



CARDLINK TECHNOLOGY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2002

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 reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

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

This report, for which the directors (the “Directors”) of 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The unaudited turnover of the Group in the first six months of 2002 was HK\$12.22 million.
- The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

UNAUDITED RESULTS

The board of directors (the “Directors”) of Cardlink Technology Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 together with the comparative figures as follows.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2002	2001	2002	2001
	Note	HK\$	HK\$	HK\$	HK\$
Turnover	2	6,205,113	12,468,309	12,215,896	22,009,422
Cost of sales		<u>(4,381,511)</u>	<u>(6,140,011)</u>	<u>(7,532,970)</u>	<u>(12,011,482)</u>
Gross profit		1,823,602	6,328,298	4,682,926	9,997,940
Other revenue	3	274,797	145,237	398,112	166,428
Gain on disposal of investments		—	55,762	—	55,762
Selling and distribution costs		(770,496)	(447,102)	(1,494,259)	(863,437)
Administrative expenses		<u>(2,533,028)</u>	<u>(2,386,197)</u>	<u>(4,539,860)</u>	<u>(3,957,306)</u>
(Loss) Profit from operation	2	(1,205,125)	3,695,998	(953,081)	5,399,387
Finance costs		—	(206,542)	—	(519,912)
Share of result of associate		<u>—</u>	<u>(85)</u>	<u>—</u>	<u>(212)</u>
(Loss) Profit before taxation	4	(1,205,125)	3,489,371	(953,081)	4,879,263
Taxation	5	<u>160,000</u>	<u>(569,000)</u>	<u>110,000</u>	<u>(769,000)</u>
Net (loss) profit attributable to the shareholders		<u>(1,045,125)</u>	<u>2,920,371</u>	<u>(843,081)</u>	<u>4,110,263</u>
Dividend	6	<u><u>—</u></u>	<u><u>6,400,000</u></u>	<u><u>—</u></u>	<u><u>6,400,000</u></u>
(Loss) Earnings per share					
— Basic	7	<u><u>(0.33) cents</u></u>	<u><u>1.22 cents</u></u>	<u><u>(0.26) cents</u></u>	<u><u>1.71 cents</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2002	2001
	<i>Note</i>	HK\$	HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	14,807,351	8,983,105
Intangible assets		<u>697,200</u>	<u>292,167</u>
		15,504,551	9,275,272
Current assets			
Inventories	9	3,736,715	1,522,989
Trade and other receivable	10	7,866,801	8,842,061
Tax recoverable		592,548	198,661
Pledged bank deposit	11	2,038,751	2,026,131
Bank balances and cash		<u>30,901,253</u>	<u>37,968,726</u>
		45,136,068	50,558,568
Current liabilities			
Trade and other payable	12	<u>4,257,050</u>	<u>2,607,190</u>
Net current assets		<u>40,879,018</u>	<u>47,951,378</u>
Total assets less current liabilities		56,383,569	57,226,650
Non-current liabilities			
Deferred taxation		<u>1,264,927</u>	<u>1,264,927</u>
NET ASSETS		<u>55,118,642</u>	<u>55,961,723</u>
CAPITAL AND RESERVES			
Issued capital		32,000,000	32,000,000
Reserves	13	<u>23,118,642</u>	<u>23,961,723</u>
		<u>55,118,642</u>	<u>55,961,723</u>

CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

	Share capital <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Other reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2001	78,000	16,672,000	—	7,001,294	23,751,294
Profit for the six months	—	—	—	4,110,263	4,110,263
Dividend paid	—	—	—	(6,400,000)	(6,400,000)
	<u>78,000</u>	<u>16,672,000</u>	<u>—</u>	<u>4,711,557</u>	<u>21,461,557</u>
At 30 June 2001	<u>78,000</u>	<u>16,672,000</u>	<u>—</u>	<u>4,711,557</u>	<u>21,461,557</u>
At 1 January 2002	32,000,000	13,985,669	7	9,976,047	55,961,723
Loss for the six months	—	—	—	(843,081)	(843,081)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(843,081)</u>	<u>(843,081)</u>
At 30 June 2002	<u>32,000,000</u>	<u>13,985,669</u>	<u>7</u>	<u>9,132,966</u>	<u>55,118,642</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Cash flows from operating activities		
Cash generated from operations	159,545	20,523,360
Profit tax paid	<u>(283,887)</u>	—
Net cash (outflow) inflow from operating activities	<u>(124,342)</u>	<u>20,523,360</u>
Cash flows from investing activities		
Interest received	232,260	113,428
Purchase of property, plant and equipment	(6,721,233)	(1,299,696)
Acquisition of intangible assets	(441,538)	—
Net cash outflow from disposal of subsidiaries	—	(370,006)
Proceeds from disposal of other investment	—	<u>1,000,000</u>
Net Cash used in investing activities	<u>(6,930,511)</u>	<u>(556,274)</u>
Cash flows from financing activities		
Interest paid	—	(519,912)
Dividend paid	—	(6,400,000)
Repayment of convertible note	—	<u>(5,250,000)</u>
Net cash used in financing activities	<u>—</u>	<u>(12,169,912)</u>

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$	HK\$
(Decrease) Increase in cash and cash equivalent	(7,054,853)	7,797,174
Cash and cash equivalents brought forward	<u>39,994,857</u>	<u>3,802,568</u>
Cash and cash equivalents carried forward	<u><u>32,940,004</u></u>	<u><u>11,599,742</u></u>
Analysis of the balances of cash and cash equivalents		
Pledged bank deposit	2,038,751	1,000,000
Bank balances and cash	<u>30,901,253</u>	<u>10,599,742</u>
	<u><u>32,940,004</u></u>	<u><u>11,599,742</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND BASIS OF PREPARATION

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 on 6 December 2001. Further details of the Reorganisation are set out 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.

The unaudited consolidated results have been prepared using merger basis of accounting as if the existing Group’s structure had been in place throughout the period from 1 January 2001 to 30 June 2002.

The unaudited condensed interim financial statements have been prepared in accordance with Statements of Standard Accounting Practice (the “SSAP”) No. 25 “Interim Financial Reporting” and Interpretations issued by the Hong Kong Society of Accountants (the “HKSA”) and accounting principles generally accepted in Hong Kong. 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.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim financial report.

2. SEGMENTAL INFORMATION

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.

The analysis of the turnover and contribution to profit from operation by principal activities of the Company and its subsidiaries during the periods are as follows:

	Unaudited			
	Group turnover			
	Three months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sales of smart cards and plastic cards	5,740,659	5,039,344	9,507,478	13,352,259
Sales of smart card application systems	342,009	7,217,446	2,550,663	8,075,589
Others	122,445	211,519	157,755	581,574
	<u>6,205,113</u>	<u>12,468,309</u>	<u>12,215,896</u>	<u>22,009,422</u>

	Unaudited			
	Contribution to profit from operation			
	Three months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sales of smart cards and plastic cards	1,489,672	2,934,862	2,323,142	6,000,302
Sales of smart card application systems	211,485	3,181,917	2,202,029	3,416,063
	1,701,157	6,116,779	4,525,171	9,416,365
Unallocated expenses	<u>(2,906,282)</u>	<u>(2,420,781)</u>	<u>(5,478,252)</u>	<u>(4,016,978)</u>
(Loss) Profit from operation	<u>(1,205,125)</u>	<u>3,695,998</u>	<u>(953,081)</u>	<u>5,399,387</u>

3. OTHER REVENUE

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Interest income	115,139	110,237	232,260	113,428
Rental income	150,000	10,000	150,000	28,000
Sundry income	9,658	25,000	15,852	25,000
	<u>274,797</u>	<u>145,237</u>	<u>398,112</u>	<u>166,428</u>

4. (LOSS) PROFIT BEFORE TAXATION

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$

This is arrived at after charging:

(a) Finance costs

Interest on bank loans and overdrafts wholly repayable within five years	—	12,460	—	12,460
Interest on convertible note	—	194,082	—	507,452
	<u>—</u>	<u>206,542</u>	<u>—</u>	<u>519,912</u>

(b) Other items

Amortization of capitalised product development costs	23,054	—	36,504	—
Staff costs	3,165,708	3,054,720	6,200,506	6,284,960
Cost of inventories	2,303,575	4,696,016	3,565,993	7,672,565
Net loss on disposal of property, plant and equipment	—	—	102,214	—
Depreciation of property, plant and equipment	553,154	52,159	794,773	431,622
Operating lease charges	234,039	254,646	481,816	465,346

5. TAXATION

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$

The credit (charge) comprises:

Provision for Hong Kong Profits Tax attributable to the Company and its subsidiaries	<u>160,000</u>	<u>(569,000)</u>	<u>110,000</u>	<u>(769,000)</u>
--	----------------	------------------	----------------	------------------

Hong Kong Profits Tax has been provided at the rate of 16% (2001: 16%) on the Group's estimated assessable profits for the periods.

There was no material unprovided deferred tax for the periods.

6. DIVIDEND

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Dividend	—	(6,400,000)	—	(6,400,000)

The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2002.

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 the Prospectus.

7. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the three months and the six months ended 30 June 2002 is based on the unaudited loss attributable to the shareholders of HK\$1,045,125 and HK\$843,081 (2001: profit of HK\$2,920,371 and HK\$4,110,263) and the weighted average number of 320,000,000 (2001: 240,000,000) shares in issue on the assumption that the Reorganisation had been effective on 1 January 2001.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the three months and six months ended 30 June 2002 and the corresponding periods in 2001.

8. PROPERTY, PLANT AND EQUIPMENT

	Printing and testing equipment HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Leasehold improvement HK\$	Motor vehicle HK\$	Total HK\$
Cost						
At 1 January 2002	11,753,833	1,196,514	380,182	1,036,970	177,604	14,545,103
Addition during the period	6,112,831	273,940	21,625	41,400	271,437	6,721,233
Disposal	—	—	(10,533)	(169,846)	—	(180,379)
At 30 June 2002	17,866,664	1,470,454	391,274	908,524	449,041	21,085,957
Accumulated depreciation						
At 1 January 2002	4,538,571	368,683	282,838	345,265	26,641	5,561,998
Charge for the period	533,576	122,719	17,816	93,854	26,808	794,773
Write back on disposal	—	—	(4,565)	(73,600)	—	(78,165)
At 30 June 2002	5,072,147	491,402	296,089	365,519	53,449	6,278,606
Net book value						
At 30 June 2002	12,794,517	979,052	95,185	543,005	395,592	14,807,351
At 31 December 2001	7,215,262	827,831	97,344	691,705	150,963	8,983,105

9. INVENTORIES

	Unaudited 30 June 2002 HK\$	Audited 31 December 2001 HK\$
At cost:		
Raw materials	1,289,626	1,160,896
Work-in-progress	98,285	20,995
Finished goods	<u>2,348,804</u>	<u>341,098</u>
	<u><u>3,736,715</u></u>	<u><u>1,522,989</u></u>

10. TRADE AND OTHER RECEIVABLE

	Unaudited 30 June 2002 HK\$	Audited 31 December 2001 HK\$
Trade receivables	4,343,608	7,925,683
Deposits, prepayment and other debtors	<u>3,523,193</u>	<u>916,378</u>
	<u><u>7,866,801</u></u>	<u><u>8,842,061</u></u>

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 is as follows:

	Unaudited 30 June 2002 HK\$	Audited 31 December 2001 HK\$
Current – 30 days	3,804,853	3,706,608
31 – 90 days	405,061	3,622,275
Over 90 days	<u>133,694</u>	<u>596,800</u>
	<u><u>4,343,608</u></u>	<u><u>7,925,683</u></u>

11. PLEDGED BANK DEPOSITS

At 30 June 2002, bank deposits of HK\$2,038,751 (31 December 2001 : HK\$2,026,131) were pledged as collateral for the short term banking facilities of a subsidiary of the Company.

12. TRADE AND OTHER PAYABLE

	Unaudited 30 June 2002 HK\$	Audited 31 December 2001 HK\$
Trade payables	2,263,807	948,817
Accrued charges and other creditors	<u>1,993,243</u>	<u>1,658,373</u>
	<u><u>4,257,050</u></u>	<u><u>2,607,190</u></u>

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

13. RESERVES

There have been no movements in the reserves of the Group during the periods except for the net losses for the three months and six months ended 30 June 2002.

14. RELATED PARTY TRANSACTION

There was no related party transaction for the six months ended 30 June 2002.

15. POST BALANCE SHEET EVENT

Subsequent to 30 June 2002, the Group entered into an agreement with a third party to acquire a 8% convertible note of HK\$7,000,000 due on 9 July 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operation Review

The operation had been slowed down by the unfavourable market sentiment and continuous economic uncertainty in the first half of year 2002. The unaudited turnover for the period ended 30 June 2002, was HK\$12.22 million, a decrease of 44% as compared to HK\$22 million for the same period of 2001.

The decrease in our turnover was mainly due to the cancellation and delay in the job orders for the implementation of smart card application systems resulted from the poor market conditions and the hold back of capital expenditure of our customers.

The turnover for the smart card application systems decreased by 68% to HK\$2.55 million for six months ended 30 June 2002, as compared to HK\$8.08 million for the same period of 2001.

The overall market for the telecommunication products remains sluggish. The slump sales of miniature SIM cards that fit inside some mobile phones had greatly reduced the demand for smart cards. As a result, most of our customers had reduced their order size to maintain lower stock level. The turnover of smart cards manufacturing was HK\$9.51 million for the first half of year 2002 as compared to HK\$13.35 million for the same period of 2001.

The management has continued to exercise tight cost control. The increase in administrative expenses was mainly due to the additional professional and routine but mandatory expenses required for the compliance of the listing requirements on GEM.

Despite the poor market conditions, the management believes that the market for smart cards and smart card application systems in the People's Republic of China ("PRC") has considerable development potential and opportunities. With a view to expanding its market share in the PRC, the Group has been actively in exploring new markets and clientele in the PRC. The Group had participated in 5 exhibitions and tradeshows, which were mainly held in Southern PRC, during the periods under review. Accordingly, the selling and distribution costs have increased by 73% as compared to the same period of 2001.

Apart from the PRC's market, the Group has also attempted to penetrate into new markets in North Asian and South East Asian countries by adopting competitive pricing policy. Accordingly, the gross profit margin has been decreased to 38% as compared to 45% for the same period of last year. With the Group's continuing efforts in diversifying its customer base, new business was concluded in North East Asia Region and the management believes this market penetration would bring in fruitful return after consolidating its market shares.

In line with the business objectives as stated in the Prospectus, a representative office was set up in Shenzhen, the PRC in April 2002 in order to capture the smart cards and related peripheral market in Shenzhen, the PRC.

As stated in the Prospectus, it was planned to set up production premises in the PRC in order to support the anticipated growth in production of smart cards and related peripheral hardware in the PRC. After due consideration, there was certain refinements as to the location of the new production premises. A new production premise was scheduled to be established in Zhongguancun Science and Technology Park in Beijing, instead of Shenzhen. A wholly owned subsidiary of the Group was formed in the Republic of Mauritius in June 2002 to hold this new operation in PRC. Currently, the incorporation of Beijing Venus Technology Limited which is a wholly foreign-owned enterprise, was underway. It was anticipated that the production line should commence operation by the fourth quarter of this year.

Prospects

Looking ahead, the Group will continue to adopt the competitive pricing policy to penetrate into new markets in North Asian and South East Asian countries and to diversify its customer base. With the conclusion of new business in North East Asia Region, as an initial stage, the management believes that this strategy will bring in encouraging return after consolidating its market shares.

With a view to establishing co-operation with the PRC business partner through strategic investment, the Group subscribed for a convertible note of HK\$7 million in an investment holding company which has investments in the forwarding business, customs duty consultancy services, provision of warehouse facility and logistic management in Southern PRC in July 2002. It was agreed with the Note Issuer that the Group will be the sole supplier of smart card/smart card solution application systems for the subsidiaries of the Note Issuers. It is expected that such an alliance will open up new channels for distribution of our products in Southern PRC. The convertible note bears interest at 8% per annum with maturity date on 9 July 2004.

The Group places heavy emphasis on research and development in order to keep ahead of the competitors. Our research and development team is constantly updating existing systems and on the other hand, realizing and commercializing technological breakthroughs. The co-operation with a Hong Kong government-assisted economic development organization will ensure the steady exposure of our products in the market.

Liquidity and financial resources

The Company was listed on the GEM of the Stock Exchange through placement of shares. As disclosed in the Prospectus dated 13 December 2001, the Group intended to apply the net proceeds from the initial public offering of HK\$29 million to finance its expansion plan. The unutilized proceeds were placed in Hong Kong dollars short-term interest bearing deposits with banks. For the period under review, the Company financed its operations with internal fundings and did not have any bank loans. The Group has total current assets of HK\$45.14 million and current liabilities of HK\$4.26 million as at 30 June 2002. As at 30 June 2002, the Group had cash and cash equivalents of HK\$32.94 million.

Employee information

As at 30 June 2002, the Company employed a total of 71 employees, of which all were located in Hong Kong. Employee cost, including directors' remuneration, was approximately HK\$6.20 million for the period under review. The Company remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

Resignation of Non-executive Director

Mr. Wong Chau Chi resigned as Non-executive Director on 20 June 2002.

Capital structure

There has been no change in the capital structure of the Company for the period under review.

Significant investments

For the six months ended 30 June 2002, the Group had no significant investments.

Material acquisitions and disposals/future plans for material investments

The Group had no material acquisitions or disposals during the six months ended 30 June 2002. It has no plans for material investments or capital assets other than those set out in the Prospectus and “Prospects” of this section.

Segmental information

Details have been set out in Note 2 under “Notes to the Unaudited Interim Financial Statements” and further elaborated under “Business and Operation Review” of this section.

Charge on group assets and contingent liabilities

As at 30 June 2002, the Group has total bank balances of HK\$32.94 million of which bank deposits of HK\$2.04 million were pledged as collateral for the short term banking facilities of a subsidiary of the Company.

The Group did not have any significant contingent liabilities as at 30 June 2002.

Gearing ratio

As at 30 June 2002, the shareholders’ fund of the Group was HK\$55.12 million. The Group has no outstanding borrowing as at 30 June 2002. The gearing expressed as a ratio of total long term debts to shareholders’ fund was zero as of 30 June 2002. (2001 : zero)

Exposure to fluctuations in exchange rates

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 foreign currency exchange risk. No hedging or other alternatives have been implemented.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from listing date to 30 June 2002:

Business Objectives as stated in the Prospectus dated 13 December 2001

Actual business progress

Product/application system development and enhancement

- | | |
|---|--|
| 1. Continue the development and enhancement of mini smart card reader for mobile application | Undergoing. ISO14443 Readers connected with iPaq Pocket PC has completed, and is on progress with readers connecting with Palm |
| 2. Continue the development and enhancement of the PDA version of InterGuard | Undergoing, one new version product will launch specially for construction site inspection |
| 3. Continue the development and enhancement of the second generation of PMIS which runs on MSSQL platform | Completed |

Research and Development

- | | |
|--|--|
| 1. Set up a research and development center in Shenzhen | As the new production premises decided to be sited in Beijing, the PRC, the Company will set up the research and development centre in Northern China instead. Currently we are out-sourcing certain research and development projects to our business partner in Shenzhen |
| 2. Commence the development of the third generation of PMIS which runs on UNIX and Oracle platform | Undergoing |
| 3. Commence the development of smart card readers to be used in kiosk for fare collection | Undergoing |
| 4. Commence the development of MCS for mobile solution with application of mini smart card reader | Undergoing |
| 5. Evaluate the feasibility for the development of COS | After evaluating the feasibility for development of COS, the Company is considering to purchase COS off the shelf as it is difficult to start up with limited volume (Qty) and applications |
| 6. Evaluate the feasibility of the development of IVS | Evaluating |

Business Objectives as stated in the Prospectus dated 13 December 2001

Actual business progress

- | | |
|--|---|
| 7. Evaluate the feasibility of the development of VRS | Evaluating but it was slowed down due to shrinking economy |
| 8. Form strategic alliances with software vendors for the development of PMIS | Undergoing and we have liaised with a Hong Kong government-assisted economic development organization to promote PMIS |
| 9. Commence developing the smart card reader applying the Bluetooth Technology | Evaluating but it was slowed down due to sluggish market demand |

Production expansion

- | | |
|--|---|
| 1. Set up and commence operation of a new production plant in the PRC with monthly card production capacity of approximately 2 million | The set up of the new production plant in Beijing is underway. The operation is expected to commence in the fourth quarter of this year |
|--|---|

Sales and marketing

- | | |
|--|--|
| 1. Set up a sales representative office in Shenzhen, the PRC | Completed |
| 2. Employ additional staff for its sales and marketing team | New sales executives were employed in the period under review |
| 3. Participate in trade exhibitions such as Securitex 2002 | <p>In March 2002</p> <ul style="list-style-type: none">➤ participated in the 3rd Dongguan International Textiles and Clothing Fair 2002 (Dongguan, PRC)➤ participated in the 9th Shenzhen International Electronic Devices Exhibition (Shenzhen, PRC) <p>In April/May 2002</p> <ul style="list-style-type: none">➤ participated in Shantou IT & OA Expo (Shantou, PRC) <p>In June 2002</p> <ul style="list-style-type: none">➤ participated in ASIAN Securitex 2002 (Hong Kong)➤ participated in South China IT Expo 2002 (Guangzhou, PRC) |

Business Objectives as stated in the Prospectus dated 13 December 2001

4. Form strategic alliance or joint ventures with distribution companies in the PRC

Actual business progress

Through subscription of a convertible note of HK\$7 million in July 2002, the Group established co-operation with a PRC business partner which has investments in the forwarding business, customs duty consultancy services, provision of warehouse facilities and logistics management in southern PRC

It was agreed with the Note Issuer that the Group will be the sole supplier of smart card/smart card solution applications systems for the subsidiaries of the Note Issuers. This alliance would open up new channels for distribution of our products in southern PRC

Licence and certificate development

1. Obtain the approval from VISA International for the manufacturing of VISA cards in Hong Kong

The application is pending for approval from VISA International. The Group is considering to withdraw the application in Hong Kong in view of the current economic environment in Hong Kong. To support the anticipated growth in the economy in the PRC, it is planned to submit application to VISA International for the manufacturing of VISA cards in the PRC after the establishment of the new production premises in Beijing, the PRC

2. Commence preparation for the obtainment of ISO9000

Undergoing

USE OF PROCEEDS

As a result of the listing of the Company's shares on the GEM in Hong Kong and the share placement, the Company obtained net proceeds of approximately HK\$29 million. The net proceeds have been applied in the following areas:

	Use of proceeds as stated in the Prospectus <i>HK\$ million</i>	Amount utilized up to 30 June 2002 <i>HK\$ million</i>
Sales and marketing activities	8.8	1.5
Expansion of production capacity	7.5	6.1
Research and development in smart card related technologies	6.0	0.1
Research and development in product/application system development and enhancement	5.0	0.4
General working capital	1.7	1.4
	<u>29.0</u>	<u>9.5</u>

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVE'S INTEREST IN SHARE CAPITAL AND OPTIONS

(a) Share Capital

As at 30 June 2002, the interests of the Directors in share capital of the Company or any associated corporation as recorded in the register of the Company required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of listed issuer as referred to in rule 5.40 of the GEM Listing Rules are set out below:

Name of Director	Note	Number of Shares held				Total
		Personal Interest	Family Interest	Corporate Interest	Other Interest	
WONG Hon Sing	1	—	—	153,300,000	—	153,300,000
WONG Chi Ming		6,132,000	—	—	—	6,132,000
HO Lut Wa, Anton		6,132,000	—	—	—	6,132,000
WONG Ka Chu		3,504,000	—	—	—	3,504,000

Note 1: 153,300,000 Shares are held by Carkey Limited which is wholly owned by Mr. WONG Hon Sing.

(b) Share Options

On 6 December 2001, two share option schemes of the Company were approved by shareholders of the Company, namely, the Pre-IPO Share Option Scheme and the Share Option Scheme (both terms as defined in the Prospectus). The Summary of the terms of the two schemes has been set out in Appendix IV of the Prospectus under the section headed "Share Option Schemes".

As at 30 June 2002, no option has been granted or agreed to be granted pursuant to the Share Option Scheme.

The Company had granted a total of 28,800,000 options under the Pre-IPO Share Option Scheme to its executive directors and employees.

As at 30 June 2002, details of the share options outstanding are as follows:

Name of Director	Date of Grant	Number of options	
		outstanding as at 30 June 2002	Exercise price of options HK\$
WONG Hon Sing	6 December 2001	4,000,000	0.282
WONG Chi Ming	6 December 2001	4,000,000	0.282
HO Lut Wa, Anton	6 December 2001	8,000,000	0.282
WONG Ka Chu	6 December 2001	4,000,000	0.282
LEI Heong Man	6 December 2001	4,000,000	0.282

2 employees of the Group have been granted 4,800,000 options on 6 December 2001 at an exercise price of HK\$0.282.

The exercise period for all the options granted under the Pre-IPO Share Option Scheme shall commence on the date falling 12 months after the Listing Date (20 December 2001) and end on 5 December 2011 (both date inclusive).

Save as disclosed above, at no time during the six months ended 30 June 2002 were rights to acquire benefits by means of the acquisition of shares in or debentures of the company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the following interests of 10% or more in the issued 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 shareholder	<i>Note</i>	Number of shares held	Percentage of interests
Carkey Limited	(i)	153,300,000	47.9
Wong Hon Sing	(i)	153,300,000	47.9
i-Concepts Investment Limited	(ii)	58,400,000	18.3
Dickson Group Holdings Limited	(ii)	58,400,000	18.3

Note:

- (i) Mr. Wong Hon Sing is deemed to be a substantial shareholder of the Company by reason of his 100% beneficial interest in Carkey Limited. The Shareholding is duplicated in the directors' and chief executive's interests disclosed above.
- (ii) i-Concepts Investment Limited is a wholly owned subsidiary of Dickson Group Holdings Limited, a listed company on the main board of the Stock Exchange and Dickson Group Holdings Limited is therefore deemed to be interested in the Shares.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprised two independent non-executive Directors, namely, Ms. WONG Ka Wai, Jeanne and Mr. LEUNG Ka Kui, Johnny.

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 Group's unaudited results for the six months ended 30 June 2002 have been reviewed by the audit committee.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the six months ended 30 June 2002, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

COMPETING INTERESTS

As at 30 June 2002, none of the directors or the management shareholders (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

INTEREST OF SPONSOR

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 30 June 2002.

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, until 31 December 2003.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2002, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the Company’s shares during the period.

By Order of the Board
WONG Chi Ming
Chairman

Hong Kong, 9 August 2002