



Cardlink Technology Group Limited

錯聯科技集團有限公司

(Incorporated in Cayman Islands with limited liability)



2002 Annual Report

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which 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” 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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Corporate Information

Directors

Executive Directors

Wong Chi Ming (*Chairman*)
Fung Wing Mou, Bernard
Ho Lut Wa, Anton
Lei Heong Man
Wong Hon Sing
Wong Ka Chu

Independent Non-Executive Director

Leung Ka Kui, Johnny
Wong Ka Wa, Jeanne

Compliance officer

Lei Heong Man

Qualified accountant

Choi Man Fai, Fiana (*FCCA, AHKSA*)

Company secretary

Wong Man Yee, Grace (*ACS, ACIS*)

Authorised representatives

Ho Lut Wa, Anton
Lei Heong Man

Audit committee

Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

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

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
G/F, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Principal bankers

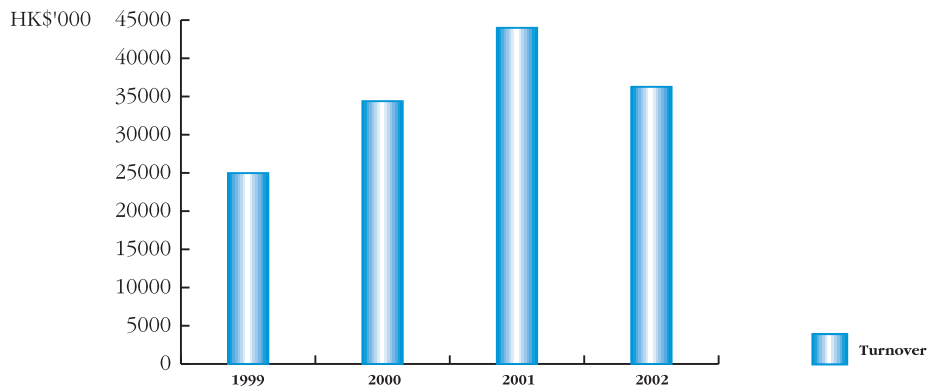
Hang Seng Bank
Nanyang Commercial Bank Limited

Auditors

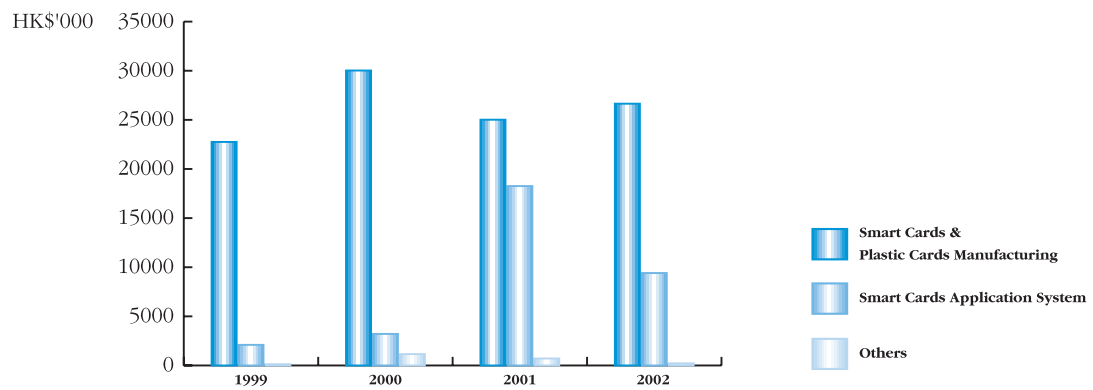
Moore Rowland

Financial Highlights

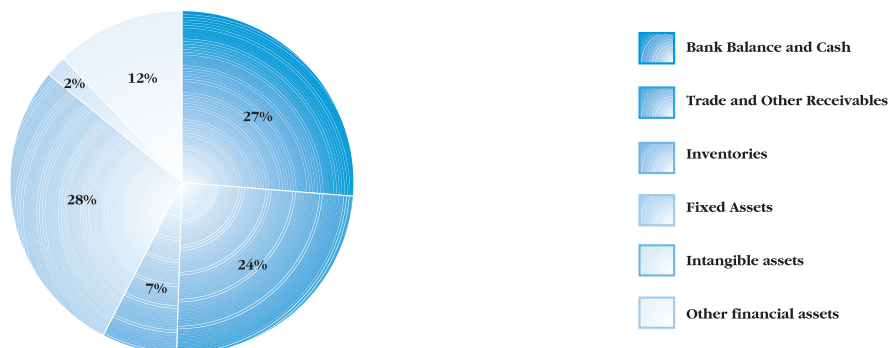
Turnover



Turnover by Segments



Total Assets as at 31 December 2002





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 Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 30 April 2003 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 2002.
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

Notice of Annual General Meeting



- (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 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, 26 March 2003

Principal place of business:

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

Notice of Annual General Meeting



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, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, 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 4–6 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 Annual Report of the Company for the year ended 31 December 2002.



Chairman's Statement

TO OUR SHAREHOLDERS

2002 was a difficult year for Cardlink Technology Group Limited ("Cardlink" or "Company") and its subsidiaries (the "Group"). Although the business was inevitably affected by the gloomy business environment, the Group was able to identify the right business focus and reacted promptly to devise new strategies for future growth.

Results

For the year ended 31 December 2002, the Group recorded a consolidated turnover of HK\$36 million (2001: HK\$44 million) and loss attributable to shareholders of approximately HK\$3 million.

Dividend

The Board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2002.

Business Review

During the year under review, the performance of the smart card industry was inevitably impaired by the global economic downturn. Sales of smart card application systems decreased substantially due to the delay or cancellation of orders. On the other hand, due to increasing competition in the telecommunications industry, the Group's smart card manufacturing business experienced a substantial price cut in 2002 and as a result led to a dilution of the profit margin of the product.

Despite such market adversities, the Group did not slow down in momentum and took proper strategic steps to prepare for its future rebound. The Group subscribed for a 8% convertible note of HK\$7 million in an investment holding company which has extensive business spectrum and network in the People's Republic of China (the "PRC"). In addition, the Group set up a representative office in Shenzhen, the PRC in April 2002 and a new production plant in Beijing, the PRC in December 2002 respectively in order to tap into the PRC's smart card market.

The Group also participated in various exhibitions and tradeshow in the PRC and South East Asia to introduce and promote its smart card solutions and products. It was encouraging that new contracts were concluded in North East and South East Asia Region in 2002.

Awards and Patent

The Group's PMIS was granted the invention patent under the Taiwan Patent Law on 10 December 2002 for the period of 11 August 2002 to 26 March 2021. Not only is the Group recognized for its product quality, but also for its contribution to society. In December 2002, the Group's wholly owned subsidiary, PMIS Limited, was presented the Caring Company Award by the Hong Kong Council of Social Service.

Future Prospects

The Group is confident that the smart cards market in the PRC and the Southeast Asia will continue to grow in future. In order to capture the growing business opportunities in these regions, the Group plans to allocate extra resources to the new production facilities for smart card manufacturing in Beijing, the PRC. By continuing to improve its smart card solutions and application systems as well as the establishment of a solid network and diversifying its customers base, the Group is confident that such unrelenting efforts to endure challenges and to maintain its sharp market vision will lead to business success and profitability when the market is ready for a full recovery in the future.

A Note of appreciation

On behalf of the Board, I would like to take this opportunity to express our gratitude to all members of the Board and staff for their dedication and contribution to the Group, especially during the difficult times of year 2002. Also, I would also like to express my heartfelt appreciation to our shareholders, investors and customers for their continuous support.

Wong Chi Ming
Chairman

Hong Kong, 14 March 2003



Management Discussion and Analysis

BUSINESS AND OPERATION REVIEW

While many had hope to see an economic recovery for year 2002, external factors in the social and economical environment continued to hinder the speed of the market revival and affect business sentiments across all industries in the world. The sluggish business environment also brought about a fierce price competition in various industries. Like all other businesses, the smart card industry was inevitably affected.

During the year under review, turnover of the Group amounted to HK\$36 million as compared to HK\$44 million for the same period of 2001. Of the total turnover amount for the year, HK\$27 million or 74% was generated from manufacturing and sales of smart cards and plastic cards and HK\$9 million or 26% was generated from sale of smart card application systems. The gross profit margin was 22%, representing a decrease of 27% from 49% in 2001. The loss attributable to shareholders was approximately HK\$3 million in 2002.

The decrease in turnover was mainly attributed to the decrease in sales of smart card application systems. The general weak economic condition and continuous global economic downturn had translated into setback in commercial confidence and widespread risk aversion sentiment which made customers became more cautious in placing orders, and even withheld some of the orders. Moreover, due to the unstable market environment in North America, the capital expenditure of Asian manufacturing companies on smart card application systems was substantially cut. Consequently, the cancellation and delay in job orders had led to the substantial decrease in the turnover of smart card application systems.

The telecommunications industry was one of the most severely affected industries from the global economic downturn. Our customers were forced to succumb to the continuous price wars and lower their prices in order to stay competitive against the striking downturn of the GSM SIM card market. This has directly affected the demand of smart cards and imposed a price pressure to smart card manufacturing. As a consequence there was a substantial price cut in smart card manufacturing and had adversely diluted the profit margin of the products.

The selling and distribution costs and administration expenses recorded an increase of approximately 50% and approximately 19% respectively as compared to the same period of 2001. The increase in expenditure was in line with the Group's expansion plan and has contributed to the downturn in profit. The increase of marketing and promotion activities has attributed to the increase in selling and distribution costs, whilst 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.

To offset the market adversities, the Group has taken strategic steps to achieve higher efficiency in resources allocation by implementing various operational cost control measures, which include rationalization in staffing, and employing more resources towards sales and marketing in order to diversify its customer base and to strengthen its development in the Asian market. With additional resources in promoting the Group's products, high caliber staff was recruited to strengthen the sales and marketing team for penetrating into the Asia Pacific market and to expand its customer's base. In addition to hosting a joint seminar with HKPC to introduce the "PMIS Smart Card Data Capture System at Apparel Shop Floor" in October 2002, the Group also participated in various exhibitions and tradeshow in the PRC and South East Asia throughout the year to introduce and promote our products in the market. During the year under review, new businesses were concluded in North East and South East Asia Region.

In July 2002, the Group also subscribed for a 8% convertible note of HK\$7 million due on 9 July 2004 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. It is expected that such an alliance will open up new channels for distribution of our products in Southern PRC. This clearly demonstrated the Group's commitment of establishing cooperation with potential PRC business partners, so as to extend its network as service provider and to offer its products to a broader range of industries.

As illustrated, despite the global economic slowdown, the Group did not slow down its momentum, rather it continued to seek for new business opportunities and to develop updated and innovative products and application systems. The Group is always well poised to take up new businesses upon the full recovery of the market and to sustain its position as one of the leading smart card solution providers in Hong Kong.

During the year under review, the Group has set up representative office and new production plant in the PRC in order to support the anticipated growth in production of smart cards and related peripheral hardware in the PRC. In April 2002, the Group has fulfilled its business objectives as stated in the Prospectus and set up a representative office in Shenzhen, the PRC. During the year, the Group had invested approximately HK\$11 million in Beijing Venus Technology Limited, a wholly owned subsidiary of the Company, for setting up a new production plant in Zhongguancun Science and Technology Park in Beijing, the PRC. The pilot operation was commenced in December 2002. It was expected that monthly production capacity should reach 2 million by the end of first quarter in 2003.

The Group's PMIS was granted the invention patent under Taiwan Patent Law on 10 December 2002 for a period from 11 August 2002 to 26 March 2021.

In December 2002, The Hong Kong Council of Social Service presented to PMIS Limited, a wholly owned subsidiary of the Company, the Caring Company Award to recognize its commitment to community services in cultivating corporate citizenship and strategic partnership with the social service sector.

With a view to ensure that its production process receives the recognition it deserves, the Company's subsidiary, Intercard Limited, applied for ISO 9001:2000 Quality Management System in December 2002 in relation to the accreditation for its stringent quality control during the production process.

PROSPECTS

Coupled with the opening up of the PRC market from its accession into WTO and the development of Southeast Asia, the improvement of the Group's smart card solutions and application systems as well as the establishment of its solid network, the Group is confident to attract new customers to strengthen its profitability.

With the completion of the production premises in Beijing, the PRC, the Group will aim to secure new contracts in North Asia by leveraging on the proximity of its new factory to offer convenience and speedy delivery. The operation in Beijing, the PRC, is also expected to generate extra income to the Group in the years to come. In view of the anticipated growth in demand of smart cards in the PRC, and the sluggish market in the smart card application systems, the Group intends to reallocate part of the net proceeds from IPO, approximately HK\$1.5 million, to fund the expansion of the production facilities for smart card manufacturing. The re-allocated net



Management Discussion and Analysis

proceeds from research and development will be used to acquire more machineries and equipment so as to enhance the productivity of the production facilities of the Group, details of which please refer to the section headed "Proposed change in the use of the IPO Proceeds" below. On the other hand, in order to stay abreast of customer needs and market trends, the Group still intends to establish a research and development center in the PRC so as to sustain its competitive advantage of unrivaled research and development capability and swift and prompt market response.

Regarding the Hong Kong market, the Group will continue to focus on improving its application systems and the personalization of the smart card business. In an effort to solidify the smart card business, the Group plans to establish a research and development center in Hong Kong to serve as a sourcing center. Leveraging on the increasing business activities between Hong Kong and the PRC, the Group will dedicate to perfecting its products and services, so as to facilitate customers that require the provision of comprehensive and convenient one-stop smart card solutions and application systems.

LIQUIDITY AND FINANCIAL RESOURCES

The Company was listed on GEM through placement of shares. As disclosed in the Prospectus, 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 year under review, the Group financed its operations with internal funding and did not have any bank loans. The Group has total current assets of HK\$33 million and current liabilities of HK\$4 million as at 31 December 2002. As at 31 December 2002, the Group had cash and cash equivalents of HK\$16 million.

EMPLOYEE INFORMATION

As at 31 December 2002, the Group employed a total of 123 employees, of which 55 employees were located in Hong Kong. Employee cost, including directors' remuneration, was approximately HK\$12 million for the year under review. The Group 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.

APPOINTMENT OF EXECUTIVE DIRECTOR AND RESIGNATION OF NON-EXECUTIVE DIRECTOR

During the year under review, Mr. Fung Wing Mou, Bernard was appointed as an executive Director on 6 March 2002 and 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 year under review.

SIGNIFICANT INVESTMENTS

In July 2002, the Group subscribed for a 8% convertible note of HK\$7 million due on 9 July 2004 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2002.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In view of the anticipated growth in demand of smart cards in the PRC, and the sluggish market in the smart card application system, the Directors intend to expand the production facilities so as to satisfy the substantial growth in the smart card industry. With the commencement of operation in Beijing, the PRC, the Group has been and is going to purchase additional machineries and equipment for production with a view to expand its smart card manufacturing. The Directors intend to finance the expansion of the production facilities through reallocating part of the IPO net proceeds initially intended for use in research and development, and supplemented by bank financing. Please refer to the section headed "Proposed change in the use of the IPO Proceeds" below.

SEGMENTAL INFORMATION

Details have been set out in Note 11 under "Notes to the Financial Statements" and further elaborated under "Business and Operation Review" of this section.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2002, the Group has total bank balances of HK\$16 million of which bank deposits of HK\$1 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 31 December 2002.

GEARING RATIO

As at 31 December 2002, the shareholders' fund of the Group was HK\$53 million. The Group has no outstanding borrowing as at 31 December 2002. The gearing expressed as a ratio of total long term debts to shareholders' fund was zero as of 31 December 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 Currency Board 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 from listing date to 30 June 2002
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Product/application system development and enhancement

- | | |
|---|---|
| 1. Continue the development and enhancement of mini smart card reader for mobile application | Undergoing. ISO 14443 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 |

Comparison of Business Objectives with Actual Business Progress



Business objectives as stated in the Prospectus dated 13 December 2001

Actual business progress from listing date to 30 June 2002

- | | |
|--|---|
| 6. Evaluate the feasibility of the development of IVS | Evaluating |
| 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, the PRC)participated in the 9th Shenzhen International Electronic Devices Exhibition (Shenzhen, the PRC) <p>In April/May 2002</p> <ul style="list-style-type: none">participated in Shantou IT & OA Expo (Shantou, the PRC) |

Business objectives as stated in the Prospectus dated 13 December 2001**Actual business progress from listing date to 30 June 2002**

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

In June 2002

- participated in ASIAN Securitex 2002 (Hong Kong)
- participated in South China IT Expo 2002 (Guangzhou, the PRC)

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 facility and logistic management in southern PRC

It was agreed with the Note Issuer that the Group would be the sole supplier of smart card/smart card solution application 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 ISO 9000

Undergoing

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 six months period ended 31 December 2002

Business objectives as stated in the Prospectus dated 13 December 2001	Actual business progress for the six months period ended 31 December 2002
---	--

Product/application system development and enhancement

- | | |
|---|--|
| 1. Commence producing the VISA card if the Group is approved by VISA International as an authorized VISA cards manufacturer | In view of the current economic environment in Hong Kong, and 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 full operation of Beijing Venus Technology Limited |
| 2. Launch an enhanced version of mini smart card reader for mobile application | Completed |
| 3. Launch an enhanced PDA version of guarding and patrol system (InterGuard) | Completed |
| 4. Launch an enhanced version of the second generation of PMIS which runs on MSSQL platform | Completed |
| 5. Launch the third generation of PMIS which runs on UNIX and Oracle platform | Completed |
| 6. Launch the kiosk smart card reader for fare collection | Suspended until favorable market condition |
| 7. Launch the MCS which runs on Windows CE with pocket PC mobile and wireless solution | Suspended until favorable market condition |
| 8. Launch the smart card reader applying Bluetooth technology | Suspended until favorable market condition |

Research and Development

- | | |
|---|--|
| 1. Set up a research and development centre in Shanghai | With the establishment of the new production facilities in Beijing, the PRC, the Company will set up the research and development centre in Beijing, the PRC instead |
|---|--|

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the Prospectus dated 13 December 2001

2. Commence operation of the research and development centre in Shenzhen
3. Commence the development of COS which runs on Microsoft platforms for network and security application
4. Commence the development of VRS integrating with smart card technology for access control purpose
5. Commence the development of IVS integrating with smart card technology for access control purpose
6. Evaluate the feasibility of smart card applications in banking and finance products and services

Actual business progress for the six months period ended 31 December 2002

- Currently we are out-sourcing certain research and development projects to our business partner in Shenzhen. The Group also plans to set up a research and development centre in Beijing, the PRC
- Suspended
- Development under progress
- Development under progress
- Suspended due to sluggish market demand

Production expansion

1. Expand the monthly production capacity of the new production plant in the PRC by approximately 2 million

Pilot operation was commenced in December 2002. It is expected that monthly production capacity should reach 2 million by the end of first quarter in 2003

Sales and marketing

1. Set up a sales representative office in Shanghai, the PRC

As the new production premises has been set up in Beijing, the PRC, the Company decided to set up its sales channel in Beijing and suspend the set up of a representative office in Shanghai, the PRC. Nevertheless the Company had set up a representative office in Shenzhen, the PRC in April 2002

Comparison of Business Objectives with Actual Business Progress



Business objectives as stated in the Prospectus dated 13 December 2001

2. Participate in trade exhibitions such as Securitex 2002

Actual business progress for the six months period ended 31 December 2002

In September 2002

- participated in Smart Cards Expo 2002 (India)

In October 2002

- joint seminar with HKPC (Hong Kong)

Licence and certificate development

1. Apply for ISO 9000

Completed application of ISO 9001:2000 Quality Management System

Use of Proceeds

At the initial public offering of the Company's shares in December 2001, the Company raised net proceeds of approximately HK\$29 million (the "IPO Proceeds"). The IPO Proceeds have been applied in the following areas:

	Note	Use of the IPO Proceeds as stated in the Prospectus HK\$ million	The IPO proceeds utilized up to 31 December 2002 HK\$ million
Sales and marketing activities		8.8	3.2
Expansion of production capacity	1	7.5	7.5
Research and development in smart card related technologies		6.0	0.3
Research and development in product/application system development and enhancement		5.0	0.8
General working capital		1.7	1.7
		<u>29.0</u>	<u>13.5</u>

Notes:

- With regard to the aforesaid HK\$7.5 million of the IPO Proceeds allocated for expansion of production capacity, the amount had been applied for such intended purpose during the year. Given the current market condition, the Group decided to accelerate the expansion of the production facilities for smart card manufacturing in Beijing, and that additional IPO Proceeds in the amount of approximately HK\$1.5 million will be reallocated to finance the purchase of additional machineries and equipment.

Proposed change in the use of the IPO Proceeds

The Group originally planned to utilize an aggregate of approximately HK\$5 million of the IPO Proceeds on research and development in product/application system. Given that the IPO Proceeds originally allocated for the expansion of production capacity has been fully applied during the year 2002 and the current sluggish market in the smart card application systems, the Group intends to reallocate approximately HK\$1.5 million of the IPO Proceeds originally planned for research and development in product/application system to acquire more machineries and equipment so as to enhance the capacity of the production facilities of the Group. The Directors consider that the proposed acquisition of more machineries and equipment will offer further business opportunities in the PRC market to the Company and the proposed change in the use of the IPO Proceeds will have no adverse impact on the Group's operation in the future. The Directors believe that the reallocated fund from research and development in product/application system will be utilized for the expansion of the production capacity in 6 months' time. Please also refer to the announcement of the Company dated 14 March 2003 for further details of the proposed change in the use of the IPO Proceeds.

DIRECTORS

Executive Directors

WONG Chi Ming, aged 46, is an executive Director and the Chairman of the Group. He was appointed as the Chairman of the Group in September 2001. 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 23 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.

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 16 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.

HO Lut Wa, Anton, aged 36, is an executive Director and the General Manager of the Group. Mr. Ho was appointed as a Director of the Company in September 2001, Mr. Ho is responsible for the Group's overall strategic planning, marketing and operations. Mr. Ho has over 12 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 42, is an executive Director and responsible for the Group's finance, strategic planning and business development. He was appointed as a Director of the Company in September 2001. He has over 14 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 Hon Sing, aged 45, is an executive Director. He was appointed as Director of the Company in September 2001. He is responsible for production management of the Group. Mr. Wong has over 19 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.



Profiles of Directors and Senior Management

WONG Ka Chu, aged 37, is an executive Director and Deputy General Manager of the Group. He was appointed as a Director of the Company in September 2001. Mr. Wong is responsible for the Group's overall operation, production and logistic management. Mr. Wong has over 13 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.

Non-executive Director

WONG Chau Chi, aged 38, was appointed as a non-executive Director of the Company on 12 September 2001. Mr. Wong resigned as non-executive Director of the Company on 20 June 2002.

Independent non-executive Directors

LEUNG Ka Kui Johnny, aged 45, 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. Mr. Leung joined the Company in September 2001.

WONG Ka Wai, Jeanne, aged 38, is an independent non-executive Director. She is the chairman of the Audit Committee of the Group. Ms. Wong has over 16 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. Ms. Wong joined the Company in September 2001.

SENIOR MANAGEMENT

CHOI Man Fai, Fiana, aged 35, is the Financial Controller of the Group. Ms. Choi has over ten 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. Ms. Choi joined the Group in September 2001.

HUI Chi Yung, Lawrence, aged 30, 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 Smart-Security Limited, a wholly-owned subsidiary of the Group. Mr. Hui joined the Group in November 2000.

WONG Man Yee, Grace, aged 38, is the Administration Manager and the Company Secretary of the Group. Ms. Wong was appointed as the Company Secretary of the Company in September 2001. 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.

The directors present their report and the audited financial statements for the year ended 31 December 2002.

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 system.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 31.

The Directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

DIRECTORS

The Directors during the financial year were:

Executive directors

Wong Chi Ming (*Chairman*)

Fung Wing Mou, Bernard (appointed on 6 March 2002)

Ho Lut Wa, Anton

Lei Heong Man

Wong Hon Sing

Wong Ka Chu

Non-executive director

Wong Chau Chi (resigned on 20 June 2002)

Independent non-executive directors

Leung Ka Kui, Johnny

Wong Ka Wai, Jeanne

In accordance with Articles 87 of the Company's Articles of Association Mr. Wong Ka Chu and Mr. Wong Hon Sing retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.



Report of the Directors

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, but in any event, the aggregate amount of such bonus payable each financial year to all the executive Directors shall not exceed 5% of such profit.

Each non-executive Director (save and except Mr. Wong Chau Chi whose appointment was initially for a term of six months and renewed automatically unless one month termination notice is served by either party. Mr. Wong Chau Chi resigned as non-executive director on 20 June 2002 upon the expiration of the initial six months term) 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 notice of termination was received during the year ended 31 December 2002.

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 below.

(i) Share Option Scheme

Under the Share Option Scheme, the Board 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 2002, 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 and certain employees of the Group. Pursuant to the Pre-IPO Share Option Scheme, five executive Directors 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” below), two senior management staff were granted options to subscribe for an aggregate of 4,800,000 Shares in the Company.

Report of the Directors

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 20 December 2001, being the listing date of the Company's shares on the GEM, 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 year ended 31 December 2002.

DIRECTORS' INTEREST IN EQUITY SECURITIES

As at 31 December 2002, 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				Total
	Personal interest	Family interest	Corporate interest	Other interest	
Wong Hon Sing (Note)	—	—	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: 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.

(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 2002	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 2002, the following interests of 10% or more of 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 shareholders	Note	Number of shares held	Percentage of holding
Carkey Limited	1	153,300,000	47.9
Wong Hon Sing	1	153,300,000	47.9
i-Concepts Investment Limited	2	58,400,000	18.3
Dickson Group Holdings 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, 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.

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	31%
— five largest customers in aggregate	84%

Purchases

— the largest supplier	33%
— five largest suppliers in aggregate	86%

At no time during the year have 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 year ended 31 December 2002, 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

During the year ended 31 December 2002, the Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

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 Group's annual report and accounts, half year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing the financial reporting process and internal controls of the Group. The committee comprises two independent non-executive directors, Mr. Wong Ka Wai, Jeanne and Mr. Leung Ka Kui, Johnny. Four meetings were held during the financial year 2002. The Group's audited results for the year ended 31 December 2002 have been reviewed by the audit committee.

COMPETING INTERESTS

As at 31 December 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.

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 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, to 31 December 2003.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past four financial years is set out on page 60 of the annual report.

AUDITORS

A resolution will be submitted to 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, 14 March 2003



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Causeway Bay, Hong Kong

Telephone (852) 2909 5555
Facsimile (852) 2810 0032

To the members

Cardlink Technology Group Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 31 to 59 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 2002 and of the loss 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, 14 March 2003

Consolidated Income Statement

Year ended 31 December 2002



	Note	2002 HK\$	2001 HK\$
Turnover	3	36,268,650	43,988,073
Cost of sales		<u>(28,427,187)</u>	<u>(22,510,333)</u>
Gross profit		7,841,463	21,477,740
Other revenue	3	1,159,940	298,857
Gain on disposal of investments		—	133,927
Selling and distribution costs		(3,239,651)	(2,159,979)
Administrative expenses		<u>(9,748,968)</u>	<u>(8,184,705)</u>
(Loss) profit from operation		(3,987,216)	11,565,840
Finance costs	4	—	(544,875)
Share of result of associate		—	<u>(212)</u>
(Loss) profit from ordinary activities before taxation	4	(3,987,216)	11,020,753
Taxation	5	<u>874,111</u>	<u>(1,646,000)</u>
(Loss) profit attributable to shareholders		<u>(3,113,105)</u>	<u>9,374,753</u>
Dividend	9	<u>—</u>	<u>6,400,000</u>
Basic (loss) earnings per share	10	<u>(0.97) cents</u>	<u>3.86 cents</u>



Consolidated Statement of Changes in Equity

Year ended 31 December 2002

Cardlink Technology Group Limited

	2002	2001
	HK\$	HK\$
Shareholders' equity as at 1 January	55,961,723	23,751,294
Issue of shares	—	37,600,000
Share issue expenses	—	(8,364,331)
Issue of Pre-IPO share options	—	7
(Loss) profit for the year	(3,113,105)	9,374,753
Exchange difference on translation of the financial statements of PRC subsidiaries	(8,407)	—
Dividend paid	—	(6,400,000)
Shareholders' equity as at 31 December	<u>52,840,211</u>	<u>55,961,723</u>

Consolidated Balance Sheet

At 31 December 2002



	Note	2002 HK\$	2001 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	16,316,320	8,983,105
Intangible assets	14	979,175	292,167
Other financial assets	16	7,000,000	—
		<u>24,295,495</u>	<u>9,275,272</u>
Current assets			
Inventories	17	3,914,083	1,522,989
Trade and other receivables	18	13,370,873	8,842,061
Tax recoverable		483,732	198,661
Pledged bank deposits	19	1,032,540	2,026,131
Bank balances and cash		14,623,040	37,968,726
		<u>33,424,268</u>	<u>50,558,568</u>
Current liabilities			
Trade and other payables	20	4,487,552	2,607,190
		<u>28,936,716</u>	<u>47,951,378</u>
Net current assets			
		<u>53,232,211</u>	<u>57,226,650</u>
Total assets less current liabilities			
		<u>53,232,211</u>	<u>57,226,650</u>
Non-current liabilities			
Deferred taxation	21	392,000	1,264,927
		<u>52,840,211</u>	<u>55,961,723</u>
NET ASSETS			
		<u>52,840,211</u>	<u>55,961,723</u>
CAPITAL AND RESERVES			
Issued capital	22	32,000,000	32,000,000
Reserves	24	20,840,211	23,961,723
		<u>52,840,211</u>	<u>55,961,723</u>

Approved and authorised for issue by the Board of Directors on 14 March 2003

Ho Lut Wa, Anton
Director

Lei Heong Man
Director



Balance Sheet

At 31 December 2002

	Note	2002 HK\$	2001 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	15	<u>45,207,615</u>	27,197,510
Current assets			
Deposits, prepayment and other debtors		33,750	326,017
Bank balances and cash		<u>11,368,063</u>	28,936,837
		11,401,813	29,262,854
Current liabilities			
Accrued charges and other creditors		<u>542,220</u>	299,298
		10,859,593	28,963,556
NET ASSETS			
		<u>56,067,208</u>	56,161,066
CAPITAL AND RESERVES			
Issued capital	22	32,000,000	32,000,000
Reserves	24	<u>24,067,208</u>	24,161,066
		56,067,208	56,161,066

Approved and authorised for issue by the Board of Directors on 14 March 2003

Ho Lut Wa, Anton
Director

Lei Heong Man
Director

Consolidated Cash Flow Statements

At 31 December 2002



	Note	2002 HK\$	2001 HK\$
OPERATING ACTIVITIES			
Cash (outflow) inflow from operations	25	(7,578,420)	27,191,050
Profit tax paid		(283,887)	(1,055,939)
Net cash (outflow) inflow from operating activities		(7,862,307)	26,135,111
Investing activities			
Interest received		615,738	210,947
Purchase of property, plant and equipment		(9,464,670)	(7,594,464)
Acquisition of convertible note		(7,000,000)	—
Acquisition of intangible assets		(808,038)	(310,100)
Net cash outflow from disposal of subsidiaries	27	—	(370,006)
Proceeds from disposal of property, plant and equipment		180,000	—
Proceeds from disposal of associates		—	80,000
Proceeds from disposal of other investment		—	1,000,000
Net cash used in investing activities		(16,476,970)	(6,983,623)
Financing activities			
Interest paid	26	—	(544,875)
Dividends paid		—	(6,400,000)
Proceeds from issue of shares		—	37,600,000
Shares issue expenses		—	(8,364,331)
Proceeds from issue of share options		—	7
Repayment of convertible note		—	(5,250,000)
Net cash generated from financing activities		—	17,040,801
Net (decrease) increase in cash and cash equivalent		(24,339,277)	36,192,289
Cash and cash equivalents at 1 January		39,994,857	3,802,568
Cash and cash equivalents at 31 December		15,655,580	39,994,857
Analysis of the balances of cash and cash equivalents			
Pledged bank deposits		1,032,540	2,026,131
Bank balances and cash		14,623,040	37,968,726
		15,655,580	39,994,857

Notes to the Financial Statements

Year ended 31 December 2002

1. GROUP REORGANISATION

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. 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 statements, in consideration for the allotment and issue of shares of the Company to the then shareholders 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 the Company's prospectus dated 13 December 2001 (the "Prospectus"). The shares of the Company were listed on the GEM of the Stock Exchange on 20 December 2001.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

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 2002. 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 and costs, if applicable, 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.

Notes to the Financial Statements

Year ended 31 December 2002



2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

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

Rental income under operating leases are recognised in the period in which the properties and equipments 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 losses.

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.

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.

Investments in securities

Debt securities held on a continuing basis with an identified long term purpose are classified as investment securities, which are stated at cost less any provision for impairment losses that is expected to be other than temporary.

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 or impairment loss previously recognised no longer exists or may be reduced. 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.

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.

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.

Notes to the Financial Statements

Year ended 31 December 2002



2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

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 revenue on the straight-line basis over the lease terms.

Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

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

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, as well as corporate and financing expenses.

Notes to the Financial Statements

Year ended 31 December 2002



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:

	The Group	
	2002	2001
	HK\$	HK\$
Turnover		
Sales of smart cards and plastic cards	26,645,469	25,015,029
Sales of smart card application systems	9,408,942	18,261,206
Service and other income	214,239	711,838
	<u>36,268,650</u>	<u>43,988,073</u>
Other revenue		
Interest income	615,738	210,947
Gain on disposal of property, plant and equipment	77,785	—
Rental income	450,000	28,000
Sundry income	16,417	59,910
	<u>1,159,940</u>	<u>298,857</u>
	<u>37,428,590</u>	<u>44,286,930</u>

4. (LOSS) PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	The Group	
	2002	2001
	HK\$	HK\$
This is arrived at after charging:		
(a) Finance costs		
Interest on bank loans and overdrafts wholly repayable within five years	—	37,423
Interest on convertible note	—	507,452
	<u>—</u>	<u>544,875</u>



Notes to the Financial Statements

Year ended 31 December 2002

4. (LOSS) PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

	The Group	
	2002 HK\$	2001 HK\$
(b) Other items		
Staff costs including directors' emoluments (Note 6) and retirement cost (Note 12)	12,704,206	12,632,856
Less: Amounts capitalised as development costs	<u>(600,129)</u>	—
	12,104,077	12,632,856
Auditors' remuneration	200,000	195,000
Cost of inventories	20,585,623	14,214,288
Depreciation of property, plant and equipment	2,029,240	918,640
Product development costs	16,353	125,027
Amortisation of development costs	121,030	17,933
Operating lease charges for premises	1,013,680	974,638
Bad debts written off	<u>54,429</u>	—

5. TAXATION

	The Group	
	2002 HK\$	2001 HK\$
The (credit) charge comprises:		
Hong Kong Profits Tax:		
Current year	—	653,000
Over provision in prior year	<u>(1,184)</u>	(70,927)
	(1,184)	582,073
Deferred taxation:		
Current year (note 21)	<u>(872,927)</u>	1,063,927
	(874,111)	1,646,000

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profits for the year. In prior year, Hong Kong Profits Tax had been provided at the rate of 16% on the Group's estimated assessable profits.

Notes to the Financial Statements

Year ended 31 December 2002



6. DIRECTORS' EMOLUMENTS

	The Group	
	2002	2001
	HK\$	HK\$
Fees:		
Executive directors	—	142,258
Non-executive directors	23,387	1,613
Independent non-executive directors	100,000	3,226
Other emoluments:		
Salaries and other emoluments	1,867,931	1,479,653
Discretionary bonuses	—	75,900
Contributions to retirement scheme	47,928	24,000
	<u>2,039,246</u>	<u>1,726,650</u>

The six executive directors of the Company received individual emoluments for the year ended 31 December 2002 of approximately HK\$898,000 (2001: HK\$820,000), HK\$583,000 (2001: HK\$554,000), HK\$161,000 (2001: HK\$303,000), HK\$137,000 (2001: HK\$40,000), HK\$137,000 (2001: 4,000) and Nil (2001: Nil) respectively.

The three non-executive directors of the Company received directors' fees for the year ended 31 December 2002 of approximately HK\$50,000 (2001: HK\$1,613), HK\$50,000 (2001: HK\$1,613) and HK\$23,000 (2001: HK\$1,613) 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 (2001: two) directors, whose remuneration are set out in note 6 above. The aggregate emoluments of the remaining three (2001: three) individuals are as follows:

	2002	2001
	HK\$	HK\$
Salaries and allowances	1,375,050	1,183,623
Contributions to retirement scheme	39,000	36,000
	<u>1,414,050</u>	<u>1,219,623</u>

The remuneration of each of these three (2001: three) individuals are less than HK\$1,000,000 in both years.



Notes to the Financial Statements

Year ended 31 December 2002

8. (LOSS) PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

The consolidated loss for the year includes a loss of approximately HK\$93,858 (2001: 29,600) which has been dealt with in the financial statements of the Company for the year ended 31 December 2002.

9. DIVIDEND

	2002	2001
	HK\$	HK\$
Dividend	—	6,400,000

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

10. (LOSS) EARNINGS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the shareholders for the year of HK\$3,113,105 (2001: profit of HK\$9,374,753) and the weighted average number of 320,000,000 shares (2001: 242,849,315 shares) in issue during the year.

The weighted average number of shares used to calculate the 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 22. The weighted average number of shares used in the prior 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 2001 and 2002.

Notes to the Financial Statements

Year ended 31 December 2002



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	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue								
External sales	<u>26,645,469</u>	25,015,029	<u>9,408,942</u>	18,261,206	<u>214,239</u>	711,838	<u>36,268,650</u>	43,988,073
Result								
Segment result	<u>4,581,546</u>	11,162,482	<u>3,045,678</u>	9,603,419			<u>7,627,224</u>	20,765,901
Unallocated operating income and expenses							<u>(11,614,440)</u>	(9,200,061)
(Loss) profit from operations							<u>(3,987,216)</u>	11,565,840
Share of result of associate							—	(212)
Finance costs							—	(544,875)
Taxation							<u>(3,987,216)</u>	11,020,753
							<u>874,111</u>	(1,646,000)
(Loss) profit attributable to shareholders							<u>(3,113,105)</u>	9,374,753
Assets and liabilities								
Segment assets	<u>22,696,679</u>	12,585,392	<u>4,728,170</u>	4,340,158			<u>27,424,849</u>	16,925,550
Unallocated assets							<u>30,294,914</u>	42,908,290
Total assets							<u>57,719,763</u>	59,833,840
Segment liabilities	<u>2,158,000</u>	879,860	<u>100,724</u>	37,550			<u>2,258,724</u>	917,410
Unallocated liabilities							<u>2,620,828</u>	2,954,707
Total liabilities							<u>4,879,552</u>	3,872,117
Other information								
Capital expenditure incurred during the year	<u>8,223,642</u>	6,406,946	<u>808,038</u>	310,100				
Depreciation/ Amortisation for the year	<u>1,444,556</u>	431,136	<u>121,030</u>	17,933				

Notes to the Financial Statements

Year ended 31 December 2002

11. SEGMENT REPORTING (CONTINUED)**Geographical segments:**

	Revenue				Assets			
	2002		2001		2002		2001	
	HK\$		HK\$		HK\$		HK\$	
Hong Kong	20,881,158	58%	40,668,295	92%	51,944,153	90%	59,833,840	100%
North Asia	9,594,122	26%	—	—	—	—	—	—
PRC	5,174,479	14%	3,128,500	7%	5,775,610	10%	—	—
Others	618,891	2%	191,278	1%	—	—	—	—
	<u>36,268,650</u>	100%	<u>43,988,073</u>	100%	<u>57,719,763</u>	100%	<u>59,833,840</u>	100%

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of assets.

12. RETIREMENT SCHEMES

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2001, the Group participates in a mandatory provident fund scheme (the "MPF scheme") operated by a approved trustee in Hong Kong and makes contributions for its eligible employee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

During the year ended 31 December 2002, the aggregate amount of employer's contribution made by the Group is HK\$482,508 (2001: HK\$460,775).

Notes to the Financial Statements

Year ended 31 December 2002



13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Printing and testing equipment	Office equipment	Furniture and fixtures	Leasehold improvement	Motor vehicle	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	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 year	8,223,642	500,369	152,951	200,820	386,888	9,464,670
Disposal	(400,000)	—	(10,533)	(169,846)	—	(580,379)
At 31 December 2002	19,577,475	1,696,883	522,600	1,067,944	564,492	23,429,394
Accumulated depreciation						
At 1 January 2002	4,538,571	368,683	282,838	345,265	26,641	5,561,998
Charge for the year	1,444,556	271,184	39,454	198,678	75,368	2,029,240
Write back on disposal	(400,000)	—	(4,564)	(73,600)	—	(478,164)
At 31 December 2002	5,583,127	639,867	317,728	470,343	102,009	7,113,074
Net book value						
At 31 December 2002	13,994,348	1,057,016	204,872	597,601	462,483	16,316,320
At 31 December 2001	7,215,262	827,831	97,344	691,705	150,963	8,983,105

Notes to the Financial Statements

Year ended 31 December 2002

14. INTANGIBLE ASSETS**The Group**

	2002
	HK\$
Development costs	
Cost	
At 1 January 2002	310,100
Additions	<u>808,038</u>
At 31 December 2002	<u>1,118,138</u>
Amortisation	
At 1 January 2002	17,933
Provided for the year	<u>121,030</u>
At 31 December 2002	<u>138,963</u>
Carrying amount	
At 31 December 2002	<u>979,175</u>
At 31 December 2001	<u>292,167</u>

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

15. INTEREST IN SUBSIDIARIES

	The Company	
	2002	2001
	HK\$	HK\$
Unlisted shares, at cost	26,954,990	26,954,990
Due from a subsidiary	11,252,625	242,520
Loan to a subsidiary	<u>7,000,000</u>	—
	<u>45,207,615</u>	27,197,510

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

The loan to a subsidiary bears interest at 8% per annum is unsecured and repayable on 9 July 2004.

Notes to the Financial Statements

Year ended 31 December 2002



15. INTEREST IN SUBSIDIARIES (CONTINUED)

Details of the Company's subsidiaries, which are wholly-owned are as follows:

Name of company	Place of incorporation	Issued and fully paid share capital/paid-up registered capital	Principal activities and place of operation
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
Beijing Venus Technology Limited	The People's Republic of China	US\$670,000 registered capital	Smart card and plastic card manufacturing and sales in the PRC
World Praise International Limited	The British Virgin Islands	US\$1 ordinary share	Investment holding
Ultra Force Holdings Limited	The British Virgin Islands	US\$1 ordinary share	Investment holding
Cardlink Technology (HK) Limited	Hong Kong	HK\$10,000 ordinary share	Investment holding and general trading
Rapid Limited	Hong Kong	HK\$10,000 ordinary share	Inactive



Notes to the Financial Statements

Year ended 31 December 2002

Cardlink Technology Group Limited

15. INTEREST IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation	Issued and fully paid share capital/ paid-up registered capital	Principal activities and place of operation
Action Logistic Limited	The British Virgin Islands	US\$1 ordinary share	Investment holding
Manibo Limited	Republic of Mauritius	US\$1 ordinary share	Investment holding
Billion Apex Limited	The British Virgin Island	US\$1 ordinary share	Investment holding
Apex Limited	Hong Kong	HK\$10,000 ordinary share	Inactive

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

16. OTHER FINANCIAL ASSETS

	The Group	
	2002	2001
	HK\$	HK\$
Unlisted investment		
Debt securities, at cost	7,000,000	—

The unlisted debt securities represent a convertible note which is convertible into ordinary shares in accordance with the terms of the convertible note, bear interest at 8% per annum and due on 9 July 2004.

17. INVENTORIES

	The Group	
	2002	2001
	HK\$	HK\$
Raw materials	1,223,739	1,160,896
Work-in-progress	79,197	20,995
Finished goods	2,611,147	341,098
	3,914,083	1,522,989

Notes to the Financial Statements

Year ended 31 December 2002



18. TRADE AND OTHER RECEIVABLES

	The Group	
	2002	2001
	HK\$	HK\$
Trade receivables		
From third parties	8,537,243	7,925,683
Other receivables		
Deposits, prepayment and other debtors	4,833,630	916,378
	13,370,873	8,842,061

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	
	2002	2001
	HK\$	HK\$
Current – 30 days	6,969,223	3,706,608
31 – 90 days	618,140	3,622,275
Over 90 days	949,880	596,800
	8,537,243	7,925,683

19. PLEDGED BANK DEPOSITS

At balance sheet date, bank deposits of HK\$1,032,540 (2001: 2,026,131) were pledged as collateral for the short term banking facilities granted to a subsidiary of the Company.



Notes to the Financial Statements

Year ended 31 December 2002

20. TRADE AND OTHER PAYABLES

	The Group	
	2002	2001
	HK\$	HK\$
Trade payables		
To third parties	2,258,724	948,817
Other payables		
Accrued charges and other creditors	2,228,828	1,658,373
	4,487,552	2,607,190

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

21. DEFERRED TAXATION

	The Group	
	2002	2001
	HK\$	HK\$
The movement for the year in the Group's net deferred tax position was as follows		
At 1 January	1,264,927	201,000
(Credit) Charge for the year (note 5)	(872,927)	1,063,927
At 31 December	392,000	1,264,927

At the balance sheet date, the major components of the deferred taxation asset and liability provided were as follows:

	The Group	
	2002	2001
	HK\$	HK\$
Excess of tax allowances over depreciation	2,191,000	1,264,927
Tax losses carried forward	(1,799,000)	—
	392,000	1,264,927

The Group and the Company had no significant unprovided deferred taxation at the balance sheet date.

Notes to the Financial Statements

Year ended 31 December 2002



22. ISSUED CAPITAL

	2002	2001
	HK\$	HK\$
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000,000</u>	100,000,000
Issued by fully paid:		
320,000,000 ordinary shares of HK\$0.10 each	<u>32,000,000</u>	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 2002.

- (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. Anton Ho, 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 24.
- (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.



Notes to the Financial Statements

Year ended 31 December 2002

22. ISSUED CAPITAL (CONTINUED)

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

		Number of shares issued	Issued and fully paid share capital HK\$
At 1 January 2001	(a) & (b)	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)	<u>80,000,000</u>	<u>8,000,000</u>
At 31 December 2001 and 2002		<u>320,000,000</u>	<u>32,000,000</u>

23. 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 below.

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 2002, no options under this scheme had been granted.

Notes to the Financial Statements

Year ended 31 December 2002



23. SHARE OPTION SCHEME (CONTINUED)

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 20 December 2001, being the listing date of the Company shares on the GEM, 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 year ended 31 December 2002.

24. RESERVES

The Group

	Share premium HK\$	Contributed surplus HK\$	Other reserves HK\$	Exchange difference HK\$	Retained profits HK\$	Total HK\$
At 1 January 2001	—	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)
Issue 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)
At 31 December 2001	—	13,985,669	7	—	9,976,047	23,961,723
Exchange difference	—	—	—	(8,407)	—	(8,407)
Loss for the year	—	—	—	—	(3,113,105)	(3,113,105)
At 31 December 2002	—	13,985,669	7	(8,407)	6,862,942	20,840,211

Notes to the Financial Statements

Year ended 31 December 2002

24. RESERVES (CONTINUED)**The Company**

	Share premium	Contributed surplus	Other reserves	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2001	—	—	—	—	—
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)
Issue of options	—	—	7	—	7
Loss for the year	—	—	—	(29,600)	(29,600)
At 31 December 2001	—	24,190,659	7	(29,600)	24,161,066
Loss for the year	—	—	—	(93,858)	(93,858)
At 31 December 2002	—	24,190,659	7	(123,458)	24,067,208

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.

The exchange difference of the Group represents the difference on translation of the financial statements of PRC subsidiaries.

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\$24,067,208 reserves available for distribution.

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Year ended 31 December 2002



25. CASH (OUTFLOW) INFLOW FROM OPERATIONS

	The Group	
	2002	2001
	HK\$	HK\$
(Loss) profit from ordinary activities before taxation	(3,987,216)	11,020,753
Amortisation of intangible assets	121,030	17,933
Depreciation	2,029,240	918,640
Interest income	(615,738)	(210,947)
Interest expenses	—	544,875
Gain on disposal of property, plant and equipment	(77,785)	—
Gain on disposal of subsidiaries	—	(55,762)
Gain on disposal of associate	—	(78,165)
Share of result of associate	—	212
<i>Changes in working capital:</i>		
Inventories	(2,391,094)	275,109
Trade and other receivables	(4,528,812)	15,879,023
Trade and other payables	1,880,362	(1,120,621)
Foreign exchange	(8,407)	—
Cash (outflow) inflow from operations	<u>(7,578,420)</u>	<u>27,191,050</u>

26. ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR

	Share capital				
	and share premium	Contributed surplus	Other reserve	Convertible note	Promissory notes
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2001	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 and 2002	<u>32,000,000</u>	<u>13,985,669</u>	<u>7</u>	<u>—</u>	<u>—</u>



Notes to the Financial Statements

Year ended 31 December 2002

27. DISPOSAL OF SUBSIDIARIES

	2002	2001
	HK\$	HK\$
Net assets disposed of:		
Property, plant and equipment	—	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
Total consideration	—	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)

28. CAPITAL COMMITMENTS

Capital commitments outstanding at balance sheet date not provided for in the financial statements were as follows:

	The Group	
	2002	2001
	HK\$	HK\$
Contracted but not provided for:		
— in respect of acquisition of property, plant and equipment	5,970,000	—
— in respect of development cost for smart card related techniques	1,000,000	—
	6,970,000	—

Notes to the Financial Statements

Year ended 31 December 2002



28. CAPITAL COMMITMENTS (CONTINUED)

In addition, a subsidiary of the Company is committed to make a capital contribution of approximately HK\$14 million to a subsidiary in the People's Republic of China.

The Company has no significant capital commitments at the balance sheet date.

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	The Group	
	2002 HK\$	2001 HK\$
Within one year	1,296,000	634,862
In the second to fifth years inclusive	464,000	—
	<u>1,760,000</u>	<u>634,862</u>

30. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties.

	Note	2002 HK\$	2001 HK\$
Rental income received from a company controlled by a shareholder of the Company	(a)	—	18,000
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 four years ended 31 December 2002 prepared on the basis set out in the notes below:

Combined Results

	1999	2000	2001	2002
	HK\$	HK\$	HK\$	HK\$
Turnover	24,978,267	34,391,855	43,988,073	36,268,650
Profit (loss) from operation	5,311,463	7,880,900	11,565,840	(3,987,216)
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	(3,987,216)
Taxation	—	(1,573,019)	(1,646,000)	874,111
Profit after taxation	5,107,515	5,646,782	9,374,753	(3,113,105)
Minority interest	—	46,017	—	—
Profit (loss) attributable to shareholders	5,107,515	5,692,799	9,374,753	(3,113,105)
Basic earnings (loss) per share	2.13 cents	2.37 cents	3.86 cents	(0.97) cents

Combined Assets and Liabilities

Non-current assets	991,345	2,313,765	9,275,272	24,295,495
Current assets	10,476,022	35,811,361	50,558,568	33,424,268
Current liabilities	2,158,872	13,985,449	2,607,190	4,487,552
Non-current liabilities	—	388,383	1,264,927	392,000

Notes:

- 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.
- The results for the years ended 31 December 2001 and 2002 have been extracted from the consolidated income statement as set out on page 31 of the financial statements.