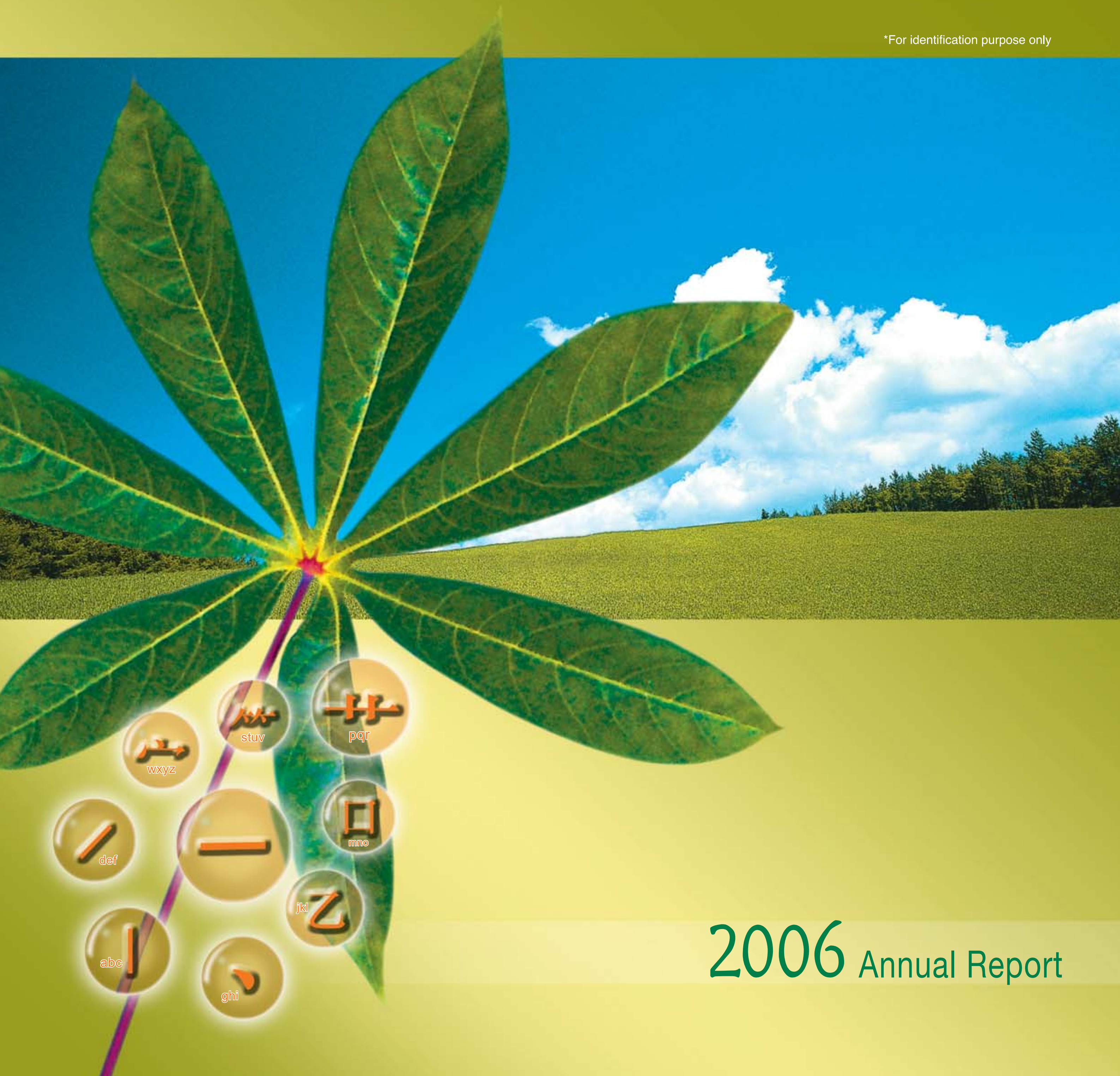
Q9 Technology Holdings Limited
(九方科技控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

(stock Code: 8129)

*For identification purpose only



2006 Annual Report

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

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

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

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

Contents

Management's Discussion and Analysis

HIGHLIGHTS OF THE YEAR

The Group recorded turnover of HK$4,471,000 for the year ended 31 December 2006, representing a decrease of 3.3% from the previous year.

The Group recorded HK$1,271,000 of OEM licensing revenue during the year, representing a decrease of 24.7% over that of the previous year. OEM licensing revenue during the year represents about 28.4% of turnover, as compared to 36.5% for the year ended 31 December 2005. Q9 CIS and Qcode CIS package sales and software licensing revenue to the institution customers during the year recorded an increase of 9.0% from the previous year.

The Group recorded a net loss attributable to shareholders during the year of HK$7,101,000 (2005: HK$7,360,000). The Group's total operating expenses in 2006 reduced by HK$286,000 from 2005, representing a slight decrease of 2.3% from that of the previous year.

RESULTS

The consolidated turnover of the Group for the year ended 31 December 2006 amounted to HK$4,471,000, representing a decrease of 3.3% from the previous year. Loss attributable to shareholders during the year of HK$7,101,000 compared to loss attributable to shareholders of HK$7,360,000 in 2005. The loss per share was HK0.46 cent (2005 restated: a loss per share of HK0.49 cent).

REVIEW OF OPERATIONS

During the year, the Group experienced substantial decrease in OEM licensing revenue of 24.7% and a slight decrease in the Group's revenue. The Group maintained a small team to promote Q9 CIS in the Greater China market and managed to slightly reduce its total operating expenses as compared with the previous year.

The following represent the significant events underlying the Group's performance during the year:

— The Group disposed of its shareholdings in Qcode Information Technology Limited ("Qcode ITL") in August 2006, to streamline the Group's structure under the Q9 brand name.

— The Group marketing efforts on OEM manufacturers of mobile phones experienced further set-back during the year. The Group maintains its presence in the OEM market in China with minimum resources invested.

— The Group's OEM licensing revenue decreased significantly from the previous year, and although Q9 CIS and Qcode CIS package sales and software licensing revenue increased by 9.0% over the previous year. The Group turnover declined by 3.3% from the previous year.

— The Group does not have any borrowings as at the balance sheet date, and the Group has no material funding requirements for its capital expenditure commitments.

— The Group's cash at bank and in hand amounts to HK$34,147,000. As at the balance sheet date, the majority of the bank balance are denominated in Hong Kong dollars.

SHARE PLACEMENT

On 4 September 2006, Mega Fusion Limited, an indirect wholly-owned subsidiary of Asia Orient Holdings Limited ("AOHL"), entered into the placing agreement (the "Placing Agreement") with the placing agent, Taifook Securities Company Limited. Pursuant to the Placing Agreement, the placing agent, agreed to place 400,000,000 shares of the Company ("Share(s)") to independent third parties, at a placing price of HK$0.032 per Share. As a result of the Placing, AOHL is no longer to be a controlling shareholder of the Company.

RIGHTS ISSUE

The Company completed a rights issue exercise of issuing 623,175,000 rights shares on the basis of one rights share for every two ordinary shares held at an issue price of HK$0.039 per rights in November 2006. The net proceeds of the rights issue amounting to approximately HK$23 million are being used for the general working capital of the Group and developing new business models. The Directors are of the view that the rights issue improves the Group's gearing position and strengthens the financial position of the Group, thereby facilitating the development of its business in future.

PRIVATE PLACING OF LISTED WARRANTS

In January 2007, the Company issued up to maximum of 249,200,000 listed warrants by the way of private placing at the issue price of HK$0.025, each conferring the right to subscribe for one new Share at the subscription price of HK$0.076 up to an aggregate amount of HK$18,939,200 during the two-year period from 29 January 2007 to 28 January 2009 (or the last business day before 28 January 2009, if 28 January 2009 is not a business day) (both dates inclusive). The Directors are of the view that the placing of warrant provides a good opportunity for the Group to strengthen its financial position and its shareholder base.

PROSPECTS

The focus of the Group's efforts in 2007 will be to look for business opportunities related to Biotech and Renewable Energy market, while continuing its marketing efforts in promoting Q9 CIS to the OEM customers, and the end user markets. The Group intends to maintain its current business with existing resources, and apply portion of its resources to develop new business opportunities. Management intends to look for business opportunities related to the Biotech and Renewable Energy market.

COMMITMENTS

The Group has no credit facilities and no borrowing outstanding as at 31 December 2006 (2005: Nil).

(a) Capital commitment

	2006	2005
	HK$'000	*HK$'000*
Property, plant and equipment		
Contracted but not provided for	**119**	—

(b) Commitments under operating leases

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of the Group were payable as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,608**	746
In the second to the fifth year	**827**	—
	2,435	746

(c) Other commitment

As at 31 December 2006, the Group had no other commitment (2005: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group has no interest bearing debts. The Group completed a rights issue exercise of issuing 623,175,000 right shares on the basis of one rights share for every two ordinary shares held at an issue price of HK$0.039 per rights in November 2006. The net proceeds of the rights issue amounted to approximately HK$23 million. The Group relies on the internal resources, the net proceeds from its IPO and the subsequent issue of warrants and rights issue as sources of funding. The Group keeps most of its cash balance in Hong Kong dollars in bank accounts as working capital of the Group. The Group kept a minimum amount of cash as working capital in a bank account of its subsidiary in China in Renminbi and the balance in Hong Kong dollars.

There is no charge on the Group's assets as at 31 December 2006 (2005: Nil).

The Group has no debts as at 31 December 2006 (2005: Nil).

The gearing ratio of the Group, based on total debt to shareholder's equity, was nil as at 31 December 2006 (2005: Nil).

ORDER BOOK

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

INVESTMENT

Other than the establishment of the three new subsidiaries during the year, there was no significant investment made during the year.

DISPOSAL OF A SUBSIDIARY

Pursuant to a share purchase agreement dated 24 August 2006, Q9 Technology (BVI) Limited, a subsidiary of the Company, agreed to transfer the 100% direct equity interest in Qcode ITL at a consideration of HK$100,000 to Go Charm Limited, an independent third party to the Group. As at the date of the transfer, Qcode ITL has no assets and no liabilities.

Save as disclosed, the Group did not have any material acquisition and disposal of subsidiaries or affiliated companies for the year ended 31 December 2006 (2005: Nil).

HUMAN RESOURCES

Staff number

As at 31 December 2006, the Group employed 29 staff (2005: 27). Total staff costs, including directors' emoluments were approximately HK$5.6 million for the year ended 31 December 2006 as compared with those of approximately HK$5.8 million in 2005.

Remuneration policies

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

HEDGING POLICY

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

CONTINGENT LIABILITIES

The Group does not have any contingent liabilities as at 31 December 2006 (2005: Nil).

CREDIT POLICY

The credit terms given to customers are generally based on the financial strengths of individual customers. The Group generally allows an average credit term of 30-90 days to its trade customers.

SEGMENTAL INFORMATION

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

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan *(Chairman)*
Mr. Kwan Kin Chung *(Managing Director)*
Mr. Tam Kam Biu William
Mr. Leung Lap Fu Warren
Mr. Wan Xiaolin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Shiu Kwok Keung

COMPLIANCE OFFICER

Mr. Tam Kam Biu William

AUDIT COMMITTEE

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Shiu Kwok Keung

REMUNERATION COMMITTEE

Mr. Tam Kam Biu William
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

AUTHORIZED REPRESENTATIVES

Mr. Kwan Kin Chung
Mr. Tam Kam Biu William

COMPANY SECRETARY

Mr. Tam Kam Biu William

QUALIFIED ACCOUNTANT

Mr. Tam Kam Biu William

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands
British West Indies

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 712B, Level 7
Core D, Cyberport 3
100 Cyberport Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS

as to Hong Kong law
Stephenson Harwood & Lo
35th Floor
Bank of China Tower
1 Garden Road
Central, Hong Kong

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

PRINCIPAL BANKER

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

STOCK CODE

Share 8129

WEBSITE ADDRESS

www.q9tech.com
www.qcode.com

Chairman's Statement

Dear Shareholders,

During the past year, the Group experienced decline in revenue and incurred a loss comparable to that of the year 2005. The operating results of the Group in 2006 is below our expectation. The Group recognises the need to diversify its business into new areas while continuing to market Q9 CIS with limited financial resources.

Management believes the Group has sufficient resources and ability to diversify its new business areas relating to the Biotech and Renewable energy market, and derives the new sources of revenue for the Group in the near future.

Leung Lap Yan
Chairman

Hong Kong, 22 March 2007

CORPORATE GOVERNANCE PRACTICES

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

DIRECTOR'S SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board comprises of five executive Directors and three independent non-executive directors. The brief biographical details and the relationship between the directors are described on page 14 to 15 of this annual report. Two executive Directors of the Company namely Mr. Leung Lap Yan and Mr. Kwan Kin Chung take up the role of Chairman and Managing Director respectively. The Chairman's roles are convening meetings of the Board and make decision on the Group's business strategies. The Managing Director's responsibilities are to participate in the decision on essential matters of the Company and to monitor and manage the daily business of the Company. The roles and responsibilities of the two posts are well distinct.

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

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

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

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

The Board conducted four regular Board meetings approximately at each quarter of the year in addition to other Board meetings to review the performance and financial matters of the Group, and for statutory purpose.

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

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

Name of director	**Title**	**Attendance at Board Meetings/No. of Board Meeting held**
Mr. Leung Lap Yan	Chairman	4/4
Mr. Kwan Kin Chung	Managing Director	1/4
Mr. Tam Kam Biu William	Executive Director	4/4
Mr. Leung Lap Fu Warren	Executive Director	4/4
Mr. Wan Xiaolin	Executive Director	0/4
Dr. Lim Yin Cheng *(resigned on 4 September 2006)*	Chief Executive Officer	3/3
Mr. Lau Man Kin *(resigned on 22 September 2006)*	Executive Director	2/3
Mr. Lun Pui Kan *(resigned on 4 September 2006)*	Executive Director	2/3
Mr. Fung Siu To Clement *(resigned on 4 September 2006)*	Executive Director	2/3
Mr. Kwan Po Lam Phileas *(resigned on 4 September 2006)*	Executive Director	3/3
Mr. Ip Chi Wai	Independent non-executive director	4/4
Mr. Tse Wang Cheung, Angus	Independent non-executive director	4/4
Mr. Shiu Kwok Keung *(appointed on 22 September 2006)*	Independent non-executive director	1/1
Mr. Woo Wei Chun, Joseph *(resigned on 26 June 2006)*	Independent non-executive director	2/2

REMUNERATION COMMITTEE

The Remuneration Committee was established in March 2005 with the defined terms of reference. Its role is to review and determine the policy for the remunerations of the directors and other senior management members. Currently, it comprises executive Director, Mr. Tam Kam Biu, William and two INDs, Mr. Ip Chi Wai and Mr. Tse Wang Cheung, Angus and is headed by the chairman, Mr. Tam Kam Biu, William.

The Committee held one meeting during the year to discuss the policy and structure of the remunerations of the directors and other senior management members.

The Remuneration Committee is mainly responsible for:

(a) Making recommendations to the Board on the Group's policy and structure for all remunerations of directors and senior management member and acting as the establishment of formal and transparent procedures for developing policy as such remunerations.

(b) Determining the specific remuneration packages of executive directors and senior management members and making recommendations to the Board of the remunerations of the non-executive directors.

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

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

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

NOMINATION OF DIRECTORS

In considering the nomination of a new director, the Board takes into account the qualification, competence, working experience, and professional ethics of the candidates. Currently the Board is responsible for selection of the candidetes and approval of the appointment as an executive director to the Board. The Board will arrange the meeting for the nomination of the director when needed. The Board held one meeting during the year for the nomination of a director.

AUDIT COMMITTEE

The Audit Committee has been established since the listing of the Company on the GEM Board. Currently, it comprises three INDs, namely Mr. Ip Chi Wai (as the Chairman of the Committee), Mr. Tse Wang Cheung, Angus and Mr. Shiu Kwok Keung. The term of reference describing the authorities and duties of the Audit Committee were adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and the Code Provision published by the Stock Exchange of Hong Kong Limited.

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

Management maintains and monitors the system of internal controls on an ongoing basis. Based on the evaluations made by the Board of directors and external auditors, the Audit Committee is satisfied that the Group has fully complied with the Code Provisions on the internal controls during the year as set forth in the Code, except that the internal audit function has not yet been set up within the Group. Nevertheless, nothing has come to the Board's attention to cause the Audit Committee to believe that the existing system of internal control is inadequate or ineffective.

The Audit Committee has met three times during the year and all the members have presented at all the meetings. It discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Group. All material financial results and internal control system of the Group have been discussed and reviewed.

EXTERNAL AUDITORS

During the year, the external auditors, Grant Thornton, provided its annual audit services, review of the interim results and taxation advisory service to the Group. The Audit Committee is responsible for considering the appointment of the external auditors and reviewing the non-audit functions, if any, performed by the external auditors. In particular, the Audit Committee also considers, before they are contracted for such service, whether such non-audit service could lead to any potential material conflicts of interest. Nothing has come to the Board's attention to cause the Audit Committee to believe that the non-audit services provided by the external auditors affect their independence, objectivity and effectiveness in the audit processes in accordance with applicable standards.

The remunerations in respect of the services provided by Grant Thornton for the year ended 31 December 2006 are as follows:

	2006
	HK$
Annual audit services	**320,000**
Taxation advisory services	**42,000**

EXECUTIVE DIRECTORS

Mr. Leung Lap Yan, aged 58, is one of the founders of the Group and the chairman of the Company. He is responsible for the overall product development strategy and management of the Group. Apart from being an inventor, Mr. Leung is a well known script writer, having written such dramas as New Justice Pao, Dynasty and The Pride of Chao Zhou. From 1978 to 1980, Mr. Leung was employed as the manager of programme planning in Rediffusion Television and from 1986 to 1989 as the assistant to the controller of production in Television Broadcasts Limited. During the period 1983 to 1986 he was the director (drama) of the Singapore Broadcasting Corporation. In 1993 he moved to Taiwan where he developed the first version of QCode, a character input system. A year later he worked together with Mr. Lau Man Kin to upgrade QCode and founded the Group with Mr. Lau Man Kin in 1995. He is the brother of Mr. Leung Lap Fu, Warren.

Mr. Kwan Kin Chung, aged 37, joined the Group in February 2001 and was appointed as managing Director of the Company in January 2007. He held the position as vice president in Culturecom Holdings Limited (a substantial shareholder of the Company) ("Culturecom") from 1998 to 2002. Mr. Kwan has extensive experience in businesses restructuring and corporate investment. He holds a Bachelor of Arts in Economics from Zhongshan University, Guangzhou, the PRC.

Mr. Tam Kam Biu William, aged 50, joined the Group in January 2000 as a non-executive Director. In August 2000, Mr. Tam became the chief financial officer and in September 2000 as an executive Director. Immediately before he joined the Group on a full time basis, Mr. Tam was the chief financial officer, company secretary and executive director of ViaGOLD Capital Limited, a company listed on the Australian Stock Exchange, which became the largest shareholder of Culturecom in December 1998. Mr. Tam has remained a non-executive director of ViaGOLD Capital Limited. He is also an independent non-executive director of Soluteck Holdings Limited and China Solar Energy Holdings Limited. Mr. Tam has over eighteen years of experience in financial management and corporate finance, gained with a number of Hong Kong listed companies and international groups. Mr. Tam obtained a degree in Master of Business Administration in 1981 from York University in Toronto, Canada and became an associate member of the Hong Kong Institute of Certified Public Accountants in September 1987 and an associate of the Association of Chartered Certified Accountants in May 1988.

Mr. Leung Lap Fu Warren, aged 56, joined the Group in 1996 and is responsible primarily for sales and marketing and administration of the Group. For most of the 1970's, Mr. Leung worked for multinational companies, Wallem Ship Management Company Limited and C.N. Company, a member of the Swire Group, as a marine engineer specialising in automatic control systems projects. Between 1979 and 1981, he was a business manager with a subsidiary of the Kowloon Development Group. Thereafter he worked as a plant superintendent first with HSBC Property (Asia) Limited, then as senior engineer with the Macau Jockey Club and subsequently with the Lee Garden Hotel Management Group. He has a number of engineering and technical qualifications, including being a high-tension electrical engineering worker registered by the Electrical & Mechanical Services Department of Hong Kong Government. He is brother of Mr. Leung Lap Yan.

Mr. Wan Xiaolin, aged 49, is an executive director of Culturecom and is responsible for its administration, human resources and training, accounts and finance and information technology related management activities. Mr. Wan holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC. He joined the Group in September 2003.

Dr. Lim Yin Cheng, Mr. Lun Pui Kan, Mr. Fung Siu To Clement and Mr. Kwan Po Lam Phileas resigned on 4 September 2006 and Mr. Lau Man Kin resigned on 22 September 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai, aged 39, graduated from the University of Hong Kong with a bachelor's degree in law. He is a solicitor admitted in Hong Kong and has over ten years of experience in the legal profession. He was appointed as an IND and chairman of the audit committee of the Company in September 2000.

Mr. Tse Wang Cheung Angus, aged 41, worked in a law firm prior to becoming a partner in the law firm of Angus Tse, Yuen & To. He was appointed as an IND of the Company in September 2000 and is a member of the audit committee of the Company.

Mr. Shiu Kwok Keung, aged 39, is an independent non-executive director of China Treasure (Greater China) Investments Limited, a company whose shares are listed on the Main Board of the Stock Exchange and, was the senior vice president of China Solar Energy Holdings Limited during 2006. Prior to that, he has extensive experience in finance, accounting and corporate development. Mr. Shiu holds a Master of Science degree in Finance from the National University of Ireland, Dublin, a Master of Professional Accounting degree from the Southern Cross University in Australia and a Bachelor of Social Sciences degree in China Studies (Economics) from the Hong Kong Baptist University. He is a Chartered Financial Analyst Charter Holder and a Certified Practicing Accountant of CPA Australia. Mr. Shiu was appointed as an IND and a member of the audit committee member of the Company in September 2006.

Mr. Woo Wei Chun Joseph resigned on 26 June 2006.

Note:

Mr. Leung Lap Yan and Mr. Leung Lap Fu Warren are directors of Step Up Company Limited which has interests in the share capital of the Company disclosable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of its affairs of the Group and the Company at that date are set out in the financial statements on pages 29 to 69.

The Directors do not recommend the payment of dividends.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on page 33 and note 23 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 70.

DISTRIBUTABLE RESERVES

In accordance with section 34 of the Companies Law (2001 Revision) of the Cayman Islands, the Company has no reserves available for distribution to the shareholders as at 31 December 2006 (2005: HK$1,129,000). The payment of dividends and distribution out of the share premium account is however subject to solvency test of the Company and the provisions of the Articles of Association of the Company.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors:
Mr. Leung Lap Yan
Mr. Kwan Kin Chung
Mr. Tam Kam Biu William
Mr. Leung Lap Fu Warren
Mr. Wan Xiaolin
Dr. Lim Yin Cheng (resigned on 4 September 2006)
Mr. Lau Man Kin (resigned on 22 September 2006)
Mr. Lun Pui Kan (resigned on 4 September 2006)
Mr. Fung Siu To Clement (resigned on 4 September 2006)
Mr. Kwan Po Lam Phileas (resigned on 4 September 2006)

Independent non-executive directors:
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Shiu Kwok Keung (appointed on 22 September 2006)
Mr. Woo Wei Chun Joseph (resigned on 26 June 2006)

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out on pages 14 to 15.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2006, the interests and short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

	Number of shares held					
Director	**Personal interests**	**Family interests**	**Corporate interests** *(Note 1)*	**Other interests**	**Total**	**Approximate percentage of holding**
Leung Lap Yan	Nil	Nil	418,535,000	Nil	418,535,000	22.39%

Note:

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

(ii) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

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

The Company adopted the Pre-IPO Share Option Scheme on 5 May 2001 which was terminated on 7 May 2001 and replaced on the same date by the first Post-IPO Share Option Scheme (the Pre-IPO Share Option Scheme and the first Post-IPO Share Option Scheme are together called the "Old Share Option Schemes"). The first Post-IPO Share Option Scheme was terminated on 30 April 2002 and replaced on the same date by a second Post-IPO Share Option Scheme (the "New Share Option Scheme") which remained in force as at 31 December 2006.

As at 31 December 2006, information on share options which had been granted to the Directors under the Old Share Option Schemes was as follows:

Director	Date of grant	Number of share options outstanding as at 1 January 2006	Exercise price	Option exercise period *(Note 1)*	Cancelled *(Note 2)*	Number of share options outstanding as at 31 December 2006
Dr. Lim Yin Cheng *(Note 3)*	5/5/2001	84,480,000	HK$0.36	5/5/2001 to 4/5/2011	(84,480,000)	Nil
Mr. Leung Lap Yan	5/5/2001	71,720,000	HK$0.36	5/5/2001 to 4/5/2011	(71,720,000)	Nil
Mr. Leung Lap Fu Warren	5/5/2001	14,470,000	HK$0.36	5/5/2001 to 4/5/2011	(14,470,000)	Nil
Mr. Lau Man Kin *(Note 4)*	5/5/2001	13,390,000	HK$0.36	5/5/2001 to 4/5/2011	(13,390,000)	Nil
Mr. Tam Kam Biu William	5/5/2001	6,400,000	HK$0.36	5/5/2001 to 4/5/2011	(6,400,000)	Nil
Mr. Fung Siu To Clement *(Note 3)*	5/5/2001	2,560,000	HK$0.36	5/5/2001 to 4/5/2011	(2,560,000)	Nil
Mr. Kwan Kin Chung	5/5/2001	1,150,000	HK$0.36	5/5/2001 to 4/5/2011	(1,150,000)	Nil
Mr. Kwan Po Lam Phileas *(Note 3)*	18/5/2001	1,000,000	HK$0.45	18/5/2001 to 17/5/2011	(1,000,000)	Nil
Mr. Lun Pui Kan *(Note 3)*	5/5/2001	1,920,000	HK$0.36	5/5/2001 to 4/5/2011	(1,920,000)	Nil
Mr. Lun Pui Kan *(Note 3)*	18/5/2001	3,000,000	HK$0.45	18/5/2001 to 17/5/2011	(3,000,000)	Nil

Notes:

1 Option exercise period commenced from the date of grant, terminating ten years thereafter. The options may be exercised at any time within the option period provided that the options have been vested. As at 1 January 2006, all options have been vested.

2 The Shareholders have approved cancellation of all outstanding options granted under the Old Share Option Schemes at the Annual General Meeting held on 28 April 2006.

3 Dr. Lim Yin Cheng, Mr. Fung Siu To Clement, Mr. Kwan Po Lam Phileas and Mr. Lun Pui Kan have resigned as executive Directors on 4 September 2006.

4 Mr. Lau Man Kin has resigned as executive Director on 22 September 2006.

5 No option granted pursuant to the Old Share Option Schemes had been exercised or lapsed during the year ended 31 December 2006.

(b) New Share Option Scheme

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

No option had been granted to the Directors or the chief executive under the New Share Option Scheme for the year ended 31 December 2006.

Save as disclosed above, as at 31 December 2006, none of the Directors or the chief executive of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (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 standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules. During the year, no debt securities had been issued by the Group.

SHARE OPTION SCHEMES

(a) Old Share Option Schemes

As at 1 January 2006, options to subscribe for up to an aggregate of 218,500,000 shares of HK$0.01 each at a subscription price ranging between HK$0.36 and HK$0.45 per share had been granted to certain Directors, employees and advisors under the Old Share Option Schemes. During the year, no options have been exercised or lapsed and all outstanding options have been cancelled.

Grantee	Date of grant	Exercise price	Exercise period *(Note 1)*	Number of share options outstanding as at 1 January 2006	Cancelled *(Note 2)*	Number of share options outstanding as at 31 December 2006
Directors	5/5/2001	HK$0.36	5/5/2001 to 4/5/2011	169,590,000	(169,590,000)	—
Directors	5/5/2001	HK$0.36	5/5/2001 to 4/5/2011	26,500,000	(26,500,000)	—
Directors	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	4,000,000	(4,000,000)	—
Employees	5/5/2001	HK$0.36	5/5/2001 to 4/5/2011	5,130,000	(5,130,000)	—
Employee	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	720,000	(720,000)	—
Advisors	5/5/2001	HK$0.36	11/10/2001 to 10/10/2011	12,560,000	(12,560,000)	—
				218,500,000	(218,500,000)	—

Notes:

1. The option exercise period is commenced from the date of grant for ten years. The options may be exercised at any time within the option period provided that the options have been vested. As at 1 January 2006, all options have been vested.

2. The shareholders have approved cancellation of all outstanding options granted under the Old Share Option Schemes at the Annual General Meeting held on 28 April 2006.

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

(b) New Share Option Scheme

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

1. Purpose

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

2. Eligible participants

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

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

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

3. Total number of shares available for issue

   The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme must not in aggregate exceed 125,000,000 shares, representing about 6.63% of the shares in issue at the date of this report.

4. Maximum entitlement of each eligible participant

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

5. Time of exercise of option

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

6. Minimum period for which any option must be held

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

7. Amount payable upon acceptance of option

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

8. Basis of determining the exercise price

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

9. The remaining life of the New Share Option Scheme

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

As at 1 January 2006, options to subscribe for up to an aggregate of 10,000,000 shares of HK$0.01 each at a subscription price HK$0.042 per share had been granted to certain advisors under the New Share Option Scheme. During the year, no option had been granted, exercised or lapsed and 10,000,000 options granted to advisors have been cancelled.

Grantee	Date of grant	Exercise price	Exercise period	Number of share options outstanding as at 1 January 2006	Cancelled	Number of share options outstanding as at 31 December 2006
Advisors	10/7/2003	HK$0.042	10/7/2003 to 9/7/2013	10,000,000	(10,000,000)	—
				10,000,000	(10,000,000)	—

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

As at 31 December 2006, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the Directors and chief executive) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long positions in shares of the Company

Name of shareholder	Number of shares	Approximate percentage holding
Step Up Company Limited *(Note (i))*	418,535,000	22.39%
Winway H.K. Investments Limited	450,952,500	24.12%
Culturecom Holdings Limited *(Note (ii))*	450,952,500	24.12%

Notes:

(i) Mr. Leung Lap Yan is deemed to be interested in 418,535,000 shares through his controlling interest (41.25%) in Step Up Company Limited.

(ii) Winway H.K. Investments Limited is a wholly-owned subsidiary of Culturecom Investments Limited, which is, in turn, a wholly-owned subsidiary of Culturecom Holding (BVI) Limited which is a wholly-owned subsidiary of Culturecom Holding Limited. Each of Culturecom Investments Limited, Culturecom Holding (BVI) Limited and Culturecom Holdings Limited is deemed to be interested in 450,952,500 shares through its controlling interest (100%) in Winway H.K. Investments Limited.

Save as disclosed above, as at 31 December 2006, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	33%
– five largest suppliers combined	85%

Sales

– the largest customer	12%
– five largest customers combined	34%

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

BOARD PRACTICES AND PROCEDURES

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Ip Chi Wai, Mr. Tse Wang Cheung, Angus and Mr. Shiu Kwok Keung. The terms of reference of the audit committee have been established with regard to Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures. During the year, three meetings were held. The audit committee has reviewed with the Board the audited annual report.

AUDITORS

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

On behalf of the Board

Leung Lap Yan
Chairman

Hong Kong, 22 March 2007

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

TO THE MEMBERS OF Q9 TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Q9 Technology Holdings Limited (the "Company") set out on pages 29 to 69, which comprise the consolidated and company 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 of the Company 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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 auditors' judgement, 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 auditors consider 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 consolidated 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 Group's loss and cash flows 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.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

22 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	**2006**	2005
		HK$'000	*HK$'000*
Revenue	5	**4,471**	4,622
Cost of sales		**(341)**	(334)
Gross profit		**4,130**	4,288
Other revenue	6	**672**	541
Selling and distribution expenses		**(2,866)**	(2,799)
Research and development expenses		**(1,261)**	(1,254)
General and administrative expenses		**(7,349)**	(7,128)
Other operating expenses		**(427)**	(1,008)
Operating loss		**(7,101)**	(7,360)
Finance costs		**—**	—
Loss before income tax	7	**(7,101)**	(7,360)
Income tax expense	8	**—**	—
Loss for the year	9	**(7,101)**	(7,360)
Loss per share	10		(restated)
- Basic		**(HK0.46 cent)**	(HK0.49 cent)
- Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current asset			
Property, plant and equipment	13	**157**	500
Current assets			
Inventories	15	**116**	186
Financial assets at fair value through profit or loss	16	**—**	9,906
Trade receivables	17	**490**	609
Prepayments, deposits and other receivables		**862**	927
Cash and cash equivalents	18	**34,147**	7,272
		35,615	18,900
Current liabilities			
Trade payables	19	**72**	35
Other payables and accrued expenses		**1,711**	1,426
Amount due to a related company	20	**—**	75
		1,783	1,536
Net current assets		**33,832**	17,364
Net assets/Total assets less current liabilities		**33,989**	17,864
EQUITY			
Share capital	21	**18,695**	12,464
Reserves	23	**15,294**	5,400
Total equity		**33,989**	17,864

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**23**	—
Investments in subsidiaries	14	**5,500**	5,500
		5,523	5,500
Current assets			
Other receivables		**277**	150
Amounts due from subsidiaries	14	**12**	12,230
Cash and cash equivalents	18	**30,063**	144
		30,352	12,524
Current liabilities			
Other payables and accrued expenses		**323**	182
Amounts due to subsidiaries	14	**13,010**	—
		13,333	182
Net current assets		**17,019**	12,342
Net assets/Total assets less current liabilities		**22,542**	17,842
EQUITY			
Share capital	21	**18,695**	12,464
Reserves	23	**3,847**	5,378
Total equity		**22,542**	17,842

Leung Lap Yan
Director

Tam Kam Biu, William
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
Cash flows from operating activities		
Loss before income tax	(7,101)	(7,360)
Adjustments for :		
Interest income	(453)	(443)
Depreciation	363	478
Gain on disposal of a subsidiary	(100)	—
Provision for impairment of trade receivables	427	849
Loss on financial assets at fair value through profit or loss	33	—
(Gain)/Loss on disposals of property, plant and equipment	(6)	2
Operating loss before working capital changes	(6,837)	(6,474)
Decrease in inventories	70	164
Increase in financial assets at fair value through profit or loss	—	(9,623)
(Increase)/Decrease in trade receivables, prepayments, deposits and other receivables	(243)	711
Decrease in amount due from a related company	—	56
Increase/ (Decrease) in trade and other payables and accrued expenses	322	(1)
Decrease in amount due to a related company	(75)	(7)
Net cash used in operating activities	(6,763)	(15,174)
Cash flows from investing activities		
Purchase of property, plant and equipment	(61)	(37)
Proceeds from disposals of property, plant and equipment	47	—
Proceeds from disposals of financial assets at fair value through profit or loss	9,873	—
Proceeds from disposal of a subsidiary	100	—
Interest received	453	443
Net cash from investing activities	10,412	406
Cash flows from financing activities		
Proceed from issuance of rights shares	24,303	—
Rights share issue expenses	(1,077)	—
Net cash from financing activities	23,226	—
Net increase/(decrease) in cash and cash equivalents	26,875	(14,768)
Cash and cash equivalents at beginning of year	7,272	22,040
Cash and cash equivalents at end of year	34,147	7,272

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital	Share premium	Capital redemption reserve	Warrants reserve	Reorganisation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	12,464	87,601	37	6,250	3,000	(84,128)	25,224
Loss for the year (Total recognised income and expense for the year)	—	—	—	—	—	(7,360)	(7,360)
At 31 December 2005 and 1 January 2006	12,464	87,601	37	6,250	3,000	(91,488)	17,864
Issuance of rights shares	6,231	18,072	—	—	—	—	24,303
Rights share issue expenses	—	(1,077)	—	—	—	—	(1,077)
Loss for the year (Total recognised income and expense for the year)	—	—	—	—	—	(7,101)	(7,101)
At 31 December 2006	**18,695**	**104,596***	**37***	**6,250***	**3,000***	**(98,589)***	**33,989**

* The aggregated amount of the above balances of HK$15,294,000 (2005: HK$5,400,000) represented the reserves in the consolidated balance sheet.

1. CORPORATE INFORMATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is Unit 712B, Level 7, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. Its subsidiaries (together with the Company referred to as the "Group") are principally engaged in computer software and embedded systems development, and sales and licensing of the software and systems.

The financial statements on pages 29 to 69 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

The financial statements for the year ended 31 December 2006 were approved for issue by the board of directors on 22 March 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Group has adopted all the new and amended HKFRSs, which are first effective on 1 January 2006 and relevant to the Group.

The adoption of these new and amended HKFRSs did not result in significant changes to the Group's accounting policies. The adoption of these new and amended HKFRSs did not result in any significant changes in the Company's accounting policy.

New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

HKAS 1 (Amendment)	Presentation of Financial Statements - Capital Disclosures[1]
HKFRS 7	Financial Instruments - Disclosures[1]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[6]
HK(IFRIC) – Int 12	Service Concession Arrangements[7]
HKFRS 8	Operating Segments[8]

Notes:

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008
8 Effective for annual periods beginning on or after 1 January 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

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

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. These areas involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

3.4 Property, plant and equipment

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

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

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

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

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

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

3.5 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, is computed using the first-in, first-out basis, comprise direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.6 Financial assets

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

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

3.6 Financial assets *(Continued)*

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

— the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

— the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

— the financial asset contains an embedded derivative that would need to be separately recorded.

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

3.6 Financial assets *(Continued)*

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

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(ii) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows :

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

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

3.7 Provisions

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

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.8 Research and development costs

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

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

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

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

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

The assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

3.9 Impairment testing of property, plant and equipment and investments in subsidiaries *(Continued)*

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount dose not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms.

3.11 Foreign currency translation

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at foreign exchange rates ruling at balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet retranslation of monetary assets and liabilities are recognised in the income statement under "other revenue" or "administrative expenses", respectively.

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

3.11 Foreign currency translation *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rate ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.

3.12 Accounting for income taxes

Income tax comprises current and deferred tax.

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

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

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

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credit directly to equity.

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

3.13 Employee benefits

(i) Employee entitlements

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

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

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

3.14 Cash and cash equivalents

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

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

3.15 Share capital

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

Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

3.16 Share-based employee compensation

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

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

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

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

3.17 Revenue and expense recognition

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

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

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

Operating expenses are charged to the income statement when incurred.

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

3.18 Financial liabilities

The Group's financial liabilities include trade payables, other payables and accrued expenses and amount due to a related company.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

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

3.19 Related parties

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

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

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

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

  (iii) has joint control over the Group;

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

(c) the party is an associate;

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES

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

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

(i) Net realisable value of inventories

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

(ii) Allowance for impairment of trade receivables

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

5. REVENUE AND SEGMENT INFORMATION

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**3,200**	2,935
Licensing income	**1,271**	1,687
	4,471	4,622

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical segment analysis for the year ended 31 December 2006 is as follows :

	Hong Kong	Mainland China	Taiwan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:				
Sales to external customers	**3,895**	**576**	**—**	**4,471**
Segment results	**(6,327)**	**(246)**	**—**	**(6,573)**
Unallocated costs				**(528)**
Operating loss				**(7,101)**
Segment assets	**33,774**	**1,998**	**—**	**35,772**
Unallocated assets				**—**
Total assets				**35,772**
Capital expenditure	**61**	**—**	**—**	**61**

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

Capital expenditure comprises additions of property, plant and equipment.

6. OTHER REVENUE

	2006	2005
	HK$'000	*HK$'000*
Interest income	**453**	443
Gain on disposal of a subsidiary	**100**	—
Gain on disposals of property, plant and equipment	**6**	—
Sundry income	**113**	98
	672	541

7. LOSS BEFORE INCOME TAX

	2006	2005
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging :		
Auditors' remuneration		
- current year	**320**	258
- under provision in prior year	**5**	3
Depreciation	**363**	478
Staff costs (including directors' remuneration (note 12 (a))	**5,613**	5,774
Loss on disposals of property, plant and equipment	**—**	2
Loss on financial assets at fair value through profit or loss	**33**	—
Change in fair value of financial assets at fair value through profit or loss	**—**	377
Operating lease charges in respect of land and buildings	**1,374**	1,301
Write-down of inventories to net realisable value*	**—**	23
Write-off of obsolete inventories*	**—**	132
Provision for impairment of trade receivables *	**427**	849

* included in other operating expenses

8. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided in the financial statements as the companies within the Group either did not derive any assessable profit for current year or had tax losses brought forward from previous years to offset against the current year's assessable profit. No Hong Kong profits tax had been provided for 2005 as the companies within the Group did not derive any assessable profit.

During the year, provision for the profits tax of subsidiaries operating outside Hong Kong has not been provided as the subsidiaries had not yet generated any assessable profits in the respective jurisdictions during the year (2005: Nil).

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

	2006	2005
	HK$'000	*HK$'000*
Loss before income tax	**(7,101)**	(7,360)
Tax at the statutory rate of 17.5% in Hong Kong (2005: 17.5%)	**(1,243)**	(1,288)
Tax effect of non-deductible expenses	**3,731**	413
Tax effect of non-taxable revenue	**(75)**	(76)
Tax effect of temporary differences not recognised	**(117)**	35
Tax effect of tax losses not recognised	**518**	916
Tax effect of prior year's unrecognised tax losses utilised this year	**(2,814)**	—
Income tax expense	**—**	—

At 31 December 2006, the Group had deferred tax assets mainly arising from tax losses of approximately HK$2,961,000 (2005: HK$66,600,000). However, the deferred tax assets have not been recognised as it is uncertain whether sufficient future taxable profit will be available for utilising the accumulated tax losses. Under the current tax legislation, the tax losses can be carried forward indefinitely.

9. LOSS FOR THE YEAR

Of the loss for the year of HK$7,101,000 (2005: HK$7,360,000), a loss of HK$18,526,000 (2005: HK$10,815,000) has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$7,101,000 (2005: HK$7,360,000) and on the weighted average of 1,542,284,126 (2005 restated: 1,503,135,678) ordinary shares of the Company in issue during the year.

The weighted average number of shares for the purposes of calculating basic loss per share for the year 2005 has been adjusted to reflect the issuance of rights shares as detailed in note 21 to the financial statements.

No diluted loss per share is presented for 2006 as no share options were outstanding as at the end of the year.

No diluted loss per share is presented for 2005 as the exercise of the subscription rights attached to the share options and warrants would not have a dilutive effect on the loss per share.

11. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	**5,437**	5,671
Pension costs - defined contribution plans	**176**	103
	5,613	5,774

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

(a) Directors' emoluments

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

	Fees	Salaries and allowances	Contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2006				
Executive directors				
Leung Lap Yan	20	375	12	407
Lim Yin Cheng[2]	—	693	9	702
Tam Kam Biu, William	—	709	12	721
Leung Lap Fu, Warren	10	430	12	452
Lau Man Kin[4]	—	45	2	47
Lun Pui Kan[2]	—	—	—	—
Fung Siu To, Clement[2]	—	—	—	—
Kwan Po Lam, Phileas[2]	—	—	—	—
Kwan Kin Chung	10	—	—	10
Wan Xiaolin	—	—	—	—
Sub-total	40	2,252	47	2,339
Independent non-executive directors				
Ip Chi Wai	60	—	—	60
Shiu Kwok Keung[3]	15	—	—	15
Tse Wang Cheung, Angus	60	—	—	60
Woo Wei Chun, Joseph[1]	30	—	—	30
Sub-total	165	—	—	165
Total	205	2,252	47	2,504

Notes :

1 Resigned on 26 June 2006

2 Resigned on 4 September 2006.

3 Appointed on 22 September 2006.

4 Resigned on 22 September 2006.

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

(a) Directors' emoluments *(Continued)*

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2005: four) of the directors whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (2005: one) highest paid individual during the year are as follows :

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**366**	351
Contributions to pension scheme	**12**	12
	378	363

During the year, no emoluments were paid by the Group to the Company's directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Total HK$'000
At 1 January 2005			
Cost	1,858	3,585	5,443
Accumulated depreciation	(1,472)	(3,028)	(4,500)
Net book amount	386	557	943
Year ended 31 December 2005			
Opening net book amount	386	557	943
Additions	8	29	37
Disposal	—	(2)	(2)
Depreciation	(201)	(277)	(478)
Closing net book amount	193	307	500
At 31 December 2005			
Cost	1,866	3,595	5,461
Accumulated depreciation	(1,673)	(3,288)	(4,961)
Net book amount	193	307	500
Year ended 31 December 2006			
Opening net book amount	193	307	500
Additions	19	42	61
Disposal	(8)	(33)	(41)
Depreciation	(167)	(196)	(363)
Closing net book amount	37	120	157
At 31 December 2006			
Cost	482	3,356	3,838
Accumulated depreciation	(445)	(3,236)	(3,681)
Net book amount	**37**	**120**	**157**

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

COMPANY

	Furniture, fixtures and office equipment
	HK$'000
At 1 January 2005 and at 31 December 2005	
Cost	—
Accumulated depreciation	—
Net book amount	—
Year ended 31 December 2006	
Opening net book amount	—
Additions	24
Depreciation	(1)
Closing net book amount	23
At 31 December 2006	
Cost	24
Accumulated depreciation	(1)
Net book amount	**23**

14. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES

COMPANY

	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**7,501**	7,501
Less : Provision for impairment	**(2,001)**	(2,001)
	5,500	5,500

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

14. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries at 31 December 2006 are as follows :

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

Pursuant to a share purchase agreement dated 24 August 2006, the Company disposed of its indirect equity interest in a wholly-owned subsidiary, Qcode Information Technology Limited to a third party (as further detailed in note 24 to the financial statements).

15. INVENTORIES

GROUP

	2006	2005
	HK$'000	*HK$'000*
Merchandise	**65**	55
Finished goods	**51**	131
	116	186

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

	2006	2005
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong	**—**	177
Certificate of deposits	**—**	9,729
	—	9,906
Market value of listed equity securities	**—**	177

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

	2006	2005
	HK$'000	*HK$'000*
Held for trading	**—**	177
Designated as fair value through profit or loss on initial recognition	**—**	9,729
	—	9,906

The certificate of deposits bore interest at a fixed rate of 3.05% per annum from date of deposit to 25 May 2007. Fair value of the certificate of deposits as at 31 December 2005 was determined by reference to the bank. The certificate of deposits were redeemed during the year.

During the year, the listed equity securities were also disposed of together with the redemption of certificate of deposits, the net loss of HK$33,000 representing the change in fair value for the period up to the dates of disposal was resulted and this is included in the administrative expenses in the income statement.

17. TRADE RECEIVABLES

GROUP

	2006 HK$'000	2005 HK$'000
Trade receivables	**3,133**	2,887
Less : Provision for impairment of receivables	**(2,643)**	(2,278)
Trade receivables - net	**490**	609

Included in the net trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate :

	2006 RMB'000	2005 RMB'000
Renminbi ("RMB")	**209**	67

The Group allows an average credit term of 30-90 days to its trade customers. At 31 December 2006, based on the invoice dates, the ageing analysis of the net trade receivables was as follows :

	2006 HK$'000	2005 HK$'000
Current	**87**	240
31 - 90 days	**178**	72
91 - 180 days	**225**	—
Over 180 days	**—**	297
	490	609

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components :

GROUP

	2006	2005
	HK$'000	HK$'000
Cash at banks and in hand	34,147	2,081
Short-term bank deposits	—	5,191
	34,147	7,272

COMPANY

	2006	2005
	HK$'000	HK$'000
Cash at banks and in hand	30,063	144

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

Included in cash and cash equivalents of the Group are HK$1,707,000 (2005: HK$2,019,000) of bank balances denominated in RMB placed with the banks in the Mainland China. The RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business.

19. TRADE PAYABLES

GROUP

	2006 HK$'000	2005 HK$'000
Trade payables	72	35

The Group was granted by its suppliers for a credit period of 30 days. At 31 December 2006, based on the invoice dates, the ageing analysis of the trade payables was as follows :

	2006 HK$'000	2005 HK$'000
Current	61	23
31 - 90 days	11	11
91 – 180 days	—	1
	72	35

20. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest free and repayable on demand.

21. SHARE CAPITAL

	2006 Number of shares	2006 HK$'000	2005 Number of shares	2005 HK$'000
Authorized :				
Ordinary shares of HK$0.01 each	50,000,000,000	500,000	50,000,000,000	500,000

21. SHARE CAPITAL *(Continued)*

	Ordinary shares	
	Number of shares	HK$'000
Issued and fully paid :		
At 1 January 2005 and at 1 January 2006	1,246,350,000	12,464
Issuance of rights shares	623,175,000	6,231
At 31 December 2006	1,869,525,000	18,695

A resolution was passed on 11 October 2006 to approve a rights issue on the basis of one rights share for every two shares held by shareholders on the register of members on 1 November 2006 at the subscription price of HK$0.039 each. The rights issue resulted in the issue of 623,175,000 shares of HK$0.01 each for a total cash consideration before share issue expenses of approximately HK$24 million.

On 13 December 2006, the Company entered into the placing agreement with the placing agent in connection with the placing, on a fully underwritten basis, to place up to 249,200,000 warrants conferring rights to subscribe up to 249,200,000 shares at an initial subscription price of HK$0.076 per share. The warrants are to be placed at an issue price of HK$0.025 per warrant. Each warrant will entitle the holder thereof to subscribe for one share at an initial subscription price of HK$0.076 per share during the two-year period commencing from the date of listing of the warrants. The placing was completed on 19 January 2007. The result of the placing was disclosed as Post Balance Sheet Event in note 30 to the financial statements.

22. SHARE - BASED EMPLOYEE COMPENSATION

The Company adopted the Pre-IPO Share Option Scheme on 5 May 2001 which was terminated on 7 May 2001 and replaced on the same date by the first Post-IPO Share Option Scheme (the Pre-IPO Share Option Scheme and the first Post-IPO Share Option Scheme are together called the "Old Share Option Schemes"). The first Post-IPO Share Option Scheme was terminated on 30 April 2002 and replaced on the same date by a second Post-IPO Share Option Scheme (the "New Share Option Scheme") which remained in force as at 31 December 2006.

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

The following are details of outstanding share options granted under the Old Share Option Schemes and the New Share Option Scheme as at 31 December 2006 :

Grantee	Date of grant	Exercise price	Exercise period	Outstanding as at 1 January 2006	Cancelled	Outstanding as at 31 December 2006
Old Share Option Schemes :						
Directors						
Dr. Lim Yin Cheng	5/5/2001	HK$0.36	Note 1 (a)	84,480,000	(84,480,000)*	—
Mr. Leung Lap Yan	5/5/2001	HK$0.36	Note 1 (a)	71,720,000	(71,720,000)*	—
Mr. Leung Lap Fu, Warren	5/5/2001	HK$0.36	Note 1 (b)	14,470,000	(14,470,000)*	—
Mr. Lau Man Kin	5/5/2001	HK$0.36	Note 1 (a)	13,390,000	(13,390,000)*	—
Mr. Tam Kam Biu, William	5/5/2001	HK$0.36	Note 1 (b)	6,400,000	(6,400,000)*	—
Mr. Fung Siu To, Clement	5/5/2001	HK$0.36	Note 1 (b)	2,560,000	(2,560,000)*	—
Mr. Kwan Kin Chung	5/5/2001	HK$0.36	Note 1 (b)	1,150,000	(1,150,000)*	—
Mr. Kwan Po Lam, Phileas	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	1,000,000	(1,000,000)*	—
Mr. Lun Pui Kan	5/5/2001	HK$0.36	Note 1 (b)	1,920,000	(1,920,000)*	—
Mr. Lun Pui Kan	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	3,000,000	(3,000,000)*	—
Others						
Employees	5/5/2001	HK$0.36	Note 1 (b)	5,130,000	(5,130,000)*	—
Employee	18/5/2001	HK$0.45	18/5/2001 to 17/5/2011	720,000	(720,000)*	—
Advisors	5/5/2001	HK$0.36	Note 1 (b)	12,560,000	(12,560,000)*	—
New Share Option Scheme :						
Advisors	10/7/2003	HK$0.042	10/7/2003 to 9/7/2013	10,000,000	(10,000,000)#	—
				228,500,000	(228,500,000)	—

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

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

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

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

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

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

* The shareholders had approved the cancellation of all outstanding options granted under the Old Share Option Schemes at the Annual General Meeting held on 28 April 2006.

The board of directors of the Company had approved by written resolution to cancel the outstanding options granted under New Share Option Scheme on 14 July 2006 upon resignation of the advisors of the Group.

Notes :

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

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

23. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

Company

	Share premium	Warrants reserve	Reorganisation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	87,601	6,250	2,501	(80,159)	16,193
Loss for the year	—	—	—	(10,815)	(10,815)
At 31 December 2005 and 1 January 2006	87,601	6,250	2,501	(90,974)	5,378
Loss for the year	—	—	—	(18,526)	(18,526)
Premium on issue of rights shares	18,072	—	—	—	18,072
Rights share issue expenses	(1,077)	—	—	—	(1,077)
Balance at 31 December 2006	**104,596**	**6,250**	**2,501**	**(109,500)**	**3,847**

Notes:

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

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

24. DISPOSAL OF A SUBSIDIARY

Pursuant to a share purchase agreement dated 24 August 2006 (the "Agreement"), Q9 Technology (BVI) Limited, a subsidiary of the Company, agreed to transfer its 100% direct equity interest in Qcode Information Technology Limited ("Qcode ITL") at a consideration of HK$100,000 to a third party. Before the disposal, all assets/liabilities of Qcode ITL were transferred at net book values to other companies within the Group. As a result, the net asset value of Qcode ITL as at the disposal date was nil and the gain on the disposal was HK$100,000.

25. OPERATING LEASE COMMITMENTS

GROUP

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings were payable as follows :

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,608**	746
In the second to the fifth year	**827**	—
	2,435	746

COMPANY

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings were payable as follows :

	2006	2005
	HK$'000	*HK$'000*
Within one year	**446**	—
In the second to the fifth year	**371**	—
	817	—

The Group/Company leases premises under an operating lease. The lease runs for an initial period of one to two years, with an option to renew the lease at the expiry date or at dates mutually agreed between the Group/Company and the landlord. The lease does not include contingent rental.

26. CAPITAL COMMITMENTS

GROUP and COMPANY

	2006 HK$'000	2005 HK$'000
Property, plant and equipment		
Contracted but not provided for	**119**	—

27. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as at 31 December 2006 and 2005.

28. RELATED PARTY TRANSACTIONS

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

	Note	2006 HK$'000	2005 HK$'000
Office and warehouse rental expenses			
- Culturecom Centre Limited (warehouse)	(i)	**99**	90
- Culturecom Centre Limited (office)	(i)	**105**	—
- Tilpifa Company Limited	(ii)	**317**	438
		521	528
Building management fees			
- Prosperity Land Estate Management Limited	(ii)	**105**	157
Company secretarial fees			
- Asia Orient Company Limited	(ii)	**74**	96

28. RELATED PARTY TRANSACTIONS *(Continued)*

Notes :

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

(ii) Office rental agreement was entered into with Tilpifa Company Limited, a subsidiary of Asia Orient Holdings Limited, with rental charged at fixed monthly fees. Building management and company secretarial fees were paid to Prosperity Land Estate Management Limited and Asia Orient Company Limited, subsidiaries of Asia Orient Holdings Limited, and were charged at fixed monthly rates. Asia Orient Holdings Limited ceased to be one of the substantial shareholders of the Company after the disposals of its indirectly equity interests in the Company during the year.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Foreign currency risk

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

(b) Interest rate risk

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

(c) Credit risk

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Fair values

The cash and cash equivalents, trade receivables, prepayments, deposits and other receivables, trade payables, other payables and accrued expenses, are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

30. POST BALANCE SHEET EVENT

On 24 January 2007, the directors of the Company announced that all 249,200,000 warrants had been fully placed under the placing as mentioned in note 21 to the financial statements. Dealings in the warrants on the Hong Kong Stock Exchange commenced on 29 January 2007.

Financial Summary

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Loss for the year	**(7,101)**	(7,360)	(7,816)	(4,807)	(32,145)
Assets and liabilities					
Property, plant and equipment	**157**	500	943	1,615	3,023
Other assets	**35,615**	18,900	25,825	32,393	36,715
Total liabilities and minority interests	**(1,783)**	(1,536)	(1,544)	(968)	(1,891)
Total equity	**33,989**	17,864	25,224	33,040	37,847