



# CARDLINK TECHNOLOGY GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8066)**

## **INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2004**

**Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).**

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

## HIGHLIGHTS

- The unaudited turnover of the Group for the first six months of 2004 was approximately HK\$27,500,000, representing an 32% increase as compared with that of the corresponding period in 2003.
- The Directors do not recommend any payment of an interim dividend for the six months ended 30 June 2004.

## UNAUDITED INTERIM RESULTS

The board of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2004	2003	2004	2003
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Turnover</b>	2	<b>14,344,960</b>	10,258,011	<b>27,498,713</b>	20,841,480
Cost of sales		<b>(10,250,394)</b>	(8,890,374)	<b>(21,429,824)</b>	(18,389,376)
Gross profit		<b>4,094,566</b>	1,367,637	<b>6,068,889</b>	2,452,104
Other revenue	3	<b>5,283</b>	557,078	<b>136,932</b>	1,124,199
Selling and distribution costs		<b>(1,029,351)</b>	(661,354)	<b>(1,863,301)</b>	(1,455,973)
Administrative expenses		<b>(1,983,351)</b>	(3,075,645)	<b>(5,089,451)</b>	(6,148,449)
<b>Profit/(Loss) from operation</b>	2	<b>1,087,147</b>	(1,812,284)	<b>(746,931)</b>	(4,028,119)
Finance costs		<b>(57,424)</b>	–	<b>(120,825)</b>	–
<b>Profit/(Loss) from ordinary activities before taxation</b>	4	<b>1,029,723</b>	(1,812,284)	<b>(867,756)</b>	(4,028,119)
Taxation	5	–	–	–	–
<b>Profit/(Loss) attributable to shareholders</b>		<b>1,029,723</b>	(1,812,284)	<b>(867,756)</b>	(4,028,119)
<b>Basic earnings/(loss) per share</b>	7	<b>0.32 cents</b>	(0.57) cents	<b>(0.27) cents</b>	(1.26) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2004 HK\$	Audited 31 December 2003 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	18,813,715	20,608,090
Intangible assets		150,000	450,000
Other financial assets		–	7,000,000
Deferred tax assets		1,343,318	1,343,318
		20,307,033	29,401,408
<b>Current assets</b>			
Inventories	9	3,364,807	2,013,235
Trade and other receivables	10	17,062,580	15,565,863
Pledged bank deposits	11	1,406,513	1,406,508
Bank balances and cash		15,588,655	12,645,168
		37,422,555	31,630,774
<b>Current liabilities</b>			
Trade and other payables	12	9,428,762	10,907,704
Current portion of obligations under finance leases		1,911,792	1,911,792
		11,340,554	12,819,496
<b>Net current assets</b>		26,082,001	18,811,278
<b>Total assets less current liabilities</b>		46,389,034	48,212,686
<b>Non-current liabilities</b>			
Obligations under finance leases		1,911,792	2,867,688
<b>NET ASSETS</b>		44,477,242	45,344,998
<b>CAPITAL AND RESERVES</b>			
Issued capital		32,000,000	32,000,000
Reserves	13	12,477,242	13,344,998
		44,477,242	45,344,998

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<i>HK\$</i>	<i>HK\$</i>
At beginning of the period – Total equity	<b>45,344,998</b>	52,840,211
Exchange difference	–	(245)
Loss for the period	<b>(867,756)</b>	(4,028,119)
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At end of the period – Total equity	<b><u>44,477,242</u></b>	<b><u>48,811,847</u></b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<i>HK\$</i>	<i>HK\$</i>
<b>Net cash (used in) generated from operating activities</b>	<b>(2,206,508)</b>	1,401,966
<b>Net cash generated from/(used in) investing activities</b>	<b>6,226,721</b>	(4,590,422)
<b>Net cash (used in) financing activities</b>	<b>(1,076,721)</b>	–
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalent</b>	<b>2,943,492</b>	(3,188,456)
<b>Cash and cash equivalents brought forward</b>	<b>14,051,676</b>	15,655,580
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<b>Cash and cash equivalents carried forward</b>	<b><u>16,995,168</u></b>	<b><u>12,467,124</u></b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Pledged bank deposit	<b>1,406,513</b>	2,439,779
Bank balances and cash	<b>15,588,655</b>	10,027,345
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	<b><u>16,995,168</u></b>	<b><u>12,467,124</u></b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Rules governing the Listing of Securities on the GEM of the Stock Exchange.

The same accounting policies adopted in the 2003 annual accounts have been applied to the interim financial report.

### 2. SEGMENTAL INFORMATION

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

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

	<b>Unaudited</b>			
	<b>Group turnover</b>			
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sales of smart cards and plastic cards	<b>14,216,841</b>	10,097,718	<b>26,613,444</b>	18,115,617
Sales of smart card application systems	<b>8,120</b>	124,440	<b>658,137</b>	2,664,661
Others	<b>119,999</b>	35,853	<b>227,132</b>	61,202
	<b><u>14,344,960</u></b>	<u>10,258,011</u>	<b><u>27,498,713</u></b>	<u>20,841,480</u>

	<b>Unaudited</b>			
	<b>Contribution to profit from operation</b>			
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sales of smart cards and plastic cards	<b>4,174,618</b>	1,252,675	<b>5,913,850</b>	2,287,035
Sales of smart card application systems	<b>(200,051)</b>	79,109	<b>(72,093)</b>	103,867
	<b><u>3,974,567</u></b>	<u>1,331,784</u>	<b><u>5,841,757</u></b>	<u>2,390,902</u>
Unallocated expenses	<b>(2,887,420)</b>	(3,144,068)	<b>(6,588,688)</b>	(6,419,021)
Profit/(Loss) from operation	<b><u>1,087,147</u></b>	<u>(1,812,284)</u>	<b><u>(746,931)</u></b>	<u>(4,028,119)</u>

### 3. OTHER REVENUE

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Interest income	3,939	158,623	132,452	326,595
Royalty income	–	240,000	–	480,000
Rental income	–	150,000	–	300,000
Sundry income	1,344	8,455	4,480	17,604
	<u>5,283</u>	<u>557,078</u>	<u>136,932</u>	<u>1,124,199</u>

### 4. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
This is arrived at after charging:				
Amortization of capitalized product development costs	150,000	64,368	300,000	110,057
Staff costs	2,201,341	2,995,814	5,002,510	6,097,126
Cost of inventories	4,903,127	3,924,565	9,853,694	10,845,186
Depreciation of property, plant and equipment	1,355,736	1,476,092	2,700,106	2,291,711
Operating lease charges	428,138	404,443	841,157	795,572
	<u>428,138</u>	<u>404,443</u>	<u>841,157</u>	<u>795,572</u>

### 5. TAXATION

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Provision for Hong Kong Profits Tax attributable to the Company and its subsidiaries	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profits for the period (2003: 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 is 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.

There was no material unprovided deferred tax for the periods.

## 6. DIVIDEND

The Directors do not recommend any payment of an interim dividend for the period ended 30 June 2004 (2003: HK\$NIL).

## 7. BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the three months and the six months ended 30 June 2004 is based on the unaudited profit attributable to the shareholders for the three months ended 30 June 2004 of HK\$1,029,723 and the unaudited loss attributable to the shareholders for the six months ended 30 June 2004 of HK\$867,756 (2003: loss of HK\$1,812,284 and HK\$4,028,119), and the weighted average number of 320,000,000 shares in issue (2003: 320,000,000).

Diluted earnings per share for the three months and the six months ended 30 June 2004 have not been presented as the exercise price of the share options granted by the Company was higher than the average market price for shares during the relevant periods.

## 8. PROPERTY, PLANT AND EQUIPMENT

	Printing and testing equipment <i>HK\$</i>	Office equipment <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Leasehold improvement <i>HK\$</i>	Motor vehicle <i>HK\$</i>	Total <i>HK\$</i>
<b>Cost</b>						
At 1 January 2004	25,669,916	1,831,861	1,649,930	1,473,052	564,492	31,189,251
Addition during the period	722,479	67,982	106,870	8,400	–	905,731
<b>At 30 June 2004</b>	<b>26,392,395</b>	<b>1,899,843</b>	<b>1,756,800</b>	<b>1,481,452</b>	<b>564,492</b>	<b>32,094,982</b>
<b>Accumulated depreciation</b>						
At 1 January 2004	8,128,301	978,590	507,050	754,488	212,732	10,581,161
Charge for the period	2,202,660	168,418	137,232	141,060	50,736	2,700,106
<b>At 30 June 2004</b>	<b>10,330,961</b>	<b>1,147,008</b>	<b>644,282</b>	<b>895,548</b>	<b>263,468</b>	<b>13,281,267</b>
<b>Net book value</b>						
<b>At 30 June 2004</b>	<b>16,061,434</b>	<b>752,835</b>	<b>1,112,518</b>	<b>585,904</b>	<b>301,024</b>	<b>18,813,715</b>
At 31 December 2003	17,541,615	853,271	1,142,880	718,564	351,760	20,608,090

The net book value of the Group's printing and testing equipment includes an amount of HK\$5,453,778 (2003: HK\$6,176,162) in respect of assets held under finance leases.

## 9. INVENTORIES

	Unaudited 30 June 2004 <i>HK\$</i>	Audited 31 December 2003 <i>HK\$</i>
At cost:		
Raw materials	1,507,152	1,117,097
Work-in-progress	76,995	102,189
Finished goods	1,780,660	793,949
	<b>3,364,807</b>	<b>2,013,235</b>

## 10. TRADE AND OTHER RECEIVABLES

	<b>Unaudited</b> <b>30 June</b> <b>2004</b> <i>HK\$</i>	Audited 31 December 2003 <i>HK\$</i>
Trade receivables	12,075,636	11,171,530
Deposits, prepayment and other debtors	4,986,944	4,394,333
	<u>17,062,580</u>	<u>15,565,863</u>

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

	<b>Unaudited</b> <b>30 June</b> <b>2004</b> <i>HK\$</i>	Audited 31 December 2003 <i>HK\$</i>
Current – 30 days	6,983,873	6,312,602
31 – 90 days	4,164,902	2,353,363
Over 90 days	926,861	2,505,565
	<u>12,075,636</u>	<u>11,171,530</u>

## 11. PLEDGED BANK DEPOSITS

At 30 June 2004, a bank deposit of HK\$1,406,513 (31 December 2003: HK\$1,406,508) was pledged as collateral for a finance lease arrangement in respect of certain machineries purchased by a subsidiary of the Company.

## 12. TRADE AND OTHER PAYABLES

	<b>Unaudited</b> <b>30 June</b> <b>2004</b> <i>HK\$</i>	Audited 31 December 2003 <i>HK\$</i>
Trade payables	7,366,004	5,846,616
Accrued charges and other creditors	2,062,758	5,061,088
	<u>9,428,762</u>	<u>10,907,704</u>

All the trade payables are due within 1 month or on demand. The ageing analysis of the trade payables as at the balance sheet date is as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2004</b> <i>HK\$</i>	Audited 31 December 2003 <i>HK\$</i>
0 – 30 days	5,859,162	3,944,951
31 – 60 days	1,057,671	392,603
61 – 90 days	108,415	920,808
Over 90 days	340,756	588,254
	<u>7,366,004</u>	<u>5,846,616</u>



### 13. MOVEMENTS IN RESERVES

	Contributed surplus <i>HK\$</i>	Other reserve <i>HK\$</i>	Exchange reserve <i>HK\$</i>	Accumulated profits/(loss) <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2003	13,985,669	7	(8,407)	6,862,942	20,840,211
Exchange differences	–	–	(245)	–	(245)
Loss for the period	–	–	–	(4,028,119)	(4,028,119)
	<u>13,985,669</u>	<u>7</u>	<u>(8,652)</u>	<u>2,834,823</u>	<u>16,811,847</u>
At 30 June 2003	<u>13,985,669</u>	<u>7</u>	<u>(8,652)</u>	<u>2,834,823</u>	<u>16,811,847</u>
At 1 January 2004	13,985,669	7	(8,407)	(632,271)	13,344,998
Loss for the period	–	–	–	(867,756)	(867,756)
	<u>13,985,669</u>	<u>7</u>	<u>(8,407)</u>	<u>(1,500,027)</u>	<u>12,477,242</u>
At 30 June 2004	<u>13,985,669</u>	<u>7</u>	<u>(8,407)</u>	<u>(1,500,027)</u>	<u>12,477,242</u>

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

### 14. RELATED PARTY TRANSACTION

There was no related party transaction for the six months ended 30 June 2004.

### 15. CAPITAL COMMITMENTS

	Unaudited 30 June 2004 <i>HK\$</i>	Audited 31 December 2003 <i>HK\$</i>
Contracted but not provided for:		
– in respect of acquisition of property, plant and equipment	<u>600,000</u>	<u>600,000</u>
	<u>600,000</u>	<u>600,000</u>

In addition, a subsidiary of the Company is committed to make a capital contribution of approximately HK\$5.6 million (31 December 2003: HK\$6 million) to a subsidiary in the People's Republic of China.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### (a) Business Review

The Group's financial performance for the first half of 2004 was encouraging. Turnover of the Group grew by 32% from HK\$20,840,000 during the first half of 2003 to HK\$27,500,000 for the same period in 2004. Despite difficult economic environment experienced, the focus and directions undertaken have started to yield results. This was reflected in the improved sales performance and significant narrowing of loss attributable to shareholders for the first half of 2004.

During the period under review, the overall production cost was gradually reduced to a competitive level. The Group, under the restructuring plan, has successfully shifted its manufacturing base from Hong Kong to Beijing of the PRC where manufacturing and operating costs are substantially lower. Gross profit margin increased from 12% for the first half of 2003 to 22% for the same period in 2004. The increase in gross profit margin was due to the lowering of the production and operating costs and increased sales of value-added service for card production which yields a higher margin.

For the six months ended 30 June 2004, the Group's loss attributable to shareholders reduced significantly to HK\$870,000, as compared to HK\$4,030,000 for the same period in 2003. For the three months ended 30 June 2004, the Group recorded profit attributable to shareholders of HK\$1,030,000 (2003: loss of HK\$1,810,000).

#### *Manufacturing and sales of smart cards and plastic cards*

During the period under review, manufacturing and sales of smart cards and plastic cards remained as the core revenue generator of the Group, accounting for HK\$26,610,000 or 97% (2003: HK\$18,120,000 or 87%) of the Group's total turnover and representing an increase of approximately 47% as compared to the corresponding period in 2003. Such remarkable increase was largely attributable to the proactive sales and marketing efforts contributed by our sales teams.

#### *Sales of smart cards application systems*

Despite the fact that the worldwide economy has showed signs of recovery, customers were still cautious and inclined to reduce their demand for sophisticated multi-application smart card products/application and withheld their capital expenditure on these products. For the six months ended 30 June 2004, sales of smart card application systems amounting to HK\$660,000 or 2% (2003: HK\$2,660,000 or 13%) of the Group's total turnover and representing a decline of 75% as compared to the same period in 2003. The management expects that it will pick up steadily in the second half of 2004 and in 2005.

The selling and distribution costs recorded an increase of approximately 28% while the administration expenses dropped by 17%. The increase in selling and distribution costs was in line with the increase in turnover and was due to the increased selling and marketing activities. The decrease of administrative expenses was mainly attributed to the reduced staff costs in Hong Kong, decrease in amortization of intangible assets which had been fully written off in 2003, and decrease in depreciation of office fixed assets.

**(b) Prospects**

The management has taken tight measures in cost control and cash management with a view to ensuring that all facets of the operations are cost effective. The management will continue to implement control measures to reduce its operational costs as far as practicable and is of confident that the reorganization will lay a solid foundation and pave the way for the future growth of the Group.

The management believes that the growth of the economy in the PRC will maintain at a stable and moderate pace in the coming years which will drive the further growth of the smart card industry. Apart from fostering closer business relationships with existing clients, the Group aims at strengthening its market presence in the PRC by looking for potential strategic partners in the PRC.

**LIQUIDITY AND FINANCIAL RESOURCES**

The Company was listed on the 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 period under review, the Group financed its operations with internal funding and a finance leases arrangement. The Group has total current assets of HK\$37 million and current liabilities of HK\$11 million as at 30 June 2004. As at 30 June 2004, the Group had cash and cash equivalents of HK\$17 million.

**EMPLOYEE INFORMATION**

As at 30 June 2004, the Company employed a total of 225 employees, of which 17 were located in Hong Kong and 208 were located in the PRC. Employee cost, including directors' remuneration, was approximately HK\$5 million for the period under review. The Company remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

## **CAPITAL STRUCTURE**

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

## **SIGNIFICANT INVESTMENTS**

The Group has not held any significant investment for the three months ended 30 June 2004.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2004.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

As at 30 June 2004, there are no future plans for material investments or capital assets.

## **SEGMENTAL INFORMATION**

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

## **CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES**

As at 30 June 2004, the Group’s bank deposit of HK\$1.4 million and certain of the Group’s fixed assets which had a net book value of HK\$0.4 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 30 June 2004.

## **GEARING RATIO**

As at 30 June 2004, the shareholders’ fund of the Group was HK\$44 million. The Group has outstanding long-term obligations under finance leases of HK\$2 million as at 30 June 2004. The Group’s gearing ratio, expressed as a ratio of total long-term debts to shareholders’ fund, was 4% as of 30 June 2004 (31 December 2003: 6%).

## **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.

## **DIVIDEND**

The Directors do not recommend any payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## **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 is 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 30 June 2004, no options under this scheme had been granted.

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

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. On 6 December 2001, options to subscribe for an aggregate of 28,800,000 Shares at an exercise price of HK\$0.282 per share were granted by the Company to the Directors of the Company and certain employees of the Group. Pursuant to the Pre-IPO Share Option Scheme, five Executive Directors of the Group were granted options to subscribe for an aggregate of 24,000,000 Shares in the Company (where details are disclosed in the section of “Directors’ Interests and Chief Executive’s Interest in Share Capital and Options”), 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.

4,000,000 options previously granted to an ex-Director and 2,400,000 options previously granted to an ex-employee had been cancelled during the period ended 30 June 2004.

**DIRECTORS’ INTERESTS AND CHIEF EXECUTIVE’S INTEREST IN SHARE CAPITAL AND OPTIONS**

**(a) Share Capital**

As at 30 June 2004, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Name of Director	Number of Shares				Total	Percentage of interests
	Personal Interest	Family Interest	Corporate Interest	Other Interest		
WONG Hon Sing	–	–	153,300,000	–	153,300,000	47.9
WONG Chi Ming	6,132,000	–	–	–	6,132,000	1.9
HO Lut Wa, Anton	6,132,000	–	–	–	6,132,000	1.9

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

**(b) 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:

<b>Director</b>	<b>Date of grant</b>	<b>Outstanding at 30 June 2004</b>	<b>Exercise price per share HK\$</b>
WONG Hon Sing	6 December 2001	4,000,000	0.282
WONG Chi Ming	6 December 2001	4,000,000	0.282
HO Lut Wa, Anton	6 December 2001	8,000,000	0.282

Save as disclosed above, as at 30 June 2004, none of the Directors and chief executives of the Company has any interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of, and obtained confirmations from, all the Directors on their compliance with the required standard of dealings and code of conduct regarding directors' securities transactions.

**SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2004, the following persons (other than the Directors and chief executives of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

*Notes:*

1. Mr. Wong Hon Sing is deemed to be a substantial shareholder of the Company by reason of his 100% beneficial interest in Carkey Limited. The shareholding is duplicated in the directors' and chief executive's interests disclosed above.

2. i-Concepts Investment Limited is a wholly owned subsidiary of Dickson Group Holdings Limited, a listed company on the main board of the Stock Exchange and Dickson Group Holdings Limited is therefore deemed to be interested in the 58,400,000 shares of the Company.

## **AUDIT COMMITTEE**

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

The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of Directors.

The Group's unaudited results for the six months ended 30 June 2004 have been reviewed by the audit committee.

## **COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES**

During the six months ended 30 June 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

## **COMPETING INTERESTS**

As at 30 June 2004, 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.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the six months ended 30 June 2004, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the Company's shares during the period.

By Order of the Board  
**WONG Chi Ming**  
*Chairman*

Hong Kong, 6 August 2004