Cardlink Technology Group Limited

鍇 聯 科 技 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 08066

2005 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.

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Corporate Information

DIRECTORS

Executive Directors

Wong Chi Ming *(Chairman)*
Ho Lut Wa, Anton *(Chief Executive Officer)*
Fung Wing Mou, Bernard
Leung Quan Yue, Michelle
(Appointed on 22 August 2005)
Lily Wu
(Appointed on 3 June 2005)
Wong Hon Sing
(Resigned on 28 December 2005)

Independent Non-Executive Directors

Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne
Wong Wai Kwong, David

COMPLIANCE OFFICER

Lily Wu
(Appointed on 28 December 2005)
Wong Hon Sing
(Resigned on 28 December 2005)

QUALIFIED ACCOUNTANT

Lau Ka Chung *(CPA)*

COMPANY SECRETARY

Lau Ka Chung *(CPA)*

AUTHORISED REPRESENTATIVES

Ho Lut Wa, Anton
Lily Wu
(Appointed on 28 December 2005)
Wong Hon Sing
(Resigned on 28 December 2005)

AUDIT COMMITTEE

Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne
Wong Wai Kwong, David

REMUNERATION COMMITTEE

Ho Lut Wa, Anton
Lily Wu
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne
Wong Wai Kwong, David

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

Unit 302, Seapower Centre
73 Lei Muk Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman,
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

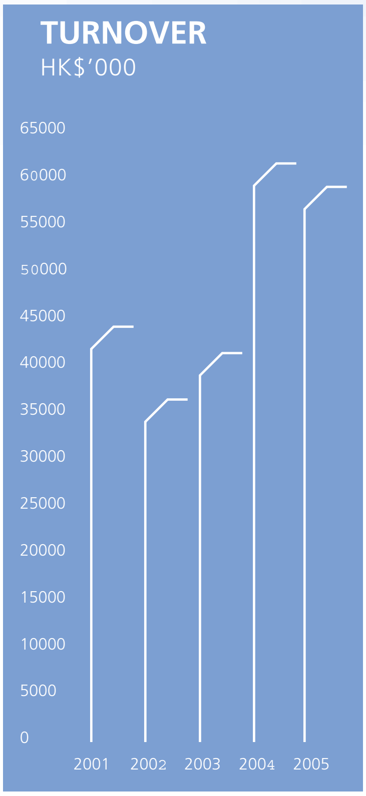
PRINCIPAL BANKERS

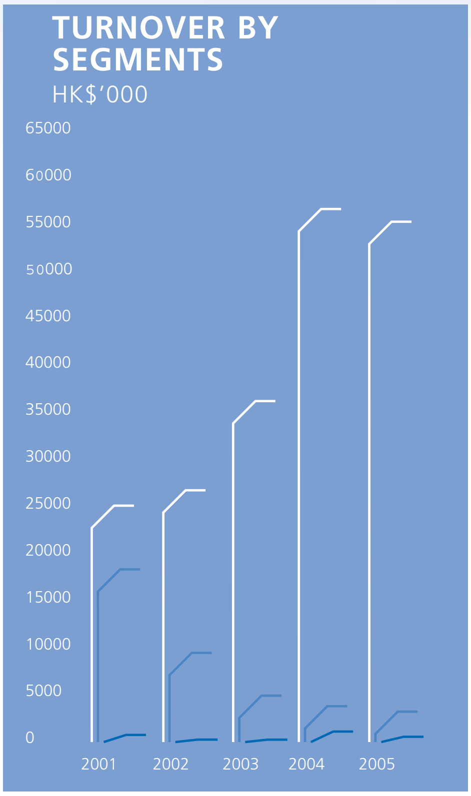
Hang Seng Bank
Nanyang Commercial Bank Limited

AUDITORS

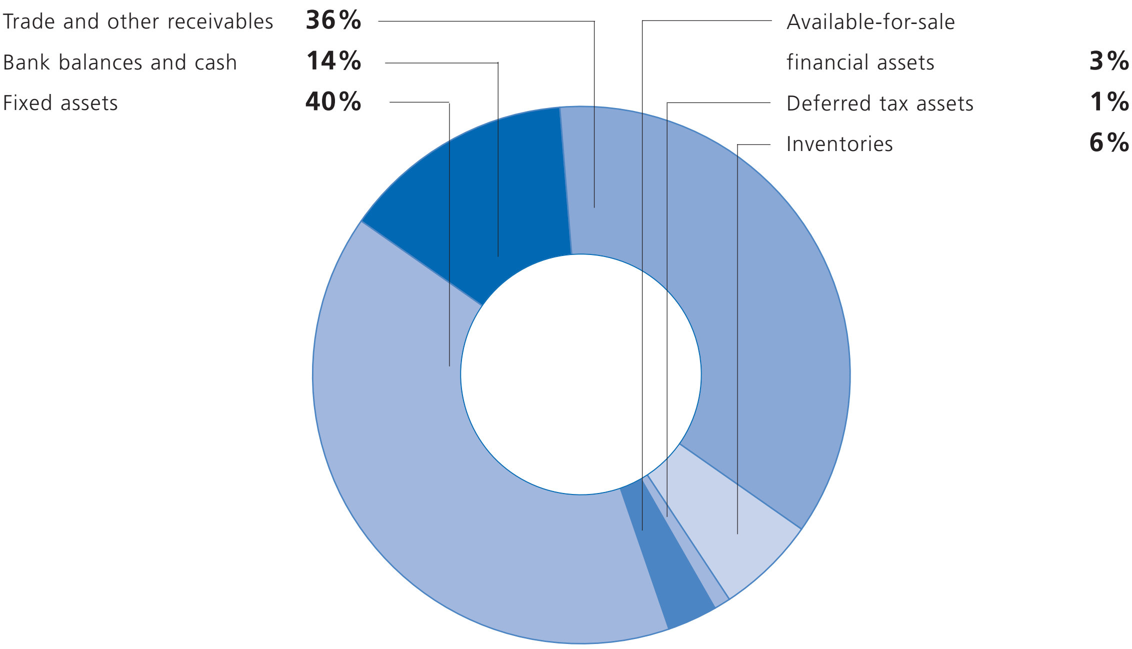
Moores Rowland Mazars

Financial Highlights





TOTAL ASSETS AS AT 31 DECEMBER 2005



Chairman's Statement

TO OUR SHAREHOLDERS

The year 2005 was a difficult one for Cardlink Technology Group Limited ("Cardlink" or "Company") and its subsidiaries (together, the "Group"). During the year under review, the business was adversely affected by the keen competition in the PRC market. On the other hand, the Group's strategy to increase its market share in other overseas markets has proved to be successful and to a certain extent lessened the negative PRC market impacts to the Group.

RESULTS

For the year ended 31 December 2005, the Group recorded a consolidated turnover of about HK$59 million *(2004: HK$61 million)* and loss attributable to shareholders of approximately HK$2 million *(2004: a profit of HK$4.7 million)*.

DIVIDEND

The Board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2005.

BUSINESS REVIEW

During the year under review, the Group was principally engaged in the manufacture and sale of smart cards and plastic cards. The Group was also engaged in the provision of customised smart card application systems.

In the year of 2005, the competition in the smart card industry was fierce and the performance of the Group was adversely affected. Sales of smart cards decreased due to reduced selling price and volumes in the PRC. On the other hand, the Group has successfully managed to grow its overseas markets orders, which has mitigated the PRC market decline.

The market for smart card application systems was flat, as customers remain cautious on capital expenditures, including for sophisticated multi-application smart card products/application. The management expects the market will see some pick up in 2006.

PROSPECTS

The Group will continue to improve its operating efficiency, pursue stringent cost control measures, and more importantly, to enhance its market presence in overseas markets as well as in the PRC in order to increase the Group's sources of income. The Group is confident that such unrelenting efforts to endure challenges and to maintain its sharp market vision will lead to business success and profitability in the future.

Chairman's Statement

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extent our gratitude to all members of the Board and staff for their dedication and contribution to the Group during the difficult times of year 2005. I would also like to express my heartfelt appreciation to our shareholders, investors and customers for their continuous support.

Wong Chi Ming
Chairman

Hong Kong, 22 March 2006

Management Discussion and Analysis

BUSINESS AND OPERATION REVIEW

The year 2005 was a challenging one for the Group. The competition in the telecommunications market was more intense than in past years, and our key customer in the PRC had faced continuous price wars in the SIM card market. This has adversely affected the Group in two regards: firstly, the Group was required to lower the selling prices in order to win the customer's contracts, and secondly, since our customer failed in a number of tenders, the Group received fewer orders, resulting in a decrease in revenue contribution by the PRC market.

On the other hand, the Group succeeded in steadily increasing its exposure to geographic markets outside the PRC. At present, while the PRC continue to be the Group's leading market, the South Asia Market has grown to about 34.9%, up from about 24.9% in last year. Other geographic areas such as Africa and Europe also offer promising opportunities for growth in the future.

In late 2005, the Group established a new factory in Shenzhen. The management believes that this will lower the production costs of the Group as a whole, and enable us to offer more convenient and speedy service delivery to our overseas customers.

FINANCIAL REVIEW

Revenue for the year ended 31 December 2005 was about HK$58.8 million, representing a decrease of about HK$2.4 million, or about 4%, as compared to the last year of HK$61.2 million. Loss attributable to shareholders for the year was about HK$2 million. The loss was mainly due to the impairment loss of HK$2.3 million recognised in respect of the investment in a sino-foreign equity joint venture in the PRC.

Out of the total turnover for the year, about HK$55.1 million, or about 94%, was generated from the manufacturing and sales of smart cards and plastic cards, and about HK$3.2 million, or about 5%, was generated from the sales of smart card application systems.

In terms of geographic breakdown, the PRC remains the largest single market for the Group, accounted for about HK$23.1 million, or about 39.3% of the total revenue. The South Asia market ranked the second largest market for the Group, which amounted to about HK$20.5 million, or about 34.9%, of the total revenue.

Gross profit margin for the year ended 31 December 2005 increased slightly to about 31% as compared with about 30% in last year. The higher margin was achieved through better control of the production costs. During the year under review, cost of sales decreased from about HK$43.1 million in 2004 to about HK$40.6 million in 2005, representing a decrease of about 5.7% as compared to the corresponding decrease in turnover, which was only about 4%. The decrease was largely attributable to the substantial drop in the sub-contracting costs incurred during the year, and a related improvement in the utilization of the Group's production facilities since the completion of the Group's restructuring activities in late 2004.

Management Discussion and Analysis

Selling and distribution costs increased by about 20.6%, from about HK$4.4 million in 2004 to about HK$5.4 million in 2005. As the production lines have been completely moved to the Company's subsidiaries in Beijing and Shenzhen, the Group inevitably incurred higher costs for the distribution and transportation of the products to overseas customers.

Administrative expenses also recorded an increase of about 39.3%, from about HK$10.4 million in 2004 to about HK$14.5 million in 2005. In last year, a subsidiary of the Company acquired an equity interest of approximately 11.33% in Guangzhou Tecsun Golden Card Ltd ("Tecsun Goldcard"), the acquisition was made based on the expectation that the transaction would bring benefit to the Group from the possible synergy created. However, in view of the changing market condition and the deteriorating financial results of Tecsun Goldcard, the Board conducted a review and considered it appropriate to write off approximately half of the carrying value attributable to the Group's acquired interest in Tecsun Goldcard, which resulted in an impairment loss of HK$2.3 million. In addition, the increase in administrative expenses was also partly attributable to the operating costs associated with the Group's new factory in Shenzhen, which was set up in late 2005, and was partly attributable to an increase in various expenses, including staff costs, during the year.

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE

During the period under review, the Group financed its business operations with cash revenue generated from operating activities and finance lease arrangements. The Group had cash and bank balances of about HK$10.1 million, and finance lease payables of about HK$9.1 million, as at 31 December 2005.

As at 31 December 2005, the Group had three finance lease arrangements used for financing the acquisition of certain printing machinery and personalisation equipment for the production lines in the PRC. The finance leases are all bearing interest of 0.5% over the Hong Kong Prime Rate, repayable in three years, and denominated in Hong Kong dollars.

As at 31 December 2005, the Group had current assets of about HK$39.8 million and current liabilities of about HK$18.1 million. The current ratio, expressed as current assets over current liabilities, was maintained at the satisfactory level of 2.2.

EMPLOYEE INFORMATION

As at 31 December 2005, the Group employed a total of 365 employees; of which 16 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was about HK$12.2 million for the year under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

With the exception of the investment disclosed in Note 15 under "Notes to the Financial Statements", there were no other significant investments for the year ended 31 December 2005.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2005.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2005, there were no future plans for material investments or capital assets.

SEGMENTAL INFORMATION

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

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2005, the Company's bank deposits of about HK$4.1 million were pledged as collateral for the finance lease arrangements of the subsidiaries of the Company.

The Company and two subsidiaries have executed corporate guarantees to the bank in respect of the banking facilities granted to certain subsidiaries to the extent of about HK$15.6 million *(2004: about HK$5.7 million)* of which about HK$9.1 million *(2004: about HK$2.9 million)* was outstanding as at 31 December 2005.

GEARING RATIO

As at 31 December 2005, the shareholders' fund of the Group was about HK$48.4 million. The Group had outstanding long-term obligations under finance leases of about HK$5 million as at 31 December 2005. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, was about 10.3% as of 31 December 2005 *(2004: 1.9%)*.

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 rate of HK dollars against Renminbi was relatively stable during the year, the Group's exposure to exchange risk was considered to be minimal. No hedging or other alternatives have been implemented.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests.

In December 2004, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") promulgated a new Code on Corporate Governance Practices (the "CG Code") in Appendix 15 which replaced Rules 5.35 to 5.45, and adding a new Appendix 16 requiring for a Corporate Governance Report to be included in annual reports of listed issuers.

During the year under review, the Company has complied with all code provisions set out in the CG Code, except that, pursuant to the Company's existing articles of association 87(1), the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation at the annual general meeting of the Company.

In order for the Company to comply with the CG Code in relation to the code provision requiring every director to be retired by rotation at least once every three years, a special resolution will be proposed at the forthcoming annual general meeting of the Company to amend the Company's articles of association.

DIRECTORS' SECURITIES TRANSACTIONS

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.

Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in such code of conduct throughout the year ended 31 December 2005.

BOARD OF DIRECTORS

The Board of the Company collectively oversee the management of the business and affairs of the Group with the overriding objective of enhancing share value. With delegating authorities from the Board, management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Corporate Governance Report

The Board currently comprises five executive directors and three independent non-executive directors whose biographical details are set out on pages 14 to 15 of this annual report. The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to the GEM Listing Rules and the Company considers the independent non-executive directors to be fully independent.

All directors have separate and independent access to senior management and the Company Secretary at all times and they are entitled to have full access to Board papers and related materials. Directors are invited to put forward agenda items for Board meetings. Agenda and accompanying Board papers are circulated not less than 3 days before Board meetings to ensure that the directors have sufficient time to review the documents.

The Board held a full board meeting in each quarter. The attendances of the Board meetings for the year ended 31 December 2005 are as follows:

Members	**Attendance**
Mr. Ho Lut Wa, Anton	4/4
Mr. Fung Wing Mou, Bernard	4/4
Ms. Lily Wu *	2/4
Ms. Leung Quan Yue, Michelle **	1/4
Mr. Wong Chi Ming	0/4
Mr. Leung Ka Kui, Johnny	4/4
Ms. Wong Ka Wai, Jeanne	3/4
Mr. Wong Wai Kwong, David	3/4

* Appointed on 3 June 2005.

** Appointed on 22 August 2005.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of the Chairman and the Chief Executive Officer of the Company are held by separate individuals to ensure a clear distinction between their responsibilities by means of segregation of duties.

The principal responsibilities of the Chairman, Mr. Wong Chi Ming, include:

(a) providing leadership for the Board;

(b) ensuring that the Board works effectively, discharges its responsibilities and discusses all key issues in a timely manner;

(c) ensuring all directors are properly briefed on matters to be discussed at Board meetings and providing them with opportunities to express their views at the meetings; and

(d) ensuring all directors receive adequate, complete and reliable information in a timely manner.

On the other hand, the Chief Executive Officer, Mr. Ho Lut Wa, Anton, is responsible for:

(a) providing leadership for the management;

(b) assuming full accountability to the Board for the day-to-day operations of the Group;

(c) implementing the strategies and policies adopted by the Board;

(d) providing all such information to the Board as is necessary to enable the Board to perform its works effectively;

(e) establishing and maintaining proper internal controls and systems as well as disclosure controls and procedures; and

(f) discharging such duties and authority as may be delegated by the Board.

Corporate Governance Report

REMUNERATION OF DIRECTORS

The emoluments of the directors are determined by reference to the skill, knowledge and experience of the respective directors and their involvement in the Company's affairs as well as the prevailing market conditions. Share options may also be granted to the directors as long-term incentive or rewards for their continuous contributions to the Group.

Pursuant to the CG Code, the Company has established a Remuneration Committee with written terms of reference on 14 November 2005. Members of the Remuneration Committee are the Chief Executive Officer, Mr. Ho Lut Wa, Anton (Chairman of the Remuneration Committee), an executive director, Ms. Lily Wu, and three independent non-executive directors, namely, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Wong Wai Kwong, David.

The principal responsibilities of the Remuneration Committee include reviewing, considering and approving proposals as well as making recommendations to the Board on the Company's policy and structure relating to the remuneration of directors and senior management.

No meeting of the Remuneration Committee was held during the year.

NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience.

AUDITORS' REMUNERATION

During the year ended 31 December 2005, the fees paid/payable to the auditors in respect of audit and non-audit services provided by the auditors of the Company were as follows:

Nature of services	**Amount** *HK$'000*
Audit services	320
Non-audit services	
Taxation Compliance services	12.5

Corporate Governance Report

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr Wong Wai Kwong, David. All of them are independent non-executive Directors. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Mr. Leung Ka Kui, Johnny	4/4
Ms. Wong Ka Wai, Jeanne	3/4
Mr. Wong Wai Kwong, David	3/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

DIRECTORS' RESPONSIBILITY ON THE ACCOUNTS

The directors of the Company acknowledge their responsibility for preparing the accounts for the year ended 31 December 2005, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditors on the accounts are set out in the "REPORT OF THE AUDITORS" on page 23.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

WONG Chi Ming, aged 49, 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 26 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 47, 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. Mr Fung has more than 19 years of experience in management and development of technology company.

Lily WU, aged 42, is an executive Director. She was appointed as Director of the Company in June 2005. Ms. Wu has 20 years' experience in the technology sector with expertise in investment research and industry analysis. She is currently an independent investment analyst on technology companies, and has previously worked as chief financial officer for Coventive Technologies, as a director in equity research for Salomon Smith Barney, and as a vice president in equity research for Bankers Trust.

LEUNG Quan Yue, Michelle, aged 40, is an executive Director. She was appointed as Director of the Company in August 2005. Ms. Leung has solid experience in investment and technology. Prior to joining the Group, she served as the chief operating officer and executive director of TOM Group Limited (formerly TOM.COM LIMITED), a company listed on the Stock Exchange for 3 years. Prior to that, she was a Vice-President of News Corporation in New York working on business development in international media markets, and also worked in the Equity Capital Markets Group of Investment Banking at Goldman Sachs in New York and Hong Kong. In addition, she worked at United Nations headquarters in New York and served on UN missions in Cambodia and South Africa. She has an MBA from the Harvard Business School and her undergraduate degrees include a Bachelor of Science degree in Economics from the London School of Economics and an undergraduate diploma in Chinese from Peking University.

HO Lut Wa, Anton, aged 39, is an executive Director and the Chief Executive Officer 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 15 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.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui, Johnny, aged 48, is an independent non-executive Director. He is one of the members of the Audit Committee of the Group. Mr. Leung is a qualified solicitor in Hong Kong, the United Kingdom and Singapore. He has over 18 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 41, is an independent non-executive Director. She is the chairman of the Audit Committee of the Group. Ms. Wong has over 19 years of experience in finance, accounting, taxation and corporate affairs. Ms. Wong is a member of the Institute of Chartered Accountants in Australia and a certified public accountant of the Hong Kong Institute of Certified Public 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 and director of a few Hong Kong private companies providing consulting and management services. Ms. Wong joined the Company in September 2001.

WONG Wai Kwong, David, aged 48, is an independent non-executive Director. He is one of the members of the Audit Committee of the Group. He had over 26 years of experience in finance, accounting, corporate and taxation affairs. He is a fellow member of the Association of Chartered Certified Accountants, and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He is currently an executive director and the company secretary of Incutech Investments Limited, an investing holding company listed on the Stock Exchange as well as of EganaGoldpfeil (Holdings) Limited, and Egana Jewellery & Pearls Limited, both are listed on the Stock Exchange, and a non-executive director of seven other companies listed on the Stock Exchange. Mr. Wong joined the Company in September 2004.

SENIOR MANAGEMENT

WONG Ka Chu, aged 40, is the Assistant General Manager of the Group. Mr. Wong is responsible for the Group's overall operation, production and logistic management. Mr. Wong has over 16 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.

LAU Ka Chung, aged 33, is the Financial Controller and the Company Secretary of the Group. Mr. Lau has over 9 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 a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Lau joined the Group in May 2003.

Report of Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2005.

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 14 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 2005 are set out in the consolidated income statement on page 24.

The Directors do not recommend the payment of a dividend.

RESERVES

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

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors

Wong Chi Ming *(Chairman)*	
Ho Lut Wa, Anton *(Chief Executive Officer)*	
Wong Hon Sing	(resigned on 28 December 2005)
Fung Wing Mou, Bernard	
Lily Wu	(appointed on 3 June 2005)
Leung Quan Yue, Michelle	(appointed on 22 August 2005)

Independent Non-Executive Directors

Wong Ka Wai, Jeanne
Leung Ka Kui, Johnny
Wong Wai Kwong, David

Report of Directors

DIRECTORS (CONTINUED)

In accordance with Articles 86(3) of the Company's Articles of Association, Ms. Lily Wu and Ms. Leung Quan Yue, Michelle retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Articles 87 of the Company's Articles of Association, Mr. Ho Lut Wa, Anton retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 13 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Except for Mr. Fung Wing Mou, Bernard, each executive director, has entered into a service contract with the Company for an initial term of two years (the service contracts for Mr. Wong Chi Ming and Mr. Ho Lut Wa commenced from 20 December 2001 and were completed on 19 December 2003 whereas the service contracts for Ms. Lily Wu and Ms. Leung Quan Yue, Michelle commenced from 3 June 2005 and 22 August 2005 respectively) 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 in each financial year to all the Executive Directors of the Company shall not exceed 5% of such profit.

Each Independent Non-Executive Director is appointed for an initial term of one year commencing on 20 December 2001 (save and except Mr. Wong Wai Kwong, David whose appointment commenced on 20 September 2004) and will continue thereafter unless and until terminated by either the Company or the relevant Independent 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 Independent Non-Executive Director was renewed automatically on 20 December 2005 (save and except Mr. Wong Wai Kwong, David whose appointment will be renewed automatically on 20 September 2006).

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 CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised and issued share capital during the year. Details of the Company's share capital and share option schemes are set out in notes 22 and 23 to the financial statements.

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

As at 31 December 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:

(i) Long positions in the Shares of the Company

	Number of Shares					
Name of Director	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total	Percentage of interests
Wong Chi Ming	6,132,000	–	–	–	6,132,000	1.9
Ho Lut Wa, Anton	6,132,000	–	–	–	6,132,000	1.9

Report of Directors

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

(ii) Rights to subscribe for Shares in the Company

As at 31 December 2005, personal interest of the Directors in share options to subscribe for shares in the Company pursuant to the Company's Pre-IPO Share Option Scheme were as follows:

Director	Date of grant	Outstanding at 31 December 2005	Exercise price per share HK$	Exercisable period
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

Note: 4,000,000 Pre-IPO share options previously granted to Mr. Wong Hon Sing, an ex-director of the Company, were cancelled as at 28 January 2006.

Save as disclosed above, as at 31 December 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.

Report of Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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
Best Heaven Limited	*1*	83,300,000	26.03
Chu Chen-lin	*1*	83,300,000	26.03
i-Concepts Investment Limited	*2*	58,400,000	18.25
Dickson Group Holdings Limited	*2*	58,400,000	18.25
Giant International Asset Group Limited	*3*	22,500,000	7.03
United International Asset Limited	*3*	22,500,000	7.03
Chen Hui Chen	*3*	22,500,000	7.03

Notes:

1. 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.

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. 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 31 December 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.

Report of Directors

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	33%
– five largest customers in aggregate	77%

Purchases

– the largest supplier	26%
– five largest suppliers in aggregate	55%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the Group's five largest suppliers or customers during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

As at 31 December 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.

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 62 of the annual report.

Report of Directors

AUDITORS

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, 22 March 2006

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

We have audited the financial statements on pages 24 to 61 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public 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 2005 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, 22 March 2006

Consolidated Income Statement

Year ended 31 December 2005

	Note	**2005** **HK$**	2004 HK$
Turnover	*4*	**58,810,261**	61,293,427
Cost of sales		**(40,645,533)**	(43,100,064)
Gross profit		**18,164,728**	18,193,363
Other revenue	*4*	**805,574**	1,759,092
Selling and distribution costs		**(5,353,129)**	(4,438,279)
Administrative expenses		**(14,490,591)**	(10,400,977)
Finance costs	*5*	**(490,539)**	(215,847)
(Loss) Profit before taxation	*5*	**(1,363,957)**	4,897,352
Taxation	*6*	**(643,752)**	(206,021)
(Loss) Profit for the year		**(2,007,709)**	4,691,331
Attributable to:			
Shareholders of the Company		**(2,007,709)**	4,691,331
(Loss) Earnings per share			
Basic	*10*	**(0.63) cents**	1.47 cents

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

	2005 HK$	2004 HK$
Shareholders' equity as at 1 January	**50,036,329**	45,344,998
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**366,757**	–
(Loss) Profit for the year	**(2,007,709)**	4,691,331
Shareholders' equity as at 31 December	**48,395,377**	50,036,329

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 HK$	2004 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**29,018,135**	18,097,345
Available-for-sale financial assets	*15*	**2,158,058**	4,458,058
Deferred tax assets	*21*	**493,545**	1,137,297
		31,669,738	23,692,700
Current assets			
Inventories	*16*	**4,097,026**	3,349,749
Trade and other receivables	*17*	**25,639,797**	22,399,323
Pledged bank deposits	*18*	**4,075,395**	1,408,386
Bank balances and cash		**6,001,377**	18,045,032
		39,813,595	45,202,490
Current liabilities			
Trade and other payables	*19*	**13,998,529**	15,991,173
Obligations under finance leases	*20*	**4,124,193**	1,911,792
		18,122,722	17,902,965
Net current assets		**21,690,873**	27,299,525
Total assets less current liabilities		**53,360,611**	50,992,225
Non-current liabilities			
Obligations under finance leases	*20*	**4,965,234**	955,896
NET ASSETS		**48,395,377**	50,036,329
CAPITAL AND RESERVES			
Issued capital	*22*	**32,000,000**	32,000,000
Reserves	*24*	**16,395,377**	18,036,329
		48,395,377	50,036,329

Approved and authorised for issue by the Board of Directors on 22 March 2006

Lily Wu
Director

Ho Lut Wa, Anton
Director

Balance Sheet

At 31 December 2005

	Note	**2005 HK$**	2004 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	*14*	**48,667,378**	48,589,457
Current assets			
Deposits, prepayment and other debtors		**161,649**	136,430
Pledged bank deposits	*18*	**4,075,395**	1,408,386
Bank balances and cash		**2,618,000**	5,686,014
		6,855,044	7,230,830
Current liabilities			
Accrued charges and other creditors		**215,418**	209,530
Net current assets		**6,639,626**	7,021,300
NET ASSETS		**55,307,004**	55,610,757
CAPITAL AND RESERVES			
Issued capital	*22*	**32,000,000**	32,000,000
Reserves	*24*	**23,307,004**	23,610,757
		55,307,004	55,610,757

Approved and authorised for issue by the Board of Directors on 22 March 2006

Lily Wu
Director

Ho Lut Wa, Anton
Director

Consolidated Cash Flow Statements

At 31 December 2005

	Note	2005 HK$	2004 HK$
OPERATING ACTIVITIES			
(Loss) Profit before taxation		**(1,363,957)**	4,897,352
Adjustment for:			
Interest income		**(199,277)**	(147,647)
Depreciation	*5*	**6,224,962**	5,473,457
Amortisation		**–**	450,000
Impairment loss on available-for-sale financial assets	*5*	**2,300,000**	–
Loss (Gain) on disposal of property, plant and equipment		**43,303**	(1,535,696)
Finance costs	*5*	**490,539**	215,847
Operating profit before changes in working capital		**7,495,570**	9,353,313
Increase in inventories		**(747,277)**	(1,336,514)
Increase in trade and other receivables		**(3,104,023)**	(8,353,460)
(Decrease) Increase in trade and other payables		**(1,908,736)**	5,083,469
Cash generated from operations		**1,735,534**	4,746,808
Taxation		**–**	–
Net cash inflow from operating activities		**1,735,534**	4,746,808
Investing activities			
Interest received		**199,277**	147,647
Purchase of property, plant and equipment		**(8,113,156)**	(3,422,567)
Acquisition of available-for-sale financial assets		**–**	(942,507)
Redemption of convertible note		**–**	7,000,000
Proceeds on disposal of property, plant and equipment		**900,943**	–
Net cash (used in) inflow from investing activities		**(7,012,936)**	2,782,573
Financing activities			
Interest element of finance leases rental paid		**(490,539)**	(215,847)
Capital element of finance leases rental paid		**(3,671,695)**	(1,911,792)
Net cash used in financing activities		**(4,162,234)**	(2,127,639)
Net (decrease) increase in cash and cash equivalents		**(9,439,636)**	5,401,742
Cash and cash equivalents at 1 January		**19,453,418**	14,051,676
Effect of foreign exchange rate changes		**62,990**	–
Cash and cash equivalents at 31 December		**10,076,772**	19,453,418
Analysis of the balances of cash and cash equivalents			
Pledged bank deposits		**4,075,395**	1,408,386
Bank balances and cash		**6,001,377**	18,045,032
		10,076,772	19,453,418

Notes to the Financial Statements

Year ended 31 December 2005

1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 (the "GEM Listing Rules").

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting period beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs has resulted in changes to certain of the Group's accounting policies that are set out in note 3 "Changes in accounting policies".

A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from or up to their effective dates of acquisition or disposal respectively.

All inter-company transactions and balances within the Group are eliminated on consolidation.

Notes to the Financial Statements

Year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

A subsidiary is an entity in which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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. Improvements are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures incurred in restoring assets to their normal working conditions and other repairs and maintenances are charged to the income statement.

Depreciation is provided to write off the cost less 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%.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the lease.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised as income or expense in the income statement.

Notes to the Financial Statements

Year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on the trade date basis. Financial assets and financial liabilities are measured as follows:

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as this category or not classified in any of the other categories. They are measured at fair value with change in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time, the cumulative loss that had been recognised directly in equity is removed and recognised in the income statement.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any accumulated impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the unquoted financial asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less provision for impairment. Loans and receivables without fixed or determinable repayment terms are stated at cost less any accumulated impairment loss. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statements.

Notes to the Financial Statements

Year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost.

The derecognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to third party. The Group derecognises financial liability when, and only when the liability is extinguished.

Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, net of bank overdrafts.

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 and on the following bases.

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.

Interest income is recognised by applying the effective interest method to the net carrying amount of the financial assets.

Notes to the Financial Statements

Year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates ruling at the dates of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recognised in the income statement.

On consolidation, the balance sheet of overseas subsidiaries is translated at the rates of exchange ruling at the balance sheet date while the income statement is translated at an average rate for the year. Exchange differences arising from the translation of the overseas subsidiaries are recognised in a separate component of equity and recognised in income statement on disposal of the overseas subsidiaries.

Impairment of assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment, investment in subsidiaries, have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, any impairment loss is determined and recognised as follows:

The recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell 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. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

A reversal of impairment loss 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 loss in respect of other assets is recognised as income immediately.

Notes to the Financial Statements

Year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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 lease are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at 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 charges, 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 obligation for each accounting period.

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

Notes to the Financial Statements

Year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the costs 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 defined contribution retirement plans, are recognised as 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.

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.

Share-based payment transactions

The Company operates a share option scheme for granting of share options, for the purpose of providing incentives and rewards, to eligible employees of the Group.

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instrument ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. It is recognised, together with a corresponding increase in equity, over the vesting period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the end of the vesting period reflects the extent to which the vesting period has expired and the number of equity instruments that in the opinion of the directors of the Group at that date will ultimately vest.

Notes to the Financial Statements

Year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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.

Related parties

For the purposes of these financial statements, 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, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

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 2005

2. 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.

3. CHANGES IN ACCOUNTING POLICIES

The major effects on the changes in accounting policies as mentioned in note 2 above are summarised below:

HKFRS 2 Share-based payment

The adoption of HKFRS 2 has resulted in a change in the Group's accounting policy for employee share options benefits. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2 on 1 January 2005, the fair value of share options at grant date is amortised over the relevant vesting periods to the income statement. Details of accounting policies are set out in note 2 to the financial statements.

The Company has taken advantage of the transitional provisions of HKFRS 2 in respect of equity-settled share-based payments and has applied HKFRS 2 only to share options granted after 7 November 2002 that had not vested at 1 January 2005.

The change in accounting policy has had no impact on the previously reported accumulated profit and net assets.

Details of the employee share option benefits are set out in note 23.

Notes to the Financial Statements

Year ended 31 December 2005

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKAS 32 Financial Instruments : Disclosure and Presentation
HKAS 39 Financial Instruments : Recognition and Measurement

In prior years, investment in equity securities intended to be held for non-trading or long term purposes were classified as long term investments and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, these investments are classified as available-for-sale financial assets.

Details of accounting policies are set out in note 2 to the financial statements. The adoption of HKAS 32 and HKAS 39 has had no material effect on these financial statements.

Future changes in accounting policies

At the date of authorisation of these financial statements, the HKICPA has issued certain new/ revised HKFRSs that are not yet effective. The directors anticipate that the adoption of these new HKFRSs in the future periods will have no material impact on the result of the Group.

Notes to the Financial Statements

Year ended 31 December 2005

4. 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	
	2005	2004
	HK$	HK$
Turnover		
Sales of smart cards and plastic cards	**55,115,237**	56,464,037
Sales of smart card application systems	**3,180,377**	3,761,027
Service and other income	**514,647**	1,068,363
	58,810,261	61,293,427
Other revenue		
Interest income	**199,277**	147,647
Gain on disposal of property, plant and equipment	**–**	1,535,696
Sundry income	**606,297**	75,749
	805,574	1,759,092
	59,615,835	63,052,519

5. (LOSS) PROFIT BEFORE TAXATION

	The Group	
	2005	2004
	HK$	HK$
This is arrived at after charging:		
(a) Finance costs		
Finance charges on obligations under finance leases	**490,539**	215,847

Notes to the Financial Statements

Year ended 31 December 2005

5. (LOSS) PROFIT BEFORE TAXATION (CONTINUED)

	The Group	
	2005	2004
	HK$	HK$
(b) Other items		
Auditors' remuneration	**345,859**	297,135
Staff costs including directors' emoluments *(note 7)*	**12,150,167**	10,332,999
Contribution to defined contribution retirement plans *(note 12)*	**649,203**	507,463
Cost of inventories	**20,809,350**	21,581,388
Depreciation	**6,224,962**	5,473,457
Impairment loss on available-for-sale financial assets *(note 15)*	**2,300,000**	–
Product development costs	**38,535**	122,709
Amortisation of development costs	**–**	450,000
Operating lease charges for premises	**1,730,085**	1,466,881
Bad debts written off	**–**	105,300

6. TAXATION

	The Group	
	2005	2004
	HK$	HK$
The charge comprises:		
Deferred taxation:		
Origination of temporary difference	**643,752**	206,021

Hong Kong Profits Tax has not been provided as the Group's estimated assessable profits for the year is wholly absorbed by unrelieved tax losses brought forward from previous years. No provision for the PRC foreign enterprise income tax has been made as the Group's subsidiaries operating in Beijing and Shenzhen, PRC are 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 operating in Beijing was entitled to exemption from the PRC foreign enterprise income tax for the three years ended 31 December 2005 and is entitled to a 50% reduction from the PRC foreign enterprise income tax for the three years ending 31 December 2008. The PRC subsidiary operating in Shenzhen is entitled to exemption from the PRC foreign enterprise income tax for the two years ending 31 December 2006 and a 50% reduction from the PRC foreign enterprise income tax for the three years ending 31 December 2009.

Notes to the Financial Statements

Year ended 31 December 2005

6. TAXATION (CONTINUED)

Deferred tax recognised in the income statement

	2005	2004
	HK$	HK$
Types of temporary differences:		
Depreciation allowances	**(216,064)**	(215,274)
Tax losses	**859,816**	421,295
	643,752	206,021

Reconciliation of tax expense

	2005	2004
	HK$	HK$
(Loss) Profit before taxation	**(1,363,957)**	4,897,352
Income tax at applicable tax rate of 17.5% *(2004: 17.5%)*	**(238,693)**	857,037
Non-deductible expenses	**1,069,155**	51,709
Effect of overseas tax rate differences	**(27,558)**	(181,265)
Tax exempt revenue	**(256,576)**	(697,690)
Unrecognised tax losses	**98,483**	96,213
Unrecognised timing differences	**(1,059)**	80,017
Tax expense for the year	**643,752**	206,021

The applicable tax rate is the Hong Kong profits tax rate of 17.5% *(2004: 17.5%)*.

Notes to the Financial Statements

Year ended 31 December 2005

7. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the GEM Listing Rules and section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2005	2004
	HK$	HK$
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**150,000**	112,500
Other emoluments:		
Salaries and other emoluments	**2,189,580**	1,035,000
Discretionary bonus	**–**	34,000
Long service payments	**–**	142,843
Contributions to retirement scheme	**50,347**	29,000
	2,389,927	1,353,343

There was no arrangement under which a director waived or agreed to waive any emoluments during the current and prior years.

There were no share option granted by the Company to its directors after 7 November 2002 that had been vested by 1 January 2005. Accordingly, the adoption of HKFRS 2 has had no effect on the comparative amounts of director emoluments disclosed above.

Notes to the Financial Statements

Year ended 31 December 2005

7. DIRECTORS' EMOLUMENTS (CONTINUED)

The remuneration of each director of the Company for the years ended 31 December 2005 and 2004, disclosed pursuant to the GEM listing Rules, is set out below:

2005

Name	Fee	Salaries allowances and benefits in kind	Retirement scheme contributions	Total
	HK$	HK$	HK$	HK$
Executive directors:				
Ho Lut Wa, Anton	–	816,000	14,250	830,250
Wong Hon Sing	–	568,710	10,435	579,145
Fung Wing Mou, Bernard	–	480,000	10,500	490,500
Lily Wu	–	161,645	7,000	168,645
Wong Chi Ming	–	120,000	6,000	126,000
Leung Quan Yue, Michelle	–	43,225	2,162	45,387
	–	2,189,580	50,347	2,239,927
Independent non-executive directors:				
Wong Ka Wai, Jeanne	50,000	–	–	50,000
Leung Ka Kui, Johnny	50,000	–	–	50,000
Wong Wai Kwong, David	50,000	–	–	50,000
	150,000	–	–	150,000
	150,000	2,189,580	50,347	2,389,927

Notes to the Financial Statements

Year ended 31 December 2005

7. DIRECTORS' EMOLUMENTS (CONTINUED)

2004

Name	Fee HK$	Salaries allowances and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	Total HK$
Executive directors:					
Wong Chi Ming	–	120,000	–	6,500	126,500
Ho Lut Wa, Anton	–	737,843	34,000	12,000	783,843
Wong Hon Sing	–	220,000	–	7,500	227,500
Fung Wing Mou, Bernard	–	100,000	–	2,000	102,000
Wong Ka Chu	–	–	–	1,000	1,000
	–	1,177,843	34,000	29,000	1,240,843
Independent non-executive directors:					
Wong Ka Wai, Jeanne	50,000	–	–	–	50,000
Leung Ka Kui, Johnny	50,000	–	–	–	50,000
Wong Wai Kwong, David	12,500	–	–	–	12,500
	112,500	–	–	–	112,500
	112,500	1,177,843	34,000	29,000	1,353,343

Notes to the Financial Statements

Year ended 31 December 2005

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two *(2004: one)* directors. The aggregate emoluments of the remaining three *(2004: four)* highest paid individuals are as follows:

	2005	2004
	HK$	HK$
Salaries and allowances	**1,625,824**	1,905,874
Contributions to retirement scheme	**33,866**	49,000
Compensation for loss of office	**–**	123,144
	1,659,690	2,078,018

The remuneration of each of these three *(2004: four)* individuals are less than HK$1,000,000 in both years.

There were no share options granted by the Company to the non-director, highest paid employees after 7 November 2002 that had been vested by 1 January 2005. Accordingly, the adoption of HKFRS 2 has had no effect on the comparative amounts of the highest paid employees' emoluments disclosed above.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to shareholders of the Company includes a loss of approximately HK$303,753 *(2004: HK$368,218)* which has been dealt with in the financial statements of the Company for the year ended 31 December 2005.

10. BASIC (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the year attributable to shareholders of the Company of HK$2,007,709 *(2004: a profit of HK$4,691,331)* and the weighted average number of 320,000,000 shares *(2004: 320,000,000 shares)* in issue during the year.

Diluted loss per share for the year ended 31 December 2005 has not been presented as the share options outstanding during the year have an anti-dilutive effect on the basic loss per share. Diluted earnings per share for the year ended 31 December 2004 had 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 year.

Notes to the Financial Statements

Year ended 31 December 2005

11. SEGMENT REPORTING

The Group comprises the following main business segments:

	Sales of smart cards and plastic cards		Sales of smart card application systems		Others		Consolidated	
	2005 HK$	2004 HK$	**2005 HK$**	2004 HK$	**2005 HK$**	2004 HK$	**2005 HK$**	2004 HK$
Turnover								
External sales	**55,115,237**	56,464,037	**3,180,377**	3,761,027	**514,647**	1,068,363	**58,810,261**	61,293,427
Result								
Segment result	**17,705,758**	16,787,971	**(55,676)**	337,029			**17,650,082**	17,125,000
Unallocated operating income and expenses							**(18,523,500)**	(12,011,801)
Finance costs							**(490,539)**	(215,847)
(Loss) Profit before taxation							**(1,363,957)**	4,897,352
Taxation							**(643,752)**	(206,021)
(Loss) Profit attributable to the shareholders							**(2,007,709)**	4,691,331
Assets and liabilities								
Segment assets	**47,136,505**	35,129,178	**533,243**	1,921,163			**47,669,748**	37,050,341
Unallocated assets							**23,813,585**	31,844,849
Total assets							**71,483,333**	68,895,190
Segment liabilities	**14,778,975**	15,012,880	**184,430**	995,341			**14,963,405**	16,008,221
Unallocated liabilities							**8,124,551**	2,850,640
Total liabilities							**23,087,956**	18,858,861
Other information								
Capital expenditure incurred during the year	**16,366,772**	3,760,386	**–**	–	**1,639,818**	1,182,181		
Impairment loss on available-for-sale financial assets	**–**	–	**–**	–	**2,300,000**	–		
Depreciation and amortisation for the year	**5,293,808**	4,381,355	**–**	450,000	**931,154**	1,092,102		

Notes to the Financial Statements

Year ended 31 December 2005

11. SEGMENT REPORTING (CONTINUED)

Geographical segments:

	Revenue				Assets				Capital expenditure			
	2005		2004		**2005**		2004		**2005**		2004	
	HK$		HK$		**HK$**		HK$		**HK$**		HK$	
Hong Kong	**6,410,401**	**11%**	8,551,606	14%	**28,576,328**	**40%**	35,722,060	52%	**567,358**	**3%**	1,700,490	34%
North Asia	**53,779**	**–**	2,512,088	4%	**–**	**–**	–	–	**–**	**–**	–	–
PRC	**23,121,791**	**39%**	27,293,665	45%	**42,907,005**	**60%**	33,173,130	48%	**17,439,232**	**97%**	3,242,077	66%
South Asia	**20,524,388**	**35%**	15,232,726	25%	**–**	**–**	–	–	**–**	**–**	–	–
Europe	**2,788,040**	**5%**	2,699,162	4%	**–**	**–**	–	–	**–**	**–**	–	–
Others	**5,911,862**	**10%**	5,004,180	8%	**–**	**–**	–	–	**–**	**–**	–	–
	58,810,261	**100%**	61,293,427	100%	**71,483,333**	**100%**	68,895,190	100%	**18,006,590**	**100%**	4,942,567	100%

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

12. RETIREMENT SCHEMES

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2001, the Group participates in a Mandatory Provident Fund scheme (the "MPF scheme") operated by an approved trustee in Hong Kong and makes contributions for its eligible employees. 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.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute specified percentage of the average basic salary to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

During the year ended 31 December 2005, the aggregate amount of employer's contribution made by the Group is HK$649,203 *(2004: HK$507,463)*.

Notes to the Financial Statements

Year ended 31 December 2005

13. 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 2004	25,669,916	1,831,861	1,649,930	1,473,052	564,492	31,189,251
Addition during the year	3,760,386	265,818	342,459	573,904	–	4,942,567
Disposal	(7,130,145)	(1,230,124)	(327,187)	(577,658)	–	(9,265,114)
At 1 January 2005	22,300,157	867,555	1,665,202	1,469,298	564,492	26,866,704
Addition during the year	16,366,772	319,511	287,085	915,682	117,540	18,006,590
Disposal	(1,520,000)	–	(8,479)	–	–	(1,528,479)
Currency realignment	50,045	6,347	30,490	22,031	4,823	113,736
At 31 December 2005	**37,196,974**	**1,193,413**	**1,974,298**	**2,407,011**	**686,855**	**43,458,551**
Accumulated depreciation						
At 1 January 2004	8,128,301	978,590	507,050	754,488	212,732	10,581,161
Charge for the year	4,381,355	254,715	282,752	460,742	93,893	5,473,457
Written back on disposal	(5,770,327)	(864,822)	(299,603)	(350,507)	–	(7,285,259)
At 1 January 2005	6,739,329	368,483	490,199	864,723	306,625	8,769,359
Charge for the year	5,293,808	184,308	369,668	282,144	95,034	6,224,962
Written back on disposal	(582,667)	–	(1,566)	–	–	(584,233)
Currency realignment	6,980	2,163	10,631	8,934	1,620	30,328
At 31 December 2005	**11,457,450**	**554,954**	**868,932**	**1,155,801**	**403,279**	**14,440,416**
Net book value						
At 31 December 2005	**25,739,524**	**638,459**	**1,105,366**	**1,251,210**	**283,576**	**29,018,135**
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$11,560,972 *(2004: HK$4,381,393)* in respect of assets held under finance leases expiring in three years.

Notes to the Financial Statements

Year ended 31 December 2005

14. INTEREST IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$	HK$
Unlisted shares, at cost	**26,954,990**	26,954,990
Due from subsidiaries	**21,712,388**	21,634,467
	48,667,378	48,589,457

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

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

Name of company	Place of incorporation and operation	Issued and fully paid share capital/paid-up registered capital	Principal activities
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
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
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
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
Rapid Limited	Hong Kong	HK$10,000 ordinary share	Inactive

Notes to the Financial Statements

Year ended 31 December 2005

14. INTEREST IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and operation	Issued and fully paid share capital/paid-up registered capital	Principal activities
Smart-Security Limited	Hong Kong	HK$10,000 ordinary share	Development and provision of smart card application systems
Topwise Technology (SZ) Limited	The People's Republic of China	HK$1,000,000 registered capital	Smart card and plastic card manufacturing and sales
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 indirectly.

Beijing Venus Technology Limited and Topwise Technology (SZ) Limited are wholly owned foreign enterprises established in the PRC.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2005	2004
	HK$	HK$
Unlisted, equity securities, at cost	**4,458,058**	4,458,058
Less: Impairment loss	**(2,300,000)**	–
	2,158,058	4,458,058

Unlisted equity securities represent 11.33% equity interest in Guangzhou Tecsun Golden Card Ltd. (廣州德生金卡有限公司), a company registered in the PRC with paid up registered capital of RMB41,700,000.

Notes to the Financial Statements

Year ended 31 December 2005

16. INVENTORIES

	The Group	
	2005	2004
	HK$	HK$
Raw materials	**1,674,683**	1,487,831
Work-in-progress	**575,961**	595,157
Finished goods	**1,846,382**	1,266,761
	4,097,026	3,349,749

17. TRADE AND OTHER RECEIVABLES

	The Group	
	2005	2004
	HK$	HK$
Trade receivables		
From third parties	**18,751,880**	18,154,764
Other receivables		
Deposits, prepayment and other debtors	**6,887,917**	4,244,559
	25,639,797	22,399,323

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	
	2005	2004
	HK$	HK$
Current – 30 days	**9,554,129**	11,083,301
31 – 90 days	**5,105,198**	4,359,762
Over 90 days	**4,092,553**	2,711,701
	18,751,880	18,154,764

Notes to the Financial Statements

Year ended 31 December 2005

18. PLEDGED BANK DEPOSITS

At balance sheet date, bank deposits of HK$4,075,395 *(2004: HK$1,408,386)* were pledged as collateral under certain finance lease arrangements for the purchase of machinery.

19. TRADE AND OTHER PAYABLES

	The Group	
	2005	2004
	HK$	HK$
Trade payables		
To third parties	**12,325,169**	13,682,683
Other payables		
Accrued charges and other creditors	**1,673,360**	2,308,490
	13,998,529	15,991,173

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

	The Group	
	2005	2004
	HK$	HK$
Current – 30 days	**5,847,939**	9,360,893
31 – 60 days	**852,387**	523,339
61 – 90 days	**969,755**	861,743
Over 90 days	**4,655,088**	2,936,708
	12,325,169	13,682,683

Notes to the Financial Statements

Year ended 31 December 2005

20. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Amount payable:				
Within one year	**4,711,577**	2,021,262	**4,124,193**	1,911,792
Between one to two years	**3,732,630**	971,188	**3,444,940**	955,896
Between two to five years	**1,569,286**	–	**1,520,294**	–
	10,013,493	2,992,450	**9,089,427**	2,867,688
Future finance charges	**(924,066)**	(124,762)	**–**	–
Present value of lease obligations	**9,089,427**	2,867,688	**9,089,427**	2,867,688

The average lease term is three years and the average effective borrowing rate was 8.25% *(2004: 5.5%)*. All leases are repayable in fixed monthly principal instalments plus interest and no arrangements have been entered into for contingent rental payments.

21. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

	The Group			
	Assets		Liabilities	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Depreciation allowances	**–**	–	**(240,998)**	(457,062)
Tax losses	**734,543**	1,594,359	**–**	–
Deferred tax assets (liabilities)	**734,543**	1,594,359	**(240,998)**	(457,062)
Offset deferred tax assets and liabilities	**(240,998)**	(457,062)	**240,998**	457,062
Net recognised deferred tax assets	**493,545**	1,137,297	**–**	–

21. DEFERRED TAXATION (CONTINUED)

The Group recognises deferred tax assets arising from tax losses of an operating subsidiary in Hong Kong in excess of the profits arising from the reversal of existing taxable temporary differences amounted to HK$493,545 *(2004: HK$1,137,297)*. This operating subsidiary generated taxable profit for the years ended 31 December 2005 and 2004 and, based on existing market condition, the directors expect that this operating subsidiary will continue to generate sufficient taxable profit to utilise the recognised deferred tax asset. As of 31 December 2005, the deferred tax asset expected to be recovered within the next twelve months approximate to HK$300,000.

Unrecognised deferred tax

The Group has not recognised deferred tax assets in respect of tax losses of HK$3,346,000 *(2004: HK$2,960,000)*. The tax losses have no expiry date under current tax legislation. Deferred tax assets have not been recognised in respect of these items due to uncertainty of their recoverability.

The Company

At the balance sheet date, the Company had no significant unprovided deferred taxation.

22. ISSUED CAPITAL

	2005	2004
	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

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23. SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 6 December 2001, two share option schemes, namely the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes are 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.

No share options were granted by the Company under this scheme during the year and up to the date of approval of these financial statements.

Pre-IPO Share Option Scheme

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

Each of the grantee to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise any time after the expiry of 12 months from 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.

In 2005, 2,400,000 Pre-IPO share options previously granted to an ex-staff were cancelled.

Notes to the Financial Statements

Year ended 31 December 2005

23. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Pre-IPO Share Option Scheme:

Name of participant	At 1 January 2004	Cancelled during the year	At 31 December 2004	Exercise period of share options	Exercise price of share options HK$
Directors					
Wong Chi Ming	4,000,000	–	4,000,000	20 December 2002 to 5 December 2011	0.282
Ho Lut Wa, Anton	8,000,000	–	8,000,000	20 December 2002 to 5 December 2011	0.282
Lei Heong Man (resigned on 20 December 2003)	4,000,000	(4,000,000)	–	20 December 2002 to 5 December 2011	0.282
Wong Hon Sing	4,000,000	–	4,000,000	20 December 2002 to 5 December 2011	0.282
	20,000,000	(4,000,000)	16,000,000		
Other employees					
In aggregate (including an ex-director)	8,800,000	(2,400,000)	6,400,000	20 December 2002 to 5 December 2011	0.282
	28,800,000	(6,400,000)	22,400,000		

Notes to the Financial Statements

Year ended 31 December 2005

23. SHARE OPTION SCHEME (CONTINUED)

Name of participant	At 1 January 2005	Cancelled during the year	At 31 December 2005	Exercise period of share options	Exercise price of share options HK$
Directors					
Wong Chi Ming	4,000,000	–	4,000,000	20 December 2002 to 5 December 2011	0.282
Ho Lut Wa, Anton	8,000,000	–	8,000,000	20 December 2002 to 5 December 2011	0.282
Wong Hon Sing * (resigned on 28 December 2005)	4,000,000	–	4,000,000	20 December 2002 to 5 December 2011	0.282
	16,000,000	–	16,000,000		
Other employees					
In aggregate (including an ex-director)	6,400,000	(2,400,000)	4,000,000	20 December 2002 to 5 December 2011	0.282
	22,400,000	(2,400,000)	20,000,000		

* *The options to Mr. Wong Hon Sing were cancelled as at 28 January 2006.*

The weighted average remaining contractual life for the Pre-IPO share options outstanding at the balance sheet date was 6 years *(2004: 7 years)*.

Notes to the Financial Statements

Year ended 31 December 2005

24. RESERVES

	Contributed surplus HK$	Other reserves HK$	Exchange difference HK$	Accumulated profits (losses) HK$	Total HK$
The Group					
At 1 January 2004	13,985,669	7	(8,407)	(632,271)	13,344,998
Profit for the year	–	–	–	4,691,331	4,691,331
At 31 December 2004	13,985,669	7	(8,407)	4,059,060	18,036,329
Loss for the year	–	–	–	(2,007,709)	(2,007,709)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	366,757	–	366,757
At 31 December 2005	**13,985,669**	**7**	**358,350**	**2,051,351**	**16,395,377**

	Contributed surplus HK$	Other reserves HK$	Accumulated losses HK$	Total HK$
The Company				
At 1 January 2004	24,190,659	7	(211,691)	23,978,975
Loss for the year	–	–	(368,218)	(368,218)
At 31 December 2004	24,190,659	7	(579,909)	23,610,757
Loss for the year	–	–	(303,753)	(303,753)
At 31 December 2005	**24,190,659**	**7**	**(883,662)**	**23,307,004**

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 the PRC subsidiaries.

Notes to the Financial Statements

Year ended 31 December 2005

24. RESERVES (CONTINUED)

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 reserves available for distribution represent the contributed surplus and other reserves less accumulated loss. At the balance sheet date, the Company had HK$23,307,004 reserves available for distribution.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial assets include cash and cash equivalents, trade and other receivables and deposits and investment in unlisted equity securities. The Group's financial liabilities include trade and other payables and finance lease liabilities.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has no significant interest-bearing assets apart from cash and bank balances. The Group's interest rate risk arising from finance leases are disclosed in note 20.

Notes to the Financial Statements

Year ended 31 December 2005

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(ii) Foreign exchange risk

The Group's monetary assets and transactions are principally denominated in Hong Kong Dollars ("HKD"), United States Dollars ("USD") and Renminbi ("RMB"). The Group is exposed to foreign exchange risk arising from the exposure of HKD against USD and RMB, respectively. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and RMB, the Group believes its exposure to exchange rate risk is minimal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

(iii) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of trade receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. No other financial assets carry a significant exposure to credit risk.

(iv) Liquidity risk

The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

26. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements not provided for in respect of assets with a total capital value at the inception of the lease of HK$9,893,434 *(2004: HK$nil)*.

Notes to the Financial Statements

Year ended 31 December 2005

27. CAPITAL COMMITMENTS

	The Group	
	2005	2004
	HK$	HK$
Contracted but not provided for in respect of acquisition of property, plant and equipment	**–**	2,481,050

The Company

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

28. OPERATING LEASE COMMITMENTS

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

	2005	2004
	HK$	HK$
Within one year	**931,648**	734,296
In the second to fifth years inclusive	**414,942**	–
	1,346,590	734,296

29. CONTINGENT LIABILITIES

The Company and two subsidiaries have executed corporate guarantees to the bank in respect of the banking facilities granted to certain subsidiaries to the extent of HK$15,628,810 *(2004: HK$5,735,376)* of which HK$9,089,427 *(2004: HK$2,867,688)* was outstanding as at 31 December 2005

30. 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 2005

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 2005 prepared on the basis set out in the notes below:

COMBINED RESULTS

	2001 HK$	2002 HK$	2003 HK$	2004 HK$	**2005** **HK$**
Turnover	43,988,073	36,268,650	41,187,573	61,293,427	**58,810,261**
(Loss) Profit from operation	11,565,840	(3,987,216)	(9,083,347)	5,113,199	**(873,418)**
Finance costs	(544,875)	–	(147,184)	(215,847)	**(490,539)**
Share of result of associate	(212)	–	–	–	**–**
(Loss) Profit before taxation	11,020,753	(3,987,216)	(9,230,531)	4,897,352	**(1,363,957)**
Taxation	(1,646,000)	874,111	1,735,318	(206,021)	**(643,752)**
(Loss) Profit after taxation	9,374,753	(3,113,105)	(7,495,213)	4,691,331	**(2,007,709)**
Minority interest	–	–	–	–	**–**
Net (loss) profit attributable to the shareholders	9,374,753	(3,113,105)	(7,495,213)	4,691,331	**(2,007,709)**
Basic (loss) earnings per share	3.86 cents	(0.97) cents	(2.34) cents	1.47 cents	**(0.63) cents**

COMBINED ASSETS AND LIABILITIES

	2001 HK$	2002 HK$	2003 HK$	2004 HK$	**2005** **HK$**
Non-current assets	9,275,272	24,295,495	29,401,408	23,692,700	**31,669,738**
Current assets	50,558,568	33,424,268	31,630,774	45,202,490	**39,813,595**
Current liabilities	2,607,190	4,487,552	12,819,496	17,902,965	**18,122,722**
Non-current liabilities	1,264,927	392,000	2,867,688	955,896	**4,965,234**

Notes:

1. The results of the Group for the year ended 31 December 2001 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 2005 have been extracted from the consolidated income statement as set out on page 24 of the financial statements.