Cardlink Technology Group Limited

鍇聯科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

2003 Annual Report

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This annual report, for which the directors of Cardlink Technology Group Limited 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 for the purpose of giving information with regard to Cardlink Technology Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this 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.

Contents

Corporate Information

DIRECTORS

Executive Directors

Wong Chi Ming *(Chairman)*
Fung Wing Mou, Bernard
Ho Lut Wa, Anton
Lei Heong Man
(Resigned on 20 December 2003)
Wong Hon Sing
Wong Ka Chu
(Resigned on 20 December 2003)

Independent Non-Executive Director

Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

COMPLIANCE OFFICER

Wong Hon Sing
(Appointed on 20 December 2003)
Lei Heong Man
(Resigned on 20 December 2003)

QUALIFIED ACCOUNTANT

Lau Ka Chung *(ACCA, AHKSA)*
(Appointed on 30 May 2003)
Choi Man Fai, Fiana *(FCCA, AHKSA)*
(Resigned on 30 May 2003)

COMPANY SECRETARY

Lau Ka Chung (Appointed on 1 March 2004)
Wong Man Yee, Grace *(ACS, ACIS)*
(Resigned on 1 March 2004)

AUTHORISED REPRESENTATIVES

Ho Lut Wa, Anton
Wong Hon Sing
(Appointed on 20 December 2003)
Lei Heong Man
(Resigned on 20 December 2003)

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

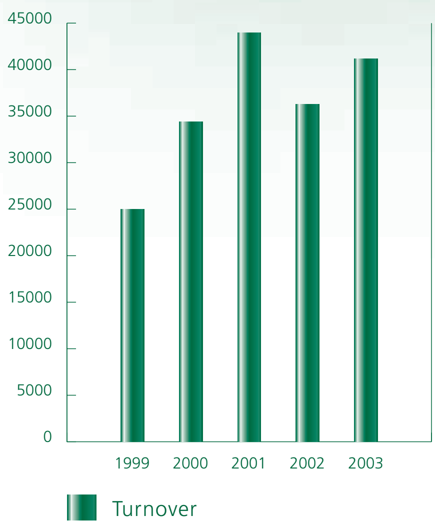
AUDITORS

Moores Rowland Mazars

Financial Highlights

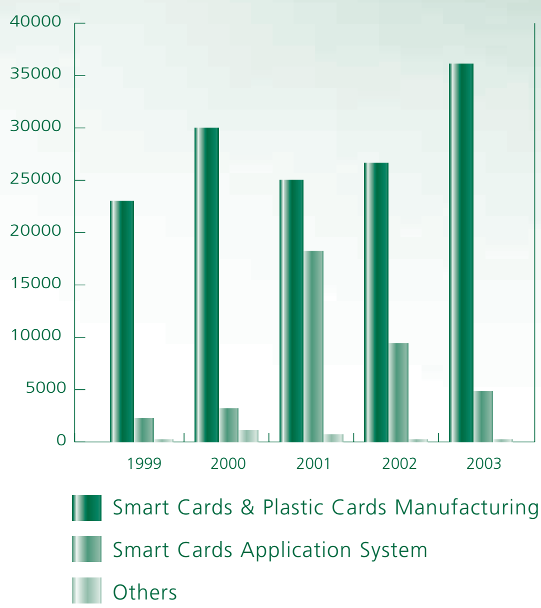
TURNOVER

HK$'000

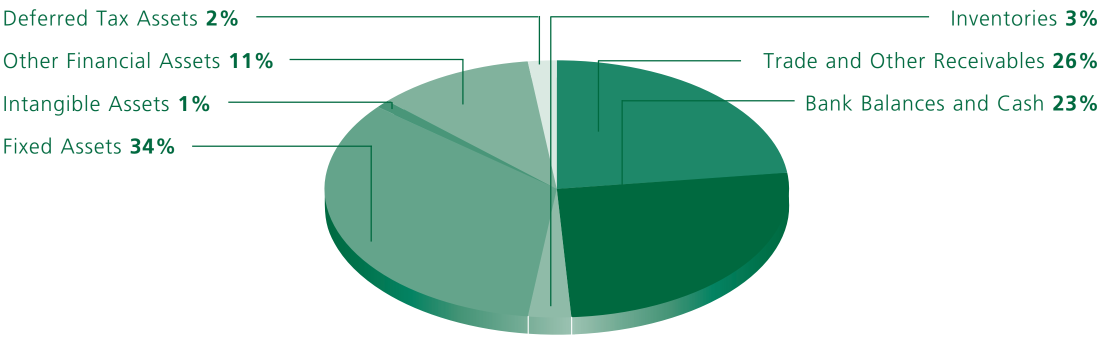


TURNOVER BY SEGMENTS

HK$'000



TOTAL ASSETS AS 31 DECEMBER 2003



Chairman's Statement

TO OUR SHAREHOLDERS

2003 remained challenging and difficult to Cardlink Technology Group Limited ("Cardlink" or "Company") and its subsidiaries (the "Group") as global and local atmosphere is still at the low side and the outbreak of SARS further worsened the already unfavourable economic conditions and market sentiment. However, the management of the Group was able to identify the right business focus and implement stringent financial and cost controls that paved the way for the future growth of Cardlink.

RESULTS

For the year ended 31 December 2003, the Group recorded a consolidated turnover of HK$41 million (2002: HK$36 million) and loss attributable to shareholders of approximately HK$7.5 million.

DIVIDEND

The Board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2003.

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. The outbreak of SARS had hindered the progress of the Group and had interrupted the operation of the Hong Kong office and our production facilities in Beijing. Under such market adversities, the management team of the Group has been under substantial pressure to adjust the price downwards in order to secure the turnover of the Group and as a result led to a dilution of the profit margin of the product.

During the year under review, the Group expanded its market into Mainland China by establishing and completing the production premises and expanding the production facilities in Beijing. With the tremendous effort from our management team, the Group has successfully expanded its market in Mainland China and was able to secure contracts in North East Mainland China. For the year of 2003, the turnover in Beijing attributable to approximately 44% of the total turnover of the Group.

During the year, the Group has also participated in various exhibitions and tradeshows in various areas in Asia to introduce and promote its smart card solutions and products. It was encouraging that new contracts were concluded in this region in 2003.

Chairman's Statement

FUTURE PROSPECTS

With the opening up of the PRC market since its accession into WTO and the development of our operation facilities in Beijing, the management will work towards the expansion of its market share in the PRC. In order to capitalise the business opportunities and to attain a better allocation of resources, the operation facilities in Beijing will be the main operation base of the Group. The production facilities in Hong Kong will be restructured in order to increase the operation efficiency.

The management will continue its operational cost control measures and to take conservative and cautious steps to seek more viable business opportunities arising from the bouncing back of Hong Kong's economy.

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 the year 2003. Also, I would like to express my heartfelt appreciation to our shareholders, investors and customers for their continuous support.

Wong Chi Ming
Chairman

Hong Kong, 24 March 2004

Management Discussion and Analysis

BUSINESS AND OPERATION REVIEW

Year 2003 had been a difficult year for the Group. External factors in the social and economic environment hindered the progress of the Group. The outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003 had worsened the already unfavourable economic conditions and market sentiment. In order to stay competitive, the Group was forced to adopt a strategy to increase the turnover at the expense of profit margin.

The outbreak of SARS had interrupted the operation of the Hong Kong office and our production facility in Beijing. When SARS reached its height in April, number of normal business meetings with clients and business trips of the Group's management traveling around Asia and the PRC had been reduced or postponed; various exhibitions and marketing activities were deferred. Moreover, production output in Beijing was slowed down and the installation schedule of the machineries in the production facility in Beijing was postponed. The development of our Beijing production facility slowly resumed, but on a deferred schedule, as the city recovered from SARS.

To offset market adversities, the management team of the Group has been under substantial pressure to adjust the price downwards in order to secure the turnover of the Group. On the other hand, the management has been endeavouring to streamline the business operation and improve the operation efficiency of the Group. Various restructuring activities and extensive cost control measures were implemented in Hong Kong. The extensive restructuring activities, which include rationalisation in staffing, had greatly increased the administrative expenses for the year.

During the year under review, turnover of the Group amounted to HK$41 million as compared to the same period of 2002. The smart card manufacturing business continued to be the Group's major source of income. Of the total turnover for the year, HK$36 million or 87% was generated from the manufacturing and sales of smart cards and plastic cards and HK$5 million or 11% was generated from the sale of smart card application systems. The gross profit margin was 10%, representing a decrease of 12% from 22% in 2002. The loss attributable to shareholders was approximately HK$7.5 million in 2003.

The increase in turnover was mainly attributed to the increase in turnover from the manufacturing and sales of smart cards and plastic cards in Beijing. With the completion of the production premises and the expansion of the production facilities in Beijing, the Group is able to secure new contracts in North Asia by leveraging on the proximity of its new factory to offer convenience and speedy delivery to its customers. The turnover in Beijing attributable to approximately 44% of the total turnover of the Group.

Management Discussion and Analysis

BUSINESS AND OPERATION REVIEW (CONTINUED)

The selling and distribution costs recorded a decrease of approximately 14% while the administration expenses increased by 38% as compared to the same period of 2002. The decrease of selling and distribution costs was due to the decrease of marketing and promotion activities as well as rationalisation of staffing in Hong Kong. The increase of administrative expenses were mainly attributed to the increased activities of our Beijing production facility , the increase in depreciation expenses due to deployment of additional machineries for the expansion of production capacity, increase in research and development expenses, impairment of intangible assets as well as increase in expenses incurred in various restructuring activities implemented by the Group during the year.

During the year, the Group acquired a technical know-how and related patents for manufacturing of dual interface smart card with a consideration of HK$2,000,000. In view of the downturn of the market for dual interface smart card, where the Group originally intended to target, the directors have re-assessed the recoverable amount of the know-how and related patents. As a result, an impairment loss of HK$2,005,799 has been recognised in the current year. The recoverable amount of the assets is determined by reference to the value in use and no substantial sales order in near future as the market has not yet picked up.

During the year under review, the Group's subsidiaries, Intercard Limited and Beijing Venus Technology Limited, obtained the certification for its operation of a Quality Management system, which complies with the requirement of BS EN ISO9001:2000 and DIN EN ISO9001:2000 respectively, for the design and manufacture of printed plastic card.

PROSPECTS

With the opening up of the PRC market since its accession into WTO and the development of our operation facilities in Beijing, the management will work towards the expansion of its market share in the PRC. In order to capitalise the business opportunities and to attain a better allocation of resources, the operation facilities in Beijing will be the main operation base of the Group. The production facilities in Hong Kong will be restructured in order to increase the operation efficiency.

The management will continue its operational cost control measures and to take conservative and cautious steps to seek more viable business opportunities arising from the bouncing back of Hong Kong's economy.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Company was listed on GEM through placement of shares. As disclosed in the Prospectus, the Group intend to apply the net proceeds from the initial public offering of HK$29 million to finance its expansion plan. The unutilised proceeds were placed in short-term interest bearing deposits with banks. For the year under review, the Group financed its operations with internal and external fundings. The Group has total current assets of HK$32 million and current liabilities of HK$13 million as at 31 December 2003. As at 31 December 2003, the Group has cash and cash equivalents of HK$14 million.

During the year, a finance leases obligation of approximately HK$5.7 million bearing interest of 0.5% over the Hong Kong Prime Rate, and repayable in three years, was arranged for the Group's operation subsidiary in Beijing. As at 31 December 2003, the Group has outstanding finance leases payable of HK$5 million.

EMPLOYEE INFORMATION

As at 31 December 2003, the Group employed a total of 217 employees, of which 30 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was approximately HK$12 million for the year under review. The Company remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

RESIGNATION OF EXECUTIVE DIRECTORS AND CHANGE OF COMPLIANCE OFFICER AND AUTHORISED REPRESENTATIVE

During the year under review, Mr. Lei Heong Man resigned as the Executive Director, Compliance Officer and Authorized Representative and Mr. Wong Ka Chu resigned as an Executive Director on 20 December 2003. Mr. Wong Hon Sing, an Executive Director, was appointed the Compliance Officer and Authorized Representative on 20 December 2003.

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.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS (CONTINUED)

On 19 March 2004, the convertible note has been redeemed and on 23 March 2004, the Group received HK$7 million, being the principal amount of the convertible note.

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 2003.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2003, there are no future plans for material investments or capital assets.

SEGMENTAL INFORMATION

Details have been set out in Note 9 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 2003, the Group's bank deposit of HK$1.4 million and certain for the Group's fixed assets which had a net book value of HK$0.5 million were pledged as collateral for the finance leases arrangement of a subsidiary of the Company.

The Group did not have any significant contingent liabilities as at 31 December 2003.

GEARING RATIO

As at 31 December 2003, the shareholders' fund of the Group was HK$45 million. The Group has outstanding long-term obligations under finance leases of HK$3 million as at 31 December 2003. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, was 6% as of 31 December 2003 *(2002: zero)*.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in HK dollars and Renminbi. 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 six-month period ended 30 June 2003:

Business objectives as stated in the Prospectus dated 13 December 2001	Actual business progress for six-month period ended 30 June 2003
Product/application system development and enhancement	
1. Continue the development and enhancement of the third generation of PMIS which runs on UNIX and Oracle platforms	Completed
2. Continue the development and enhancement of the kiosk smart card reader for fare collection	Suspended due to continued unfavorable market condition
3. Continue the development and enhancement of MCS which runs on *Windows CE* with pocket PC mobile and wireless solution	Suspended due to continued unfavorable market condition
4. Launch IVS integrating with smart card technology for access control purpose	Suspended due to sluggish market demand
Research and Development	
1. Commence the development of smart card application in banking and finance products and services	Suspended due to sluggish market demand
2. Evaluate the feasibility of smart card application for network security	Suspended due to sluggish market demand
License and certificate development	
1. Obtain ISO 9000 accreditation	The Group's subsidiaries, Intercard Limited and Beijing Venus Technology Limited, obtained the certifications for their operation of a Quality Management system, which comply with the requirements of BS EN ISO9001:2000 and DIN EN ISO9001:2000 respectively, for the design and manufacture of printed plastic card

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-month period ended 31 December 2003:

Business objectives as stated in the Prospectus dated 13 December 2001	Actual business progress for six-month period ended 31 December 2003
Product/application system development and enhancement	
1. Launch an enhanced version of the third generation of PMIS which runs on UNIX and Oracle platform	Completed
2. Launch an enhanced version of the Kiosk smart card reader for fare collection	Suspended due to continued unfavorable market condition
3. Launch an enhanced version of the MCS which runs on Windows CE with pocket PC mobile and wireless solution	Suspended due to continued unfavorable market condition
4. Launch the COS which runs on Microsoft platforms for network and security application	Suspended due to continued unfavorable market condition
5. Launch the VRS integrating with smart card technology for access control purpose	Suspended due to continued unfavorable market condition
Research and Development	
1. Commence the development of smart card application for network security	Suspended due to sluggish market demand
Sales and marketing	
1. Set up a sales representative office in the Asia Pacific Region	Suspended due to no suitable location at the moment

Use of Proceeds

At the initial public offering of the Company's share in December 2001, the Company raised net proceeds of approximately HK$29 million (the "IPO Proceeds"). A proposed change of the use of proceeds was made on 14 March 2003. Further details of the proposed change of the use of proceeds were set out in the Company's announcement made on 14 March 2003. The IPO Proceeds have been applied in the following areas:

	Use of the IPO Proceeds as stated in the Prospectus	**Use of the IPO Proceeds after proposed change on 14 March 2003**	**The IPO Proceeds utilised up to 30 June 2003**	**The IPO Proceeds utilised up to 31 December 2003**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Sales and marketing activities	8.8	8.8	4.7	6.0
Expansion of production capacity	7.5	9.0	9.0	9.0
Research and development in smart card related technologies	6.0	6.0	2.3	2.3
Research and development in product/application system development and enhancement	5.0	3.5	1.0	1.4
General working capital	1.7	1.7	1.7	1.7
	29.0	29.0	18.7	20.4

Profiles of Directors and Senior Management

DIRECTORS

Executive Directors

WONG Chi Ming, aged 47, 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 24 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 45, is an executive Director. He was appointed as Director of the Company in 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 17 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 37, 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 13 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 43, 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 15 years of experience in finance and business development across the region and has extensive corporate finance, project management and strategic planning experience. 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. Mr. Lei resigned as an executive Director of the Company in December 2003.

Profiles of Directors and Senior Management

WONG Hon Sing, aged 46, 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 20 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.

Independent non-executive Directors

LEUNG Ka Kui Johnny, aged 46, 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 16 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 39, is an independent non-executive Director. She is the chairman of the Audit Committee of the Group. Ms. Wong has over 17 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

WONG Ka Chu, aged 38, is the Assistant General Manager of the Group. He was appointed as a Director of the Company in September 2001 and subsequently resigned in December 2003. Mr. Wong is responsible for the Group's overall operation, production and logistic management. Mr. Wong has over 14 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.

Profiles of Directors and Senior Management

LAU Ka Chung, aged 31, is the Financial Controller and the Company Secretary of the Group. Mr. Lau has over 7 years of experience in auditing, financial and management accounting, and internal control. Mr. Lau holds a Bachelor Degree in Business Administration (majoring in Finance) from the Hong Kong University of Science and Technology. He is an associate member of The Hong Kong Society of Accountants and a member of the Association of Chartered Certified Accountants. Mr. Lau joined the Group in May 2003.

HUI Chi Yung, Lawrence, aged 31, 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 39, was appointed as the Company Secretary of the Company in September 2001. Ms. Wong resigned as the Company Secretary of the Company on 1 March 2004.

Report of Directors

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2003.

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 13 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 2003 are set out in the consolidated income statement on page 25.

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 23 to the financial statements.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Wong Chi Ming *(Chairman)*	
Ho Lut Wa, Anton	
Lei Heong Man	(resigned on 20 December 2003)
Wong Ka Chu	(resigned on 20 December 2003)
Wong Hon Sing	
Fung Wing Mou, Bernard	

Report of Directors

Independent Non-Executive Directors

Wong Ka Wai, Jeanne
Leung Ka Kui, Johnny

In accordance with Articles 87 of the Company's Articles of Association, Ms. Wong Ka Wai, Jeanne retires at the forthcoming annual general meeting and, being eligible, offers herself for re-election.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 11 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Except for Mr. Fung Wing Mou, Bernard, each executive director has entered into a service contract with the Company for an initial term of two years commencing from 20 December 2001 (which were completed as at 19 December 2003) and will continue thereafter unless and until terminated by either party by giving three months prior written notice to the other. The Executive Directors are also entitled to a discretionary bonus calculated at a percentage of the audited consolidated profit of the Group attributable to the shareholders of the Company (but before such bonus) which percentage shall be determined by the Board of Directors, but in any event, the aggregate amount of such bonus payable each financial year to all the Executive Directors of the Company shall not exceed 5% of such profit.

Each Non-Executive Director 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. The appointment of each non-executive directors was renewed automatically on 20 December 2003.

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).

Report of Directors

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

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

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

As at 31 December 2003, no options under this scheme had been granted.

Report of Directors

SHARE OPTION SCHEME (CONTINUED)

(ii) Pre-IPO Share Option Scheme

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

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

No options had been exercised, cancelled or lapsed during the year ended 31 December 2003.

DIRECTORS' INTEREST IN EQUITY SECURITIES

As at 31 December 2003, the interests of the Directors and their associates in the shares and options of the Company were as follows:

(i) Shares

	Number of shares				
Director	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Total**
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

Note: By virtue of the Securities and Futures Ordinance ("SFO"), Mr. Wong Hon Sing is deemed to be interested in 153,300,000 shares of the Company held by Carkey Limited, which is wholly-owned by him.

Report of Directors

DIRECTORS' INTEREST IN EQUITY SECURITIES (CONTINUED)

(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 2003	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
Lei Heong Man*	6 December 2001	4,000,000	0.282	20 December 2002 – 5 December 2011

* *The options to Mr. Lei Heong Man were cancelled as at 20 January 2004.*

Report of Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following interests of 5% 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 336 of the SFO 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	35%
–	five largest customers in aggregate	59%

Purchases

–	the largest supplier	22%
–	five largest suppliers in aggregate	72%

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.

Report of Directors

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 2003, 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 2003, 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 of Directors. 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, Ms. Wong Ka Wai, Jeanne and Mr. Leung Ka Kui, Johnny. Four meetings were held during the financial year 2003. The Group's audited results for the year ended 31 December 2003 have been reviewed by the audit committee.

COMPETING INTERESTS

As at 31 December 2003, 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.

Report of Directors

SPONSOR'S INTEREST IN THE COMPANY

As notified by Tai Fook Capital Limited ("the Sponsor"), the Company's sponsor, neither the Sponsor nor its directors or employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2003.

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. The agreement was expired on 31 December 2003.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 57 of the annual report.

AUDITORS

The auditors Messrs. Moores Rowland merged with Messrs. Mazars on 1 October 2003 and are now practising under the name of Moores Rowland Mazars.

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

On behalf of the Board
Wong Chi Ming
Chairman

Hong Kong, 24 March 2004

Report of Auditors

Moores Rowland Mazars
摩斯倫・馬賽會計師事務所

Chartered Accountants
Certified Public Accountants

34th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong
香港銅鑼灣希慎道33號利園廣場34樓

To the members
CARDLINK TECHNOLOGY GROUP LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 56 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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 Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong, 24 March 2004

Consolidated Income Statement

Year ended 31 December 2003

	Note	**2003** *HK$*	2002 *HK$*
Turnover	*2*	**41,187,573**	36,268,650
Cost of sales		**(37,031,565)**	(28,427,187)
Gross profit		**4,156,008**	7,841,463
Other revenue	*2*	**2,989,107**	1,159,940
Selling and distribution costs		**(2,777,157)**	(3,239,651)
Administrative expenses		**(13,451,305)**	(9,748,968)
Loss from operation		**(9,083,347)**	(3,987,216)
Finance costs	*3*	**(147,184)**	–
Loss from ordinary activities before taxation	*3*	**(9,230,531)**	(3,987,216)
Taxation	*4*	**1,735,318**	874,111
Loss attributable to shareholders	*7*	**(7,495,213)**	(3,113,105)
Basic loss per share	*8*	**(2.34) cents**	(0.97) cents

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	2003	2002
	HK$	*HK$*
Shareholders' equity as at 1 January	**52,840,211**	55,961,723
Loss for the year	**(7,495,213)**	(3,113,105)
Exchange difference on translation of the financial statements of a PRC subsidiary	**–**	(8,407)
Shareholders' equity as at 31 December	**45,344,998**	52,840,211

Consolidated Balance Sheet

At 31 December 2003

	Note	**2003** *HK$*	2002 *HK$*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	**20,608,090**	16,316,320
Intangible assets	*12*	**450,000**	979,175
Other financial assets	*14*	**7,000,000**	7,000,000
Deferred tax assets	*20*	**1,343,318**	–
		29,401,408	24,295,495
Current assets			
Inventories	*15*	**2,013,235**	3,914,083
Trade and other receivables	*16*	**15,565,863**	13,370,873
Tax recoverable		**–**	483,732
Pledged bank deposit	*17*	**1,406,508**	1,032,540
Bank balances and cash		**12,645,168**	14,623,040
		31,630,774	33,424,268
Current liabilities			
Trade and other payables	*18*	**10,907,704**	4,487,552
Current portion of obligations under finance leases	*19*	**1,911,792**	–
		12,819,496	4,487,552
Net current assets		**18,811,278**	28,936,716
Total assets less current liabilities		**48,212,686**	53,232,211
Non-current liabilities			
Obligations under finance leases	*19*	**2,867,688**	–
Deferred taxation	*20*	**–**	392,000
NET ASSETS		**45,344,998**	52,840,211
CAPITAL AND RESERVES			
Issued capital	*21*	**32,000,000**	32,000,000
Reserves	*23*	**13,344,998**	20,840,211
		45,344,998	52,840,211

Approved and authorised for issue by the Board of Directors on 24 March 2004

Fung Wing Mou, Bernard
Director

Ho Lut Wa, Anton
Director

Balance Sheet

At 31 December 2003

	Note	**2003** *HK$*	2002 *HK$*
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	*13*	**51,389,567**	45,207,615
Current assets			
Deposits, prepayment and other debtors		**30,666**	33,750
Pledged bank deposit		**1,406,508**	–
Bank balances and cash		**3,497,552**	11,368,063
		4,934,726	11,401,813
Current liabilities			
Accrued charges and other creditors		**345,318**	542,220
Net current assets		**4,589,408**	10,859,593
NET ASSETS		**55,978,975**	56,067,208
CAPITAL AND RESERVES			
Issued capital	*21*	**32,000,000**	32,000,000
Reserves	*23*	**23,978,975**	24,067,208
		55,978,975	56,067,208

Approved and authorised for issue by the Board of Directors on 24 March 2004

Fung Wing Mou, Bernard
Director

Ho Lut Wa, Anton
Director

Consolidated Cash Flow Statement

At 31 December 2003

	Note	2003 HK$	2002 HK$
OPERATING ACTIVITIES			
Cash inflow (outflow) from operations	24	**4,408,585**	(7,578,420)
Profit tax refund (paid)		**483,732**	(283,887)
Net cash inflow (outflow) from operating activities		**4,892,317**	(7,862,307)
Investing activities			
Interest received		**631,340**	615,738
Purchase of property, plant and equipment		**(3,424,481)**	(9,464,670)
Acquisition of convertible note		**–**	(7,000,000)
Acquisition of intangible assets		**(2,600,000)**	(808,038)
Proceeds from disposal of property, plant and equipment		**–**	180,000
Net cash used in investing activities		**(5,393,141)**	(16,476,970)
Financing activities			
Interest paid		**(147,184)**	–
Repayment of obligations under finance leases		**(955,896)**	–
Net cash used in financing activities		**(1,103,080)**	–
Net decrease in cash and cash equivalents		**(1,603,904)**	(24,339,277)
Cash and cash equivalents at 1 January		**15,655,580**	39,994,857
Cash and cash equivalents at 31 December		**14,051,676**	15,655,580
Analysis of the balances of cash and cash equivalents			
Pledged bank deposit		**1,406,508**	1,032,540
Bank balances and cash		**12,645,168**	14,623,040
		14,051,676	15,655,580

Notes to the Financial Statements

Year ended 31 December 2003

1. 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.

The financial statements are prepared on a basis consistent with the accounting policies and method adopted in the previous year except for SSAP 12 (Revised) "Income taxes" which is effective for accounting periods commencing on or after 1 January 2003. SSAP 12 (Revised) has had no significant impact for the financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 4 and note 20 to the financial statements and included a reconciliation between the accounting loss and tax income for the year.

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 subsidiaries made up to 31 December 2003. The results of the subsidiaries 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 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 on transfer of risks and rewards of ownership, which generally coincides with time when goods are delivered to customers and title has passed.

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

Notes to the Financial Statements

Year ended 31 December 2003

1. 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.

Royalty income is recognised on an accrual basis in accordance with the terms of the relevant contracts.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between estimated net 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 less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account 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.

Notes to the Financial Statements

Year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Research and development costs (continued)

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.

Patents and know-how

The initial costs of acquiring patents and know-how are capitalised and amortised over a period of two years in equal annual instalments. The costs of renewing patents and know-how are recognised as expenses in the period in which the costs are incurred.

Subsidiaries

A subsidiary, is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies, so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less accumulated impairment losses. 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 internal and external sources of information to determine whether the carrying amounts of its tangible and intangible 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

Notes to the Financial Statements

Year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impairment loss (continued)

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.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses 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.

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 current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

Year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Leasing

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

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable and receivable under operating leases are charged to income statement on a straight-line basis over the term of the relevant leases.

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.

Notes to the Financial Statements

Year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage 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.

Notes to the Financial Statements

Year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Segment reporting (Continued)

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

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

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses.

2. 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	
	2003	2002
	HK$	*HK$*
Turnover		
Sales of smart cards and plastic cards	**36,100,392**	26,645,469
Sales of smart card application systems	**4,877,470**	9,408,942
Service and other income	**209,711**	214,239
	41,187,573	36,268,650
Other revenue		
Interest income	**631,340**	615,738
Gain on disposal of property, plant and equipment	**–**	77,785
Rental income	**300,000**	450,000
Royalty income	**2,000,000**	–
Sundry income	**57,767**	16,417
	2,989,107	1,159,940
	44,176,680	37,428,590

Notes to the Financial Statements

Year ended 31 December 2003

3. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

	The Group	
	2003	2002
	HK$	*HK$*
This is arrived at after charging:		
(a) Finance costs		
Finance charges on obligations under finance leases	**147,184**	–
	147,184	–
(b) Other items		
Auditors' remuneration	**180,000**	200,000
Staff costs including directors' emoluments *(Note 5)*	**12,003,986**	12,704,206
Less: Amounts capitalised as development costs	**–**	(600,129)
	12,003,986	12,104,077
Cost of inventories	**16,878,182**	20,585,623
Depreciation of property, plant and equipment	**4,868,087**	2,029,240
Product development costs	**590,506**	16,353
Amortisation of intangible assets	**1,123,376**	121,030
Operating lease charges for premises	**1,567,004**	1,013,680
Impairment losses recognised:		
– Development costs	**672,466**	–
– Patents and know-how	**1,333,333**	–
Bad debts written off	**13,190**	54,429

Notes to the Financial Statements

Year ended 31 December 2003

4. TAXATION

	The Group	
	2003	2002
	HK$	*HK$*
The (credit) charge comprises:		
Hong Kong Profits Tax:		
Current year	**–**	–
Overprovision in prior year	**–**	(1,184)
	–	(1,184)
Deferred taxation:		
Origination and reversal of temporary difference	**(1,772,068)**	(872,927)
Change in tax rate	**36,750**	–
	(1,735,318)	(872,927)
	(1,735,318)	(874,111)

No provision for Hong Kong profits tax has been made as the Group incurred a loss for taxation purposes for the year (2002: Nil). No provision for PRC foreign enterprise income tax has been made as the Group's subsidiary operating in Beijing, PRC is under tax holiday. Pursuant to the Income Tax Law and the Detailed Rules for the Implementation of the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, the PRC subsidiary was entitled to exemption from PRC foreign enterprise income tax for the three years ending 31 December 2005 and a 50% reduction from PRC foreign enterprise income tax for the three years ending 31 December 2008.

Notes to the Financial Statements

Year ended 31 December 2003

4. TAXATION (CONTINUED)

	2003 HK$	2002 HK$
Deferred tax recognised in the income statement		
Types of temporary differences:		
Depreciation allowances	**(1,518,664)**	926,073
Tax losses	**(216,654)**	(1,799,000)
	(1,735,318)	(872,927)

	2003 HK$	2002 HK$
Reconciliation of tax expense		
Loss before tax	**(9,230,531)**	(3,987,216)
Income tax at applicable tax rate of 17.5% (2002: 16%)	**(1,615,343)**	(637,955)
Effect of overseas tax rate differences	**(173,529)**	4,638
Non-deductible expenses	**2,216,683**	104,949
Tax exempt revenue	**(2,537,068)**	(332,114)
Effect of change in tax rates	**36,750**	–
Overprovision in prior year	**–**	(1,184)
Others	**79,575**	(80,510)
Unrecognised tax losses	**335,628**	69,271
Unrecognised timing differences	**(78,014)**	(1,206)
Tax credit for the year	**(1,735,318)**	(874,111)

The applicable tax rate is the Hong Kong profits tax rate of 17.5% (2002: 16%).

Notes to the Financial Statements

Year ended 31 December 2003

5. DIRECTORS' EMOLUMENTS

	The Group	
	2003	2002
	HK$	*HK$*
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	23,387
Independent non-executive directors	**100,000**	100,000
Other emoluments:		
Salaries and other emoluments	**1,814,310**	1,867,931
Discretionary bonuses	**–**	–
Contributions to retirement scheme	**39,823**	47,928
	1,954,133	2,039,246

The six executive directors of the Company received individual emoluments for the year ended 31 December 2003 of approximately HK$895,000 (2002: HK$898,000), HK$564,000 (2002: HK$583,000), HK$136,000 (2002: HK$161,000), HK$122,000 (2002: HK$137,000), HK$136,000 (2002: HK$137,000) and Nil (2002: Nil) respectively.

The two non-executive directors of the Company received directors' fees for the year ended 31 December 2003 of approximately HK$50,000 (2002: HK$50,000) and HK$50,000 (2002: HK$50,000) respectively.

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

Notes to the Financial Statements

Year ended 31 December 2003

6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two (2002: two) directors, whose remuneration are set out in note 5 above. The aggregate emoluments of the remaining three (2002: three) individuals are as follows:

	2003	2002
	HK$	*HK$*
Salaries and allowances	**1,252,754**	1,375,050
Contributions to retirement scheme	**39,000**	39,000
Compensation for loss of office	**196,500**	–
	1,488,254	1,414,050

The remuneration of each of these three (2002: three) individuals are less than HK$1,000,000 in both years.

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated net loss for the year includes a loss of approximately HK$88,233 (2002: HK$93,858) which has been dealt with in the financial statements of the Company for the year ended 31 December 2003.

8. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the shareholders for the year of HK$7,495,213 (2002: loss of HK$3,113,105) and the weighted average number of 320,000,000 shares (2002: 320,000,000 shares) in issue during the year.

Diluted loss per share for the year ended 31 December 2002 and 2003 have not been presented as the share options outstanding during the years had an anti-dilutive effect on the basic loss per share.

Notes to the Financial Statements

Year ended 31 December 2003

9. 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	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
Turnover								
External sales	**36,100,392**	26,645,469	**4,877,470**	9,408,942	**209,711**	214,239	**41,187,573**	36,268,650
Result								
Segment result	**5,724,923**	4,581,546	**(1,778,627)**	3,045,678			**3,946,296**	7,627,224
Unallocated operating income and expenses							**(13,029,643)**	(11,614,440)
Loss from operations							**(9,083,347)**	(3,987,216)
Finance costs							**(147,184)**	–
							(9,230,531)	(3,987,216)
Taxation							**1,735,318**	874,111
Loss attributable to shareholders							**(7,495,213)**	(3,113,105)
Assets and liabilities								
Segment assets	**29,441,494**	22,696,679	**1,734,886**	4,728,170			**31,176,380**	27,424,849
Unallocated assets							**29,855,802**	30,294,914
Total assets							**61,032,182**	57,719,763
Segment liabilities	**10,982,577**	2,158,000	**385,300**	100,724			**11,367,877**	2,258,724
Unallocated liabilities							**4,319,307**	2,620,828
Total liabilities							**15,687,184**	4,879,552
Other information								
Capital expenditure incurred during the year	**11,692,441**	8,223,642	**2,600,000**	808,038				
Impairment losses recognised in the income statement	**2,005,799**	–	**–**	–				
Depreciation/ Amortisation for the year	**3,945,174**	1,444,556	**1,123,376**	121,030				

Notes to the Financial Statements

Year ended 31 December 2003

9. SEGMENT REPORTING (CONTINUED)

Geographical segments

	Revenue				Assets			
	2003		2002		**2003**		2002	
	HK$		*HK$*		***HK$***		*HK$*	
Hong Kong	**8,052,172**	**20%**	20,881,158	58%	**31,636,869**	**52%**	51,944,153	90%
North Asia	**3,476,198**	**9%**	9,594,122	26%	**–**	**–**	–	–
PRC	**21,425,874**	**52%**	5,174,479	14%	**29,395,313**	**48%**	5,775,610	10%
South Asia	**5,108,128**	**12%**	–	–	**–**	**–**	–	–
Europe	**2,639,708**	**6%**	–	–	**–**	**–**	–	–
Others	**485,493**	**1%**	618,891	2%	**–**	**–**	–	–
	41,187,573	**100%**	36,268,650	100%	**61,032,182**	**100%**	57,719,763	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.

10. 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 2003, the aggregate amount of employer's contribution made by the Group is HK$333,714 (2002: HK$482,508).

Notes to the Financial Statements

Year ended 31 December 2003

11. PROPERTY, PLANT AND EQUIPMENT

	Printing and testing equipment *HK$*	Office equipment *HK$*	Furniture and fixtures *HK$*	Leasehold improvement *HK$*	Motor vehicles *HK$*	Total *HK$*
The Group						
Cost						
At 1 January 2003	19,577,475	1,696,883	522,600	1,067,944	564,492	23,429,394
Addition during the year	11,692,441	134,978	1,127,330	405,108	–	13,359,857
Disposal	(5,600,000)	–	–	–	–	(5,600,000)
At 31 December 2003	**25,669,916**	**1,831,861**	**1,649,930**	**1,473,052**	**564,492**	**31,189,251**
Accumulated depreciation						
At 1 January 2003	5,583,127	639,867	317,728	470,343	102,009	7,113,074
Charge for the year	3,945,174	338,723	189,322	284,145	110,723	4,868,087
Write back on disposal	(1,400,000)	–	–	–	–	(1,400,000)
At 31 December 2003	**8,128,301**	**978,590**	**507,050**	**754,488**	**212,732**	**10,581,161**
Net book value						
At 31 December 2003	**17,541,615**	**853,271**	**1,142,880**	**718,564**	**351,760**	**20,608,090**
At 31 December 2002	13,994,348	1,057,016	204,872	597,601	462,483	16,316,320

The net book value of the Group's printing and testing equipment includes an amount of HK$6,176,162 (2002: Nil) in respect of assets held under finance leases.

Notes to the Financial Statements

Year ended 31 December 2003

12. INTANGIBLE ASSETS

	Development costs *HK$*	Patents and know-how *HK$*	Total *HK$*
The Group			
At 1 January 2003	1,118,138	–	1,118,138
Additions	–	2,600,000	2,600,000
At 31 December 2003	1,118,138	2,600,000	3,718,138
Amortisation			
At 1 January 2003	138,963	–	138,963
Provided for the year	306,709	816,667	1,123,376
Impairment losses	672,466	1,333,333	2,005,799
At 31 December 2003	1,118,138	2,150,000	3,268,138
Carrying amount			
At 31 December 2003	–	450,000	450,000
At 31 December 2002	979,175	–	979,175

Notes:

a. During the year, the Group acquired a technical know-how and related patents for manufacturing of dual interface smart card with a consideration of HK$2,000,000. In view of the downturn of the market for dual interface smart card, where the Group originally intended to target, the directors have re-assessed the recoverable amount of the know-how and patents. As a results, an impairment loss of HK$2,005,799 has been recognised in the current year. The recoverable amount of the assets is determined by reference to the value in use and no substantial sales order in near future as the market has not yet picked up.

b. The amortisation charged and the impairment losses for the year are included in the "Cost of sales" and "Administrative expenses" respectively in the consolidated income statement.

Notes to the Financial Statements

Year ended 31 December 2003

13. INTEREST IN SUBSIDIARIES

	The Company	
	2003	2002
	HK$	*HK$*
Unlisted shares, at cost	**26,954,990**	26,954,990
Due from subsidiaries	**17,434,577**	11,252,625
Loan to a subsidiary	**7,000,000**	7,000,000
	51,389,567	45,207,615

The amounts due from subsidiaries are 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.

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
Action Logistic Limited	The British Virgin Islands	US$1 ordinary share	Investment holding
Apex Limited	Hong Kong	HK$10,000 ordinary share	Inactive
Beijing Venus Technology Limited	The People's Republic of China	US$500,000 registered capital	Smart card and plastic card manufacturing and sales in the PRC
Billion Apex Limited	The British Virgin Island	US$1 ordinary share	Investment holding
Cardlink Technology (HK) Limited	Hong Kong	HK$10,000 ordinary share	Investment holding and general trading

Notes to the Financial Statements

Year ended 31 December 2003

13. 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
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
Manibo Limited	Republic of Mauritius	US$1 ordinary share	Investment holding
PMIS Limited	Hong Kong	HK$10,000 ordinary share	Development and provision of smart card application systems in Hong Kong
Rapid Limited	Hong Kong	HK$10,000 ordinary share	Inactive
Smart-Security Limited	Hong Kong	HK$10,000 ordinary share	Development and provision of smart card application systems in Hong Kong
Ultra Force Holdings Limited	The British Virgin Islands	US$1 ordinary share	Investment holding
Waystech Group Limited	The British Virgin Islands	US$10,000 ordinary share	Investment holding
World Praise International Limited	The British Virgin Islands	US$1 ordinary share	Investment holding

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

Notes to the Financial Statements

Year ended 31 December 2003

14. OTHER FINANCIAL ASSETS

	The Group	
	2003	2002
	HK$	*HK$*
Unlisted investment		
Debt securities, at cost	**7,000,000**	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, bearing interest at 8% per annum and due on 9 July 2004. On 19 March 2004, the convertible note has been redeemed and on 23 March 2004, the Group received HK$7 million, being the principal amount of the convertible note.

15. INVENTORIES

	The Group	
	2003	2002
	HK$	*HK$*
Raw materials	**1,117,097**	1,223,739
Work-in-progress	**102,189**	79,197
Finished goods	**793,949**	2,611,147
	2,013,235	3,914,083

16. TRADE AND OTHER RECEIVABLES

	The Group	
	2003	2002
	HK$	*HK$*
Trade receivables		
From third parties	**11,171,530**	8,537,243
Other receivables		
Deposits, prepayment and other debtors	**4,394,333**	4,833,630
	15,565,863	13,370,873

Notes to the Financial Statements

Year ended 31 December 2003

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

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	
	2003	2002
	HK$	*HK$*
Current – 30 days	**6,312,602**	6,969,223
31 – 90 days	**2,353,363**	618,140
Over 90 days	**2,505,565**	949,880
	11,171,530	8,537,243

17. PLEDGED BANK DEPOSIT

At balance sheet date, bank deposit of HK$1,406,508 (2002: Nil) was pledged as collateral for a finance lease arrangement in respect of certain machineries purchased by a subsidiary of the Company. In the prior year, bank deposit of HK$1,032,540 was pledged as collateral for the short term banking facilities granted to a subsidiary of the Company.

18. TRADE AND OTHER PAYABLES

	The Group	
	2003	2002
	HK$	*HK$*
Trade payables		
To third parties	**5,846,616**	2,258,724
Other payables		
Accrued charges and other creditors	**5,061,088**	2,228,828
	10,907,704	4,487,552

Notes to the Financial Statements

Year ended 31 December 2003

18. TRADE AND OTHER PAYABLES (CONTINUED)

The ageing analysis of trade payables as at the balance sheet date is as follows:

	The Group	
	2003	2002
	HK$	*HK$*
0 – 30 days	**3,944,951**	2,258,724
31 – 60 days	**392,603**	–
61 – 90 days	**920,808**	–
Over 90 days	**588,254**	–
	5,846,616	2,258,724

19. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
	HK$	*HK$*	***HK$***	*HK$*
Amount payable:				
Within one year	**2,127,083**	–	**1,911,792**	–
Between one to two years	**2,021,262**	–	**1,911,792**	–
Between two to five years	**971,188**	–	**955,896**	–
	5,119,533	–	**4,779,480**	–
Future finance charges	**(340,053)**	–	**–**	–
Present value of lease obligations	**4,779,480**	–	**4,779,480**	–

The finance leases arrangement is secured by the Group's bank deposit amounting to HK$1,406,508 and certain for the Group's fixed assets which had a net book value amounting to HK$521,687 as at the year end date.

The average lease term is three years and all leases are repayable in fixed monthly principal instalments plus interest. There is no arrangement for contingent rent payments.

Notes to the Financial Statements

Year ended 31 December 2003

20. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

	Assets		Liabilities	
	2003	2002	**2003**	2002
	HK$	*HK$*	***HK$***	*HK$*
Depreciation allowances	**–**	–	**(672,336)**	(2,191,000)
Tax losses	**2,015,654**	1,799,000	**–**	–
Deferred tax assets (liabilities)	**2,015,654**	1,799,000	**(672,336)**	(2,191,000)
Offset deferred tax assets and liabilities	**(672,336)**	(1,799,000)	**672,336**	1,799,000
Net deferred tax assets (liabilities)	**1,343,318**	–	**–**	(392,000)

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

The Group recognised a deferred tax asset arising from tax losses of the profits arising from tax losses of certain subsidiaries in Hong Kong in excess of the profits arising from the reversal of existing taxable temporary differences amounted to HK$1,343,318. By restructuring the production facilities in Hong Kong, better utilising the resources and increasing the operation efficiency, the directors consider it is probable that these subsidiaries will have sufficient taxable profit to utilise the recognised deferred tax asset.

21. ISSUED CAPITAL

	2003	2002
	HK$	*HK$*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000,000**	100,000,000
Issued by fully paid:		
320,000,000 ordinary shares of HK$0.10 each	**32,000,000**	32,000,000

Notes to the Financial Statements

Year ended 31 December 2003

22. 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 2003, no options under this scheme had been granted.

Pre-IPO Share Option Scheme

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

Notes to the Financial Statements

Year ended 31 December 2003

22. SHARE OPTION SCHEME (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

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

No options had been exercised, cancelled or lapsed during the year ended 31 December 2003. Subsequent to the year end, on 20 January 2004, 4,000,000 Pre-IPO Share Options held by a director who resigned during the year were cancelled.

23. RESERVES

	Contributed surplus	Other reserves	Exchange difference	Accumulated profits/ (losses)	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
The Group					
At 1 January 2002	13,985,669	7	–	9,976,047	23,961,723
Exchange differences	–	–	(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
Loss for the year	–	–	–	(7,495,213)	(7,495,213)
At 31 December 2003	**13,985,669**	**7**	**(8,407)**	**(632,271)**	**13,344,998**

Notes to the Financial Statements

Year ended 31 December 2003

23. RESERVES (CONTINUED)

	Contributed surplus *HK$*	Other reserves *HK$*	Accumulated losses *HK$*	Total *HK$*
The Company				
At 1 January 2002	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
Loss for the year	–	–	(88,233)	(88,233)
At 31 December 2003	**24,190,659**	**7**	**(211,691)**	**23,978,975**

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 over the nominal value of the share capital of the Company issued in exchange therefor less share issue expenses.

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

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 losses. At the balance sheet date, the Company had HK$23,978,975 reserves available for distribution.

Notes to the Financial Statements

Year ended 31 December 2003

24. CASH INFLOW (OUTFLOW) FROM OPERATIONS

	The Group	
	2003	2002
	HK$	*HK$*
Loss before taxation	**(9,230,531)**	(3,987,216)
Amortisation of intangible assets	**1,123,376**	121,030
Depreciation	**4,868,087**	2,029,240
Impairment losses	**2,005,799**	–
Interest income	**(631,340)**	(615,738)
Interest expenses	**147,184**	–
Gain on disposal of property, plant and equipment	**–**	(77,785)
Changes in working capital:		
Inventories	**1,900,848**	(2,391,094)
Trade and other receivables	**(2,194,990)**	(4,528,812)
Trade and other payables	**6,420,152**	1,880,362
Foreign exchange	**–**	(8,407)
Cash inflow (outflow) from operations	**4,408,585**	(7,578,420)

25. MAJOR NON-CASH TRANSACTIONS

(i) During the year, the Group entered into a fixed assets swapping transaction with a third party to swap certain of the Group's machineries which had a net book value of HK$4,200,000 in exchange for certain machineries which were valued at the same amount by the third party as at the transaction date.

(ii) During the year, the Group entered into finance leases arrangement in respect of acquisition of property, plant and equipment with a capital value at the inception of the lease of HK$5,735,376.

Notes to the Financial Statements

Year ended 31 December 2003

26. CAPITAL COMMITMENTS

	The Group	
	2003	2002
	HK$	*HK$*
Contracted but not provided for:		
– in respect of acquisition of property, plant and equipment	**600,000**	5,970,000
– in respect of development cost for smart card related techniques	**–**	1,000,000
	600,000	6,970,000

In addition, a subsidiary of the Company is committed to make a capital contribution of approximately HK$6 million (2002: 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.

27. 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	
	2003	2002
	HK$	*HK$*
Within one year	**1,173,747**	1,296,000
In the second to fifth years inclusive	**–**	464,000
	1,173,747	1,760,000

28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group has no other transactions with related parties during the current year.

Financial Summary

Year ended 31 December 2003

The following is a summary of the combined results and combined assets and liabilities of the Group for each of the five years ended 31 December 2003 prepared on the basis set out in the notes below:

Combined Results

	1999	2000	2001	2002	**2003**
	HK$	*HK$*	*HK$*	*HK$*	***HK$***
Turnover	24,978,267	34,391,855	43,988,073	36,268,650	**41,187,573**
Profit (loss) from operation	5,311,463	7,880,900	11,565,840	(3,987,216)	**(9,083,347)**
Finance costs	(203,948)	(787,094)	(544,875)	–	**(147,184)**
Share of result of associate	–	125,995	(212)	–	**–**
Profit (loss) before taxation	5,107,515	7,219,801	11,020,753	(3,987,216)	**(9,230,531)**
Taxation	–	(1,573,019)	(1,646,000)	874,111	**1,735,318**
Profit (loss) after taxation	5,107,515	5,646,782	9,374,753	(3,113,105)	**(7,495,213)**
Minority interest	–	46,017	–	–	**–**
Net profit (loss) attributable to shareholders	5,107,515	5,692,799	9,374,753	(3,113,105)	**(7,495,213)**
Basic earnings (loss) per share	2.13 cents	2.37 cents	3.86 cents	(0.97) cents	**(2.34) cents**

Combined Assets and Liabilities

	1999	2000	2001	2002	**2003**
Non-current assets	991,345	2,313,765	9,275,272	24,295,495	**29,401,408**
Current assets	10,476,022	35,811,361	50,558,568	33,424,268	**31,630,774**
Current liabilities	2,158,872	13,985,449	2,607,190	4,487,552	**12,819,496**
Non-current liabilities	–	388,383	1,264,927	392,000	**2,867,688**

Financial Summary

Year ended 31 December 2003

Notes:

1. 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.

2. The results for the year ended 31 December 2003 have been extracted from the consolidated income statement as set out on page 25 of the financial statements.