



**Cardlink Technology Group Limited**

**錯聯科技集團有限公司**

*(incorporated in Cayman Islands with limited liability)*



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*ANNUAL REPORT 2001*

## **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 these 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. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at “[www.hkgem.com](http://www.hkgem.com)” in order to obtain up-to-date information on GEM-listed issuers.

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

This annual report, for which the directors (the “Directors”) of Cardlink Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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**Registered office**

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

**Head office and principal place of business**

1st Floor, Milo's Industrial Building  
Phase 1, 2-10 Tai Yuen Street  
Kwai Chung  
New Territories  
Hong Kong

**Compliance officer**

Mr. Lei Heong Man

**Qualified accountant**

Ms. Choi Man Fai, Fiana (FCCA, AHKSA)

**Company secretary**

Ms. Wong Man Yee, Grace (ACS, ACIS)

**Authorised representatives**

Mr. Ho Lut Wa, Anton  
Mr. Lei Heong Man

**Audit committee**

Ms. Wong Ka Wai, Jeanne  
Mr. Leung Ka Kui, Johnny

**Principal share registrar and transfer office**

Bank of Butterfield International (Cayman) Ltd.  
Butterfield House, 68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman, Cayman Islands

**Hong Kong share registrar and transfer office**

Tengis Limited  
4th Floor, Hutchison House  
10 Harcourt Road  
Central, Hong Kong

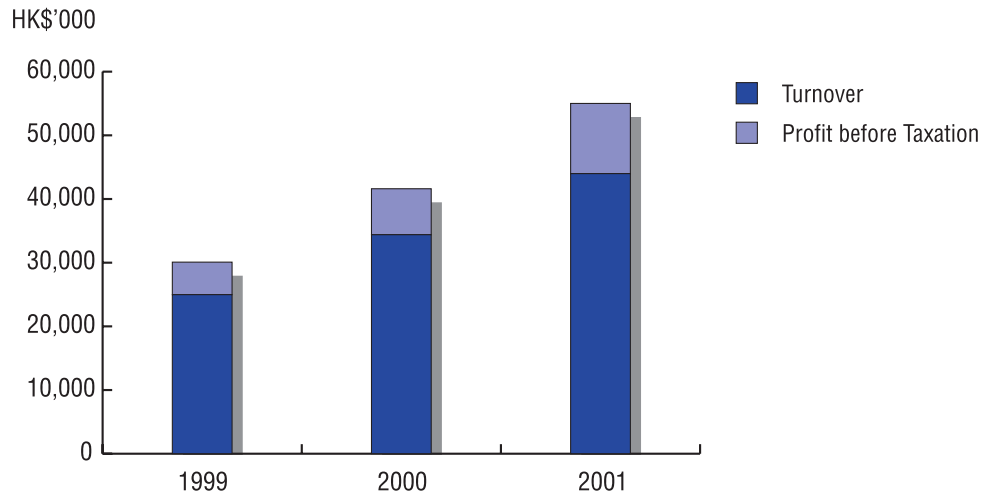
**Principal bankers**

Hang Seng Bank  
Nanyang Commercial Bank Limited  
Shanghai Commercial Bank Limited

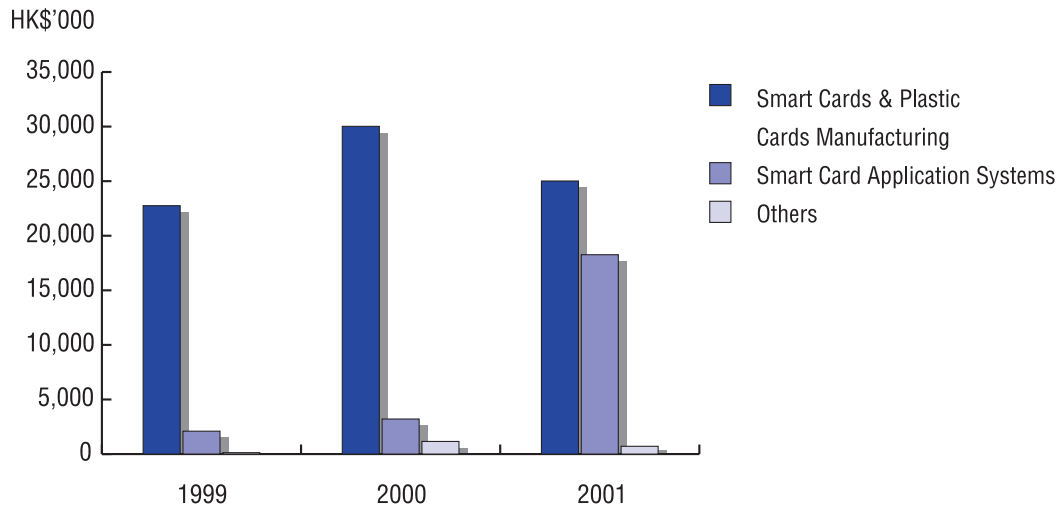
**Auditors**

Moores Rowland

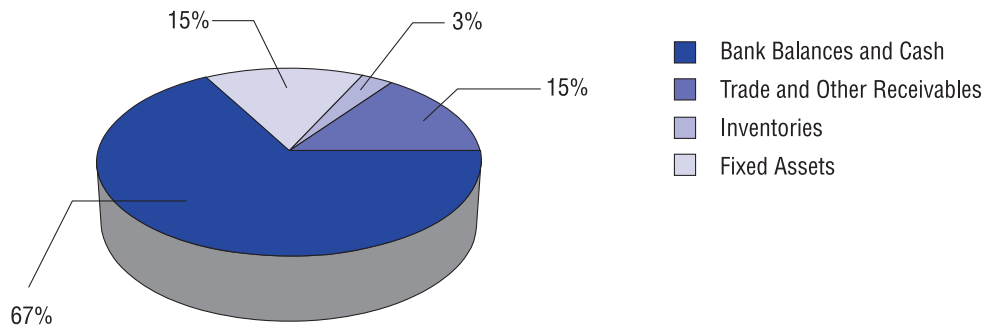
**Turnover & Profit Before Taxation**



**Turnover by Segments**



**Total Assets as at 31 December 2001**



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting ("Annual General Meeting") of the shareholders of Cardlink Technology Group Limited (the "Company") will be held at Salon II, Ballroom Level, The Ritz Carlton, 3 Connaught Road Central, Hong Kong on 26 April, 2002 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the reports of the directors and auditors of the Company for the year ended 31 December 2001.
2. To re-elect retiring directors and to authorize the board of directors ("Board") to fix the remuneration of the directors.
3. To re-appoint auditors of the Company and to authorize the Board to fix their remuneration.
4. As special business, to consider and if thought fit, to pass the following resolution as an ordinary resolution:

**"THAT**

- (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the exercise by the directors of the Company ("Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company ("Shares") and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of any options under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue of Shares or rights to acquire Shares; or (iii) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Memorandum and Articles of Association of the Company in force from time to time, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the approval in paragraph (a) of this resolution shall be limited accordingly; and

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; and
- (iii) the date on which the authority given under this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Company or the Directors to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any jurisdiction or any recognized regulatory body or any stock exchange applicable to the Company).”

5. As special business, to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

**“THAT**

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its shares on the GEM or any other stock exchange on which the Shares may be listed and which is recognized by The Securities and Futures Commission of Hong Kong (“Securities and Futures Commission”) and the Stock Exchange for such purpose, in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any such other stock exchange from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

## NOTICE OF ANNUAL GENERAL MEETING

- (c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable laws of the Cayman Islands to be held; and
  - (iii) the date on which the authority given under this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."
6. As special business, to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

**"THAT** conditional upon resolutions nos. 4 and 5 above being duly passed, the unconditional general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with additional Shares pursuant to resolution no. 4 above be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 above, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution."

By Order of the Board  
**Cardlink Technology Group Limited**  
**Wong Man Yee, Grace**  
*Company Secretary*

Hong Kong, 20 March 2002

*Principal place of business:*

1st Floor, Milo's Industrial Building  
Phase 1, 2-10 Tai Yuen Street  
Kwai Chung  
New Territories  
Hong Kong



### Notes:

1. A shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint a person or persons (if he holds two or more Shares) as his proxy or proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited with the branch share registrar of the Company in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting, and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution.
3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting if the shareholder so desires and in such event the instrument appointing a proxy shall be deemed to be revoked.
4. An explanatory statement containing further details regarding resolution numbered 5 above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange will be dispatched to the members of the Company together with the 2001 Annual Report.

## CHAIRMAN'S STATEMENT

### TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the annual report of Cardlink Technology Group Limited ("Cardlink" or the "Group") for the year ended 31 December 2001. This is the first annual results for the Group since we listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in December 2001. The Group's performance for the year 2001 has been even more promising and encouraging than the previous year.

### Results

During the financial year under review, the Group recorded encouraging results with a consolidated turnover of HK\$43.99 million (2000: HK\$34.39 million) and consolidated profit attributable to the shareholders of HK\$9.37 million (2000: HK\$5.69 million), representing a growth of 28% and 65% respectively.

### Dividend

The Board of Directors do not recommend the payment of a final dividend and the retained profits will be used for future operation and development of the Group's business.

### Listing on GEM

With tremendous support from the shareholders, the Group became successfully listed on GEM on 20 December 2001. The Group's initial public offering was well received and was approximately 8.8 times oversubscribed.

Having fulfilled one of its milestones of a successful listing on GEM, it will undoubtedly speed up the growth of the Group and solidify its position as one of the leading smart card solution providers in Asia Pacific.

### Business Review

Cardlink has launched a series of new and innovative products to solidify its leadership position in the smart card market during 2001. Having devoted aggressive efforts to upgrade and enhance its existing products, the Group also launched the second generation of the I-SECS with enhanced image capturing features in March 2001. Moreover, the first mobile solution for InterGuard using related PDA devices was also introduced to the market by May 2001.

During the year under review, the Group has recorded a substantial increase from HK\$3 million in previous year to HK\$18 million this year in selling our smart card application systems, an increase of 5.7 times. This shows the tremendous popularity, usage and applications of our smart card systems.

The evident success of Cardlink could not have been possible without its highly capable and efficient research and development ("R&D") team. Its R&D team has devoted much of its time and focus on exploring alternative technologies to enrich the functions of the smart card application systems to apply the Bluetooth technology, Palm, Mifare and IrDA transmission. To realize its goal of further developing multifunctional products and different application systems, Cardlink also developed applications on Linux-based operating platforms as an effort to expand its usage to satisfy customers' wide range of demands.

### **Awards and Patent**

The Group takes pride of its products and accomplishments because it has been highly recognized by both the public and experts in reputable organizations. The Group's PMIS was not only awarded the CMA Certificate of Merit in Machinery and Equipment Design Award by The Chinese Manufacturers Association, but also it was granted the two invention patents by Patents Registry of the Intellectual Property Department of Hong Kong. The patent applications of PMIS have already been filed with Taiwan and the People's Republic of China ("PRC").

### **Future Prospects**

It is not difficult to foresee that smart cards will dominate a big part of our daily lives. To satisfy the exponential growth of the smart card industry in the PRC, the Group will set up marketing representative offices in the PRC to explore and provide for the never-ending PRC market.

By closely monitoring and keeping abreast of market trends of smart card applications, Cardlink will be able to further explore, enhance, and even to customize, the smart card technology to meet the insatiable demand.

The existing technology platform in Cardlink characterized by its vertical integration of smart card systems allow the Group to develop and provide unique, customized and localized version of smart card application systems to meet the specific needs of our customers.

This would be our strong belief that new and innovative smart card applications will be in great demand to ensure operational efficiency and effectiveness of the users. The Group would place more efforts and resources in upgrading and enhancement of the existing products and systems by exploring their solutions from different angle of applications accordingly, in the coming rapid changing technology and market environment.

### **Appreciation**

On behalf of the Board of Directors, I would like to take this opportunity to thank all the management and staff for their dedication and contribution to the Group's encouraging performance throughout the year. I also take this opportunity to express my sincere thank to our shareholders, investors and customers for their continued encouragement and support.

**Wong Chi Ming**

*Chairman*

Hong Kong, 15 March 2002

### REVIEW OF OPERATIONS

Year 2001 marked a milestone in the development of the Group. The successful listing of the Group on the GEM of the Stock Exchange on 20 December 2001 signified a major stride forward in our corporate status and provided additional thrust for our business development. During the year, the Group has been expanding, exploring business opportunities, developing new and innovative products and application systems with a view to maintaining the Group's position as one of the leading smart card solution providers and to providing a "one-stop-shop" smart card solution service to its customers.

The existing technology platform characterized by its vertical integration of smart card hardware manufacture, software development and system implementation allows the Group to develop and provide unique, customized and localized version of products and smart card application systems to meet the specific needs of its customers. During the year, tremendous efforts and resources have been placed in upgrading and enhancement of the existing products/application systems by exploring the smart card solution and the customization of the application system.

During the year, the turnover of the Group increased to approximately HK\$43.99 million and the consolidated net profit attributable to the shareholders was approximately HK\$9.37 million, representing an increase of 27.90% and 64.68% respectively as compared with last financial year. The increase in turnover is mainly attributable to the increase in sales in smart card application systems which has a higher profit margin than the sales of smart cards and plastic cards. During the financial year, the total turnover of the smart card application systems was HK\$18.26 million, an increase by 5.7 times of last year sales.

### Product/Application system development and enhancement

Leveraging on its expertise in the fabrication of smart cards' hardware and extensive technical knowhow on the software system, the Group is capable of devising and implementing various tailor-made smart card applications for its customers. During the year, the Group has devoted significant resources towards the upgrade and development of new generation of smart card application systems so as to suit the needs of different types of customers.

In March 2001, the Group obtained from Office of The Telecommunications Authority an Unrestricted Radio Dealers Licence, under which the Group is allowed to possess and deal in the course of trade or business apparatus or material for radio communications or in any component parts. This licence allows the Group to further apply radio frequency technology in its contact and contactless smart cards and related hardware peripherals. In March 2001, the Group launched the second generation of the site entrance control system ("I-SECS") with enhanced image capturing features. In May 2001, the first mobile solution for Inter-Guard Security System ("InterGuard") using related personal data assistant ("PDA") devices was successfully designed by the Group and introduced into the market.

The Group's products have been highly recognized by both private and public sectors. On 19 November 2001, one of the Group's products, Production Management Intelligence System ("PMIS"), was awarded by the Chinese Manufacturers Association of Hong Kong with CMA Certificate of Merit in Machinery and Equipment Design Award.

The Group obtained technological patents in respect of PMIS under the Hong Kong Patents Law Ordinance in July 2001 and has made patent applications under the PRC Law and Taiwan Patent Law in August 2001 and March 2001 respectively.

The Group continues to be a printing manufacturer of plastic cards, producing various types of PVC/ABS cards, and plastic premium cards. At present, the monthly PVC/ABS card production capacity of the Group is approximately 4,000,000 cards. With a view to securing a steady source of income for its plastic card printing business, in October 2001, the Group applied to VISA International to become an authorised VISA card manufacturer and the application is being considered by VISA International.

### **Research and development**

Our research and development team has devoted much of its time and focus on exploring alternative technologies to enrich the functions of the smart card systems to apply Bluetooth technology, Palm, Mifare and IrDA transmission. To realize its goal of further developing multifunctional products and different application systems, applications on Linux-based operating platforms were developed to cater for the different usages required by customers.

In order to strengthen the Group's research and development capability, the Group has cooperated and kept in close contact with a number of technology and strategic partners by forming strategic partnership with them with a view to keeping abreast of the latest technological developments and to be in a position to integrate such technologies into the Group's new or enhanced products and services.

### **Sales and marketing**

It is believed that there are tremendous business opportunities in the smart card technology, the Group decided to focus on and devoted its resources to the smart card business, particularly in smart card solutions. The provision of smart card solutions has accounted for an increasing percentage of the Group's turnover during the year. It accounted for approximately 41.51% of the Group's total turnover for the year ended 31 December 2001.

The Group has spent resources in promoting its products/application system by attending industry trade exhibitions and conferences in Hong Kong and the PRC with a view to further strengthening the market awareness and recognition of the Group's high quality smart card application systems. In December 2001, the Group's PMIS division participated in the Dongguan International Machinery & Materials Exhibition and the Dongguan International Plastics & Packaging Exhibition. The participation in the various exhibitions for promoting the PMIS has proved to be successful as more recognition of the PMIS has been received.

### **EMPLOYEES**

As at 31 December 2001, the Group employed a total of 80 employees. The total staff cost of the Group increased to HK\$12.63 million representing an increase of 12.4% as compared to last year. Employees are remunerated according to their performance and work experience. In addition to basic salaries and participation in the mandatory provident fund scheme, staff benefits include medical scheme and share options.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group recorded a turnover of HK\$43.99 million for the year ended 31 December 2001, an 27.90% increase from HK\$34.39 million for last year. The increase in turnover is attributed to significant increased demand for the Group's smart card solutions. The Group achieved a gross profit margin of 48.83% for the year as compared to last year of 43.79%.

The net profit attributable to the shareholders was HK\$9.37 million for the year ended 31 December 2001, representing an increase of 64.68% compared to HK\$5.69 million for the year 2000. The significant increase in net profit attributable to the shareholders reflects the efforts of the Group in development and promotion of its unique and highly customized products and smart card application systems.

As at 31 December 2001, the Group has a bank balance of HK\$39.99 million of which bank deposits of HK\$2.03 million were pledged as collateral for the short term banking facilities of the same amount of a subsidiary of the Company. As at 31 December 2001, the Group has not utilised any of its banking facilities. The bank balance consisted of the proceeds in the amount of approximately HK\$29 million from the placement of shares for the initial public offering. It is the Group's treasury policy to place its cash and cash equivalents in interest bearing deposits, and to fund operations with internal resources. Apart from the said pledged bank deposits, the Group has no other charges on its assets. The Group has total current assets of HK\$50.56 million and current liabilities of HK\$2.61 million as at 31 December 2001. Gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' fund was 0.07 (2000: 0.61). The Group has no outstanding bank loan as at 31 December 2000 and 31 December 2001.

For the year ended 31 December 2001, the Group has no material acquisitions and disposals of subsidiaries and affiliated companies. As at 31 December 2000, the Group had an unlisted investment of a convertible note amounted to HK\$5.1 million. During the year, the convertible note was cancelled with the principal refunded. As at 31 December 2001, the Group had no significant investment held. The Group will apply the proceeds from the initial public offering to finance its expansion plan such as the upgrading and enhancement of the products, the research and development program, the establishment of additional production line and setting up of sale representative office in the PRC.

Most of the assets and liabilities of the Group was denominated in HK dollars and US dollars. Due to the pegged exchange rate system in Hong Kong, the Directors consider that the Group is not significantly exposed to any foreign currency exchange risk.

As at 31 December 2001, the Group had no material contingent liabilities.

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As the listing of the Group on the GEM was on 20 December 2001, there was no significant progress between the period from 20 December 2001 to the end of the financial year of 31 December 2001 regarding the implementation plans for the period ending 30 June 2002 as stated in the Prospectus. Accordingly, no comparison of business objectives with actual business progress has been performed. The Group is in the progress of implementing the business plan as stated in the Prospectus and believe that the implementation will be in accordance to the time frame.

### USE OF PROCEEDS

The placement of shares of the Company in the initial public offering has raised a net proceeds of approximately HK\$29 million. The Group did not utilise any part of the net proceeds during the period from the date of listing on 20 December 2001 upto the year end date of 31 December 2001. The net proceeds will be used in accordance to the plan as described in the Prospectus.

### PROSPECTS

In this rapid changing environment, new and innovative smart card applications will be in great demand to ensure operational efficiency and effectiveness of the users. The Directors believe that the Group's vertically integrated platform which combines expertise in all aspects of smart card solutions will enable the Group to design, develop and manufacture smart card application systems in a flexible, innovative and cost-effective manner. The Group will continue to place its resources in development of new and highly customized application systems with multi-functions such as the mini smart card reader for mobile application, PDA version of InterGuard and new generation of PMIS to run on MSSQL platform to suit the needs of the customers in Hong Kong and the PRC.

The Group considers that timely responses to customers' needs as well as keeping abreast of industry technology and market trends are fundamental to the success of the Group. Accordingly, the Group places great emphasis on research and development of new products/application systems, enhancement of existing products/application systems and recruiting high caliber research personnel to strengthen its research and development capability. A new research and development center will be set up in the PRC in the forthcoming year to further enhance the Group's capacity in research and development and to help to meet with the great demand in the PRC in a more cost efficient and effective manner.

It is believed that the PRC market has great potential for the smart card industry. Aiming at further enhancing the Group's sales and marketing activities so as to strengthen the penetration of the Group's products/application systems in both commercial and non-commercial sectors and to expand the Group's geographical reach, in particular, to major cities in the PRC, efforts have been made to identify strategic alliance or joint venture partners with distribution companies in the PRC and to set up representative offices in major PRC cities.

With our expertise and strong fundamental technical knowhow in the smart card technology to design and develop innovative smart card applications to suit different customers' needs, it is believed that the Group will become a leading smart card application system provider in the Asia Pacific region with a strong technology platform and a comprehensive smart card application library.

## PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**WONG Chi Ming**, aged 45, is an executive Director and the Chairman of the Group. He is responsible for the Group's overall system product development and formulation of corporate strategies of the Group. Mr. Wong is a chartered engineer and has over twenty-two years of experience in the radio frequency industry. Mr. Wong has been a quality assurance manager, an engineering manager, an operation manager and an assistant technical director in various companies in Hong Kong, and a US based company in Hong Kong prior to his joining to the Group.

**WONG Hon Sing**, aged 44, is an executive Director. He is responsible for production management of the Group. Mr. Wong has over 18 years of production management experience in the field of manufacturing and quality assurance engineering. He holds a Master Degree in Manufacturing System Engineering from the University of Warwick, United Kingdom. Before joining the Group in July 1999, Mr. Wong was a quality assurance engineer, a manufacturing engineer, a quality assurance director, a director and a general manager in various companies in Hong Kong.

**HO Lut Wa, Anton**, aged 35, is an executive Director and the General Manager of the Group. Mr. Ho is responsible for the Group's overall strategic planning, marketing and operations. Mr. Ho has over 11 years of experience in the field of electronic engineering. Before joining the Group, Mr. Ho was actively involved in the research and development in the area of high frequency switching mode power supply, cordless phone and pager in various companies in Hong Kong. He holds a Master Degree in Engineering Business Management from the University of Warwick, United Kingdom.

**LEI Heong Man**, aged 41, is an executive Director and responsible for the Group's finance, strategic planning and business development. He has over 13 years of experience in finance and business development across the region and has extensive corporate finance, project management and strategic planning experience. Mr. Lei is currently the finance director of Dickson Group Holdings Ltd, one of the initial management shareholders of the Company. He holds a Bachelor Degree in Accounting, Finance and Economics from Essex University, United Kingdom and a Master Degree in Business Administration from Cardiff Business School, United Kingdom.

**WONG Ka Chu**, aged 36, is an executive Director and Deputy General Manager of the Group. Mr. Wong is responsible for the Group's overall operation, production and logistic management. Mr. Wong has over 12 years of experience in production and project management and has been involved in various research and development projects in the areas such as computer and pager. He holds a Bachelor Degree in Applied Computing from Open University of Hong Kong. Before joining the Group, Mr. Wong has been a production manager, management information system manager, project manager and technical manager in various companies in Hong Kong.

**FUNG Wing Mou, Bernard**, aged 44, was appointed as an executive director of the Company on 6 March 2002. He is responsible for the strategic planning and business development of the Group. He is presently the Chairman and executive director of Dickson Group Holdings Ltd, one of the initial management shareholders of the Company. Mr. Fung has more than 15 years' experience in the field of magnetic heads, high technology and e-commerce businesses and he has been responsible for their overall management and strategic corporate developments.



### Non-executive Director

**WONG Chau Chi**, aged 37, is a non-executive Director of the Group. Mr. Wong has over 13 years of experience in the field of finance, banking and securities. He was the head of structured products and equity derivatives of various financial institutions including BNP Paribas, Citibank (HK) and Goldman Sachs (Asia) L.L.C. Mr. Wong is the founder and the Chief Executive Officer of Chi Capital Partners Limited, a private company. He holds a Bachelor Degree in Economics & International Relations from Pomona College, and a Master Degree in Public Policy from J.F. Kennedy School, Harvard University, the United States.

### Independent non-executive Directors

**WONG Ka Wai, Jeanne**, aged 37, is an independent non-executive Director. She is the chairman of the Audit Committee of the Group. Ms. Wong has over 15 years of experience in finance, accounting, taxation and corporate affairs. Ms. Wong is a member of the Institute of Chartered Accountants in Australia and an associate of Hong Kong Society of Accountants. She holds a Bachelor Degree in Economics from the University of Sydney, Australia. Ms. Wong is currently the chief financial officer of Pang & Associates, a law firm in Hong Kong.

**LEUNG Ka Kui Johnny**, aged 44, is an independent non-executive Director. He is one of the member of the Audit Committee of the Group. Mr. Leung is a qualified solicitor in Hong Kong, the United Kingdom and Singapore. He has over fifteen years of experience in the legal field. Currently, he is the managing partner of Messrs. Johnny K. K. Leung & Co, a law firm in Hong Kong. Mr. Leung holds a Bachelor of Laws from the University of London, United Kingdom.

### SENIOR MANAGEMENT

**CHOI Man Fai, Fiana**, aged 33, is the Financial Controller of the Group. Ms. Choi has over nine years of experience in auditing, financial and management accounting, and internal control. Ms. Choi holds a Bachelor Degree in Accountancy and a Master Degree in Business Administration from the City University of Hong Kong. She is an associate member of The Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants.

**HUI Chi Yung, Lawrence**, aged 29, is the Sales and Marketing Manager of the Group. Mr. Hui is responsible for all sales and marketing activities of the Group. He is currently a director of PMIS Limited and Smart-Security Limited, the wholly-owned subsidiaries of the Group.

**WONG Man Yee, Grace**, aged 37, is the Administration Manager and the Company Secretary of the Group. Ms. Wong is responsible for office management and personnel issues of the Group. She is an associate of the Institute of Chartered Secretaries and Administrators, United Kingdom, and an associate member of Hong Kong Institute of Company Secretaries.

## REPORT OF THE DIRECTORS

The directors have pleasure in submitting their first report and the audited financial statements for the year ended 31 December 2001.

### GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 6 September 2001 as an exempted company with limited liability under the Companies Law of Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the Group. Further details of the Reorganisation are set out in note 24 to the financial statements and in the Company's prospectus dated 13 December 2001 (the "Prospectus"). The shares of the Company were listed on GEM of the Stock Exchange on 20 December 2001.

### CHANGE OF NAME

Pursuant to a special resolution passed on 12 October 2001, the Company changed its name from Interlink Technology Group Limited to Cardlink Technology Group Limited. Pursuant to a special resolution on 24 October 2001, the Company changed its name from Cardlink Technology Group Limited to Cardlink Technology Limited. Pursuant to another special resolution on 24 October 2001, the Company changed its name from Cardlink Technology Limited to Cardlink Technology Group Limited and adopted a Chinese name "鐳聯科技集團有限公司".

### PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services. Details of the principal activities of principal subsidiaries are set out in note 15 to the financial statements.

The revenue of the Group is derived principally from the manufacturing and sales of smart cards and plastic cards, and the provision of customised smart card application systems.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 24.

The dividend of HK\$6,400,000 for the year ended 31 December 2001 was paid by a subsidiary of the Company to its then shareholders prior to the Reorganisation described in note 1 to the financial statements.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2001.

### RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

### SHARE CAPITAL

Details of movements in share capital of the Company are set out in note 24 to the financial statements.

**DIRECTORS**

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

**Executive Directors**

Wong Chi Ming ( <i>Chairman</i> )	(appointed on 12 September 2001)
Ho Lut Wa, Anton	(appointed on 10 September 2001)
Lei Heong Man	(appointed on 12 September 2001)
Wong Ka Chu	(appointed on 12 September 2001)
Wong Hon Sing	(appointed on 12 September 2001)
Fung Wing Mou, Bernard	(appointed on 6 March 2002)

**Non-executive Director**

Wong Chau Chi	(appointed on 12 September 2001)
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**Independent non-executive Directors**

Wong Ka Wai, Jeanne	(appointed on 12 September 2001)
Leung Ka Kui, Johnny	(appointed on 12 September 2001)

In accordance with Articles 86(3) of the Company's Articles of Association, Mr. Fung Wing Mou, Bernard retires at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Articles 87 of the Company's Articles of Association, Mr. Ho Lut Wa, Anton and Mr. Lei Heong Man retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

**PROPERTY, PLANT AND EQUIPMENT**

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

**DIRECTORS' SERVICE CONTRACTS**

Except for Mr. Fung Wing Mou, Bernard, each executive directors (save for the one for Mr. Lei Heong Man ("Mr. Lei") whose service contract is terminable by either the Company or Mr. Lei by serving prior written notice of three months at any time) has entered into a service contract with the Company for an initial term of two years commencing from 20 December 2001 and will continue thereafter unless and until terminated by either party by giving three months prior written notice to the other. The Executive Directors are also entitled to a discretionary bonus calculated at a percentage of the audited consolidated profit of the Group attributable to the shareholders of the Company (but before such bonus) which percentage shall be determined by the Board of Directors, but in any event, the aggregate amount of such bonus payable each financial year to all the Executive Directors of the Company shall not exceed 5% of such profit.

Each Non-executive Director (save and except Mr. Wong Chau Chi whose appointment is initially for a term of six months and renewed automatically unless one month termination notice is served by either party) is appointed for an initial term of one year commencing on 20 December 2001 and will continue thereafter unless and until terminated by either the Company or the relevant Non-executive Director by giving one month written notice and such appointment is subject at all times to the articles of association of the Company.

Save as disclosed above, no Director has entered into any service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### **DIRECTORS' INTEREST IN CONTRACTS**

No contracts of significance (as defined in rule 18.25 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange) to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **SHARE OPTION SCHEME**

Pursuant to the written resolutions of the shareholders of the Company dated 6 December 2001, two share option schemes, namely the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes has been set out in Appendix IV of the Prospectus.

#### **(i) Share Option Scheme**

Under the Share Option Scheme, the Board of Directors or a duly authorised committee thereof which shall include the Independent Non-executive Directors may, at its discretion, invite any employee including any executive director of any company in the Group to take up options at HK\$1.00 per option to subscribe for shares in the Company (the "Shares") at the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediate preceding the date of offer and (iii) the nominal value of a Share, subject to a maximum of 10% of the total number of Shares in issue from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period as the Board may determine which shall not be earlier than six months nor more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise period of an option during which period an option may not be exercised. Subject to the aforesaid, there is no minimum period for which an option must be held before it can be exercised.

The total number of Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company (but excluding the Pre-IPO Share Option Scheme in respect of 28,800,000 shares) shall not exceed 10% of the total number of Shares in issue immediately following completion of the Placing and Capitalisation Issue.

As at 31 December 2001, no options under this scheme had been granted.

**(ii) Pre-IPO Share Option Scheme**

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. On 6 December 2001, options to subscribe for an aggregate of 28,800,000 Shares at an exercise price of HK\$0.282 per share were granted by the Company to the Directors of the Company and certain employees of the Group. Pursuant to the Pre-IPO Share Option Scheme, five Executive Directors of the Group were granted options to subscribe for an aggregate of 24,000,000 shares in the Company (where details are disclosed in the section of "Directors' Interests in Equity Securities"), two senior management staff were granted options to subscribe for an aggregate of 4,800,000 Shares in the Company.

Each of the grantee to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise any time after the expiry of 12 months from the Listing Date and end on 5 December 2011 (both date inclusive). Upon acceptance of the grant of options, each grantee pays to the Company HK\$1.00.

No options had been exercised, cancelled or lapsed during the period from the date of grant to 31 December 2001.

**DIRECTORS' INTEREST IN EQUITY SECURITIES**

As at 31 December 2001, the interests of the Directors and their associates in the shares and options of the Company were as follows:

**(i) Shares**

Director	Number of shares	
	Personal interest	Corporate interest
Wong Hon Sing ( <i>Note</i> )	—	153,300,000
Wong Chi Ming	6,132,000	—
Ho Lut Wa, Anton	6,132,000	—
Wong Ka Chu	3,504,000	—

*Note:* By virtue of the SDI Ordinance, Mr. Wong Hon Sing is deemed to be interested in 153,300,000 shares of the Company held by Carkey Limited, which is wholly-owned by him.

## REPORT OF THE DIRECTORS

### (ii) Options to subscribe for shares in the Company

The directors had personal interest in share options to subscribe for shares in the Company pursuant to the Company's Pre-IPO Share Option Scheme and the details as follows:

Director	Date of grant	Outstanding at 31 December 2001	Exercise price per share HK\$	Exercisable period
Wong Hon Sing	6 December 2001	4,000,000	0.282	20 December 2002 — 5 December 2011
Wong Chi Ming	6 December 2001	4,000,000	0.282	20 December 2002 — 5 December 2011
Ho Lut Wa, Anton	6 December 2001	8,000,000	0.282	20 December 2002 — 5 December 2011
Wong Ka Chu	6 December 2001	4,000,000	0.282	20 December 2002 — 5 December 2011
Lei Heong Man	6 December 2001	4,000,000	0.282	20 December 2002 — 5 December 2011

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name of shareholders	Note	Number of shares held	Percentage of holding
Wong Hon Sing	1	153,300,000	47.9
Carkey Limited	1	153,300,000	47.9
Dickson Group Holdings Limited	2	58,400,000	18.3
i-Concepts Investment Limited	2	58,400,000	18.3

Notes:

1. Carkey Limited is wholly-owned by Mr. Wong Hon Sing.
2. i-Concepts Investment Limited is wholly-owned by Dickson Group Holdings Limited.

**MAJOR CUSTOMERS AND SUPPLIERS**

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

**Sales**

— the largest customer	52%
— five largest customers in aggregate	91%

**Purchases**

— the largest supplier	30%
— five largest suppliers in aggregate	83%

Dickson Group Holdings Limited ("Dickson Group"), an Initial Management Shareholder of the Company, was one of the top five customers of the Group for the year ended 31 December 2001, sales to which accounted for approximately 1% of the total turnover of the Group for the year. There is no transactions between the Group and Dickson Group after the listing of the Shares on GEM. All transactions with Dickson Group were made and completed before i-Concepts became a shareholder of InterCard Limited, a wholly-owned subsidiary of the Company, pursuant to the conversion of the Convertible Note in June 2001 and therefore such transactions were not related party transactions.

Save as disclosed above, none of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the Group's five largest suppliers or customers during the year.

**PRE-EMPTIVE RIGHTS**

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

**PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the period from 20 December to 31 December 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**COMPLIANCE WITH THE GEM LISTING RULES**

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM of the Stock Exchange on 20 December 2001.

## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

In compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules, the Company established an audit committee in September 2001. The primary duties of the audit committee are to review the Company's annual report and accounts, half year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee will also be responsible for reviewing the financial reporting process and internal controls of the Company. The committee comprises two Independent non-executive directors, Ms. Wong Ka Wai, Jeanne and Mr. Leung Ka Kui, Johnny. Since its establishment, the audit committee met once for reviewing the Group's annual report and providing advices and recommendations to the Board of Directors.

### SPONSOR'S INTEREST IN THE COMPANY

As notified by Tai Fook Capital Limited ("the Sponsor"), the Company's sponsor, neither the Sponsor nor its directors or employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2001.

Pursuant to the agreement dated 13 December 2001 entered in between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 20 December 2001, the date on which the shares of the Company are listed, to 31 December 2003.

### FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past three financial years is set out on page 52 of the annual report.

### AUDITORS

Messrs. Moores Rowland, *Chartered Accountants, Certified Public Accountants*, have acted as auditors of the Company since its incorporation.

A resolution will be submitted at the annual general meeting of the Company to re-appoint, Messrs. Moores Rowland, as auditors of the Company.

On behalf of the Board

**Wong Chi Ming**

*Chairman*

Hong Kong, 15 March 2002





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To the members

**Cardlink Technology Group Limited**

*(incorporated in Cayman Islands with limited liability)*

We have audited the financial statements on pages 24 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Moores Rowland**

*Chartered Accountants  
Certified Public Accountants*

Hong Kong, 15 March 2002

## CONSOLIDATED INCOME STATEMENT

	Note	2001 HK\$	2000 HK\$
<b>Turnover</b>	3	43,988,073	34,391,855
Cost of sales		(22,510,333)	(19,331,305)
Gross profit		21,477,740	15,060,550
Other revenue	3	298,857	350,267
Gain on disposal of investments		133,927	—
Selling and distribution costs		(2,159,979)	(1,934,468)
Administrative expenses		(8,184,705)	(5,595,449)
<b>Profit from operation</b>		11,565,840	7,880,900
Finance costs	4	(544,875)	(787,094)
Share of result of associate		(212)	125,995
<b>Profit before taxation</b>	4	11,020,753	7,219,801
Taxation	5	(1,646,000)	(1,573,019)
<b>Profit after taxation</b>		9,374,753	5,646,782
Minority interest		—	46,017
<b>Net profit attributable to the shareholders</b>	8	9,374,753	5,692,799
<b>Dividend</b>	9	6,400,000	—
<b>Basic earnings per share</b>	10	3.86 cents	2.37 cents

Separate statement of recognised gains and losses required by the Statement of Standard Accounting Practice 1 "Presentation of financial statements" issued by the Hong Kong Society of Accountants has not been prepared as the only component of such statement is the net profit for the year.

## CONSOLIDATED BALANCE SHEET

	Note	2001 HK\$	2000 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	8,983,105	2,311,718
Intangible assets	14	292,167	—
Interest in an associate	16	—	2,047
		9,275,272	2,313,765
<b>Current assets</b>			
Other investment	17	—	5,100,000
Inventories	18	1,522,989	1,798,098
Trade and other receivables	19	8,842,061	25,110,695
Tax recoverable		198,661	—
Pledged bank deposits	20	2,026,131	—
Bank balances and cash		37,968,726	3,802,568
		50,558,568	35,811,361
<b>Current liabilities</b>			
Trade and other payables	21	2,607,190	8,157,994
Convertible note	22	—	5,250,000
Promissory notes		—	302,250
Taxation		—	275,205
		2,607,190	13,985,449
<b>Net current assets</b>		47,951,378	21,825,912
<b>Total assets less current liabilities</b>		57,226,650	24,139,677
<b>Non-current liabilities</b>			
Deferred taxation	23	1,264,927	201,000
Minority interest		—	187,383
<b>NET ASSETS</b>		55,961,723	23,751,294
<b>CAPITAL AND RESERVES</b>			
Issued capital	24	32,000,000	78,000
Reserves	26	23,961,723	23,673,294
		55,961,723	23,751,294

Approved by the Board of Directors on 15 March 2002

Ho Lut Wa, Anton  
Director

Lei Heong Man  
Director

## BALANCE SHEET

	Note	2001 HK\$
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Interest in subsidiaries	15	27,197,510
<b>Current assets</b>		
Deposits, prepayment and other debtors		326,017
Bank balances and cash		28,936,837
		29,262,854
<b>Current liabilities</b>		
Accrued charges and other creditors		299,298
<b>Net current assets</b>		28,963,556
<b>NET ASSETS</b>		56,161,066
<b>CAPITAL AND RESERVES</b>		
Issued capital	24	32,000,000
Reserves	26	24,161,066
		56,161,066

Approved by the Board of Directors on 15 March 2002

Ho Lut Wa, Anton  
Director

Lei Heong Man  
Director

## CONSOLIDATED CASH FLOW STATEMENTS

	Note	2001 HK\$	2000 HK\$
<b>Net cash inflow (outflow) from operating activities</b>	27	27,191,050	(8,998,028)
<b>Return on investments and servicing of finance</b>			
Interest paid		(544,875)	(787,094)
Interest received		210,947	198,133
Dividend paid		(6,400,000)	—
<b>Net cash outflow from return on investments and servicing of finance</b>		(6,733,928)	(588,961)
<b>Taxation</b>			
Profit tax paid		(1,055,939)	(1,096,814)
<b>Investing activities</b>			
Purchase of property, plant and equipment		(7,594,464)	(2,400,032)
Acquisition of convertible note		—	(1,000,000)
Acquisition of intangible assets		(310,100)	—
Net cash outflow from disposal of subsidiaries	30	(370,006)	—
Proceeds from disposal of an associate		80,000	—
Proceeds from disposal of other investment		1,000,000	—
		(7,194,570)	(3,400,032)
<b>Net cash inflow (outflow) before financing</b>		12,206,613	(14,083,835)
<b>Financing</b>	28		
Proceeds from issue of shares		37,600,000	—
Shares issue expenses		(8,364,331)	—
Proceeds from issue of share options		7	—
Fund contributed by minority shareholder		—	233,400
Issue of promissory notes		—	302,250
Issue of convertible note		—	14,000,000
Repayment of convertible note		(5,250,000)	—
<b>Net cash inflow from financing</b>		23,985,676	14,535,650
<b>Increase in cash and cash equivalent</b>		36,192,289	451,815
<b>Cash and cash equivalents brought forward</b>		3,802,568	3,350,753
<b>Cash and cash equivalents carried forward</b>		39,994,857	3,802,568
<b>Analysis of the balances of cash and cash equivalents</b>			
Pledged bank deposits		2,026,131	—
Bank balances and cash		37,968,726	3,802,568
		39,994,857	3,802,568

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 6 September 2001. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the Group structure in connection with the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the companies now comprising the Group. This was accomplished by acquiring the entire issued share capital of Waystech Group Limited ("Waystech"), the then holding company of the principal subsidiaries listed in note 15 to the financial statement, in consideration for the allotment and issue of shares of the Company to the then shareholder of Waystech on 6 December 2001 and the Company became the ultimate holding company of the Group. Further details of the Reorganisation are set out in note 24 and in the Company's prospectus dated 13 December 2001 (the "Prospectus"). The shares of the Company were listed on GEM of the Stock Exchange on 20 December 2001.

### 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (the "SSAP") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules governing the Listing of Securities on the GEM of the Stock Exchange. A summary of the principal accounting policies adopted by the Group is set out below.

#### **Basis of preparation**

The measurement basis used in the preparation of the financial statements is historical cost.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary companies made up to 31 December 2001. The results of the subsidiary companies acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal. All significant inter-company balances and transactions have been eliminated on consolidation.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised in the period when services are rendered.

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

Rental income under operating leases are recognised in the period in which the properties are let out on the straight-line basis over the lease terms.

### Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, which include the estimated cost for dismantling, removing the asset and restoring the site.

In situations where expenditure incurred to replace a separate component of an item of property, plant and equipment, including major inspection and overhaul expenditure, is capitalised and accounted for as a component of the assets. Other subsequent expenditure is capitalised as an additional cost of that assets only when it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of the assets.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the annual rate of 20%.

### Intangible assets — Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are amortised over estimated useful life and subject to a maximum of five years. Other development expenditure is recognised in the income statement as an expense as incurred.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### Subsidiaries

A subsidiary, is an enterprise, in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital or controls the composition of the board of directors or equivalent governing body. Investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

#### Associate

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The consolidated income statement includes the Group's share of the results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

#### Other investment

Securities not classified as investment securities or as held-to-maturity securities are classified as other investment, which are stated at fair value in the balance sheet. The unrealised holding gains and losses for other investment are included in the income statement.

The profit or loss on disposal of other investment is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

#### Impairment loss

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, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.



## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in-first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Foreign currencies**

The Group maintains its accounting records in Hong Kong dollars and transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement.

### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recognised as an expense and income respectively on the straight-line basis over the lease terms.

### **Cash equivalents**

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### **Related party**

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### **Retirement benefit scheme**

Contributions to the mandatory provident fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

#### **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, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

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 enterprises 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, corporate and financing expenses and minority interests.

## NOTES TO THE FINANCIAL STATEMENTS

**3. TURNOVER AND REVENUE**

The principal activities of the Group are the manufacturing and sales of smart cards and plastic cards, and provision of customised smart card application systems.

Turnover and revenue recognised by category are as follows:

	<b>The Group</b>	
	2001 <i>HK\$</i>	2000 <i>HK\$</i>
<b>Turnover</b>		
Sales of smart cards and plastic cards	25,015,029	30,023,276
Sales of smart card application systems	18,261,206	3,210,833
Service and other income	711,838	1,157,746
	43,988,073	34,391,855
<b>Other revenue</b>		
Interest income	210,947	198,133
Exchange gain	—	134
Rental income	28,000	152,000
Sundry income	59,910	—
	298,857	350,267
	44,286,930	34,742,122

## NOTES TO THE FINANCIAL STATEMENTS

## 4. PROFIT BEFORE TAXATION

	The Group	
	2001 HK\$	2000 HK\$
This is arrived at after charging:		
<b>(a) Finance costs</b>		
Interest on bank loans and overdrafts wholly repayable within five years	37,423	25
Interest on convertible note	507,452	787,069
	544,875	787,094
<b>(b) Other items</b>		
Product development costs (including amortization of capitalised development costs of \$17,933 (2000: Nil))	142,960	100,050
Staff costs (including retirement cost of \$460,775 (2000: \$64,019))	12,632,856	11,239,569
Cost of inventories	14,214,288	9,649,459
Auditors' remuneration	195,000	217,000
Depreciation of property, plant and equipment	918,640	1,203,607
Operating lease charges	974,638	686,301

## NOTES TO THE FINANCIAL STATEMENTS

## 5. TAXATION

	The Group	
	2001 HK\$	2000 HK\$
The charge comprises:		
Hong Kong Profits Tax:		
Current year	653,000	1,206,475
(Over) Underprovision in prior year	(70,927)	165,544
Deferred taxation:		
Current year ( <i>note 23</i> )	1,063,927	201,000
	1,646,000	1,573,019

Hong Kong Profits Tax has been provided at the rate of 16% (2000:16%) on the Group's estimated assessable profits for the year.

Deferred taxation represents the tax effect of timing differences arising from accelerated depreciation allowance which is expected to crystallise in the foreseeable future. There was no other material unprovided deferred tax at the balance sheet date.

## 6. DIRECTORS' EMOLUMENTS

	The Group	
	2001 HK\$	2000 HK\$
Fees:		
Executive directors	142,258	10,000
Non-executive directors	1,613	—
Independent non-executive directors	3,226	—
Other emoluments:		
Salaries and other emoluments	1,479,653	951,000
Discretionary bonuses	75,900	—
Contributions to retirement scheme	24,000	—
	1,726,650	961,000

## NOTES TO THE FINANCIAL STATEMENTS

### 6. DIRECTORS' EMOLUMENTS (Continued)

The six executive directors of the Company received individual emoluments for the year ended 31 December 2001 of approximately HK\$820,000 (2000: HK\$478,000), HK\$554,000 (2000: HK\$473,000), HK\$303,000 (2000: HK\$10,000), HK\$40,000 (2000: Nil), HK\$4,000 (2000: Nil) and Nil (2000: Nil) respectively.

The three non-executive directors of the Company received directors' fees for the year ended 31 December 2001 of approximately HK\$1,613 (2000: Nil), HK\$1,613 (2000: Nil) and HK\$1,613 (2000: Nil) respectively.

The aggregate emoluments of each directors are less than HK\$1,000,000 in both years.

### 7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two (2000: two) directors, whose remuneration are set out in note 6 above. The aggregate emoluments of the remaining three (2000: three) individuals are as follows:

	2001 HK\$	2000 HK\$
Salaries and allowances	1,183,623	1,113,854
Contributions to retirement scheme	36,000	—
	1,219,623	1,113,854

The remuneration of each of these three (2000: three) individuals are less than HK\$1,000,000 in both years.

### 8. NET PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately HK\$29,600 (2000: Nil) which has been dealt with in the financial statements of the Company for the year ended 31 December 2001.

### 9. DIVIDEND

	2001 HK\$	2000 HK\$
Dividend	6,400,000	—

The dividend of HK\$6,400,000 were paid by InterCard Limited, a wholly-owned subsidiary of the Company, to its then shareholders prior to the completion of the Reorganisation on 6 December 2001. Details of the Reorganisation are set out in note 1 and 24 and in the Prospectus.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to the shareholders for the year of HK\$9,374,753 (2000: HK\$5,692,799) and the weighted average number of 242,849,315 (2000: 240,000,000) shares in issue during the year.

The weighted average number of shares used to calculate both the current and prior year's earnings per share includes the pro forma issued share capital of the Company, comprising 1 share issued and fully paid on incorporation of the Company, 779,999 shares issued as consideration for the acquisition of the entire share capital of Waystech and the capitalisation issue of 239,220,000 shares as set out in note 24. The weighted average number of shares used in the current year's earnings for share calculation also includes the 80,000,000 shares issued under the Placing.

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31 December 2000 and 2001.

## NOTES TO THE FINANCIAL STATEMENTS

## 11. SEGMENT REPORTING

The Group comprises the following main business segments:

	Sales of smart cards and plastic cards		Sales of Smart card application systems		Others		Consolidated	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
<b>Revenue</b>								
External sales	25,015,029	30,023,276	18,261,206	3,210,833	711,838	1,157,746	43,988,073	34,391,855
<b>Result</b>								
Segment result	11,162,482	12,808,025	9,603,419	957,675			20,765,901	13,765,700
Unallocated operating income and expenses							(9,200,061)	(5,884,800)
Profit from operations							11,565,840	7,880,900
Share of result of associate							(212)	125,995
Finance costs							(544,875)	(787,094)
Taxation							11,020,753	7,219,801
							(1,646,000)	(1,573,019)
Minority interest							9,374,753	5,646,782
							—	46,017
Net profit attributable to the shareholders							9,374,753	5,692,799
<b>Assets and liabilities</b>								
Segment assets	12,585,392	6,104,387	4,340,158	1,098,709			16,925,550	7,203,096
Unallocated assets							42,908,290	30,922,030
Total assets							59,833,840	38,125,126
Segment liabilities	879,860	2,560,563	37,550	39,965			917,410	2,600,528
Unallocated liabilities							2,954,707	11,773,304
Total liabilities							3,872,117	14,373,832
<b>Other information</b>								
Capital expenditure incurred during the year	6,406,946	1,251,451	310,100	—				
Depreciation/Amortisation for the year	431,136	882,294	17,933	—				

As over 90% of the consolidated turnover and trading results of the Group for the year is derived in Hong Kong, an analysis by geographical segments is not presented.



## NOTES TO THE FINANCIAL STATEMENTS

**12. RETIREMENT SCHEMES**

Under the Mandatory Provident Fund Schemes Ordinance ("MPF Ordinance") regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is required to participate in an mandatory provident fund scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employee. The contribution borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF Ordinance.

During the year ended 31 December 2001, the aggregate amount of employer's contribution made by the Group is HK\$460,775 (2000: HK\$64,019).

**13. PROPERTY, PLANT AND EQUIPMENT****The Group**

	<b>Printing and testing equipment</b>	<b>Office equipment</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvement</b>	<b>Motor vehicle</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Cost</b>						
At 1 January 2001	5,346,887	536,266	356,210	716,276	—	6,955,639
Addition during the year	6,406,946	665,248	23,972	320,694	177,604	7,594,464
Disposal through disposal of subsidiaries	—	(5,000)	—	—	—	(5,000)
<b>At 31 December 2001</b>	<b>11,753,833</b>	<b>1,196,514</b>	<b>380,182</b>	<b>1,036,970</b>	<b>177,604</b>	<b>14,545,103</b>
<b>Accumulated depreciation</b>						
At 1 January 2001	4,107,435	175,944	208,287	152,255	—	4,643,921
Charge for the year	431,136	193,302	74,551	193,010	26,641	918,640
Write back on disposal through disposal of subsidiaries	—	(563)	—	—	—	(563)
<b>At 31 December 2001</b>	<b>4,538,571</b>	<b>368,683</b>	<b>282,838</b>	<b>345,265</b>	<b>26,641</b>	<b>5,561,998</b>
<b>Net book value</b>						
<b>At 31 December 2001</b>	<b>7,215,262</b>	<b>827,831</b>	<b>97,344</b>	<b>691,705</b>	<b>150,963</b>	<b>8,983,105</b>
At 31 December 2000	1,239,452	360,322	147,923	564,021	—	2,311,718

## NOTES TO THE FINANCIAL STATEMENTS

## 14. INTANGIBLE ASSETS

	<b>The Group</b>
	2001 HK\$
Cost of product development capitalised during the year	310,100
Amortisation charges for the year	(17,933)
Carrying amount at balance sheet date	292,167

The amortisation charges for the year is included in the "Cost of sales" in the consolidated income statement.

## 15. INTEREST IN SUBSIDIARIES

	<b>The Company</b>
	2001 HK\$
Unlisted shares, at cost	26,954,990
Due from a subsidiary	242,520
	27,197,510

The amounts due from a subsidiary is unsecured, interest-free and have no fixed terms of repayments.

Details of the wholly-owned subsidiaries of the Company are as follows:

<b>Name of company</b>	<b>Place of incorporation</b>	<b>Issued and fully paid share capital</b>	<b>Principal activities and place of operation</b>
Waystech Group Limited	The British Virgin Islands	US\$10,000 ordinary share	Investment holding
InterCard Limited	Hong Kong	HK\$10,666,667 ordinary share	Smart card and plastic card manufacturing, system development and provision of research and development, marketing and sales in Hong Kong
Smart-Security Limited	Hong Kong	HK\$10,000 ordinary share	Development and provision of smart card application systems in Hong Kong
PMIS Limited	Hong Kong	HK\$10,000 ordinary share	Development and provision of smart card application systems in Hong Kong

Other than Waystech Group Limited, which is held directly by the Company, all subsidiaries are held by the Company indirectly.

## NOTES TO THE FINANCIAL STATEMENTS

## 16. INTEREST IN AN ASSOCIATE

	The Group	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	—	—
Share of net assets	—	2,047
	—	2,047

On 12 September 2001, the Company disposed all of its equity interest in Digital Memories International Limited to a company controlled by Carkey Limited, a shareholder of the Company, for a consideration of HK\$80,000. The sale consideration was determined with reference to the original cost of investment made by the Company.

## 17. OTHER INVESTMENT

	The Group	
	2001 HK\$	2000 HK\$
Unlisted investment in Hong Kong	—	5,100,000

The unlisted investment represents the convertible note which is interest bearing and is convertible into ordinary shares in accordance with the terms of the convertible note. During the year, the convertible note was cancelled with the principal refunded.

## 18. INVENTORIES

	The Group	
	2001 HK\$	2000 HK\$
Raw materials	1,160,896	1,647,103
Work-in-progress	20,995	59,325
Finished goods	341,098	91,670
	1,522,989	1,798,098

## NOTES TO THE FINANCIAL STATEMENTS

## 19. TRADE AND OTHER RECEIVABLES

	The Group	
	2001 HK\$	2000 HK\$
<b>Trade receivables</b>		
From third parties	7,925,683	4,383,496
<b>Other receivables</b>		
Deposits, prepayment and other debtors	916,378	981,709
Due from a shareholder	—	19,745,490
	916,378	20,727,199
	8,842,061	25,110,695

The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days. The ageing analysis of the trade receivables as at the balance sheet date is as follows:

	The Group	
	2001 HK\$	2000 HK\$
Current — 30 days	3,706,608	3,258,778
31 — 90 days	3,622,275	791,802
Over 90 days	596,800	332,916
	7,925,683	4,383,496

## 20. PLEDGED BANK DEPOSITS

At balance sheet date, bank deposits of HK\$2,026,131 (2000: Nil) were pledged as collateral for the short term banking facilities of a subsidiary of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

## 21. TRADE AND OTHER PAYABLES

	The Group	
	2001 HK\$	2000 HK\$
<b>Trade payables</b>		
To third parties	948,817	2,660,050
<b>Other payables</b>		
Accrued charges and other creditors	1,658,373	5,218,740
Due to directors	—	271,079
Due to a shareholder	—	8,125
	1,658,373	5,497,944
	2,607,190	8,157,994

All the trade payable are due within 1 month or on demand.

## 22. CONVERTIBLE NOTE

The convertible note of HK\$14,000,000 was interest bearing at Hong Kong prime rate and was convertible into ordinary share of InterCard Limited ("InterCard"), a subsidiary of the Company, in accordance with the terms of the convertible note.

On 11 June 2001, convertible note of HK\$8,750,000 was converted and applied in paying up in full 2,666,667 ordinary share of HK\$1 each of InterCard which were allotted and the share premium thereof HK\$6,083,333 was credited to the share premium account of InterCard. The remaining balance of the convertible note of HK\$5,250,000 was repaid in cash.

The comparative figure of convertible note shown in the consolidated balance sheet deemed the convertible note of HK\$8,750,000, as part of the Reorganisation, to be converted as mentioned above and the amount HK\$5,250,000 represents the remaining balance of the convertible note.

## NOTES TO THE FINANCIAL STATEMENTS

## 23. DEFERRED TAXATION

	The Group	
	2001 HK\$	2000 HK\$
Movement in deferred taxation comprises:		
At 1 January	201,000	—
Charge for the year (note 5)	1,063,927	201,000
At 31 December	1,264,927	201,000

The deferred tax liabilities represent the tax effect of the tax allowances in excess of depreciation. The Group and the Company had no significant unprovided deferred taxation at the balance sheet date.

## 24. ISSUED CAPITAL

	2001 HK\$
<i>Authorised:</i>	
1,000,000,000 ordinary shares of HK\$0.10 each	100,000,000
<i>Issued by fully paid:</i>	
320,000,000 ordinary shares of HK\$0.10 each	32,000,000

The following is the movements in the authorised and issued share capital of the Company during the period from 6 September 2001 (date of incorporation) to 31 December 2001.

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each, of which 1 share was allotted and issued fully paid at par to Codan Investment Company (Cayman) Limited, the subscriber of the Company. This 1 share was subsequently transferred to Mr. Ho Lut Wa, Anton, a director of the Company, on 10 September 2001 for cash at par.
- (b) On 6 December 2001, an aggregate of 779,999 shares were issued and allotted credited as fully paid at HK\$0.10 per share as consideration and in exchange for the acquisition of the entire issued share capital of Waystech. The excess of the fair value of the shares of Waystech, determined on the basis of the consolidated net assets of Waystech at that date, over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$26,876,990 was credited to the Company's capital reserve as detailed in note 26.

## NOTES TO THE FINANCIAL STATEMENTS

**24. ISSUED CAPITAL (Continued)**

- (c) On 6 December 2001, a total of 239,220,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on the 17 December 2001 by way of capitalisation of the sum of HK\$23,922,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the allotment and issue of the Placing shares under the Placing.
- (d) On 18 December 2001, 80,000,000 shares of HK\$0.10 each were issued at HK\$0.47 per share pursuant to the Placing.

A summary of the above movements in the issued share capital of the Company is as follows:

		<b>Number of shares issued</b>	<b>Issued and fully paid share capital HK\$</b>
Share allotted and issued fully paid at par on incorporation	(a)	1	0.1
Share issued as consideration for the acquisition of the entire issued share capital of Waystech	(b)	779,999	77,999.9
<hr/>			
Proforma issued capital as at 1 January 2000 and 31 December 2000		780,000	78,000
Share issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the allotment and issue of the shares under the Placing	(c)	239,220,000	23,922,000
Issue of share pursuant to the Placing	(d)	80,000,000	8,000,000
<hr/>			
Issued share capital as at 31 December 2001		320,000,000	32,000,000

The comparative of issued capital shown in the consolidated balance sheet represents 780,000 shares of HK\$0.1 each in the share capital of the Company before the capitalization issue and the Placing.

## NOTES TO THE FINANCIAL STATEMENTS

### 25. SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 6 December 2001, two share option schemes, namely the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes has been set out in Appendix IV of the Prospectus.

#### Share Option Scheme

Under the Share Option Scheme, the board of Directors or a duly authorised committee thereof which shall include the independent non-executive Directors may, at its discretion, invite any employee including any executive director of any company in the Group to take up options at HK\$1.00 per option to subscribe for shares in the Company (the "Shares" at the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediate preceding the date of offer and (iii) the nominal value of a Share, subject to a maximum of 10% of the total number of Shares in issue from time to time.

The total number of Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company (but excluding the Pre-IPO Share Option Scheme in respect of 28,800,000 shares) shall not exceed 10% of the total number of Shares in issue immediately following completion of the Placing and Capitalisation Issue.

As at 31 December 2001, no options under this scheme had been granted.

#### Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. On 6 December 2001, options to subscribe for an aggregate of 28,800,000 Shares at an exercise price of HK\$0.282 per share were granted by the Company to the Directors of the Company and certain employees of the Group. Pursuant to the Pre-IPO Share Option Scheme, the 5 executive Directors of the Group were granted options to subscribe for an aggregate of 24,000,000 shares in the Company (where details are disclosed in the section of "Directors' Interests in Equity Securities"), 2 senior management staff were granted options to subscribe for an aggregate of 4,800,000 Shares in the Company.

Each of the grantee to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise any time after the expiry of 12 months from the Listing Date and end on 5 December 2011 (both date inclusive). Upon acceptance of the grant of options, each grantee pays to the Company HK\$1.00.

No options had been exercised, cancelled or lapsed during the period from the date of grant to 31 December 2001.



## NOTES TO THE FINANCIAL STATEMENTS

## 26. RESERVES

## The Group

	Share premium HK\$	Contributed surplus HK\$	Other reserves HK\$	Retained profits HK\$	Total HK\$
At 1 January 2000	—	16,672,000	—	1,308,495	17,980,495
Net profit for the year	—	—	—	5,692,799	5,692,799
At 31 December 2000	—	16,672,000	—	7,001,294	23,673,294
Issue of shares	29,600,000	—	—	—	29,600,000
Capitalisation issue of shares	(23,922,000)	—	—	—	(23,922,000)
Share issue expenses	(5,678,000)	(2,686,331)	—	—	(8,364,331)
Issued of options	—	—	7	—	7
Net profit for the year	—	—	—	9,374,753	9,374,753
Dividend paid (Note 9)	—	—	—	(6,400,000)	(6,400,000)
<b>At 31 December 2001</b>	<b>—</b>	<b>13,985,669</b>	<b>7</b>	<b>9,976,047</b>	<b>23,961,723</b>

## The Company

	Share premium HK\$	Contributed surplus HK\$	Other reserves HK\$	Accumulated loss HK\$	Total HK\$
Arising on acquisition of subsidiaries	—	26,876,990	—	—	26,876,990
Issued of shares	29,600,000	—	—	—	29,600,000
Capitalisation issue of shares	(23,922,000)	—	—	—	(23,922,000)
Share issue expenses	(5,678,000)	(2,686,331)	—	—	(8,364,331)
Issued of options	—	—	7	—	7
Net loss for the year	—	—	—	(29,600)	(29,600)
<b>At 31 December 2001</b>	<b>—</b>	<b>24,190,659</b>	<b>7</b>	<b>(29,600)</b>	<b>24,161,066</b>

The contributed surplus of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group reorganisation set out in note 1 to the financial statements over the nominal value of the share capital of the Company issued in exchange therefor less share issue expense.

## NOTES TO THE FINANCIAL STATEMENTS

**26. RESERVES (Continued)**

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor less share issue expenses.

The Company's reserve available for distribution represent the contributed surplus and other reserves less accumulated loss. At the balance sheet date, the Company had HK\$24,161,066 reserves available for distribution.

**27. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES**

	2001 HK\$	2000 HK\$
Profit before taxation	11,020,753	7,219,801
Amortisation of intangible assets	17,933	—
Depreciation	918,640	1,203,607
Interest income	(210,947)	(198,133)
Interest expenses	544,875	787,094
Gain on disposal of subsidiary	(55,762)	—
Gain on disposal of associates	(78,165)	—
Share of result of associate	212	(125,995)
<i>Changes in working capital:</i>		
Inventories	275,109	(677,494)
Trade and other receivables	15,879,023	(19,183,584)
Trade and other payables	(1,120,621)	1,976,676
<b>Net cash inflow (outflow) from operating activities</b>	<b>27,191,050</b>	<b>(8,998,028)</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Share capital and share premium</b>	<b>Contributed surplus</b>	<b>Other reserves</b>	<b>Convertible note</b>	<b>Promissory notes</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2000	78,000	16,672,000	—	—	—
Issue of convertible note	—	—	—	14,000,000	—
Issue of promissory notes	—	—	—	—	302,250
Exercise of convertible note	—	—	—	(8,750,000)	—
At 31 December 2000	78,000	16,672,000	—	5,250,000	302,250
Issue of shares	37,600,000	—	—	—	—
Placing and listing expenses	(5,678,000)	(2,686,331)	—	—	—
Issue of Pre-IPO share option	—	—	7	—	—
Repayment of convertible notes	—	—	—	(5,250,000)	—
Settled on disposal of investment in subsidiaries	—	—	—	—	(302,250)
At 31 December 2001	32,000,000	13,985,669	7	—	—

## 29. NON CASH TRANSACTION

On 28 May 2001, 54% of the direct and indirect investment in Net Constructive Limited and iLogistix HK Limited respectively were disposed to independent third parties in settlement of the promissory notes amounting to HK\$302,250.

## NOTES TO THE FINANCIAL STATEMENTS

## 30. DISPOSAL OF SUBSIDIARIES

	2001 HK\$
Net assets disposed of:	
Fixed assets	4,437
Other receivables	389,611
Bank balances and cash	683,856
Other payables	(330,183)
Minority interests	(187,383)
	560,338
Gain on disposal	55,762
	616,100
Satisfied by:	
Settlement of promissory notes	302,250
Cash	313,850
	616,100
Net cash outflow arising on disposal:	
Bank balances and cash disposed	(683,856)
Cash consideration	313,850
	(370,006)

## NOTES TO THE FINANCIAL STATEMENTS

**31. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follows:

	2001 HK\$	2000 HK\$
Within one year	634,862	420,420
In the second to fifth years inclusive	—	320,166
	634,862	740,586

**32. RELATED PARTY TRANSACTIONS**

During the year, the Group entered into the following transactions with related parties.

	Note	2001 HK\$	2000 HK\$
Rental income received from a company controlled by a shareholder of the Company	(a)	18,000	152,000
Sale of investment to a company controlled by a shareholder of the Company	(b)	278,850	—
Proceed from disposal of an associate	(c)	80,000	—

Notes:

- (a) The operating lease was terminated on 4 June 2001. In the opinion of the directors, this transaction was carried out in the ordinary course of business based on fair market rental value.
- (b) The Group disposed of 70% equity interest in and a loan of US\$70,000 receivable from Net Constructive Limited to two independent third parties and a related party. The Group disposed of 32.5% equity interest in and a loan of US\$32,500 receivable from Net Constructive Limited to a company controlled by a shareholder of the Company on 30 May 2001 for a consideration of US\$3,250 and US\$32,500 respectively. The gain attributable to the Group arising from this sale of investment amounted to HK\$15,691. In the opinion of the directors, the consideration of this transaction was determined based on the cost of investment.
- (c) On 12 September 2001, the Group disposed all of its equity interest in an associate, Digital Memories International Limited, to a company controlled by Carkey Limited, a shareholder of the Company, for a consideration of HK\$80,000. The consideration was determined with reference to the original cost of investment made by the Group. It resulted in a gain from disposal of investment in the associate of HK\$78,165.

## FINANCIAL SUMMARY

The following is a summary of the combined results and combined assets and liabilities of the Group for each of the three years ended 31 December 2001 prepared on the basis set out in the notes below:

### Combined Results

	1999 HK\$	2000 HK\$	2001 HK\$
Turnover	24,978,267	34,391,855	43,988,073
Profit from operation	5,311,463	7,880,900	11,565,840
Finance costs	(203,948)	(787,094)	(544,875)
Share of result of associate	—	125,995	(212)
Profit before taxation	5,107,515	7,219,801	11,020,753
Taxation	—	(1,573,019)	(1,646,000)
Profit after taxation	5,107,515	5,646,782	9,374,753
Minority interest	—	46,017	—
Net profit attributable to the shareholders	5,107,515	5,692,799	9,374,753
Basic earnings per share	2.13 cents	2.37 cents	3.86 cents
<b>Combined Assets and Liabilities</b>			
Non-current assets	991,345	2,313,765	9,275,272
Current assets	10,476,022	35,811,361	50,558,568
Current liabilities	2,158,872	13,985,449	2,607,190
Non-current liabilities	—	388,383	1,264,927

#### Notes:

1. The Company was incorporated in the Cayman Islands on 6 September 2001 and became the ultimate holding company of the companies comprising the Group on 6 December 2001 as result of a group reorganisation. Accordingly, the only balance sheets for the Group that have been prepared are those set out on pages 25 and 26 of the financial statements.
2. The results of the Group for each of the two years ended 31 December 1999 and 2000 presented above have been extracted from the Company's prospectus dated 13 December 2001 when the listing of the Company's shares was sought on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
3. The results for the year ended 31 December 2001 have been extracted from the consolidated income statement as set out on page 24 of the financial statements.
4. The financial summary of the Group, which is presented for information only, has been prepared on the basis that the structure and business activities of the Group immediately after the completion of the Group reorganisation had been in existence throughout the three years ended 31 December 2001.