



# CARDLINK TECHNOLOGY GROUP LIMITED

鐳聯科技集團有限公司

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

**(Stock Code: 8066)**

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2005

**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.**

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

## HIGHLIGHTS

- The unaudited turnover of the Group for the first six months of 2005 was approximately HK\$32,252,000, representing an 17% increase as compared with that of the corresponding period in 2004.
- The Directors do not recommend any payment of an interim dividend for the six months ended 30 June 2005.

## UNAUDITED INTERIM RESULTS

The board of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and the six months ended 30 June 2005 together with the comparative figures for the corresponding periods in 2004 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited		Unaudited	
		Three months ended 30 June		Six months ended 30 June	
		2005	2004	2005	2004
	Note	HK\$	HK\$	HK\$	HK\$
<b>Turnover</b>	2	<b>14,808,893</b>	14,344,960	<b>32,251,526</b>	27,498,713
Cost of sales		<b>(9,637,019)</b>	(10,250,394)	<b>(22,071,487)</b>	(21,429,824)
Gross profit		<b>5,171,874</b>	4,094,566	<b>10,180,039</b>	6,068,889
Other revenue	3	<b>43,975</b>	5,283	<b>60,347</b>	136,932
Selling and distribution costs		<b>(1,343,800)</b>	(1,029,351)	<b>(2,806,760)</b>	(1,863,301)
Administrative expenses		<b>(2,606,857)</b>	(1,983,351)	<b>(5,269,786)</b>	(5,089,451)
<b>Profit/(Loss) from operation</b>	2	<b>1,265,192</b>	1,087,147	<b>2,163,840</b>	(746,931)
Finance costs		<b>(84,118)</b>	(57,424)	<b>(169,479)</b>	(120,825)
<b>Profit/(Loss) from ordinary activities before taxation</b>	4	<b>1,181,074</b>	1,029,723	<b>1,994,361</b>	(867,756)
Taxation	5	<b>(300,000)</b>	–	<b>(300,000)</b>	–
<b>Profit/(Loss) attributable to shareholders</b>		<b>881,074</b>	1,029,723	<b>1,694,361</b>	(867,756)
<b>Basic earnings/(loss) per share</b>	7	<b>0.28 cents</b>	0.32 cents	<b>0.53 cents</b>	(0.27) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2005 HK\$	Audited 31 December 2004 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	19,467,109	18,097,345
Other financial assets		4,458,058	4,458,058
Deferred tax assets		837,297	1,137,297
		24,762,464	23,692,700
<b>Current assets</b>			
Inventories	9	4,790,018	3,349,749
Trade and other receivables	10	28,848,272	22,399,323
Pledged bank deposits	11	2,919,200	1,408,386
Bank balances and cash		10,301,911	18,045,032
		46,859,401	45,202,490
<b>Current liabilities</b>			
Trade and other payables	12	14,872,113	15,991,173
Current portion of obligations under finance leases		3,092,159	1,911,792
		17,964,272	17,902,965
<b>Net current assets</b>		28,895,129	27,299,525
<b>Total assets less current liabilities</b>		53,657,593	50,992,225
<b>Non-current liabilities</b>			
Obligations under finance leases		1,926,903	955,896
<b>NET ASSETS</b>		51,730,690	50,036,329
<b>CAPITAL AND RESERVES</b>			
Issued capital		32,000,000	32,000,000
Reserves	13	19,730,690	18,036,329
		51,730,690	50,036,329

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<i>HK\$</i>	<i>HK\$</i>
At beginning of the period – Total equity	<b>50,036,329</b>	45,344,998
Profit/(Loss) for the period	<b>1,694,361</b>	(867,756)
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At end of the period – Total equity	<b>51,730,690</b>	44,477,242
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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<i>HK\$</i>	<i>HK\$</i>
Net cash (used in) operating activities	<b>(4,057,765)</b>	(2,206,508)
Net cash (used in)/generated from investing activities	<b>(575,088)</b>	6,226,721
Net cash (used in) financing activities	<b>(1,599,454)</b>	(1,076,721)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalent	<b>(6,232,307)</b>	2,943,492
Cash and cash equivalents brought forward	<b>19,453,418</b>	14,051,676
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Cash and cash equivalents carried forward	<b>13,221,111</b>	16,995,168
	<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of the balances of cash and cash equivalents</b>		
Pledged bank deposits	<b>2,919,200</b>	1,406,513
Bank balances and cash	<b>10,301,911</b>	15,588,655
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	<b>13,221,111</b>	16,995,168
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## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

This condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these HKFRSs has no material impact on the Group’s results of operations and financial position.

The Group’s unaudited results for the three months and the six months ended 30 June 2005 have been reviewed by the audit committee.

### 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 Group turnover</b>			
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sales of smart cards and plastic cards	<b>13,320,883</b>	14,216,841	<b>29,939,787</b>	26,613,444
Sales of smart card application systems	<b>1,422,848</b>	8,120	<b>2,198,924</b>	658,137
Others	<b>65,162</b>	119,999	<b>112,815</b>	227,132
	<b><u>14,808,893</u></b>	<u>14,344,960</u>	<b><u>32,251,526</u></b>	<u>27,498,713</u>

	<b>Unaudited 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>2005</b>	2004	<b>2005</b>	2004
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sales of smart cards and plastic cards	<b>4,931,225</b>	4,174,618	<b>9,911,219</b>	5,913,850
Sales of smart card application systems	<b>175,487</b>	(200,051)	<b>156,005</b>	(72,093)
	<b>5,106,712</b>	3,974,567	<b>10,067,224</b>	5,841,757
Unallocated expenses	<b>(3,841,520)</b>	(2,887,420)	<b>(7,903,384)</b>	(6,588,688)
Profit/(loss) from operation	<b><u>1,265,192</u></b>	<u>1,087,147</u>	<b><u>2,163,840</u></b>	<u>(746,931)</u>

### 3. OTHER REVENUE

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Interest income	43,849	3,939	58,721	132,452
Sundry income	126	1,344	1,626	4,480
	<u>43,975</u>	<u>5,283</u>	<u>60,347</u>	<u>136,932</u>

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

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
This is arrived at after charging:				
Amortization of capitalized product development costs	–	150,000	–	300,000
Staff costs	2,956,043	2,201,341	6,297,236	5,002,510
Cost of inventories	4,749,916	4,903,127	10,525,927	9,853,694
Depreciation of property, plant and equipment	1,430,333	1,355,736	2,845,395	2,700,106
Operating lease charges	363,828	428,138	722,941	841,157
	<u>363,828</u>	<u>428,138</u>	<u>722,941</u>	<u>841,157</u>

### 5. TAXATION

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Deferred taxation in relating to the reversal of tax losses	<u>300,000</u>	<u>–</u>	<u>300,000</u>	<u>–</u>

Hong Kong Profits Tax has not been provided as the Group's estimated assessable profits for the period is wholly absorbed by unrelieved tax losses brought forward from previous years (2004: 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.

### 6. DIVIDEND

The Directors do not recommend any payment of an interim dividend for the period ended 30 June 2005 (2004: 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 2005 is based on the unaudited profit attributable to shareholders for the three months and the six months ended 30 June 2005 of HK\$881,074 and HK\$1,694,361 (2004: profit of HK\$1,029,723 and loss of HK\$867,756), and the weighted average number of 320,000,000 shares in issue (2004: 320,000,000).

Diluted earnings per share for the three months and the six months ended 30 June 2005 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 HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Leasehold im- provement HK\$	Motor vehicle HK\$	Total HK\$
<b>Cost</b>						
At 1 January 2005	22,300,157	867,555	1,665,202	1,469,298	564,492	26,866,704
Addition during the period	3,731,444	114,460	125,441	250,726	–	4,222,071
Disposal	–	–	(8,478)	–	–	(8,478)
<b>At 30 June 2005</b>	<b>26,031,601</b>	<b>982,015</b>	<b>1,782,165</b>	<b>1,720,024</b>	<b>564,492</b>	<b>31,080,297</b>
<b>Accumulated depreciation</b>						
At 1 January 2005	6,739,329	368,483	490,199	864,723	306,625	8,769,359
Charge for the period	2,449,816	82,918	157,584	111,920	43,157	2,845,395
Write back on disposal	–	–	(1,566)	–	–	(1,566)
<b>At 30 June 2005</b>	<b>9,189,145</b>	<b>451,401</b>	<b>646,217</b>	<b>976,643</b>	<b>349,782</b>	<b>11,613,188</b>
<b>Net book value</b>						
<b>At 30 June 2005</b>	<b>16,842,456</b>	<b>530,614</b>	<b>1,135,948</b>	<b>743,381</b>	<b>214,710</b>	<b>19,467,109</b>
At 31 December 2004	15,560,828	499,072	1,175,003	604,575	257,867	18,097,345

The net book value of the Group's printing and testing equipment includes an amount of HK\$7,195,070 (31 December 2004: HK\$4,381,393) in respect of assets held under finance leases.

## 9. INVENTORIES

	Unaudited 30 June 2005 HK\$	Audited 31 December 2004 HK\$
At cost:		
Raw materials	1,948,255	1,487,831
Work-in-progress	339,603	595,157
Finished goods	2,502,160	1,266,761
	<b>4,790,018</b>	<b>3,349,749</b>

## 10. TRADE AND OTHER RECEIVABLES

	<b>Unaudited</b> <b>30 June</b> <b>2005</b> <i>HK\$</i>	Audited 31 December 2004 <i>HK\$</i>
Trade receivables	23,229,277	18,154,764
Deposits, prepayment and other debtors	5,618,995	4,244,559
	<u>28,848,272</u>	<u>22,399,323</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>2005</b> <i>HK\$</i>	Audited 31 December 2004 <i>HK\$</i>
Current – 30 days	8,371,767	11,083,301
31 – 90 days	9,260,103	4,359,762
Over 90 days	5,597,407	2,711,701
	<u>23,229,277</u>	<u>18,154,764</u>

## 11. PLEDGED BANK DEPOSITS

At 30 June 2005, bank deposits of HK\$2,919,200 (31 December 2004: HK\$1,408,386) were pledged as collaterals for finance lease arrangements 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>2005</b> <i>HK\$</i>	Audited 31 December 2004 <i>HK\$</i>
Trade payables	12,037,198	13,682,683
Accrued charges and other creditors	2,834,915	2,308,490
	<u>14,872,113</u>	<u>15,991,173</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>2005</b> <i>HK\$</i>	Audited 31 December 2004 <i>HK\$</i>
Current – 30 days	3,654,035	9,360,893
31 – 60 days	1,676,458	523,339
61 – 90 days	1,709,858	861,743
Over 90 days	4,996,847	2,936,708
	<u>12,037,198</u>	<u>13,682,683</u>



### 13. RESERVES

Other than the profit or loss as disclosed in the consolidated statement of changes in equity, there were no movements in reserves of the group for the relevant periods in 2004 and 2005.

### 14. RELATED PARTY TRANSACTION

There was no related party transaction for the six months ended 30 June 2005.

### 15. CAPITAL COMMITMENTS

	<b>Unaudited</b> <b>30 June</b> <b>2005</b> <i>HK\$</i>	Audited 31 December 2004 <i>HK\$</i>
Contracted but not provided for:		
– in respect of acquisition of property, plant and equipment	–	2,481,050
	<u>–</u>	<u>2,481,050</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

During the period under review, the Group's business strategies to focus on the manufacturing and sales of smart cards, to expand its market presence in the PRC and to diversify its markets into the Asia-Pacific Regions were proved to be successful. For the six months ended 30 June 2005, turnover increased 17%, from about HK\$27.5 million in the same period of 2004, to about HK\$32.3 million. Profit attributable to shareholders was about HK\$1.7 million (2004: loss of approximately HK\$0.87 million) for the period under review.

The increase in turnover was primarily the result of higher sales volume but partly offset by declining average selling prices. Of the total turnover amount for the period, about HK\$30 million or about 93% (2004: HK\$26.6 million or 97%) was generated from manufacturing and sales of smart card and plastic cards, which represented an increase of about 12% as compared to the corresponding period in 2004. Likewise, turnover generated from the sale of smart card application systems also recorded an increase of 234%, from about HK\$0.66 million or 2% in the same period of 2004, to about HK\$2.2 million under the period review.

The manufacturing and sales of smart cards and plastic cards will continue to be the main focus of the Group's business.

Cost of sales increased from about HK\$21.4 million in the same period of 2004, to about HK\$22.1 million for the six months ended 30 June 2005, which represented an increase of 3% as compared to the corresponding increase in turnover, which was 17%. The increase was due primarily to higher direct materials and labor costs associated with the increased sales volume, and also the increased depreciation charges. However, such increase was significantly offset by the improvements in manufacturing efficiency and performance.

During the period under review, the selling and distribution costs and the administrative expenses recorded an increase of about 51% and about 4% respectively. 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 increase in administrative expenses was mainly attributed to the increased staff costs.

### **Prospects**

The Group is confident that the smart cards markets in the PRC and other Asia countries will continue to grow in future. In order to capture the growing business opportunities in these regions, the Group plans to allocate extra resources to the new production facilities for smart card manufacturing and will set up a new subsidiary in Shenzhen, 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 finance leases arrangements. The Group has total current assets of HK\$46.9 million and current liabilities of HK\$18 million as at 30 June 2005. As at 30 June 2005, the Group had cash and cash equivalents of HK\$13.2 million.

### **EMPLOYEE INFORMATION**

As at 30 June 2005, the Company employed a total of 233 employees, of which 17 were located in Hong Kong and 216 were located in the PRC. Employee cost, including directors' remuneration, was approximately HK\$6.3 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**

Save as disclosed in the Company's annual report 2004 in relation to the investment in Tecsun Goldcard, the Group has not held any significant investment for the three months ended 30 June 2005.

## **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 2005.

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

Save as disclosed above, there are no future plans for material investments or capital assets as at 30 June 2005.

## **SEGMENTAL INFORMATION**

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

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

As at 30 June 2005, the Group's bank deposits of HK\$2.9 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 2005.

## **GEARING RATIO**

As at 30 June 2005, the shareholders' fund of the Group was HK\$51.7 million. The Group has outstanding long-term obligations under finance leases of HK\$1.9 million as at 30 June 2005. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, was 3.7% as of 30 June 2005 (31 December 2004: 2%).

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES**

Most of the transactions of the Group were denominated in HK dollars, U.S. dollars and Renminbi. Due to the Currency Board System in Hong Kong and the fact that the exchange of HK dollars against Renminbi was relatively stable during the period, the Groups exposure to exchange risk was considered to be minimal. 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 2005 (2004: 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 2005, 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 Interests 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.

As at 30 June 2005, the total number of options outstanding was 22,400,000.

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

(a) **Share Capital**

As at 30 June 2005, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) *Long positions in the Shares of the Company*

Name of Director	Number of Shares				Total	Percentage of interests
	Personal Interest	Family Interest	Corporate Interest	Other Interest		
Wong Hon Sing	–	–	80,800,000	–	80,800,000	25.25
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 80,800,000 shares of the Company by virtue of his interest in Carkey Limited, which is wholly-owned by him.

(b) *Rights to subscribe for shares in the Company*

As at 30 June 2005, 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 30 June 2005	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

Save as disclosed above, as at 30 June 2005, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

#### **SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2005, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholders	Note	Number of shares held	Percentage of interests
Carkey Limited	1	80,800,000	25.25
Wong Hon Sing	1	80,800,000	25.25
i-Concepts Investment Limited	2	58,400,000	18.25
Dickson Group Holdings Limited	2	58,400,000	18.25
Best Heaven Limited	3	50,000,000	15.63
Chu Chen-lin	3	50,000,000	15.63
Giant International Asset Group Limited	4	22,500,000	7.03
United International Asset Limited	4	22,500,000	7.03
Chen Hui Chen	4	22,500,000	7.03

*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.
3. Mr. Chu Chen-lin is deemed to be a substantial shareholder of the Company by reason of his 100% beneficial interest in Best Heaven Limited.
4. Giant International Asset Group Limited is 33.33% held by United International Asset Limited which in turn is 100% held by Chen Hui Chen.

Save as disclosed above, as at 30 June 2005, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of any other member of the Group.

On 12 July 2005, Carkey Limited disposed of ("the Disposal")

1. 33,300,000 shares of the Company, representing approximately 10.4% of the entire issued share capital of the Company, at HK\$0.165 per share off the market to Best Heaven Limited; and
2. 11,200,000 shares of the Company, representing approximately 3.5% of the entire issued share capital of the Company, at HK\$0.165 per share off the market to Star World Universal Limited.

Immediately after the Disposal, Carkey Limited has ceased to be, and Best Heaven Limited has become, the single largest shareholder of the Company with its approximately 26.03% shareholding in the Company. Please refer to the announcement of the Company dated 15 July 2005 for further details of the Disposal.

#### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the Code.

## **AUDIT COMMITTEE**

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

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.

## **COMPETING INTERESTS**

As at 30 June 2005, none of the directors or the management shareholders or any of their respective associates (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, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period.

## **CORPORATE GOVERNANCE**

The Company has complied with the required code provisions set out in the Code on the Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2005, except that the Company has not set up the remuneration committee. The Company is considering searching for suitable candidates for the formation of the remuneration committee.

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

Hong Kong, 12 August 2005