	9 April 2002 to 8 April 2012	HK$1.400	150,000	–	–	(80,000)	70,000
Executive director	23 December 2002	Fully vested on 23 December 2002	23 December 2002 to 22 December 2012	HK$0.108	3,500,000	–	(3,500,000)	–	–
Senior management and staff of the Group	23 December 2002	1 July 2003 to 1 January 2004 (inclusive)	Maximum 50%: 1 July 2003 to 22 December 2012 Remaining 50%: 1 January 2004 to 22 December 2012	HK$0.108	1,860,000	–	(1,650,000)	(150,000)	60,000
Executive director	10 April 2003	10 October 2003 to 10 April 2004 (inclusive)	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK$0.165	2,000,000	–	–	–	2,000,000
Senior management of the Group	10 April 2003	10 October 2003 to 10 April 2004 (inclusive)	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK$0.165	6,000,000	–	–	–	6,000,000
Senior management of the Group	29 December 2005	29 December 2005 to 29 June 2006 (inclusive)	Maximum 50%: 29 December 2005 to 28 December 2015 Remaining 50%: 29 June 2006 to 28 December 2015	HK$0.176	41,720,000	–	–	(11,920,000)	29,800,000
					55,580,000	–	(5,150,000)	(12,150,000)	38,280,000

SHARE OPTIONS (Continued)

(B) Pre-IPO Share Option Schemes

The purpose of each of the Pre-IPO Share Option Scheme A and the Pre-IPO Share Option Scheme B is to recognise the contribution of certain directors and senior management staff of the Group to the growth of the Group and/or to the listing of the Company's shares on GEM.

(i) Pre-IPO Share Option Scheme A

The persons qualified under this scheme to accept options include executive directors and senior management of the Group.

Under this scheme, options were granted to the executive directors and senior management of the Group to subscribe for an aggregate of 15,600,000 shares in the Company at a price of HK$0.01 per share.

None of these options can be exercised during the first six months after 26 October 2001 (the "Listing Date"). The period within which the shares must be taken up under the option must be within a period of ten years commencing on the expiry of six months after the Listing Date and expiring on the last day of such ten-year period.

Upon acceptance of an option under this scheme, the grantee must pay HK$1.00 to the Company as consideration for the grant.

The grantees of this scheme exercised all options before 1 January 2006 and there was no share option outstanding as at 31 December 2006.

(ii) Pre-IPO Share Option Scheme B

The persons qualified under this scheme to accept options include an executive director, an employee and two consultants.

Under this scheme, options were granted to an executive director, employee and consultants of the Group to subscribe for an aggregate of 16,240,000 shares in the Company at a price of HK$0.084 per share.

None of these options can be exercised during the first six months after Listing Date. The period within which the shares must be taken up under the option must be within a period of ten years commencing on the expiry of six months after the Listing Date and expiring on the last day of such ten-year period.

Upon acceptance of an option under this scheme, the grantee must pay HK$1.00 to the Company as consideration for the grant.

SHARE OPTIONS *(Continued)*

(B) Pre-IPO Share Option Schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme B (Continued)

A summary of the movements of the share options granted under the Pre-IPO Share Option Scheme B during the year is as follows:–

					Number of share options			
Grantees	**Date of grant**	**Vesting period**	**Exercise period**	**Exercise price**	**Outstanding as at 1 January 2006**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2006**
Executive director	17 October 2001	Fully vested on 26 April 2002	26 April 2002 to 25 April 2012	HK$0.084	7,840,000	(7,840,000)	–	–

Note:–

The Company received a consideration of HK$1.00 from each of the grantees of the share option schemes.

As at 31 December 2006, the number of shares in respect of which options had been granted and outstanding under the share option schemes was 38,280,000, representing approximately 3.90% of the issued share capital of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests or short positions of the directors and chief executives or their associates of the Company in the shares, underlying shares and debentures of the Company or any of 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 of Hong Kong Limited ("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 Rules 5.48 to 5.67 of the GEM Listing Rules, were as follows:–

	Interests in ordinary shares			Total interests in	Total interests in		% of the Company's
Name of directors	Personal interests	Family interests	Corporate interests	ordinary shares	underlying shares *(Note)*	Aggregate interests	issued share capital
Executive directors:							
Mr. Lau Sik Suen	14,740,000	–	–	14,740,000	2,000,000	16,740,000	1.71%
Mr. Liu Rui Sheng	–	–	–	–	–	–	–
Madam Luan Yumin	1,000,000	–	–	1,000,000	200,000	1,200,000	0.12%
Non-executive director:							
Madam Zhou Zhiyun	–	–	–	–	–	–	–
Independent non-executive directors:							
Mr. Meng Li Hui	–	–	–	–	–	–	–
Mr. Wan Xie Qiu	–	–	–	–	–	–	–
Mr. Fong Heung Sang	–	–	–	–	–	–	–

Note:–

The interests of Mr. Lau Sik Suen and Madam Luan Yumin in underlying shares of the Company represent the interests in share options granted to them under the share option schemes of the Company.

Details of the interests in the share options of the Company are separately disclosed in the section headed "Share options" above.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Save as disclosed above, as at 31 December 2006, none of the directors or chief executives or their associates of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 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 standard of dealings by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules.

The directors confirmed that as at 31 December 2006 and for the year ended 31 December 2006,

(i) the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings according to Rules 5.48 to 5.67 of the GEM Listing Rules; and

(ii) all the directors complied with the required standard of dealings and the Company's code of conduct regarding directors' securities transactions.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

So far as is known to any director or chief executive of the Company, as at 31 December 2006, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:–

(a) Long positions in the shares of the Company

Name	Type of interests	Number of shares	Approximate percentage of interests
World One Investments Limited *(Note 1)*	Beneficial owner	221,340,000	22.57%
Mr. Lau Yeung Sang *(Note 2)*	Beneficial owner	221,340,000	22.57%
East Concord Limited *(Note 3)*	Beneficial owner	130,000,000	13.25%
Calico Development Limited *(Note 4)*	Beneficial owner	106,000,000	10.81%
Anhui Investments Limited *(Note 5)*	Beneficial owner	67,540,000	6.89%
Link Silver International Limited *(Note 6)*	Beneficial owner	56,160,000	5.73%
Mr. Zheng Quan	Beneficial owner	51,500,000	5.25%

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING *(Continued)*

(a) Long positions in the shares of the Company *(Continued)*

Note:–

(1) World One Investments Limited ("World One") is wholly and beneficially owned by Mr. Lau Yeung Sang.

(2) Total interests of Mr. Lau Yeung Sang in issued ordinary shares of the Company of 221,340,000 shares were held by World One. Mr. Lau Yeung Sang is deemed to be interested in these ordinary shares held by World One.

(3) East Concord Limited is wholly and beneficially owned by Mr. Zhang Wen Bing.

(4) Calico Development Limited is equally and beneficially owned by Mr. Wen Jin Jian and Madam Liu Qi Lan.

(5) Anhui Investments Limited is equally and beneficially owned by Mr. Zhou Jian Hui and Mr. Chen Jiu Ming.

(6) Link Silver International Limited is equally and beneficially owned by Mr. Pan Bin Lin and Madam Zou Yun Yu.

(b) Long positions in underlying shares of equity derivatives of the Company

Name	Type of interests	Number and description of equity derivatives	Number of underlying shares
Mr. Lau Yeung Sang	Personal	Share option to subscribe for 6,000,000 shares pursuant to the Share Option Scheme	6,000,000

(c) Short positions in the shares and underlying shares of equity derivatives of the Company

So far as the directors are aware, save as disclosed herein, no persons have short positions in the shares or underlying shares of equity derivatives of the Company.

MANAGEMENT SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executives' interests or short positions in shares, underlying shares and debentures" and "Persons who have an interest or a short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholding" above, as at 31 December 2006, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and was able, as a practical matter, to direct or influence the management of the Company.

COMPETING INTERESTS

During the year, none of the directors, the substantial shareholders or the management shareholders (as defined in the GEM Listing Rules) had any interests in any business which competed with or might compete with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 84% of the total sales for the year and sales to the largest customer included therein amounted to approximately 56%. Purchases from the Group's five largest suppliers accounted for approximately 100% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 94%.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE

In the opinion of the directors, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the financial year ended 31 December 2006.

CORPORATE GOVERNANCE REPORT

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

(A) Directors' Securities Transactions

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding securities transactions by the directors throughout the year ended 31 December 2006.

CORPORATE GOVERNANCE REPORT *(Continued)*

(B) Board Of Directors

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

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

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

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

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

Directors	**Attendance**
Mr. Lau Sik Suen	4/4
Mr. Liu Rui Sheng	4/4
Mr. Meng Li Hui	4/4
Mr. Wan Xie Qiu	4/4
Madam Luan Yumin	3/3
Mr. Fong Heung Sang	3/3
Madam Zhou Zhiyun	3/3
Mr. Wong Wai Man	1/1
Mr. Zhang Wen Bing	1/1

CORPORATE GOVERNANCE REPORT *(Continued)*

(C) Chairman And The Chief Executive Officer

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

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

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

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

– The non-executive directors form the majority of the Board of which three out of seven are independent.

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

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

Mr. Lau, the executive chairman, is a shareholder of the Company holding 14,740,000 fully paid ordinary shares and has interests in 2,000,000 underlying shares which represent the interests in share options granted to Mr. Lau under the share option schemes of the Company. Mr. Lau has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

(D) Remuneration Committee

The Remuneration Committee was established in July 2006. The Remuneration Committee comprises three independent non-executive directors, Mr. Meng Li Hui, Mr. Wan Xie Qiu and Mr. Fong Heung Sang. The Remuneration Committee held one meeting during the year ended 31 December 2006, which was attended by all members.

CORPORATE GOVERNANCE REPORT *(Continued)*

(D) Remuneration Committee *(Continued)*

The primary objectives of the Remuneration Committee include reviewing, making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior executives. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Group as well as market practice and conditions. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Company about these recommendations on remuneration policy and structure and remuneration packages.

(E) Nomination Of Directors

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

(F) Auditor's Remuneration

Auditor's remuneration of approximately HK$325,000 was charged to the Group's income statement for the year ended 31 December 2006 (Period ended 31 December 2005: HK$265,000).

(G) Audit Committee

The Audit Committee was established in October 2001 with written terms of reference to review, inter alia, the Group's financial reporting and internal controls.

The Audit Committee comprises three independent non-executive directors, namely, Mr. Meng Li Hui, Mr. Wan Xie Qiu and Mr. Fong Heung Sang. The chairman of the Audit Committee is Mr. Meng Li Hui.

The Audit Committee held four meetings in the year ended 31 December 2006, which were attended by all members. The Group's first quarterly report 2006, interim report 2006, third quarterly report 2006 and annual report 2006 have been reviewed by the Audit Committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements. For the annual report 2006, the Audit Committee met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending it to the Board for approval. The committee also monitored the Company's progress in implementing the code provisions on corporate governance practices as required under the GEM Listing Rules.

AUDITOR

A resolution to re-appoint the retiring auditor, Messrs. PKF, is to be proposed at the forthcoming general meeting.

On behalf of the Board

Lau Sik Suen
Chairman
Hong Kong, 19 March 2007

PKF

Accountants &
business advisers

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNIVERSAL TECHNOLOGIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Universal Technologies Holdings Limited (the "Company") set out on pages 32 to 82, which comprise the consolidated and Company's balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

It is our responsibility to form an independent opinion, based on our audit, on these 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PKF
Certified Public Accountants

Hong Kong, 19 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Note	Year ended 31.12.2006 HK$'000	Period from 1.4.2005 to 31.12.2005 HK$'000
Turnover	4	**40,546**	7,750
Other revenue	4	**2,157**	235
		42,703	7,985
Cost of computer hardware and software/services rendered		**(11,404)**	(2,971)
Staff costs		**(6,756)**	(3,159)
Depreciation		**(1,027)**	(1,291)
Amortisation of prepaid lease premium		**–**	(265)
Minimum operating lease rentals		**(1,847)**	(603)
Bad debts written off		**(378)**	(15)
Cost of reorganisation		**–**	(1,698)
Impairment loss of property, plant and equipment		**–**	(2,824)
Other operating expenses		**(14,704)**	(4,366)
Profit/(loss) from operations		**6,587**	(9,207)
Finance costs		**(227)**	(423)
Loss on disposal of subsidiaries		**–**	(1,716)
Share of results of an associate		**–**	507
Profit/(loss) before income tax	5	**6,360**	(10,839)
Income tax expense	7	**(798)**	(307)
Profit/(loss) for the year/period		**5,562**	(11,146)
Attributable to:			
– Shareholders of the Company	9	**5,562**	(9,380)
– Minority interests		**–**	(1,766)
		5,562	(11,146)
Dividend	10	**–**	–
Earnings/(loss) per share (in cents)			
Basic	11	**0.71**	(1.40)
Diluted	11	**0.68**	N/A

Consolidated Balance Sheet

As at 31 December 2006

	Note	At 31.12.2006 HK$'000	At 31.12.2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13(a)	**5,530**	2,896
Prepaid land use right	14	**–**	–
Goodwill	15	**43,050**	43,050
		48,580	45,946
CURRENT ASSETS			
Inventories	17	**2,207**	77
Prepaid land use right	14	**–**	–
Amounts due from related companies		**–**	612
Debtors	18	**2,970**	3,286
Deposits, prepayments and other receivables	19	**2,397**	5,603
Pledged time deposits	20	**104**	204
Unpledged time deposits	20	**2,000**	–
Cash and bank balances	21	**56,092**	21,765
		65,770	31,547
DEDUCT:			
CURRENT LIABILITIES			
Deposits received, sundry creditors and accruals	22	**31,045**	23,344
Other payables	27	**–**	8,038
Tax payable		**–**	817
		31,045	32,199
NET CURRENT ASSETS/(LIABILITIES)		**34,725**	(652)
TOTAL ASSETS LESS CURRENT LIABILITIES		**83,305**	45,294
DEDUCT:			
NON-CURRENT LIABILITIES			
Convertible bonds	26	**–**	9,566
Deferred tax liability	8(a)	**1,692**	–
Other payables	27	**22,280**	25,616
		23,972	35,182
NET ASSETS		**59,333**	10,112
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	23	**9,808**	6,682
Reserves	25(a)	**49,525**	3,430
TOTAL EQUITY		**59,333**	10,112

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 19 MARCH 2007

LAU SIK SUEN
DIRECTOR

LIU RUI SHENG
DIRECTOR

Balance Sheet

As at 31 December 2006

	Note	**At 31.12.2006 *HK$'000***	At 31.12.2005 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*13(b)*	**1,119**	750
Interests in subsidiaries	*16*	**89,487**	77,540
		90,606	78,290
CURRENT ASSETS			
Deposits and prepayments	*19*	**359**	434
Cash and bank balances		**3,621**	358
		3,980	792
DEDUCT:			
CURRENT LIABILITIES			
Accruals	*22*	**220**	946
Other payables	*27*	**–**	8,038
		220	8,984
NET CURRENT ASSETS/(LIABILITIES)		**3,760**	(8,192)
TOTAL ASSETS LESS CURRENT LIABILITIES		**94,366**	70,098
DEDUCT:			
NON-CURRENT LIABILITIES			
Convertible bonds	*26*	**–**	9,566
Other payables	*27*	**22,280**	25,616
		22,280	35,182
NET ASSETS		**72,086**	34,916
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	*23*	**9,808**	6,682
Reserves	*25(b)*	**62,278**	28,234
TOTAL EQUITY		**72,086**	34,916

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 19 MARCH 2007

LAU SIK SUEN
DIRECTOR

LIU RUI SHENG
DIRECTOR

Consolidated *Cash Flow Statement*

For the year ended 31 December 2006

	Note	**Year ended 31.12.2006** *HK$'000*	Period from 1.4.2005 to 31.12.2005 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		**6,360**	(10,839)
Adjustments for:–			
Time deposits pledged for banking facilities		**100**	(104)
Interest income		**(489)**	(17)
Interest expenses		**227**	423
Impairment loss of property, plant and equipment		**–**	2,824
Depreciation		**1,027**	1,291
Amortisation of prepaid lease premium		**–**	265
Loss on disposal of property, plant and equipment		**239**	600
Share of results of an associate		**–**	(507)
Bad debts written off		**378**	15
Equity settled share-based payment expenses		**1,132**	1,122
Loss on disposal of subsidiaries		**–**	1,716
Impairment loss of available-for-sale financial assets		**–**	189
Operating profit/(loss) before working capital changes		**8,974**	(3,022)
(Increase)/decrease in inventories		**(2,130)**	331
Increase in debtors		**(62)**	(1,577)
Decrease in deposits, prepayments and other receivables		**3,206**	2,623
Decrease in amounts due from related companies		**612**	13
Increase in deposits received, sundry creditors and accruals		**7,241**	1,564
Decrease in amounts due to related companies		**–**	(2,163)
Decrease in amount due to an associate		**–**	(1,189)
Effect of foreign exchange rate changes		**941**	9
Cash generated from/(used in) operations		**18,782**	(3,411)
Interest received		**489**	17
Tax refunded		**62**	–
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**19,333**	(3,394)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	Year ended 31.12.2006 HK$'000	Period from 1.4.2005 to 31.12.2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment		**(4,415)**	(136)
Sale proceeds of property, plant and equipment		**555**	35
Instalments paid for acquisition of subsidiaries		**(11,374)**	–
Net cash inflow on disposal of subsidiaries	28	**–**	12,516
Net cash outflow on acquisition of a subsidiary	29	**–**	(813)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		**(15,234)**	11,602
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**1,216**	–
Proceeds from issue of new shares		**31,012**	–
NET CASH FROM FINANCING ACTIVITIES		**32,228**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		**36,327**	8,208
CASH AND CASH EQUIVALENTS AT 1 JANUARY/1 APRIL		**21,765**	13,557
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**58,092**	21,765
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Unpledged time deposits		**2,000**	–
Cash and bank balances		**56,092**	21,765
		58,092	21,765

Consolidated *Statement of Changes in Equity*

For the year ended 31 December 2006

	Attributable to shareholders of the Company											
	Share capital	Share premium	Capital reserve	Special reserve	Exchange reserve	Share options reserve	Convertible bonds reserve	Statutory reserve	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1.4.2005, as previously reported	6,682	37,426	1,093	10,754	60	–	–	–	(38,290)	17,725	8,184	25,909
Opening balance adjustment in respect of financial instruments	–	–	–	–	–	–	668	–	(91)	577	–	577
At 1.4.2005, as restated	6,682	37,426	1,093	10,754	60	–	668	–	(38,381)	18,302	8,184	26,486
Equity settled share-based transactions	–	–	–	–	–	1,122	–	–	–	1,122	–	1,122
Release on disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(8,184)	(8,184)
Exchange differences arising on translation of financial statements of subsidiaries established in the PRC	–	–	–	–	68	–	–	–	–	68	–	68
Loss for the period	–	–	–	–	–	–	–	–	(9,380)	(9,380)	–	(9,380)
At 31.12.2005	6,682	37,426	1,093	10,754	128	1,122	668	–	(47,761)	10,112	–	10,112
At 1.1.2006	6,682	37,426	1,093	10,754	128	1,122	668	–	(47,761)	10,112	–	10,112
Issue of new shares	1,996	29,016	–	–	–	–	–	–	–	31,012	–	31,012
Conversion of convertible bonds	1,000	9,000	–	–	–	–	(668)	–	–	9,332	–	9,332
Exercise of share options	130	1,086	–	–	–	–	–	–	–	1,216	–	1,216
Transferred to accumulated losses	–	–	–	–	–	(320)	–	–	320	–	–	–
Equity settled share-based transactions	–	–	–	–	–	1,132	–	–	–	1,132	–	1,132
Exchange differences arising on translation of financial statements of subsidiaries established in the PRC	–	–	–	–	967	–	–	–	–	967	–	967
Profit for the year	–	–	–	–	–	–	–	–	5,562	5,562	–	5,562
Transferred to statutory reserve	–	–	–	–	–	–	–	1,147	(1,147)	–	–	–
At 31.12.2006	**9,808**	**76,528**	**1,093**	**10,754**	**1,095**	**1,934**	**–**	**1,147**	**(43,026)**	**59,333**	**–**	**59,333**

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 27 March 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The address of the registered office is Unit 231-233, Building 2, Phase I, No. 1 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

Pursuant to the reorganisation to rationalise the structure of the Company and its subsidiaries in the preparation for the listing of the Company's shares on The Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2001, the Company became the holding company of the companies now comprising the Group. The shares of the Company were listed on GEM on 26 October 2001.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:–

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which also includes Hong Kong Accounting Standards ("HKAS") and Interpretations approved by the HKICPA, and are prepared under the historical cost convention.

In the current year, the Group initially applied the following Hong Kong Financial Reporting Standards:–

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKAS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning and Environmental Rehabilitation Funds

The initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the dates of acquisition or to the dates of disposal respectively. All significant intra-group transactions and balances have been eliminated on consolidation.

Minority interests represents the results and net assets of the subsidiaries attributable to equity interests not owned, directly or indirectly, by the Company.

(c) Subsidiaries

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

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

(d) Segment reporting

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:–

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Translation of foreign currencies *(Continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Property, plant and equipment and depreciation

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

Depreciation is calculated to write off the cost of property, plant and equipment less any estimated residual value, on a straight-line basis over their estimated useful lives as follows:–

Leasehold improvement	–	Shorter of 5 years and the unexpired leases' terms
Office equipment, computer and other equipment	–	5 years
Furniture and fixtures	–	5 years
Motor vehicles	–	5 years

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

Gain or loss arising from the retirement or disposal of a plant and equipment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and is recognised in the income statement on the date of retirement or disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investments *(Continued)*

(ii) Loans and receivables

Loans and 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 receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investments *(Continued)*

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

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. Net realisable value represents the estimated selling price less direct selling costs.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

(p) Employee benefits

Salaries, annual bonuses, annual leave entitlements and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Obligations for contributions to retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the People's Republic of China (the "PRC") central pension scheme, are recognised as an expense in the income statement as incurred.

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

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Provisions and contingent liabilities

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

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

(r) Recognition of revenue

Revenue from the provision of enterprise solutions services is recognised on a straight-line basis over the period in which the work is performed.

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Handling income from online payment platform transaction is recognised when the transaction is authorised and completed.

Annual fee income of online payment platform services is recognised on a straight-line basis over the years of the services.

Set up fee income of online payment platform services is recognised at the time when the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

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

(s) Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the periods of the respective leases.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

An entity is related to the Company if the entity (i) has, directly or indirectly, control or joint control or significant influence over the Company, or (ii) is controlled by or under common control with the Company, or (iii) is an associate or jointly controlled entity of the Company, or (iv) is controlled, jointly-controlled or significantly influenced by an individual related to the Company.

An individual is related to the Company if the individual (i) has, directly or indirectly, control or joint control or significant influence over the Company, or (ii) is member of the key management personnel of the Company, or (iii) if the individual is a close member of the family of the individuals in (i) or (ii).

(u) Recently issued accounting standards

The following Hong Kong Financial Reporting Standards in issue at 31 December 2006 have not been applied in the preparation of the consolidated financial statements for the year ended 31 December 2006 since they were not yet effective for the annual period beginning on 1 January 2006:–

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The Group is required to initially apply these standards in its annual consolidated financial statements beginning on 1 January 2007.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2 to the financial statements, management had made the following estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements.

(i) Inventories

Note 2 to the financial statements describes that inventories are stated at the lower of cost and net realisable value. Net realisation value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Key sources of estimation uncertainty *(Continued)*

(i) Inventories (Continued)

The Group does not have a general provisioning policy on inventory based on ageing given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. The sales and marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regards, the directors of the Group are satisfied that this risk is minimal and adequate provision for obsolete and slow-moving inventories has been made in the financial statements.

(ii) Depreciation

The management determines the estimated useful lives and related depreciation of the property, plant and equipment as set out in note 2 to the financial statements. The estimate is based on projected lifecycles of the assets. Management will increase the depreciation expense where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using straight-line method.

(b) Critical judgements

In the process of applying the Group's accounting policies, judgements that can significantly affect the amounts recognised in the financial statements are made in determining:–

(i) whether the significant risks and rewards of ownership of goods have been transferred to the buyer;

(ii) whether there is an indication of impairment of assets;

(iii) the expected manner of recovery of the carrying amount of assets;

(iv) the discount rates used ot calculate the recoverable amount of goodwill and other assets for the purpose of impairment review; and

(v) the valuation method used to calculate the fair value of share options at the measurement date.

4. TURNOVER AND REVENUE

The Group is principally engaged in investment holding, provision of online and mobile payment and related services, trading, system integration and related technical support services. Turnover for the year/period represents revenue recognised from the provision of online payment handling income net of business tax, the net invoiced value of goods sold, system integration and the related consultancy services at net invoice amount. An analysis of the Group's turnover and other revenue is set out below:–

	Year ended 31.12.2006	Period from 1.4.2005 to 31.12.2005
	HK$'000	*HK$'000*
Online and mobile payment and related services income	**27,159**	3,099
Trading, system integration and related technical support services	**13,387**	4,651
Turnover	**40,546**	7,750
Interest on bank deposits	**489**	15
Others	**1,668**	220
Total revenue	**42,703**	7,985

5. PROFIT/(LOSS) BEFORE INCOME TAX

	Year ended 31.12.2006	Period from 1.4.2005 to 31.12.2005
	HK$'000	*HK$'000*
Profit/(loss) before income tax is arrived at after charging:–		
Auditor's remuneration	**325**	265
Staff costs (including directors' remuneration – *Note 6*)		
– Salaries and other benefits	**4,838**	1,964
– Pension scheme contributions	**786**	73
– Equity settled share-based payment expenses	**1,132**	1,122
	6,756	3,159
Depreciation	**1,027**	1,291
Amortisation of prepaid lease premium	**–**	265
Impairment loss of available-for-sale financial assets	**–**	189
Impairment loss of property, plant and equipment	**–**	2,824
Sale proceeds of property, plant and equipment	**(555)**	(35)
Less: carrying amounts of property, plant and equipment	**794**	635
Loss on disposal of property, plant and equipment	**239**	600
Bad debts written off	**378**	15
Minimum operating lease rentals		
– Land and buildings	**1,847**	570
– Servers	**–**	33
	1,847	603

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors

The remuneration of each director for the year ended 31 December 2006 and the period from 1 April 2005 to 31 December 2005 are set out below:–

	Year ended 31 December 2006				
Name of director	**Fees** *HK$'000*	**Salaries, allowances and other benefits in kind** *HK$'000* *(Note i)*	**Bonuses** *HK$'000*	**Pension scheme contributions** *HK$'000*	**Total** *HK$'000*
Mr. Lau Sik Suen	–	180	–	9	189
Mr. Liu Rui Sheng	20	–	–	–	20
Madam Luan Yumin *(Note iii)*	12	113	–	29	154
Mr. Meng Li Hui	24	–	–	–	24
Mr. Wan Xie Qiu	24	–	–	–	24
Mr. Wong Wai Man *(Note ii)*	10	–	–	–	10
Mr. Fong Heung Sang *(Note iii)*	22	–	–	–	22
Mr. Zhang Wen Bing *(Note iv)*	–	–	–	–	–
Madam Zhou Zhiyun *(Note iii)*	6	–	–	–	6
	118	293	–	38	449

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors *(Continued)*

	Period from 1 April 2005 to 31 December 2005				
Name of director	**Fees**	**Salaries, allowances and other benefits in kind**	**Bonuses**	**Pension scheme contributions**	**Total**
	HK$'000	*HK$'000* *(Note i)*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Lau Sik Suen	–	128	–	7	135
Mr. Liu Rui Sheng	–	9	–	–	9
Mr. Meng Li Hui	13	–	–	–	13
Mr. Wan Xie Qiu	13	–	–	–	13
Mr. Wong Wai Man	18	–	–	–	18
Mr. Lo Wing Hung (*Note v*)	29	–	–	–	29
Mr. Zhang Wen Bing	–	–	–	–	–
	73	137	–	7	217

Notes:–

i. Salaries, allowances and other benefits in kind included basic salaries, housing and other allowances, benefits in kind and employee share option benefits. The employee share option benefits represent fair value at the date the share options were granted and accepted under the scheme amortised to the income statement during the period disregarding whether the options have been exercised or not.

ii. Appointed on 21 March 2005 and resigned on 2 July 2006.

iii. Appointed on 1 July 2006.

iv. Resigned on 2 July 2006.

v. Resigned on 28 April 2005.

No share option was granted to executive directors in respect of their services to the Group for the year ended 31 December 2006 and the period ended 31 December 2005.

No directors waived any emolument during the year/period.

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, one is a director of the Company and the details of their remuneration has already been disclosed above.

The emoluments and designated band of the remaining four non-director, highest paid employees (one is ex-independent non-executive director) were as follows:–

	Year ended 31.12.2006	Period from 1.4.2005 to 31.12.2005
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**886**	781
Pension scheme contributions	**28**	27
Equity settled share-based payment expenses	**–**	129
	914	937

The emoluments of the four non-directors, highest paid employees fell within the band of nil to HK$1,000,000.

During the year, no share options was granted to the above four non-directors in respect of their services to the Group.

During the year, no emoluments were paid by the Group to the five highest paid employees, including the director of the Company, as an inducement to join, or upon joining the Group.

7. INCOME TAX EXPENSE

(a) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year/period. The Company's subsidiaries operating in the PRC are subject to Mainland China enterprise income tax at a rate of 27% or 33%.

(b) The tax expense represents the sum of the current tax and deferred tax and is made up as follows:–

	Year ended 31.12.2006 *HK$'000*	Period from 1.4.2005 to 31.12.2005 *HK$'000*
Current tax:–		
Overseas taxation		
– Provision for the year/period	**–**	307
– Over-provision in previous period	**(856)**	–
	(856)	307
Deferred taxation *(Note 8(a))*:–		
Current year	**1,654**	–
	798	307

7. INCOME TAX EXPENSE *(Continued)*

(c) The income tax expense for the year/period can be reconciled to the profit/(loss) per income statement as follows:–

	Hong Kong		PRC		Total	
	Year ended 31.12.2006 HK$'000	Period from 1.4.2005 to 31.12.2005 HK$'000	**Year ended 31.12.2006 HK$'000**	Period from 1.4.2005 to 31.12.2005 HK$'000	**Year ended 31.12.2006 HK$'000**	Period from 1.4.2005 to 31.12.2005 HK$'000
Profit/(loss) before income tax	**(6,001)**	(3,100)	**12,361**	(7,739)	**6,360**	(10,839)
Applicable tax rate (%)	**17.5**	17.5	**27/33**	33	**N/A**	N/A
Tax on profit/(loss) before income tax, calculated at the applicable tax rate	**(1,050)**	(543)	**3,029**	(2,554)	**1,979**	(3,097)
Tax effect of non-deductible expenses in determining taxable profit	**810**	2,248	**596**	–	**1,406**	2,248
Tax effect of non-taxable revenue in determining taxable profit	**(516)**	(2,632)	**(1,304)**	(167)	**(1,820)**	(2,799)
Tax effect of unrecognised accelerated depreciation allowances	**(41)**	(1)	**–**	–	**(41)**	(1)
Tax effect of unrecognised tax losses	**797**	957	**245**	3,028	**1,042**	3,985
Tax effect of utilisation of tax losses	**–**	(29)	**(1,614)**	–	**(1,614)**	(29)
Tax effect on 100% tax free concession	**–**	–	**(3,371)**	–	**(3,371)**	–
Over-provision of income tax in previous period	**–**	–	**(856)**	–	**(856)**	–
Under-provision of deferred tax in previous years	**–**	–	**4,073**	–	**4,073**	–
Income tax expense	**–**	–	**798**	307	**798**	307

8. DEFERRED TAXATION

(a) The Group

The following is deferred tax assets/(liability) recognised by the Group and movements thereon during the current year and prior period:–

	Unutilised tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1.4.2005	–	–	–
Charged to income statement for the period	–	–	–
At 31.12.2005 and 1.1.2006	–	–	–
Credited/(charged) to income statement for the year *(Note 7(b))*	2,419	(4,073)	(1,654)
Exchange adjustments	54	(92)	(38)
At 31.12.2006	**2,473**	**(4,165)**	**(1,692)**

At the balance sheet date, the Group has unused tax losses of HK$22,939,000 (At 31.12.2005: HK$60,957,000) available for offset against future profits. No deferred tax asset has been recognised of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$2,672,000 (At 31.12.2005: HK$30,552,000) that will expire within five years from the date of incurrence. Other losses can be carried forward indefinitely.

(b) The Company

At the balance sheet date, the Company has unused tax losses of HK$19,661,000 (At 31.12.2005: HK$15,414,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

9. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit/(loss) attributable to shareholders of the Company includes a loss of HK$5,522,000 (Period ended 31.12.2005: HK$6,286,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation.

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share for the year/period is based on the following data:–

		Period from
	Year ended	1.4.2005 to
	31.12.2006	31.12.2005
Earnings	***HK$'000***	*HK$'000*
Earnings for the purposes of basic earnings/(loss) per share	**5,562**	(9,380)
Effect of dilutive potential ordinary shares:–		
Interest on convertible bonds	**227**	–
Earnings for the purposes of diluted earnings/(loss) per share	**5,789**	(9,380)

		Period from
	Year ended	1.4.2005 to
Number of shares	**31.12.2006**	31.12.2005
Weighted average number of shares in issue for the purpose of calculation of basic earnings/(loss) per share	**779,454,474**	668,198,858
Effect of dilutive potential ordinary shares:–		
Share options	**12,796,576**	–
Convertible bonds	**64,493,150**	–
Weighted average number of shares in issue for the purpose of calculation of diluted earnings/(loss) per share	**856,744,200**	668,198,858

12. RETIREMENT BENEFIT COSTS

Since 1 December 2000, the Group had joined a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with rules of MPF Scheme. 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 Group's contribution to such scheme for the year ended 31 December 2006 amounted to approximately HK$86,000 (Period ended 31.12.2005: HK$80,000).

The Company's subsidiaries in the PRC have participated in a central pension scheme. Contributions are made by the subsidiaries to the scheme based on 25.5% of the applicable payroll costs. The Group has no obligation other than the above-mentioned contributions.

The Group's contribution to the state-sponsored retirement plan for the year ended 31 December 2006 amounted to approximately HK$738,000 (Period ended 31.12.2005: HK$306,000).

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Properties held under medium-term lease in the PRC HK$'000	Leasehold improvement HK$'000	Office equipment, computer and other equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1.4.2005						
Cost	–	1,443	8,368	221	1,518	11,550
Aggregate depreciation	–	(911)	(3,840)	(81)	(365)	(5,197)
Net book value	–	532	4,528	140	1,153	6,353
For the period ended 31.12.2005						
Opening net book value, as previously reported	19,095	532	4,528	140	1,153	25,448
Reclassified to prepaid land use right	(19,095)	–	–	–	–	(19,095)
Opening net book value, as restated	–	532	4,528	140	1,153	6,353
Acquisition of subsidiary	–	–	938	–	219	1,157
Additions	–	–	135	1	–	136
Disposals	–	(163)	(420)	–	(52)	(635)
Depreciation	–	(171)	(900)	(20)	(200)	(1,291)
Impairment loss	–	–	(2,824)	–	–	(2,824)
Closing net book value	–	198	1,457	121	1,120	2,896
At 31.12.2005						
Cost	–	276	3,051	222	1,637	5,186
Aggregate depreciation	–	(78)	(1,594)	(101)	(517)	(2,290)
Net book value	–	198	1,457	121	1,120	2,896
For the year ended 31.12.2006						
Opening net book value	–	198	1,457	121	1,120	2,896
Exchange adjustments	–	–	35	(1)	6	40
Additions	–	2	1,076	–	3,337	4,415
Disposals	–	–	(85)	(1)	(708)	(794)
Depreciation	–	(55)	(592)	(41)	(339)	(1,027)
Closing net book value	–	145	1,891	78	3,416	5,530
At 31.12.2006						
Cost	–	278	3,297	167	3,643	7,385
Aggregate depreciation	–	(133)	(1,406)	(89)	(227)	(1,855)
Net book value	–	145	1,891	78	3,416	5,530

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

(b) The Company

	Leasehold improvement HK$'000	Office equipment, computer and other equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1.4.2005					
Cost	276	43	106	328	753
Aggregate depreciation	(37)	(5)	(13)	(5)	(60)
Net book value	239	38	93	323	693
For the period ended 31.12.2005					
Opening net book value	239	38	93	323	693
Additions	–	100	2	80	182
Disposals	–	(7)	–	–	(7)
Depreciation	(41)	(12)	(16)	(49)	(118)
Closing net book value	198	119	79	354	750
At 31.12.2005					
Cost	276	136	108	408	928
Aggregate depreciation	(78)	(17)	(29)	(54)	(178)
Net book value	198	119	79	354	750
For the year ended 31.12.2006					
Opening net book value	198	119	79	354	750
Additions	–	10	–	660	670
Disposals	–	(36)	–	(66)	(102)
Depreciation	(55)	(21)	(21)	(102)	(199)
Closing net book value	143	72	58	846	1,119
At 31.12.2006					
Cost	276	104	108	988	1,476
Aggregate depreciation	(133)	(32)	(50)	(142)	(357)
Net book value	143	72	58	846	1,119

14. PREPAID LAND USE RIGHT

The Group's interests in land use right represents prepaid operating lease payments and its net book value is analysed as follows:–

	The Group	
	At 31.12.2006 HK$'000	At 31.12.2005 HK$'000
Outside Hong Kong, held on medium lease term	–	–
Less: Current portion	–	–
Non-current portion	–	–
Representing:–		
Opening net book value	–	19,095
Disposal of subsidiaries	–	(18,830)
Amortisation of prepaid operating lease payment	–	(265)
Closing net book value	–	–

15. GOODWILL

	The Group	
	At 31.12.2006 HK$'000	At 31.12.2005 HK$'000
Cost	**43,050**	43,050
Representing:–		
Opening net book value	**43,050**	1,849
Transfer from interest in an associate	–	228
Acquisition of a subsidiary	–	42,822
Disposal of subsidiaries	–	(1,849)
Closing net book value	**43,050**	43,050

15. GOODWILL *(Continued)*

Impairment tests for cash-generating units containing goodwill:–

At the balance sheet date, all goodwill is identified to the cash-generating units ("CGU") of platform payment services operated in the PRC.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated discount rates of 7.75% and growth rate of 20%.

16. INTERESTS IN SUBSIDIARIES

	The Company	
	At 31.12.2006 *HK$'000*	At 31.12.2005 *HK$'000*
Unlisted shares, at cost	**65,800**	47,196
Amounts due from subsidiaries – *Note 16(b)*	**23,687**	30,344
	89,487	77,540

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:–

(a) The details of the subsidiaries as at 31 December 2006 are as follows:–

Name of company	Place of incorporation/ establishment and operation	Particulars of issued share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Universal Cyberworks International Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Universal Enterprise Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Investment holding
iLogistics China Limited	Hong Kong	500,000 ordinary shares of US$1 each	–	60%	Investment holding
Hyle Maestro Wooding (Shanghai) Limited (Formerly known as "Universal iLogistics (Shanghai) Limited")*	People's Republic of China	US$780,000	–	100%	Production and sales of timber furniture and fixtures
International Payment Solutions (Shanghai) Limited ("IPSSH")#	People's Republic of China	RMB20,000,000	–	100%	Provision of online payment enterprise solutions and related services
Universal i-Payment Holdings Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	–	100%	Investment holding
Universal i-Payment (Shanghai) Limited ("UPSH")*	People's Republic of China	US$880,000	–	100%	Investment holding
Universal Technologies (Hong Kong) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Sales of LCD monitors and provision of system integration and related technical support services
Universal iPayment (Hong Kong) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of online payment enterprise solutions and related services

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:– (Continued)

(a) The details of the subsidiaries as at 31 December 2006 are as follows:– *(Continued)*

* The subsidiaries are registered as Wholly Foreign Owned Enterprises under PRC Laws.

As explained in prior period's financial statements, the Company lacks equity ownership in this subsidiary. Nevertheless, under the Exclusive Purchase Right Contract and the Pledge Contract entered into between UPSH and Mr. Liu and Madam Luan, UPSH became the registered holder of IPSSH upon the exercise of their respective terms.

(b) The amounts are interest-free, unsecured and have no fixed terms of repayment. The directors consider the carrying amounts of amounts due from subsidiaries approximate their fair values.

17. INVENTORIES

	The Group	
	At 31.12.2006	At 31.12.2005
	HK$'000	*HK$'000*
At cost	**2,207**	95
Less: Provision for slow moving inventories	**–**	(18)
	2,207	77

18. DEBTORS

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with debtors, credit evaluations of customers are performed periodically.

An aging analysis of debtors is set out below:–

	The Group	
	At 31.12.2006	At 31.12.2005
	HK$'000	*HK$'000*
0 – 6 months	**2,970**	3,286

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	At 31.12.2006	At 31.12.2005	**At 31.12.2006**	At 31.12.2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits	**295**	826	**194**	284
Prepayments	**1,161**	728	**165**	150
Other receivables	**941**	4,049	**–**	–
	2,397	5,603	**359**	434

The directors consider the carrying amounts of the deposits, prepayments and other receivables approximate their fair values.

20. TIME DEPOSITS – THE GROUP

The deposits included an amount of approximately HK$104,000 (At 31.12.2005: HK$204,000) which had been pledged to a bank to secure the general banking facilities granted to a subsidiary of the Group.

The effective interest rate on short-term bank deposits was 2.8% (At 31.12.2005: 3.77% and 2.9%); these deposits have a maturities of 31 days.

21. CASH AND BANK BALANCES – THE GROUP

At 31 December 2006, cash and bank balances of the Group denominated in Renminbi amounted to approximately HK$48,850,000 (At 31.12.2005: HK$18,615,000). Renminbi is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

22. DEPOSITS RECEIVED, SUNDRY CREDITORS AND ACCRUALS

	The Group		The Company	
	At 31.12.2006	At 31.12.2005	**At 31.12.2006**	At 31.12.2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits received and receipts in advance	**1,636**	1,022	**–**	–
Payable to merchants	**27,158**	20,257	**–**	–
Accruals	**2,251**	2,065	**220**	946
	31,045	23,344	**220**	946

The directors consider the carrying amounts of the deposits received, sundry creditors and accruals approximate their fair values.

23. SHARE CAPITAL

	Note	The Group and the Company	
		Number of shares	***HK$'000***
Authorised:–			
Ordinary shares of HK$0.01 each			
At 31 December 2005 and 2006		**2,000,000,000**	**20,000**
Issued and fully paid:–			
At 1 April 2005 and 1 January 2006		668,198,858	6,682
Issue of shares upon placing of shares	*(a)*	199,600,000	1,996
Issue of shares upon the conversion of convertible bonds	*(b)*	100,000,000	1,000
Issue of shares upon the exercise of share options	*(c)*	12,990,000	130
At 31 December 2006		**980,788,858**	**9,808**

23. SHARE CAPITAL *(Continued)*

Notes:–

(a) On 10 February 2006 and 23 November 2006, 69,000,000 and 130,600,000 new shares of HK$0.01 each were issued at a premium of HK$0.165 and HK$0.135 per share respectively upon the placing arrangement. The excess of the issue price over the par value of the shares amounted to approximately HK$11,385,000 and HK$17,631,000 respectively was credited to the share premium account of the Company.

(b) On 30 June 2006, 31 August 2006 and 30 November 2006, totalling 100,000,000 new shares of HK$0.01 each were allotted and issued at a premium of HK$0.09 per share upon the conversion of HK$10,000,000 convertible bonds. The excess of the issue price over the par value of the shares amounted to HK$9,000,000 was credited to the share premium account of the Company.

(c) On 22 December 2006, 5,150,000 and 7,840,000 new shares of HK$0.01 each were allotted and issued at a premium of HK$0.098 and HK$0.074 per share respectively upon the exercise of 12,990,000 share options granted under the Share Option Schemes as stated in note 24 to the financial statements. The excess of the issue price over the par value of the shares amounted to approximately HK$505,000 and HK$581,000 respectively was credited to the share premium account of the Company.

24. SHARE OPTIONS

The Company operates three Share Option Schemes (including two Pre-IPO Share Option Schemes) adopted on 12 October 2001 under which the board of directors (the "Board") are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. For the two Pre-IPO Share Option Schemes, the exercise prices were determined by the Board to be HK$0.010 and HK$0.084 respectively. The exercise price of the Share Option Scheme (other than the Pre-IPO Share Option Schemes) shall be determined by the Board in its absolute discretion, but in any event shall not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option.

None of the options granted under the Pre-IPO Share Option Schemes can be exercised during the first six months after 26 October 2001 (the "Listing Date"). The period within which the shares must be taken up under the Pre-IPO Share Option Schemes must be within a period of ten years commencing on the expiry of six months after the Listing Date and expiring on the last day of such ten-year period.

The vesting period and exercisable period of the Share Option Scheme (other than the Pre-IPO Share Option Schemes) are determined by the Board but in any case no option can be exercised later than ten years from the date of grant.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

24. SHARE OPTIONS *(Continued)*

(a) A summary of the movements of share options granted under the Company's share option schemes during the year is as follows:–

				Number of share options				
Option scheme adopted on	Date of grant	Exercise period	Exercise price	Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2006
12 October 2001	7 February 2002	7 February 2002 to 6 February 2012	HK$1.300	350,000	–	–	–	350,000
12 October 2001	17 October 2001	26 April 2002 to 25 April 2012	HK$0.084	7,840,000	–	(7,840,000)	–	–
12 October 2001	9 April 2002	9 April 2002 to 8 April 2012	HK$1.400	150,000	–	–	(80,000)	70,000
12 October 2001	23 December 2002	23 December 2002 to 22 December 2012	HK$0.108	3,500,000	–	(3,500,000)	–	–
12 October 2001	23 December 2002	Maximum 50%: 1 July 2003 to 22 December 2012 Remaining 50%: 1 January 2004 to 22 December 2012	HK$0.108	1,860,000	–	(1,650,000)	(150,000)	60,000
12 October 2001	10 April 2003	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK$0.165	2,000,000	–	–	–	2,000,000
12 October 2001	10 April 2003	Maximum 50%: 10 October 2003 to 9 April 2013 Remaining 50%: 10 April 2004 to 9 April 2013	HK$0.165	6,000,000	–	–	–	6,000,000
29 December 2005	29 December 2005	Maximum 50%: 29 December 2005 to 28 December 2015 Remaining 50%: 29 June 2006 to 28 December 2015	HK$0.176	41,720,000	–	–	(11,920,000)	29,800,000
				63,420,000	–	(12,990,000)	(12,150,000)	38,280,000

24. SHARE OPTIONS *(Continued)*

(b) The number and weighted average exercises prices of share options are as follows:–

	Year ended 31.12.2006		Period from 1.4.2005 to 31.12.2005	
	Weighted average of exercise price	**Number of options**	Weighted average of exercise price	Number of options
	HK$		*HK$*	
Outstanding at the beginning of the year/period	**0.166**	**63,420,000**	0.158	27,120,000
Granted during the year/period	**–**	**–**	0.176	41,720,000
Exercised during the year/period	**0.094**	**(12,990,000)**	–	–
Lapsed during year/period	**0.183**	**(12,150,000)**	0.197	(5,420,000)
Outstanding at the end of year/period	**0.186**	**38,280,000**	0.166	63,420,000
Exercisable at the end of year/period	**0.186**	**38,280,000**	0.161	42,560,000

(c) Fair value of share options granted during the year/period:–

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Black-Scholes option pricing model.

	Year ended 31.12.2006	Period from 1.4.2005 to 31.12.2005
	HK$'000	*HK$'000*
Fair value at measurement date	**N/A**	HK$2,708,000
Share price	**N/A**	HK$0.170
Exercise price	**N/A**	HK$0.176
Expected volatility	**N/A**	81.14%
Expected dividend	**N/A**	Nil
Risk-free interest rate	**N/A**	3.92% – 4.1%

The expected volatility is based on the historic volatility (calculated based on the expected life of the share options), adjusted for any expected changes to future volatility due to public available information. Expected dividends are based on historical dividends. Changes in subjective input assumptions could materially affect the fair value estimate. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants. However, the management has taken into consideration of historical staff turnover pattern for the estimation of expected option life.

25. RESERVES

(a) The Group

	Share premium HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Share options reserve HK$'000	Convertible bonds reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1.4.2005, as previously reported	37,426	1,093	10,754	60	–	–	–	(38,290)	11,043
Opening balance adjustment in respect of financial instruments	–	–	–	–	–	668	–	(91)	577
At 1.4.2005, as restated	37,426	1,093	10,754	60	–	668	–	(38,381)	11,620
Equity settled share-based transactions	–	–	–	–	1,122	–	–	–	1,122
Exchange differences arising on translation of financial statements of subsidiaries established in the PRC	–	–	–	68	–	–	–	–	68
Loss for the period	–	–	–	–	–	–	–	(9,380)	(9,380)
At 31.12.2005	37,426	1,093	10,754	128	1,122	668	–	(47,761)	3,430
At 1.1.2006	37,426	1,093	10,754	128	1,122	668	–	(47,761)	3,430
Issue of new shares *(Note 23(a))*	29,016	–	–	–	–	–	–	–	29,016
Conversion of convertible bonds *(Note 23(b))*	9,000	–	–	–	–	(668)	–	–	8,332
Exercise of share options *(Note 23(c))*	1,086	–	–	–	–	–	–	–	1,086
Transferred to accumulated losses	–	–	–	–	(320)	–	–	320	–
Equity settled share-based transactions	–	–	–	–	1,132	–	–	–	1,132
Exchange differences arising on translation of financial statements of subsidiaries established in the PRC	–	–	–	967	–	–	–	–	967
Profit for the year	–	–	–	–	–	–	–	5,562	5,562
Transferred to statutory reserve	–	–	–	–	–	–	1,147	(1,147)	–
At 31.12.2006	**76,528**	**1,093**	**10,754**	**1,095**	**1,934**	**–**	**1,147**	**(43,026)**	**49,525**

25. RESERVES

(a) The Group *(Continued)*

Notes:–

(i) The special reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired pursuant to the reorganisation completed in 2001.

(ii) The subsidiary established in PRC was required by PRC Company Law to appropriate 10% of its statutory after-tax profit to a general reserve fund until the balance of the fund reached 50% of share capital and thereafter any further appropriation was optional. The general reserve fund could be utilised to offset prior years' losses or to increase share capital on the condition that the general reserve fund must be maintained at a maximum of 25% of the share capital after such issuance. During the year, the board of directors of the subsidiary resolved to appropriate approximately HK$1,147,000 from retained profits to general reserve fund.

25. RESERVES *(Continued)*

(b) The Company

	Share premium	Share options reserve	Convertible bonds reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1.4.2005, as previously reported	44,990	–	–	(12,169)	32,821
Opening balance adjustment in respect of financial instruments	–	–	668	(91)	577
At 1.4.2005, as restated	44,990	–	668	(12,260)	33,398
Equity settled share-based transactions	–	1,122	–	–	1,122
Loss for the period	–	–	–	(6,286)	(6,286)
At 31.12.2005	44,990	1,122	668	(18,546)	28,234
At 1.1.2006	44,990	1,122	668	(18,546)	28,234
Issue of new shares *(Note 23(a))*	29,016	–	–	–	29,016
Conversion of convertible bonds *(Note 23(b))*	9,000	–	(668)	–	8,332
Exercise of share options *(Note 23(c))*	1,086	–	–	–	1,086
Transferred to accumulated losses	–	(320)	–	320	–
Equity settled share-based transactions	–	1,132	–	–	1,132
Loss for the year	–	–	–	(5,522)	(5,522)
At 31.12.2006	**84,092**	**1,934**	**–**	**(23,748)**	**62,278**

Notes:–

(i) The share premium of the Company includes (i) shares issued at premium and (ii) the difference between the nominal value of the ordinary shares issued by the Company and the net asset values of the subsidiaries at the date they were acquired through an exchange of shares pursuant to the reorganisation completed in 2001. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) At 31 December 2006, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$60,344,000 (At 31.12.2005: HK$26,444,000) subject to the restrictions as stated above.

26. CONVERTIBLE BONDS

On 24 June 2004, the Company and a subscriber entered into a subscription agreement in relation to the subscription of the convertible bond in the principal amount of HK$4,000,000. The convertible bond is unlisted, interest bearing at the rate of 3.5% per annum and with maturity on 28 June 2007. The interest is payable on the first business day following each anniversary date of the issue date of the bond.

The subscriber may convert the whole or any part of the principal amount of the bond into new shares of the Company at a conversion price of HK$0.10 per share, subject to adjustment in the event of share consolidation, sub-division and capital reorganisation, during the period from 29 June 2005 to 28 June 2007 in multiples of HK$1,000,000 on each conversion. The Company may at any time early redeem the outstanding principal amount of the bond prior to the maturity date. If the Company redeems the whole or any part of the bond before the maturity date, the subscriber shall be entitled to an additional interest, at the rate of 10% per annum, in respect of such part or whole of the principal amount redeemed before the maturity date.

On 1 March 2005, the Company and two subscribers entered into subscription agreements in relation to the subscription of the convertible bonds in the principal amount of HK$4,000,000 and HK$2,000,000 respectively. The convertible bonds are unlisted, interest bearing at the rate of 3.5% per annum and with maturity on three years from the date of issue. The interest is payable on the first business day following each anniversary date of the issue date of the bonds.

The subscribers may convert the whole or any part of the principal amount of the bonds into new shares of the Company at a conversion price of HK$0.10 per share, subject to adjustment in the event of share consolidation, sub-division and capital reorganisation, during the three years, in multiples of HK$1,000,000 on each conversion. The Company may at any time early redeem the outstanding principal amount of the bonds prior to the maturity date. If the Company redeems the whole or any part of the bonds before the maturity date, the subscribers shall be entitled to an additional interest, at the rate of 10% per annum, in respect of such part or whole of the principal amount redeemed before the maturity date.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves net of deferred income taxes.

During the year ended 31 December 2006, all the convertible bonds were converted into new shares of the Company as stated in note 23(b) to the financial statements.

26. CONVERTIBLE BONDS *(Continued)*

The convertible bonds recognised in the balance sheet is calculated as follows:–

	The Group and the Company	
	At	At
	31.12.2006	31.12.2005
	HK$'000	*HK$'000*
Face value of convertible bonds on the dates of issue	**10,000**	10,000
Equity component	**(668)**	(668)
Liability component on initial recognition	**9,332**	9,332
Interest charged	**227**	619
Interest paid	**–**	(385)
	9,559	9,566
Conversion into new shares	**(9,559)**	–
Liability component	**–**	9,566

27. OTHER PAYABLES

The amount represents the purchase consideration payable for the acquisition of IPSSH as follows:–

	The Group and the Company	
	At	At
	31.12.2006	31.12.2005
	HK$'000	*HK$'000*
Amount payable for acquisition of 70.6% equity interest of IPSSH by five instalments within five years	**22,280**	33,654
Amount payable within one year	**–**	(8,038)
Non-current portions	**22,280**	25,616

28. DISPOSAL OF SUBSIDIARIES

On 18 October 2005, the Group disposed of all its equity interests in a wholly-owned subsidiary, Universal iPayment International Limited, an investment holding company incorporated in Hong Kong and its 60% directly owned subsidiary, Universal iPayment China Limited. The disposed subsidiaries did not have significant operations materially affect the Group.

The assets and liabilities arising from the disposal are as follows:–

	At 31.12.2006	At 18.10.2005
	HK$'000	*HK$'000*
Cash and cash equivalents	–	176
Prepaid land use right	–	18,830
Intragroup balances	–	115
Receivables	–	16
Payables	–	(982)
	–	18,155
Minority interests	–	(5,596)
Net assets disposed	–	12,559
Loss on disposal	–	(1,716)
Carrying amount of goodwill	–	1,849
Total consideration	–	12,692
Cash and cash equivalents in subsidiaries disposed	–	(176)
Net cash inflow on disposal	–	12,516

29. BUSINESS COMBINATION

On 18 October 2005, the Group acquired a further 70.6% of equity interest in an associate, IPSSH, an online payment platforms provider operating in Shanghai, the PRC. The acquired business contributed revenues of HK$3,099,000 and net profit of HK$623,000 to the Group for the period from 18 October 2005 to 31 December 2005.

The assets and liabilities arising from the acquisition are as follows:–

	At 31.12.2006	At 18.10.2005
	HK$'000	*HK$'000*
Cash and cash equivalents	–	11,879
Property, plant and equipment	–	1,157
Intragroup balances	–	70
Amount due from a related company	–	625
Receivables	–	8,546
Payables	–	(16,432)
Tax payable	–	(510)
	–	5,335
Minority interests	–	(1,811)
Net assets acquired	–	3,524
Goodwill arising on acquisition	–	42,822
Total purchase consideration	–	46,346
Cash and cash equivalents in subsidiary acquired	–	(11,879)
Other payables	–	(33,654)
Net cash outflow on acquisition	–	813

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of IPSSH.

30. COMMITMENTS

(a) Operating leases arrangements

(i) The Group

At 31 December 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:–

	At 31.12.2006 HK$'000	At 31.12.2005 HK$'000
Within one year	**766**	587
After one year but within five years	**1,202**	120
	1,968	707

Operating lease payments represent rentals payable by the Group for the use of servers and office premises. Leases are negotiated for a term ranging from one to two years with fixed monthly rentals.

(ii) The Company

At 31 December 2006, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating lease which falls due as follows:–

	At 31.12.2006 HK$'000	At 31.12.2005 HK$'000
Within one year	**234**	453
After one year but within five years	**–**	120
	234	573

Operating lease payments represent rentals payable by the Company for the use of office premises. Lease is negotiated for a term of two years with fixed monthly rentals.

(b) Capital commitments

At 31 December 2006, the Group had capital commitments in respect of the acquisition of property, plant and equipment, which are contracted but not provided for in the financial statements amounted to HK$313,000 (At 31.12.2005: Nil).

31. RELATED PARTY TRANSACTIONS

(a) The Group had no material transactions with its related parties during the year/period.

(b) Key management compensation

	Year ended 31.12.2006 HK$'000	Period from 1.4.2005 to 31.12.2005 HK$'000
Fees for key management personnel	**32**	–
Salaries, allowances and other benefits in kind	**867**	520
Pension scheme contributions	**52**	13
Equity settled share-based payment expenses	**–**	54
	951	587

32. FINANCIAL INSTRUMENTS

The Group's policy is to prudently manage daily operations and invest surplus funds managed by the Group in a manner which satisfy liquidity requirements, safeguard financial assets, manage risks while optimising the returns.

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

(a) Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong and PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. At present, the Group does not intend to seek to hedge its exposure to foreign exchange risk profile as there were insignificant fluctuation in exchange rate between Hong Kong dollar and Renminbi.

32. FINANCIAL INSTRUMENTS *(Continued)*

(a) Market risk *(Continued)*

(ii) Equity price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets. The Group is not exposed to commodity price risk.

All investments are subject to a maximum concentration limit predetermined by the Board.

(b) Credit risk

The Group is exposed to credit risk, which is irrecoverable the full amount of the debtors and other receivables. Impairment provisions are made for losses that have been incurred at the balance sheet date.

The Group minimise the risk exposure by tight credit policies over the transactions with customers and selection of appropriate credit history's customers. The Group was not exposed to significant risk from debtors arising from online platform, the transactions of which are made in cash or via reliable major credit cards by limiting the amount of credit exposure to these financial institutions and the merchants.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet its liquidity requirements.

(d) Cash flow and fair value interest rate risk

Other than the cash maintained to pay the creditors in a short period of time, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

33. SEGMENT REPORTING

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:–

(a) Payment enterprise solutions

Provision of payment enterprise solutions and ongoing technical support services.

(b) Trading and system integration

Trading, provision of system integration and related technical support services.

Other operating segment represents the operating segment which does not meet the quantitative threshold for determining reportable segment. It represents investment holding activities.

In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the location of the assets.

33. SEGMENT REPORTING *(Continued)*

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments:–

	Payment enterprise solutions		Trading and system integration		Others		Consolidated	
	Year ended 31.12.2006 HK$'000	Period from 1.4.2005 to 31.12.2005 HK$'000	**Year ended 31.12.2006 HK$'000**	Period from 1.4.2005 to 31.12.2005 HK$'000	**Year ended 31.12.2006 HK$'000**	Period from 1.4.2005 to 31.12.2005 HK$'000	**Year ended 31.12.2006 HK$'000**	Period from 1.4.2005 to 31.12.2005 HK$'000
Revenue								
Revenue from external customers	**30,745**	4,650	**9,801**	3,100	**–**	–	**40,546**	7,750
Other revenue	**1,704**	222	**320**	6	**133**	7	**2,157**	235
Total revenue	**32,449**	4,872	**10,121**	3,106	**133**	7	**42,703**	7,985
Segment results	**13,950**	(2,831)	**(1,082)**	(347)	**(6,770)**	(6,044)	**6,098**	(9,222)
Interest income							**489**	15
Profit/(loss) from operations							**6,587**	(9,207)
Finance costs							**(227)**	(423)
Loss on disposal of subsidiaries							**–**	(1,716)
Share of results of an associate							**–**	507
Profit/(loss) from ordinary activities before income tax							**6,360**	(10,839)
Income tax expense							**(798)**	(307)
Profit/(loss) for the year/period							**5,562**	(11,146)
Attributable to								
– Shareholders of the Company							**5,562**	(9,380)
– Minority interests							**–**	(1,766)
							5,562	(11,146)
Depreciation for the year/period	**739**	1,076	**27**	14	**261**	201	**1,027**	1,291
Impairment loss of property, plant and equipment	**–**	2,824	**–**	–	**–**	–	**–**	2,824
Segment assets	**103,768**	73,524	**5,256**	2,191	**5,326**	1,778	**114,350**	77,493
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–
Total assets	**103,768**	73,524	**5,256**	2,191	**5,326**	1,778	**114,350**	77,493
Segment liabilities	**30,233**	23,066	**523**	45	**22,569**	44,270	**53,325**	67,381
Unallocated liabilities	**1,692**	–	**–**	–	**–**	–	**1,692**	–
Total liabilities	**31,925**	23,066	**523**	45	**22,569**	44,270	**55,017**	67,381
Capital expenditure incurred during the year/period	**3,439**	65	**306**	13	**670**	58	**4,415**	136

33. SEGMENT REPORTING *(Continued)*

(b) Geographical segments

	PRC		Hong Kong		Consolidated	
	At 31.12.2006	At 31.12.2005	**At 31.12.2006**	At 31.12.2005	**At 31.12.2006**	At 31.12.2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**27,159**	3,739	**13,387**	4,011	**40,546**	7,750
Other revenue	**1,324**	219	**833**	16	**2,157**	235
Total revenue	**28,483**	3,958	**14,220**	4,027	**42,703**	7,985
Segment assets	**103,100**	71,747	**11,250**	5,746	**114,350**	77,493
Capital expenditure incurred during the year/period	**3,724**	27	**691**	109	**4,415**	136

Financial Summary

RESULTS

	Year ended 31 December 2006 HK$'000	Period from 1 April 2005 to 31 December 2005 HK$'000	Years ended 31 March (Restated) 2005 HK$'000	2004 HK$'000	2003 HK$'000
Turnover	**40,546**	**7,750**	5,043	11,243	6,723
Profit/(loss) for the year/period	**5,562**	**(9,380)**	(9,060)	(10,694)	(12,685)

ASSETS AND LIABILITIES

	At 31 December 2006 HK$'000	At 31 December 2005 HK$'000	At 31 March (Restated) 2005 HK$'000	(Restated) 2004 HK$'000	(Restated) 2003 HK$'000
NON-CURRENT ASSETS	**48,580**	**45,946**	29,301	32,622	30,960
CURRENT ASSETS	**65,770**	**31,547**	15,965	9,866	17,028
DEDUCT:					
CURRENT LIABILITIES	**31,045**	**32,199**	9,357	5,341	1,013
NET CURRENT ASSETS/(LIABILITIES)	**34,725**	**(652)**	6,608	4,525	16,015
	83,305	**45,294**	35,909	37,147	46,975
DEDUCT:					
NON-CURRENT LIABILITIES	**(23,972)**	**(35,182)**	(10,000)	–	–
NET ASSETS	**59,333**	**10,112**	25,909	37,147	46,975