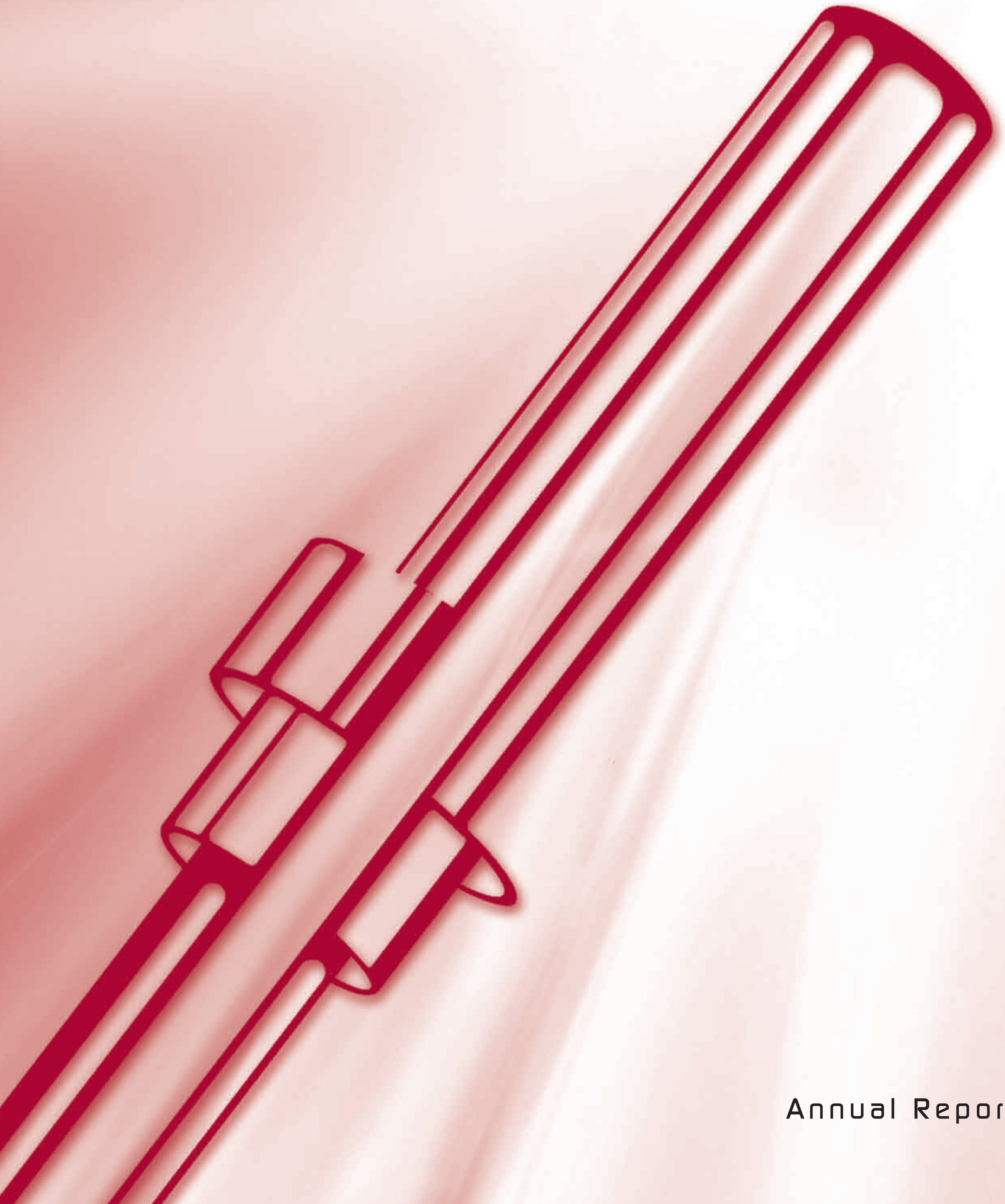
INTCERA High Tech Group Limited

(Stock Code: 8041)



Annual Report 2006

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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.

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHENG Qing Bo *(Chairman)*
TUNG Tai Yung
LI Fang

Non-executive Director

LIN Nan

Independent Non-executive Directors

LIU Zheng Hao
LAM Williamson
MAK Wai Fong

COMPLIANCE OFFICER

CHENG Qing Bo

COMPANY SECRETARY

WONG Hon Kit

QUALIFIED ACCOUNTANT

WONG Hon Kit

AUDIT COMMITTEE

LIU Zheng Hao
LAM Williamson
MAK Wai Fong

AUTHORISED REPRESENTATIVES

CHENG Qing Bo
LI Fang

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1607B, 16/F,
Office Tower,
Convention Plaza,
1 Harbour Road,
Wanchai, Hong Kong

LEGAL ADVISERS

As to Hong Kong Law

Vincent T.K. Cheung, Yap & Co.

As to Cayman Islands Law

Conyers Dill & Pearman, Cayman

AUDITORS

Patrick Ng & Company
Certified Public Accountants
20/F., Hong Kong Trade Centre,
161-167, Des Voeux Road,
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of China (Hong Kong) Limited

STOCK CODE

8041

CHAIRMAN'S STATEMENT

RESUMPTION OF TRADING

Trading in the shares of the Company (the "Shares") has been suspended since 6 October 2003. Since then, the Company has been continuously liaising with the Stock Exchange to work on the resumption of trading in the Shares.

BUSINESS REVIEW

Strong economic growth in the world especially in the telecommunication industry has continued to offer excellent business opportunity for the Company and its subsidiaries (the "Group"). With the rapid urbanization and huge demand of speedy transmission of data, the Group seized the ultimate needs in the ever increasing demand of optical fiber and related products.

The principal business of the Group, which requires substantial technology updates, will continue and may expand subject to the funding requirement of the potential expansion. The Group has achieved a significant improvement in business since 2006. The Directors believe that this is the result of proactive business and operation expansion plan implemented by the Group by way of acquiring the equipment and businesses from Shenzhen Weiyi Optical Communication Technology Company Limited ("Weiyi").

The 2006 annual results showed a remarkable turnover of approximately HK$30.7 million for the financial year ended 31 December 2006, which represented approximately 43 times of the turnover of 2005. Similarly, gross profit for the financial year ended 31 December 2006 of approximately HK$12.9 million also represented over 73 times growth as compared to the gross profit of year 2005. In 2006, the Group has been able to achieve a profitable position. The increase in turnover was the result of new customer development and the future sales plan will continue to diversify our products focusing not only on manufacturing of ferrules but also on producing and selling of optical fiber patch cord and patch panel.

FUND RAISING

The Company entered in of a share subscription agreement with a subscriber in September 2007 and a placing agreement with a placing agent simultaneously. Completion of the share subscription agreement and the placing agreement are conditional upon, amongst other, a proposal for the resumption of trading in shares of the Company on the Stock Exchange having been approved and accepted by the Stock Exchange to be viable.

OUTLOOK

The Company has successfully established contacts with several well-known telecommunication equipments manufacturers and was appointed as the priority supplier to them, and has entered in of Memorandum of Understandings with them for the supply of various products of the Group with a total indicative annual amount of approximately HK$10 million in the coming twelve months.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I am delighted to report the satisfactory performance this year and would like to take this opportunity to express our gratitude to our shareholders of their tremendous support and to our management and staff to their dedication and contribution in the past year. One of the Group's key objectives is to create and increase shareholders' wealth. To this end, the Group's focus is, endeavoring its very best, to seek long term growth in our core business while maintaining stable organic growth in the industry.

Cheng Qing Bo
Chairman

24 October 2007

FINANCIAL HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK$30,685,000 for the year ended 31 December 2006 representing approximately 43 times over the corresponding period of 2005.

- The Group's gross profit amounted to approximately HK$12,871,000 for the year ended 31 December 2006 representing over 73 times growth as compared to the gross profit of approximately HK$175,000 in the corresponding period of 2005.

- The Group has recorded a profit attributable to shareholders for the year ended 31 December 2006 of approximately HK$5,481,000, representing a basic earnings per share of HK$0.76 cents.

- The Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2006, the Group recorded a total turnover of approximately HK$30,685,000 representing an increase of approximately 43 times from approximately HK$711,000 for the year ended 31 December 2005. A gross profit of approximately HK$12,871,000 was recorded by the Group for the year ended 31 December 2006. The profit attributable to shareholders was approximately HK$5,481,000.

OPERATIONS

During the year under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had total assets of approximately HK$126,661,000 of which bank and cash balances of approximately HK$1,199,000. At the balance sheet date, the Group had unsecured convertible bonds of approximately HK$25,640,000. The Group has a current ratio of approximately 1.62 comparing to that of 1.81 as at 31 December 2005. As at 31 December 2006, the Group did not have any bank borrowings and the gearing ratio of 42% was calculated at by dividing total debt by the total assets (as at 31 December 2005 was 45%).

FOREIGN EXCHANGE EXPOSURE

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operation through its subsidiary in Shenzhen, PRC which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

CAPITAL STRUCTURE

As at 31 December 2006 and 2005, the Company's outstanding issued shares were 723,087,310 ordinary shares of HK$0.01 each. There has not been any change to the capital structure of the Company during the year under review.

MAJOR INVESTMENTS

The Group did not have any significant investments as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group did not have any material acquisitions or disposals of subsidiaries or affiliated companies for the year ended 31 December 2006.

EMPLOYEES

As at 31 December 2006, the Group had 236 full time employees compared with that of 12 in 2005. The staff costs, including directors' remuneration, were approximately HK$4,357,000 (2005: HK$2,087,000). The Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the PRC respectively, including medical scheme, provident fund or retirement fund.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any material contingent liabilities or charges laid against its assets.

PROSPECTS

The Company has successfully established contacts with several well-known telecommunication equipments manufacturers and was appointed as the priority supplier to them and has entered in of Memorandum of Understandings with them for the supply of various products of the Group with a total indicative annual amount of approximately HK$10 million in the coming twelve months.

FUND RAISING

The Company entered in of a share subscription agreement with a subscriber in September 2007 and a placing agreement with a placing agent simultaneously. Completion of share subscription agreement and the placing agreement are conditional upon, amongst other, a proposal for the resumption of trading in shares of the Company on the Stock Exchange having been approved and accepted by the Stock Exchange to be viable. Details please refer to the announcement of the Company dated 24 September 2007.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. CHENG Qing Bo

Aged 45, is the Chairman and an Executive Director of the Group. He joined the Group in June 2002. Mr. Cheng is responsible for overseeing the general management and formulating the strategic plans of the Group. Mr. Cheng is also the chairman of Shenzhen Zhongji Industry (Group) Company Limited and Weiyi and concurrently holding directorships in various other companies. Mr. Cheng holds a master degree in economics from Zhongnan University of Finance and Economics, and has passed the China United Examination for Certified Public Accountants. He also obtained the Securities Practitioner Certificate. Mr. Cheng has over 10 years of experience in finance, accounting and investment management.

Mr. TUNG Tai Yung

Age 42, is an Executive Director and the Chief Technology Officer of the Group and the directors of certain subsidiaries of the Company. Mr. Tung joined the Group in February 1998. Mr. Tung graduated from California Santa Clara University in the United States with a bachelor degree in electrical engineering.

Ms. LI Fang

Aged 32, is an Executive Director of the Group. She joined the Group in April 2005. Ms. Li is a member of the Certified Public Accountants in the PRC (non-practicing). She holds a degree in economics from Zhonguan University of Finance and Economics. Ms. Li has over 10 years of experience in the financing and accounting field in the People's Republic of China (the "PRC").

NON-EXECUTIVE DIRECTOR

Mr. LIN Nan

Aged 44, is a Non-executive Director. He joined the Group in November 2004. Mr. Lin holds a PhD in business administration from Southwest International University, United States. He is currently the general manager of a private company in the PRC. Besides, Mr. Lin is a committee member of 中國上海市盧灣區第十屆政協委員會. He has over 10 years of management experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIU Zheng Hao

Aged 48, was appointed Independent Non-executive Director in September 2004. Mr. Liu is currently a director as well as the financial controller of a private company in Shenzhen of the PRC.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Williamson LAM

Aged 33, is a practicing member of the Hong Kong Institute of Certified Public Accountants and a full member of the CPA (Australia). He joined the Group as an Independent Non-executive Director in February 2007. Mr. Lam obtained his bachelor degree of business from Monash University, Australia and has over 10 years experience in auditing, accounting, taxation, company secretarial, finance and financial management. Mr. Lam had worked for international and local accounting firms, multi-national company, financial institutes and listed companies. Currently, Mr. Lam is also an independent non-executive director of Victory Group Limited, a company listed on the Stock Exchange.

Ms. MAK Wai Fong

Aged 40, is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. She joined the Group as an Independent Non-executive Director in March 2007. Ms. Mak obtained her master degree of science in computer science from Victoria University of Technology, Australia and has over 10 years experience in auditing, accounting, taxation, company secretarial, finance and financial management. Ms. Mak had worked for several listed companies. Currently, Ms. Mak is a group accountant of a company listed on the Singapore Exchange Limited.

SENIOR MANAGEMENT

Mr. WONG Hon Kit

Aged 40, is the Financial Controller, Qualified Accountant as well as Company Secretary of the Group. He joined the Group in January 2005. Mr. Wong is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 10 years of experience in the accounting field and also possesses accounting experience in the PRC.

Mr. CHUNG Man Wai

Aged 37, is the internal auditor. He responsible for the internal control and corporate governance affair of the Group. He holds a Bachelor of Business Administration degree from the University of Hong Kong and a Master of Science Degree in Financial Management from the University of London. Mr. Chung is also a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in 2007, Mr. Chung held senior corporate finance and accounting positions in a listed company and in the New World Group and was an internal auditor in a financial institution.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") is committed to maintain high standards of corporate governance for the Company. During the year, the Company is in compliance with the Code on Corporate Govemance Practices (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules except provisions A.2.1 and A.4.1 of the CG Code as detailed below:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual, Mr. Cheng Qing Bo is currently the Chairman and the chief executive officer of the Company. The Board considers that the combination of the roles can effectively formulate and implement the Company's strategies, and that under the supervision of the Board as well as the independent non-executive Directors, the interest of the Shareholders would be adequately and fairly represented.

Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors are not appointed for specific terms, but are subject to retirement and re-election

The current practices of the corporate governance of the Company will be reviewed and updated in a timely manner in order to comply with the requirements of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has complied with the requirements for directors' securities transactions stated in the GEM Listing Rules. All the Directors have confirmed that they have complied with the requirements as set out in the GEM Listing Rules for the year ended 31 December 2006.

BOARD OF DIRECTORS AND BOARD MEETING

The Board comprises seven members and their positions, as at the date of this report, are as follows:

Executive Directors
Cheng Qing Bo *(Chairman)*
Tung Tai Yung
Li Fang

Non-executive Director
Lin Nan

Independent Non-executive Directors
Lam Williamson
Mak Wai Fong
Liu Zheng Hao

Details of the backgrounds and qualifications of the Directors are set out in the section of "Biographical Information of Directors and Senior Management" on pages 8 to 9 of the annual report for year ended 31 December 2006 (the "Annual Report"). All Directors bona fide have exercised due care, fiduciary duties to all the significant issues of the financial, operational, compliance and risk management of the Company and its subsidiaries (collectively the "Group"). Each Executive Director has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties have been carried out in an efficient and effective manner. None of the members of the Board have, in any respect, related to each other in any circumstances.

The Board held a full board meeting for six times for the financial year of 2006. Details of the attendance of the Board members are as follows:

Executive Directors	Attendance
Cheng Qing Bo	6/6
Wong Hon Kit (resigned on 31 December 2006)	6/6
Li Fang	4/6
Tung Tai Yung (appointed on 9 October 2007)	0/0
Non-executive Director	
Lin Nan	3/6
Independent Non-executive Directors	
Wan Ho Yuen (resigned on 23 March 2006)	1/1
Tam B Ray Billy (resigned on 31 December 2006)	4/6
Liu Zheng Hao	5/6
Lo Kin Chung (resigned on 21 March 2007)	4/6
Woo Man Wah (resigned on 5 February 2007)	4/6
Lam Williamson (appointed on 5 February 2007)	0/0
Mak Wai Fong (appointed on 21 March 2007)	0/0

Save for the above regular board meetings held for the financial year of 2006, the Board will commit to hold special meetings to discuss on any matters which would require a decision from them. Directors will be given opportunity, if necessary, to include matters in the agenda for regular board meetings. In respect of regular board meeting, an agenda would be sent in full to all Directors in a timely manner. Notices of board meeting and details of its agenda would be delivered in advance to the Board. Minutes of each board meeting would be sent to the Directors within reasonable time interval after the meeting.

All Directors are entitled to have full access to the relevant information from management in a timely manner to enable them to make informed decisions.

Segregation of the roles of Chairman of the Board and Chief Executive Officer

Mr. Cheng Qing Bo is the Chairman and the chief executive officer of the Company.

The Board considers that the combination of the roles can effectively formulate and implement the Company's strategies, and that under the supervision of the Board as well as the independent non-executive Directors, the interest of the Shareholders would by adequately and fairly represented.

Independent Non-executive Directors

In order to protect the interest of the shareholders of the Company (the "Shareholders"), the Company appointed four Independent Non-executive Directors with relevant and sufficient experience and qualification to perform their duties. The four Independent Non-executive Directors declared and confirmed with the Company on an annual basis of their independency with the Group in accordance with Rule 5.09 of the GEM Listing Rules. The Board has assessed and concluded that all the Independent Non-executive Directors are independent in appearance and in substance in view of the definition of the GEM Listing Rules. The Independent Non-executive Directors do not hold any office with any connected parties of the Company or have any financial interests other than those directors' remuneration as disclosed in the Report of the Directors from page 17 to page 26.

APPOINTMENT, RE-ELECTION AND RETIREMENT

Non-executive Director and Independent Non-executive Directors were not appointed for specific terms, subject to re-election. Every Director is subject to retirement by rotation at least once every three years.

The newly appointed Directors – Mr. Lo Kin Chung, Ms. Woo Man Wah, Mr. Lam Williamson, Ms. Mak Wai Fong and Mr. Tung Tai Yung received a comprehensive, formal and tailored induction on the first occasion of his appointment to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the GEM Listing Rules, and other regulations.

On 23 March 2006, Mr. Wan Ho Yuen, Terence resigned as Independent Non-executive Director. Mr. Wan resigned with his own causes and the Board did not aware of any issue which could affect his office continuity.

On 31 December 2006, Mr. Tam B Ray Billy resigned as Independent Non-executive Director. Mr Tam resigned because he needs time to pursue his business ventures and the Board did not aware of any issue which could affect his office continuity.

On 31 December 2006, Mr. Wong Hon Kit resigned as Executive Director. Mr. Wong remains as the company secretary and qualified accountant of the Company and the Board did not aware of any issue which could affect his office continuity.

On 5 February 2007, Ms. Woo Man Wah resigned as Independent Non-executive Director. Ms. Woo resigned as she needs time to pursue her career and the Board did not aware of any issue which could affect her office continuity.

On 21 March 2007, Mr. Lo Kin Chung resigned as Independent Non-executive Director. Mr. Lo resigned because he needs time to pursue his career and the Board did not aware of any issue which could affect his office continuity.

COMPENSATION COMMITTEE

The Company established Compensation Committee with specific written terms of reference which deal clearly with its authority and duties in accordance with the GEM Listing Rules. As at the date of this report, the Compensation Committee comprises a majority members of Independent Non-executive Directors.

Members of Compensation Committee are on follows:–

Committee members

Executive Director

Cheng Qing Bo

Independent Non-executive Directors

Lam Williamson (appointed on 5 February 2007)
Mak Wai Fong (appointed on 21 March 2007)

The Compensation Committee has been held for once during the financial year of 2006. Details of the attendance of the Compensation Committee meeting are as follows:

Committee members	Attendance
Executive Director	
Cheng Qing Bo	1/1
Independent Non-executive Directors	
Tam B Ray Billy (resigned on 31 December 2006)	1/1
Woo Man Wah (resigned on 5 February 2007)	1/1
Lo Kin Chung (resigned on 21 March 2007)	1/1

The Compensation Committee proposed to the chairman relating to the remuneration of other executive directors. The Compensation Committee also recommended to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference to review the structure, size and composition of the Board, identifying individuals suitable and qualified to become Board members and selecting or making recommendations to the Board on the election of, individuals nominated for directorship. The nomination committee comprises at least three members, the majority of whom shall be independent non-executive Directors. The current members of the nomination committee are Mr. Cheng Qing Bo, Mr. Lam Williamson and Ms. Mak Wai Fong.

FINANCE COMMITTEE

The Company established a finance committee with written terms of reference to review and approve banking facilities to be granted or issued by the Company, provision of corporate guarantees by the Company for its subsidiaries and opening of bank or securities related accounts. The finance committee comprises at least three members. The current members of the finance committee are Mr. Cheng Qing Bo, Mr. Lam Williamson and Ms. Mak Wai Fong.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee"). The primary duties of the Audit Committee is to communicate with the management of the Company from time to time, including but not limited to review the accounting principles and practices adopted by the Company, the effectiveness of its internal control systems, the interim and annual results of the Company. The Audit Committee is also responsible for considering the appointment, re-appointment and removal of the external auditors and reviewing the impairment to its independency with any non-audit services performed by the external auditors.

As at the date of this report, members of Audit Committee, which are all Independent Non-executive Directors, are as follows:

Lam Williamson (appointed on 5 Febaruary 2007)
Mak Wai Fong (appointed on 21 March 2007)
Liu Zheng Hao

The Audit Committee held four meetings during the financial year of 2006. Details of the attendance of the Audit Committee meetings are as follows:

Committee members	Attendance
Tam B Ray Billy (resigned on 31 December 2006)	3/3
Lo Kin Chung (appointed on 22 March 2006 and resigned on 21 March 2007)	3/3
Woo Man Wah (appointed on 22 March 2006 and resigned on 5 February 2007)	3/3
Liu Zheng Hao	3/4
Lam Williamson (appointed on 5 Febaruary 2007)	0/0
Mak Wai Fong (appointed on 21 March 2007)	0/0

The Company's unaudited first quarterly results for the three months ended 31 March 2006, interim results for the six months ended 30 June 2006, third quarterly results for the nine months ended 30 September 2006 and audited annual results for the financial year ended 31 December 2006 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results have been complied with the applicable accounting standards.

AUDITORS'S REMUNERATION

The Company's external auditors are Patrick Ng & Company. The audit fee of the Company for the year ended 31 December 2006 amounted to HK$600,000.

INTERNAL CONTROL REVIEW

Proper internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to manage risk exposure of the Company. The Company is committed to the risk identification, risk assessment, evaluation of internal control system and monitoring of remediation plan to control deficiencies. The Audit Committee has met with the management of the Company on a regular basis to review the existing internal control practice.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The responsibilities of the Directors and Auditors are set out on pages 27 to 28 of this Annual Report. The Directors acknowledge their responsibility to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the Company, and present the interim results, annual financial statements, and announcements to the Shareholders. The Directors aim to present a fair and reasonable assessment of the Company's position and prospects to the Shareholders and the relevant information required under the GEM Listing Rules. As the Board is not aware of any material uncertainties relating to the events or conditions that may cause any significant doubt upon the going concern of the Company, the Board therefore continues to adopt the going concern approach in preparing the financial statements for the financial year of 2006.

COMMUNICATIONS WITH SHAREHOLDERS

Individual resolution has been proposed by the Chairman in the general meeting in response to each substantial issue.

The Chairman, the chairman of Audit Committee and Compensation Committee, in the absence of the chairman of such committees, another member of the committee attended and were available to answer questions in the annual general meeting and extraordinary general meeting.

VOTING BY POLL

In order to ensure compliance with the requirements on the poll voting procedures, the Company informs the Shareholders in respect of the procedures for voting by poll and the rights of the Shareholders to demand a poll in accordance with the article 66 of the Articles of Association of the Company.

REPORT OF THE DIRECTORS

The Directors are pleased to submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 36 to the consolidated financial statements.

As the entire consolidated turnover and trading results of the Group are derived from the manufacture and sale of ceramic blanks and ferrules, an analysis of the consolidated trading results of the Group by business segments is not presented.

An analysis of the Group's performance for the year by business segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 31 of this annual report.

No interim dividend was paid during the year (2005: Nil). The directors do not recommend the payment of any final dividend for the year ended 31 December 2006 (2005: Nil).

SHARE CAPITAL

Details of share capital and share options of the Company are set out in notes 26 and 28 to the consolidated financial statements respectively.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 27 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

Pursuant to the Companies Law (Revised) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is distributable to the shareholders, subject to a solvency test. At 31 December 2006, in the opinion of the Directors, the Company's reserves available for distribution to shareholders amount to approximately HK$10,808,000 (2005: HK$15,524,000), representing the aggregate of share premium of approximately HK$61,597,000 (2005: HK$61,597,000) and accumulated losses of approximately HK$50,789,000 (2005: HK$46,073,000).

FIVE-YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for the five years ended 31 December 2006:

	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**30,685**	711	7,076	9,591	9,018
Profit/(loss) attributable to shareholders	**5,481**	(15,675)	(16,090)	(47,658)	(35,917)
Total assets	**126,661**	93,030	95,729	113,857	186,598
Total liabilities	**(53,020)**	(43,607)	(45,598)	(47,637)	(84,849)
Net assets	**73,641**	49,423	50,131	66,220	101,749

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

PRE-EMPTIVE RIGHTS

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

DONATIONS

There are no charitable and other donations made by the Group during the year (2005: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

STAFF RETIREMENT BENEFITS

Details of staff retirement benefits are set out in note 33 to the consolidated financial statements.

BORROWINGS AND PLEDGE OF ASSETS

As at 31 December 2006, the Group had neither bank borrowings nor assets pledged to fund/loan providers.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 28 to the consolidated financial statements.

No share option was granted or exercised during the year.

DIRECTORS

The Directors during the financial year and subsequently were:

Executive Directors

Mr. Cheng Qing Bo	(re-designated as executive Director on 18 April 2006)
Mr. Tung Tai Yung	(appointed on 9 October 2007)
Mr. Wong Hon Kit	(resigned on 31 December 2006)
Ms. Li Fang	

Non-executive Director

Mr. Lin Nan

Independent Non-executive Directors

Mr. Liu Zheng Hao	
Mr. Wan Ho Yuen, Terence	(resigned on 23 March 2006)
Mr. Tam B Ray Billy	(resigned on 31 December 2006)
Mr. Lo Kin Chung	(appointed on 22 March 2006 and resigned on 21 March 2007)
Ms. Woo Man Wah	(appointed on 22 March 2006 and resigned on 5 February 2007)
Mr. Lam Williamson	(appointed on 5 February 2007)
Ms. Mak Wai Fong	(appointed on 21 March 2007)

In accordance with Article 87 of the Company's Articles of Association, Ms. Li Fang, Mr. Lin Nan and Mr. Liu Zheng Hao retire and, being eligible, offer themselves for re-election in the upcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

No Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on Growth Enterprise Market (the "GEM Listing Rules"). The Company considers that they are independent under Rule 5.09 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the transactions as disclosed in note 29 to the consolidated financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any directors 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.

DISCLOSURE OF INTERESTS

Directors and Chief Executive's Interests in Securities

As at 31 December 2006, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance, the Laws of Hong Kong (the "SFO") which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors, were as follows:

(i) Long positions in Shares

Name of Directors	Number of Shares	Capacity	Type of Interest	Approximate percentage of issued share capital (%)
Mr. Cheng Qing Bo ("Mr. Cheng")	180,000,000 *(Note 1)*	Beneficial owner	Corporate	24.89 *(Note 2)*

Notes:

1. These Shares are held by Bright Castle Investments Limited ("Bright Castle"), which is wholly owned by Mr. Cheng, Mr. Cheng is therefore deemed to be interested in 24.89% of the issued share capital of the Company.

2. The percentage of issued shares had been arrived at on the basis of a total of 723,087,310 shares of the Company in issue as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors.

(ii) Long positions in underlying Shares of equity derivatives of the Company

No share option was granted or exercised during the year.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executives of the Company or their respective spouses or children under 18 years of age had any right to subscribe for the Shares or any share of its associated corporations.

(iii) Short positions in the Shares and underlying Shares of equity derivatives of the Company

Saved as disclosed herein, as at 31 December 2006, none of the Directors had short positions in Shares or underlying Shares of equity derivatives of the Company.

Interests of Substantial Shareholders in Securities

As far as was known to any Director or chief executive of the Company, as at 31 December 2006, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(i) Long positions in Shares

Name of Shareholder	Number of Shares	Capacity	*(Note 2)* Approximate percentage of issued share capital (%)
Bright Castle	180,000,000 *(Note 1)*	Other	24.89%

Notes:

1. see Note 1 on page 21

2. see Note 2 on page 21

Save as disclosed above, as at 31 December 2006, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

(ii) Short positions in the Shares and underlying Shares of equity derivatives of the Company

As far as the Directors are aware, save as disclosed herein, as at 31 December 2006, no persons had short positions in Shares or underlying Shares of equity derivatives of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

Share options are granted to the Directors under the 2002 Share Option Scheme. Please refer to details under the paragraph headed "Share option scheme" above.

Save as disclosed above, at no time during the year ended 31 December 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

Related party transactions as disclosed in note 29 to the consolidated financial statements, which also constitute connected transactions under the GEM Listing Rules, required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules:

During the year, the group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the GEM Listing Rules. The transactions during the year and balances with them at the balance sheet, are as follows:

Name of party	**Nature of transactions**	**2006**	2005
		HK$'000	*HK$'000*
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") *(note i)*	Sales made by the Group *(note ii)*	**–**	553
	Royalty fee received by the Group *(note iii)*	**–**	3,119
	Purchase of plant and equipment *(note iv)*	**15,000**	–

It is opined that the above transactions were entered into on normal commercial terms.

Notes:

i Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company

ii These transactions were carried out with reference to market price or, where no market price was available, at terms determined and agreed by both parties.

iii The Royalty were charge in accordance with the relevant royalty agreed by both parties.

iv The purchase price was set out in the sale and purchase agreement agreed by both parties.

The independent non-executive Directors confirm that the above transactions had been conducted on normal commercial terms, and are in accordance with the underlying agreements, the terms of which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's turnover and purchases attributable to the major customers and suppliers during the financial year is as follows:

	Percentage of the Group's total	
	Turnover	**Purchases**
The largest customer	22%	–
Five largest customers in aggregate	64%	–
The largest supplier	–	18%
Five largest suppliers in aggregate	–	42%

At no time during the year have the Directors, their respective associates and any Shareholder (who to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) had any interest in any of the five largest customers and suppliers of the Group.

COMPETING INTERESTS

During the year and up to the date of this report, the Directors are not aware of any business or interest of each of the Directors, substantial shareholder and management Shareholders (as defined in the GEM Listing Rules) and their respective associates that competes or may compete with the business of the Group or any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee has met regularly to review with management the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The audit committee comprises three independent non-executive directors, namely Mr. Lam Williamson, Ms. Mak Wai Fong and Mr. Liu Zheng Hao. The Group's annual results for the year ended 31 December 2006 have been reviewed by the audit committee.

COMPENSATION COMMITTEE

The Company established a compensation committee with written terms of reference to determine policy and structure for the remuneration of directors and senior management of the Company, assessing their performance and approving the terms of their service contracts. The compensation committee comprises at least three members, the majority of whom shall be independent non-executive Directors. The current members of the compensation committee are Mr. Cheng Qing Bo, Mr. Lam Williamson and Ms. Mak Wai Fong.

NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference to review the structure, size and composition of the Board, identifying individuals suitable and qualified to become Board members and selecting or making recommendations to the Board on the election of, individuals nominated for directorship. The nomination committee comprises at least three members, the majority of whom shall be independent non-executive Directors. The current members of the nomination committee are Mr. Cheng Qing Bo, Mr. Lam Williamson and Ms. Mak Wai Fong.

FINANCE COMMITTEE

The Company established a finance committee with written terms of reference to review and approve banking facilities to be granted or issued by the Company, provision of corporate guarantees by the Company for its subsidiaries and opening of bank or securities related accounts. The finance committee comprises at least three members. The current members of the finance committee are Mr. Cheng Qing Bo, Mr. Lam Williamson and Ms. Mak Wai Fong.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintain high standards of corporate governance for the Company. During the year, the Company is in compliance with the CG Code as set out in Appendix 15 to the GEM Listing Rules except provisions A. 2.1 and A.4.1 of the CG Code as detailed below:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual, Mr. Cheng Qing Bo is currently the Chairman and the chief executive officer of the Company. The Board considers that the combination of the roles can effectively formulate and implement the Company's strategies, and that under the supervision of the Board as well as the independent non-executive Directors, the interest of the Shareholders would be adequately and fairly represented.

REPORT OF THE DIRECTORS

Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors are not appointed for specific terms, but are subject to retirement and re-election

The current practices of the corporate governance of the Company will be reviewed and updated in a timely manner in order to comply with the requirements of the CG Code.

AUDITORS

The Group's financial statements for the years ended 31 December 2004 and 2005 were audited by Messrs KLL Associates CPA Limited and Homan CPA Limited respectively.

On 24 September 2007, Patrick Ng & Company, Certified Public Accountants was nominated as the auditors of the Company and be approved and appointed in the extra-ordinary general meeting held on 9 October 2007.

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint the auditors, Patrick Ng & Company, Certified Public Accountants.

On behalf of the Board

Cheng Qing Bo
Chairman

Hong Kong, 24 October 2007

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF
INTCERA HIGH TECH GROUP LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Intcera High Tech Group Limited set out on pages 29 to 71, 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. This report is made 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 the 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 consolidated financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 profit 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.

PATRICK NG & COMPANY
Certified Public Accountants
20/F., Hong Kong Trade Centre,
161-167 Des Voeux Road,
Central, Hong Kong,
Hong Kong S.A.R., China

23 October 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
TURNOVER	5	**30,685**	711
COST OF SALES		**(17,814)**	(536)
		12,871	175
OTHER REVENUE	5	**7,867**	3,195
SELLING AND DISTRIBUTION EXPENSES		**–**	(43)
ADMINISTRATIVE EXPENSES		**(3,834)**	(3,738)
DEPRECIATION FOR PROPERTY, PLANT AND EQUIPMENT		**(77)**	(9,682)
OTHER OPERATING EXPENSES		**(7,624)**	(4,050)
PROFIT/(LOSS) FROM OPERATIONS	7	**9,203**	(14,143)
FINANCE COSTS	8	**(1,750)**	(1,532)
PROFIT/(LOSS) BEFORE TAX		**7,453**	(15,675)
INCOME TAX EXPENSE	10	**(1,972)**	–
PROFIT/(LOSS) FOR THE YEAR		**5,481**	(15,675)
		HK cents	*HK cents*
Earnings/(loss) per share	13		
– Basic		**0.76**	(2.17)
– Diluted		**0.76**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**96,563**	65,475
Available-for-sale financial assets	*16*	**146**	200
		96,709	65,675
CURRENT ASSETS			
Inventories	*17*	**3,483**	–
Trade and other receivables	*19*	**25,095**	7,941
Due from a related company	*20*	**175**	18,709
Cash and bank balances	*21*	**1,199**	705
TOTAL CURRENT ASSETS		**29,952**	27,355
CURRENT LIABILITIES			
Trade and other payables	*22*	**(11,596)**	(13,551)
Due to a director	*23*	**(4,885)**	(1,536)
Tax payable		**(1,972)**	–
TOTAL CURRENT LIABILITIES		**(18,453)**	(15,087)
NET CURRENT ASSETS		**11,499**	12,268
TOTAL ASSETS LESS CURRENT LIABILITIES		**108,208**	77,943
NON-CURRENT LIABILITIES			
Convertible bonds	*24*	**(25,640)**	(26,564)
Deferred tax liabilities	*25*	**(8,927)**	(1,956)
TOTAL NON-CURRENT LIABILITIES		**(34,567)**	(28,520)
NET ASSETS		**73,641**	49,423
CAPITAL AND RESERVES			
Share capital	*26*	**7,231**	7,231
Reserves	*27*	**66,410**	42,192
TOTAL EQUITY		**73,641**	49,423

Cheng Qing Bo	**Tung Tai Yung**
Chairman	*Executive Director*

COMPANY BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Investment in subsidiaries	15	**–**	–
CURRENT ASSETS			
Due from subsidiaries	18	**46,889**	58,034
Trade and other receivables	19	**10,256**	7,200
Due from a related company	20	**9,483**	9,483
Cash and bank balances	21	**2**	5
TOTAL CURRENT ASSETS		**66,630**	74,722
CURRENT LIABILITIES			
Trade and other payables	22	**(5,437)**	(10,027)
Due to a director	23	**(6,076)**	(6,015)
Due to a shareholder	23	**(7,000)**	(7,000)
TOTAL CURRENT LIABILITIES		**(18,513)**	(23,042)
NET CURRENT ASSETS		**48,117**	51,680
NON-CURRENT LIABILITIES			
Convertible bonds	24	**(25,640)**	(26,564)
Deferred tax liabilities	25	**(550)**	(242)
TOTAL NON-CURRENT LIABILITIES		**(26,190)**	(26,806)
NET ASSETS		**21,927**	24,874
CAPITAL AND RESERVES			
Share capital	26	**7,231**	7,231
Reserves	27	**14,696**	17,643
TOTAL EQUITY		**21,927**	24,874

Cheng Qing Bo
Chairman

Tung Tai Yung
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Translation reserve *HK$'000*	Revaluation reserve *HK$'000*	Convertible bonds reserve *HK$'000*	Accumulated losses *HK$'000*	Total Equity *HK$'000*
At 1 January 2005	7,231	61,597	1	–	1,948	(18,698)	52,079
Exchange differences arising on translation of financial statements outside Hong Kong	–	–	18	–	–	–	18
Surplus on revaluation of property, plant and equipment	–	–	–	14,563	–	–	14,563
Deferred tax liability on revaluation of property, plant and equipment	–	–	–	(1,714)	–	–	(1,714)
Reversal of deferred tax liability on the convertible bonds	–	–	–	–	171	–	171
Loss for the year	–	–	–	–	–	(15,675)	(15,675)
Disposal of a subsidiary	–	–	(19)	–	–	–	(19)
At 31 December 2005 and at 1 January 2006	7,231	61,597	–	12,849	2,119	(34,373)	49,423
Exchange differences arising on translation of financial statements outside Hong Kong	–	–	117	–	–	–	117
Fair value adjustment on convertible bonds	–	–	–	–	2,077	–	2,077
Reversal of deferred tax liability on the convertible bonds	–	–	–	–	(308)	–	(308)
Surplus on revaluation of property, plant and equipment	–	–	–	23,514	–	–	23,514
Deferred tax liability on revaluation of property, plant and equipment	–	–	–	(6,663)	–	–	(6,663)
Profit for the year	–	–	–	–	–	5,481	5,481
At 31 December 2006	**7,231**	**61,597**	**117**	**29,700**	**3,888**	**(28,892)**	**73,641**

In the opinion of the directors, the revaluation reserve and convertible bonds reserve are not available for distribution.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before tax	**7,453**	(15,675)
Adjustments for:		
Finance costs	**1,750**	1,532
Interest received	**(1)**	(12)
Depreciation and amortization of property, plant and equipment	**77**	9,682
Gain on disposal of subsidiary	**–**	(19)
Impairment in value of club membership	**54**	630
Loss on disposal of property, plant and equipment	**219**	46
Allowance for bad and doubtful debts	**–**	682
Interest on convertible bonds written back	**(1,643)**	–
Operating on profit/(loss) before changes in working capital	**7,909**	(3,134)
Increase in inventories	**(3,483)**	–
Increase in trade and other receivables	**(21,154)**	(2,981)
Decrease/(increase) in amount due from a related company	**18,534**	(20,837)
(Decrease)/increase in trade and other payables	**(861)**	1,014
Increase/(decrease) in amount due from a director	**3,349**	(1,997)
Net cash generated from/(used in) operating activities	**4,294**	(27,935)
INVESTING ACTIVITIES		
Interest received	**1**	12
Proceeds on disposal of property, plant and equipment	**–**	25
Purchase of property, plant and equipment	**(3,870)**	–
Net cash (used in)/generated from investing activities	**(3,869)**	37
FINANCING ACTIVITIES		
Interest paid	**(48)**	(7)
Net cash used in financing activities	**(48)**	(7)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**377**	(27,905)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**705**	28,592
Effect of foreign exchange rate changes	**117**	18
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,199**	705
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**1,199**	705

1. GENERAL

The Company is incorporated in Cayman Islands as an exempted company with limited liability and its shares are listed on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In December 2005, the Company had been placed in the third stage of delisting procedures pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Group is mainly Hong Kong dollars ("HKD") which is the same as the presentation currency of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior years.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures(1)
HKAS 23 (Revised)	Borrowing Costs(2)
HKFRS 7	Financial Instruments: Disclosures(1)
HKFRS 8	Operating Segments(2)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives(3)
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment(4)
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions(5)
HK(IFRIC)-Int 12	Service Concession Arrangements(6)

(1) *Effective for annual periods beginning on or after 1 January 2007*
(2) *Effective for annual periods beginning on or after 1 January 2009*
(3) *Effective for annual periods beginning on or after 1 June 2006*
(4) *Effective for annual periods beginning on or after 1 November 2006*
(5) *Effective for annual periods beginning on or after 1 March 2006*
(6) *Effective for annual periods beginning on or after 1 January 2008*

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of financial statements

The consolidated financial statements have been prepared on the historical cost basis, except for property, plant and equipment and financial instruments, which are measured at fair value.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year made up to 31 December 2006.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiary

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern 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 enterprise.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

(ii) Rental income under operating leases is recognized on a straight-line basis over the term of the relevant lease.

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

(iv) Dividend income is recognized when the shareholder's right to receive payment is established.

(v) Royalty income is recognized on a time proportion basis accordance with the terms and conditions of the royalty agreement.

(g) Leasing

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

The Group as lessor

Rental income from operating leases is recognized in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as lessee

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefit received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity or paternity leaves are not recognized until the time of leave.

(ii) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme set up pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF" Scheme) for all qualifying employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) Share – based payments

The Group operates equity-settled share-based payments to directors, employees and other parties.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in a capital reserve within equity, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Property, plant and equipment

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

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Leasehold improvements	33⅓%
Plant and machinery	11%
Furniture, fixtures and office equipment	20% – 33%
Motor vehicles	25%

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the income statement tot the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent derecognition of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognized.

(m) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment of tangible and intangible assets excluding goodwill *(continued)*

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

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

(n) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade receivables

Trade receivables are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Financial instruments *(continued)*

(ii) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Financial instruments *(continued)*

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iv) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(v) Convertible bonds

Convertible bonds that consist of a liability and an equity components are regarded as compound instruments. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

(vi) Trade payables

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Financial instruments *(continued)*

(vii) Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(p) Provisions and contingent liabilities

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

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

(q) Related parties

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

(i) The party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Related parties *(continued)*

(ii) The party is an associate;

(iii) The party is a jointly-controlled entity;

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

(v) The party is a close member of the family of any individual referred to in (i) or (iv); or

(vi) 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 (iv) or (v).

(r) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowing, tax balances, corporate and financing expenses.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

Estimated recoverability of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provision at each balance sheet date.

Property, plant and equipment

The Group's management determines the estimated useful lives and residual values for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

The Group's plant and machinery included in the property, plant and equipment of HK$96,500,000 were stated at fair market value in accordance with the accounting policy stated in note 3. The fair market value of plant and machinery included in the property, plant and equipment are determined by GA Appraisal Limited, a firm of independent property valuers and the fair value of property, plant and equipment as at respective year end were set out in note 14. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalization rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Income tax

The Group is subject to income taxes in Hong Kong and PRC jurisdictions. Recognition of deferred tax assets, which principally related to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilized. The outcome of their actual utilization may be different.

5. REVENUE

(a) An analysis of the Group's turnover for the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of goods	**30,685**	711

(b) An analysis of the Group's other revenue for the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Bank interest income	**1**	12
Gain on disposal of a subsidiary	**–**	19
Interest on convertible bonds written back	**1,643**	–
Rental income	**5,000**	–
Royalty fee	**–**	3,119
Sundry income	**1,223**	45
	7,867	3,195

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(i) Business segments

The following continuing operations are the basis on which the Group reports its primary segment information. There are no sales or other transactions between the business segments.

Income statement

	Manufacturing and trading of ceramic blanks and ferrules	
	2006	2005
	HK$'000	*HK$'000*
Revenue	**30,685**	711
Segment results	**14,107**	(1,026)
Unallocated corporate income	**2,173**	3,150
Unallocated corporate expenses	**(7,077)**	(16,267)
Finance costs	**(1,750)**	(1,532)
Income tax expense	**(1,972)**	–
Profit/(loss) for the year	**5,481**	(15,675)

Other information

	Manufacturing and trading of ceramic blanks and ferrules	
	HK$'000	*HK$'000*
Capital expenditure	**651**	–
Depreciation	**–**	231
Impairment loss on trade receivables	**–**	–

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(i) Business segments *(Continued)*

Balance sheet

	Manufacturing and trading of ceramic blanks and ferrules	
	2006	2005
	HK$'000	*HK$'000*
Assets		
Segment assets	**53,166**	2,695
Unallocated assets	**73,495**	90,335
Total assets	**126,661**	93,030
Liabilities		
Segment liabilities	**1,818**	6,273
Unallocated liabilities	**51,202**	37,334
Total liabilities	**53,020**	43,607

(ii) Geographical segments

No geographical segment information of the Group is shown as the Group's operations, turnover by geographical market and assets are wholly located in Hong Kong and the People's Republic of China ("PRC").

7. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations of the Group has been arrived at after charging the followings:

	2006	2005
	HK$'000	*HK$'000*
Staff costs (including directors' remuneration – note 9):		
Salaries and allowances	**4,205**	2,029
Mandatory provident fund contributions	**152**	58
	4,357	2,087
Depreciation for property, plant and equipment	**77**	9,682
Auditors' remuneration		
– current year	**600**	650
– underprovision in prior year	**–**	100
	600	750
Allowance for bad and doubtful debts	**–**	682
Cost of inventories recognized as expenses	**17,814**	536
Impairment for club debenture	**54**	630
Loss on disposal of property, plant and equipment	**219**	46
Operating lease rentals in respect of land and buildings	**1,241**	376

8. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within 5 years	**–**	7
Interest on convertible bonds	**1,702**	1,525
Other interest	**48**	–
	1,750	1,532

9. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

2006

		Other emoluments		
	Fees	Salaries and other benefits	MPF contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Cheng Qing Bo	96	–	–	96
Wong Hon Kit *(note i)*	324	140	–	464
Li Fang	96	–	–	96
Non-executive Director				
Lin Nan	84	–	–	84
Independent Non-executive Directors				
Liu Zheng Hao	20	–	–	20
Lo Kin Chung *(note ii)*	78	–	–	78
Woo Man Wah *(note iii)*	78	–	–	78
Wan Ho Yuen Terence *(note iv)*	25	–	–	25
Tam B Ray Billy *(note v)*	100	–	–	100
	901	140	–	1,041

Note:

i) Mr. Wong Hon Kit resigned on 31 December 2006.

ii) Mr. Lo Kin Chung appointed on 22 March 2006 and resigned on 31 March 2007.

iii) Ms. Woo Man Wah appointed on 22 March 2006 and resigned on 5 February 2007.

iv) Mr. Wan Ho Yuen Terence resigned on 23 March 2006.

v) Mr. Tam B Ray Billy resigned on 31 December 2006.

9. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS *(continued)*

(i) Directors' emoluments *(continued)*

2005

		Other emoluments		
	Fees	Salaries and other benefits	MPF contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Cheng Qing Bo	96	–	–	96
Wong Hon Kit *(note i)*	203	117	–	320
Tung Tai Yung *(note ii)*	32	–	–	32
Li Fang	63	–	–	63
Hu Xue Jun *(note iii)*	32	–	–	32
King Chun Kong, Karl *(note iii)*	32	–	–	32
Non-executive Directors				
Lin Nan	180	–	–	180
Hu Shiang-Chi *(note iii)*	32	–	–	32
Independent Non-executive Directors				
Lai Kin Wai *(note iii)*	21	–	–	21
Wu Min *(note iii)*	32	–	–	32
Liu Zheng Hao	20	–	–	20
Wan Ho Yuen, Terence	66	–	–	66
Tam B Ray Billy	66	–	–	66
	875	117	–	992

Note:

i) Mr. Wong Hon Kit appointed on 29 April 2005.

ii) Mr. Tung Tai Yung resigned on 1 May 2005.

iii) Mr. Hu Xue Jun, Mr. King Chun Kong, Karl, Mr. Hu Shiang-Chi, Mr. Lai Kin Wai, Mr. Wu Min resigned on 29 April 2005.

During the two years ended 31 December 2006, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments for the two years ended 31 December 2006, except, on 31 March 2005, Mr. Tung Tai Yung has waived his right of 600,000 options at the exercise price of HK$0.731, which granted on 20 July 2000.

During the year, no share option was granted to the directors.

9. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS *(continued)*

(ii) Five highest paid employees

During the year, the five highest paid individuals included three directors (2005: two), details of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	**342**	466
Retirement benefits scheme contributions	**8**	–
	350	466

Emoluments of the non-director highest paid individuals fell within the following bands:

	Number of individuals	
	2006	2005
HK$Nil to HK$1,000,000	**2**	3

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in or derived from Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The taxation on the Group's profit/ (loss) for the year differs from the theoretical amount that would arise using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge/ (credit) at the effective tax rates are as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before tax	**7,453**	(15,675)
Taxation at the notional rate	**2,241**	(2,743)
Tax effect of income not taxable	**(1,431)**	(552)
Tax effect of expenses not deductible for taxation purpose	**–**	2,190
Tax effect of estimated tax losses not recognized for the year	**1,162**	1,105
	1,972	–

11. DISPOSAL OF SUBSIDIARIES

On 30 November 2005, the Group disposed its wholly-owned subsidiary, 大陶精密科技(深圳)有限公司 at the consideration of HK$1 and the settlement of amount due from an immediate holding company. The net assets of 大陶精密科技(深圳)有限公司 at the date of disposal was as follows:

	2005
	HK$'000
Amount due from an immediate holding company	935
Net assets disposed of	935
Translation reserve realized	(19)
Gain on disposals of subsidiary	19
Total consideration	935
Satisfied by:	
Cash	–
Amount due from an immediately holding company	935
	935
Cash outflow arising on disposal:	
Cash consideration received	–
Cash and cash equivalents disposed of	–
	–

The subsidiary disposed during the year ended 31 December 2005 did not contribute significantly to the turnover, operating results or cash flows of the Group.

12. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2005: Nil)

13. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share is calculated based on the profit/(loss) attributable to shareholders of HK$5,481,000 (2005: loss HK$15,675,000) and the weighted average number of 723,087,310 (2005: 723,087,310) ordinary shares in issue during the year.

The diluted earnings per share for the years ended 31 December 2006 and 31 December 2005 has not been disclosed as the exercise price of the Company's convertible bonds were higher than the average market price for shares and there was no outstanding share option.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office Equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Cost or valuation					
At 1 January 2005	1,331	26,741	1,324	104	29,500
Transfer	–	58,982	–	–	58,982
Disposal	–	–	–	(104)	(104)
Adjustment on valuation	–	(20,337)	–	–	(20,337)
At 31 December 2005 and at 1 January 2006	1,331	65,386	1,324	–	68,041
Additions	37	7,819	14	–	7,870
Disposal	(117)	(219)	–	–	(336)
Adjustment on valuation	–	23,514	–	–	23,514
At 31 December 2006	1,251	96,500	1,338	–	99,089
Comprising					
At cost	1,251	–	1,338	–	2,589
At valuation – 2006	–	96,500	–	–	96,500
	1,251	96,500	1,338	–	99,089
Accumulated depreciation and impairment losses					
At 1 January 2005	1,258	3,467	1,178	24	5,927
Charge for the year	39	2,990	91	9	3,129
Written back on disposal	–	–	–	(33)	(33)
Transfer	–	28,443	–	–	28,443
Adjustment on valuation	–	(34,900)	–	–	(34,900)
At 31 December 2005 and at 1 January 2006	1,297	–	1,269	–	2,566
Charge for the year	36	–	41	–	77
Written back on disposal	(117)	–	–	–	(117)
At 31 December 2006	1,216	–	1,310	–	2,526
Net carrying amount					
At 31 December 2006	35	96,500	28	–	96,563
At 31 December 2005	34	65,386	55	–	65,475

The Group's property, plant and equipment were revalued at HK$96,500,000 as at 31 December 2006 (2005: 65,386,000) by GA Appraisal Limited, independent qualified valuers, by using fair market value.

15. INVESTMENT IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**16**	16
Less: impairment losses	**(16)**	(16)
	–	–

Details of principal subsidiaries as at 31 December 2006, which materially affected the Group's results or net assets, are set out in note 36.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial asset represents club debenture held by a subsidiary and is stated at cost less any accumulated impairment losses, and is tested annually for impairment.

	Group
	HK$'000
Cost	
At 1 January 2005, 31 December 2005 and at 31 December 2006	830
Amortisation and impairment	
At 1 January 2005	–
Impairment	630
At 31 December 2005 and at 1 January 2006	630
Impairment	54
At 31 December 2006	684
Net carrying amounts	
At 31 December 2006	146
At 31 December 2005	200

17. INVENTORIES

Inventories comprises of:–

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**1,872**	–
Work in progress	**80**	–
Finished goods	**1,531**	–
	3,483	–

18. DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**8,905**	–	**–**	–
Other receivables, deposits and prepayment	**16,190**	7,941	**10,256**	7,200
	25,095	7,941	**10,256**	7,200

The aging analysis of trade receivables is as follows

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 30 days	**2,733**	–	**–**	–
31 to 90 days	**3,339**	–	**–**	–
91 to 180 days	**1,664**	–	**–**	–
Over 180 days	**1,169**	–	**–**	–
	8,905	–	**–**	–

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20. DUE FROM A RELATED COMPANY

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

The Group

Name of related company	At 31 December 2006 *HK$'000*	At 31 December 2005 *HK$'000*	At 1 January 2005 *HK$'000*	Maximum amount Outstanding during the year 2006 *HK$'000*	Maximum amount Outstanding during the year 2005 *HK$'000*
Shenzhen Weiyi Optical Communication Technology Limited	175	18,709	–	18,709	18,709

The Company

Name of related company	At 31 December 2006 *HK$'000*	At 31 December 2005 *HK$'000*	At 1 January 2005 *HK$'000*	Maximum amount Outstanding during the year 2006 *HK$'000*	Maximum amount Outstanding during the year 2005 *HK$'000*
Shenzhen Weiyi Optical Communication Technology Limited	9,483	9,483	–	9,483	9,483

The amount due from a related company is unsecured, interest free and has no fixed terms of repayment.

Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company.

21. CASH AND BANK BALANCES

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**1,134**	470	**–**	–
Temporary deposits, accruals and other payables	**10,462**	13,081	**5,437**	10,027
	11,596	13,551	**5,437**	10,027

The aging analysis of trade payable is as follows: –

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 30 days	**601**	130	**–**	–
31 to 90 days	**468**	1	**–**	–
91 to 180 days	**65**	–	**–**	–
Over 360 days	**–**	339	**–**	–
	1,134	470	**–**	–

The directors consider that the carrying amount of trade and other payables approximates their fair value.

23. DUE TO A DIRECTOR/A SHAREHOLDER

The amount due to a director/a shareholder is unsecured, interest free and has no fixed terms of repayment.

24. CONVERTIBLE BONDS

On 31 October 2002, the Company issued convertible bonds (the "Convertible Bonds") with principal amount of HK$27,400,000 which were originally due and mature on 31 October 2003. The Company will repay the principal amount outstanding under the Convertible Bonds to the bondholders together with interest accrued thereon up to and including the date of actual repayment upon maturity. The Convertible Bonds bear interest at a rate of 2% per annum on the aggregate principal amount outstanding from time to time. The interest is payable yearly in arrears on 31 December in each year. The Convertible Bonds carry the rights to convert, at the discretion of the bondholders, either in whole or in part of the principal amount into ordinary shares of the Company at the initial conversion price of HK$0.17 per share (subject to adjustments), from 1 November 2002 to the maturity date of 31 October 2003.

24. CONVERTIBLE BONDS *(continued)*

On 1 November 2003, the Company entered into agreements with the bondholders to extend the maturity date to 31 October 2005, with the existing terms and conditions remained unchanged.

On 28 December 2004, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2006, with the existing terms and conditions remained unchanged.

On 26 December 2005, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2007, with the existing terms and conditions remained unchanged. Accordingly, the amount is classified as non-current at 31 December 2005.

On 31 July 2006, the Company entered into agreements with the bondholders to extend the maturity date to 30 June 2008, with the existing terms and conditions remained unchanged. Accordingly, the amount is classified as non-current at 31 December 2006.

On 28 September 2007, the Company entered into agreements with the bondholders to extend the maturity date to 31 December 2009, with the existing terms and conditions remained unchanged.

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
Liability component at the beginning of the year	**26,564**	25,039
Interest expenses	**1,702**	1,525
Fair value adjustments	**(2,077)**	–
Interest waived	**(549)**	–
Liability component at the end of the year	**25,640**	26,564

The interest charged for the year is calculated by applying an effective interest rate of 7.24% per cent (2005: 6.09%) to the liability component for the year since the convertible bonds were issued.

The directors estimate the fair value of the liability component of the convertible bonds at 31 December 2006 to be approximately HK$25.6 million (2005: HK$26.5 million). This fair value has been calculated by discounting the future cash flows at the market rate.

25. DEFERRED TAX LIABILITIES

The Group

	Accelerated tax depreciation	Convertible bonds-equity component	Revaluation of plant and equipment	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	178	413	–	(178)	413
Charge (credit) to the profit or loss for the year	5,310	–	–	(5,310)	–
Charge to equity for the year	–	(171)	1,714	–	1,543
At 31 December 2005 and at 1 January 2006	5,488	242	1,714	(5,488)	1,956
Charge to equity for the year	–	308	6,663	–	6,971
At 31 December 2006	5,488	550	8,377	(5,488)	8,927

The following is the analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2006	2005
	HK$'000	*HK$'000*
Deferred tax liabilities	**14,415**	7,444
Deferred tax assets	**(5,488)**	(5,488)
	8,927	1,956

At the balance sheet date, the Group has unused tax losses of HK$72,051,000 (2005: 72,051,000) available for offset against future profits. A deferred tax asset has been recognized in respect of HK$31,363,000 (2005: HK$31,363,000) of such losses. No deferred tax asset has been recognized in respect of the remaining HK$40,688,000 (2005: HK$40,688,000) due to the unpredictability of future profits streams. All losses may be carried forward indefinitely subject to the approvals of tax authorities in respective jurisdictions.

25. DEFERRED TAX LIABILITIES *(continued)*

The Company

	Convertible bonds-equity component
	HK$'000
At 1 January 2005	413
Credit to equity for the year	(171)
At 31 December 2005 and at 1 January 2006	242
Charge to equity for the year	308
At 31 December 2006	550

26. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
At 1 January, 2005, at 31 December 2005 and at 31 December 2006	50,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2005, at 31 December 2005 and at 31 December 2006	723,087,310	7,231

27. RESERVES

Group

	Share premium	Translation reserve	Revaluation reserve	Convertible bonds reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	61,597	1	–	1,948	(18,698)	44,848
Exchange differences arising on translation of financial statements outside Hong Kong	–	18	–	–	–	18
Surplus on revaluation of property, plant and equipment	–	–	14,563	–	–	14,563
Deferred tax liability on revaluation of property, plant and equipment	–	–	(1,714)	–	–	(1,714)
Reversal of deferred tax liability on the convertible bonds	–	–	–	171	–	171
Loss for the year	–	–	–	–	(15,675)	(15,675)
Disposal of a subsidiary	–	(19)	–	–	–	(19)
At 31 December 2005 and at 1 January 2006	61,597	–	12,849	2,119	(34,373)	42,192
Exchange differences arising on translation of financial statements outside Hong Kong	–	117	–	–	–	117
Fair value adjustment on convertible bonds	–	–	–	2,077	–	2,077
Surplus on revaluation of property, plant and equipment	–	–	23,514	–	–	23,514
Reversal of deferred tax liability on the convertible bonds	–	–	–	(308)	–	(308)
Deferred tax liability on revaluation of property, plant and equipment	–	–	(6,663)	–	–	(6,663)
Profit for the year	–	–	–	–	5,481	5,481
At 31 December 2006	**61,597**	**117**	**29,700**	**3,888**	**(28,892)**	**66,410**

27. RESERVES *(continued)*

Company

	Share premium *HK$'000*	Convertible notes reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2005	61,597	1,948	(39,319)	24,226
Reversal of deferred tax liability on the convertible bonds	–	171	–	171
Loss for the year	–	–	(6,754)	(6,754)
At 31 December 2005 and at 1 January 2006	61,597	2,119	(46,073)	17,643
Fair value adjustment on convertible bonds	–	2,077	–	2,077
Reversal of deferred tax liability on the convertible bonds	–	(308)	–	(308)
Loss for the year	–	–	(4,716)	(4,716)
At 31 December 2006	**61,597**	**3,888**	**(50,789)**	**14,696**

28. SHARE OPTIONS SCHEME

Pursuant to an ordinary resolution passed on 29 April, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "2002 Share Option Scheme")

According to the 2002 Share Option Scheme, the Board of the Company may grant options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

Options granted should be accepted within 3 business days from the date of grant. The total number of shares in respect of which options may be granted under the 2002 Share Option Scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's share capital or with a value in excess of HK$5 million must be approved in advanced by the Company's shareholders.

28. SHARE OPTIONS SCHEME *(continued)*

The directors may at its absolute discretion determine the period during which option may be exercised, such period to expire not later than 10 years from the date of grant of the option. No option may be granted more than 10 years after the date of approval of the 2002 Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board's meeting, the 2002 Share Option Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2002 Share Option Scheme. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the share.

No options were granted during the year under the 2002 Share Option Scheme since its adoption. The 2002 Share Option Scheme will expire on 28 April 2012.

29. CONNECTED AND RELATED PARTY DISCLOSURES

During the year, the group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the GEM Listing Rules. The transactions during the year and balances with them at the balance sheet, are as follows:

(a) Transactions with connected or related parties:

Name of party	Nature of transactions	**2006** **HK$'000**	2005 HK$'000
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") *(note i)*	Sales made by the Group *(note ii)*	**–**	553
	Royalty fee received by the Group *(note iii)*	**–**	3,119
	Purchase of plant and equipment *(note iv)*	**15,000**	–

It is opined that the above transactions were entered into on normal commercial terms.

Notes:

i Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company

ii These transactions were carried out with reference to market price or, where no market price was available, at terms determined and agreed by both parties.

iii The Royalty were charge in accordance with the relevant royalty agreed by both parties.

iv The purchase price was set out in the sale and purchase agreement agreed by both parties.

29. CONNECTED AND RELATED PARTY DISCLOSURES *(continued)*

(b) Compensation of key management personnel of the Group.

During the year, there are three key personnel of the Group being executive directors of the Group. Details of remuneration and related benefits are disclosed in note 9.

(c) Details of the balances with related parties are set out on the balance sheets and note 20. The amounts outstanding are unsecured, interest free and repayable on demand . No guarantees have been given or received. No expense has been recognized in the year for bad or doubtful debts in respect of the amount owed by related parties.

30. LITIGATION

On 19 January 2004, a winding up petition was filed against the Company by certain ex-senior employees of the Group claiming for payment in the sum of approximately HK$594,000 from the Company in respect of an award/order dated 20 October 2003 granted by the Labour Tribunal in respect of the severance and bonus dispute between the Company and the ex-senior employees. The unsettled amounts of HK$594,000 not yet paid up to 31 December 2006 were fully accrued in trade and other payables at the year ended 31 December 2005.

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating lease, which fall due as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Within one year	**504**	313
In the second to fifth year inclusive	**–**	–
	504	313

Operating lease payments represent rentals payable by the Group for certain of its office premises. Lease is negotiated for fixed term of one year.

31. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessor

The Group rents outs its club debenture under operating leases. The leases are negotiated for a term of two years. The rental income is HK$36,000 per year.

At the balance sheet date, the Group had contracted with lessee for the following future minimum lease payments:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**5**	23
In the second to fifth year inclusive	**36**	4
	41	27

32. CAPITAL COMMITMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Commitments for acquisition of property, plant and equipments	**–**	451

33. RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. The Group contributes a certain percentage of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from its operating and investing activities.

Management regularly manage the financial risks of the Group. Because of the simplicity of the financial structure and the current operation of the Group, no major hedging activities are undertaken by management.

The most significant financial risks to which the Group is exposed to are as follows:–

(a) Foreign exchange risk

The Group has adopted the Hong Kong dollar as its functional and presentation currency. A subsidiary is operated in the People's Republic of China (the "PRC"), and is therefore exposed to foreign exchange risk. However in view of the stable currency policies adopted by the PRC government, the directors consider that the foreign exchange risk is insignificant.

The Group currently does not have a foreign exchange rate hedging policy in respect of commercial transactions denominated in foreign currencies. However, the directors monitors exchange rate exposure and will consider hedging significant exchange rate exposure should the need arise.

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2006 in relation to each class of recognized financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables and amounts due from subsidiaries. In order to minimize credit risk, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognized for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks of good standing.

At the balance sheet date, the Group has no significant concentration of credit risk.

35. EVENTS AFTER YEAR-END DATE

On 7 September 2007, the Company entered into the subscription agreement pursuant to which the subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue and allot 3,542,000,000 Shares at a price of HK$0.01 per Share. Completion of the subscription agreement is conditional upon, among other terms and conditions as set forth therein, a proposal for the resumption in trading of the Shares on the Stock Exchange having been approved by the Stock Exchange.

On 7 September 2007, the Company and the Placing Agent entered into a conditional Placing Agreement pursuant to which the Placing Agent has agreed to place, on a fully underwritten basis, 458,000,000 Placing Shares to Independent Third Parties at HK$0.01 per Placing Share. The Placing Shares represent approximately 9.7% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares.

Immediately following the Completion of the subscription, the subscriber will be interested in 3,542,000,000 Shares, which represent:

(a) approximately 83.0% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares; and

(b) approximately 75.0% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Placing Shares.

The Subscriber will make an application to the Executive for the granting of the Whitewash Waiver and if so granted, it will be subject to, among other things, approval by the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver at the EGM where voting on each of the relevant resolutions in respect thereof shall be decided by way of a poll.

Details of subscription, placing of new shares and whitewash waiver application are set out in the announcement of the Company dated 24 September 2007.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Company	Place of incorporation/ operation	Issue and paid up capital	Attributable percentage of shares held Directly	Attributable percentage of shares held Indirectly	Class of shares held	Principal activities
Optical Crystal (BVI) Limited	British Virgin Islands ("BVI")	US$1,000	100	–	Ordinary	Investment holding
Opcom Holdings (BVI) Limited	BVI	US$1,000	100	–	Ordinary	Investment holding
Intcera High Tech (BVI) Limited	BVI	US$100	100	–	Ordinary	Investment holding
Great Route Limited	Hong Kong	HK$100	–	100	Ordinary	Investment holding
Aoptic (BVI) Inc.	BVI	US$10	–	100	Ordinary	Investment holding
Optical Connx Company Limited	Hong Kong	HK$100	–	100	Ordinary	Trading of ceramic blanks and ferrules in the PRC and Hong Kong
Intcera High Tech (HK) Limited	Hong Kong	HK$100	–	100	Ordinary	Investment holding and provision of management services in Hong Kong
Rich Palace Limited	BVI	US$1	–	100	Ordinary	Investment holding

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's accounts presentation.

38. APPROVAL OF ACCOUNTS

The consolidated financial statements were approved and authorized for issue by the board of directors on 23 October 2007.

FINANCIAL SUMMARY

For the year ended 31 December 2006

The summarised consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements of the Group, were set out below:

RESULTS

	Year ended 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	9,018	9,591	7,076	711	**30,685**
Operating profit/(loss) from operations	(30,031)	(44,453)	(15,542)	(14,143)	**9,203**
Finance costs	(5,886)	(3,205)	(548)	(1,532)	**(1,750)**
Profit/(loss) before tax	(35,917)	(47,658)	(16,090)	(15,675)	**7,453**
Income tax expenses	–	–	–	–	**(1,972)**
Profit/(loss) attributable to shareholders	(35,917)	(47,658)	(16,090)	(15,675)	**5,481**

ASSETS AND LIABILITIES

	As at 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Non-current assets	83,065	75,346	61,495	65,675	**96,709**
Current assets	103,533	38,511	34,234	27,355	**29,952**
Total assets	186,598	113,857	95,729	93,030	**126,661**
Current liabilities	81,122	20,237	18,198	15,087	**18,453**
Non-current liabilities	3,727	27,400	27,400	28,520	**34,567**
Total liabilities	84,849	47,637	45,498	43,607	**53,020**
Net assets	101,749	66,220	50,131	49,423	**73,641**