



# CARDLINK TECHNOLOGY GROUP LIMITED

錯聯科技集團有限公司

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

(stock code: 8066)

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2007

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

## SUMMARY

- The Group recorded an unaudited turnover of about HK\$58,454,000 for the six months end 30 June 2007, representing an increase of about 100.2% as compared with that of the corresponding period in 2006.
- The unaudited profit attributable to shareholders for the six months ended 30 June 2007 was about HK\$4,350,000.
- For the three months and the six months ended 30 June 2007, the basic earnings per share were about HK\$0.0061 and about HK\$0.012 respectively.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2007.

## INTERIM RESULTS

The board (the “Board”) of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and the six months ended 30 June 2007 together with the comparative figures for the corresponding periods in 2006 as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

|   | <i>Notes</i> | Three months ended 30 June |              | Six months ended 30 June |              |
|---|--------------|----------------------------|--------------|--------------------------|--------------|
|   |              | 2007                       | 2006         | 2007                     | 2006         |
|   |              | <i>HK\$</i>                | <i>HK\$</i>  | <i>HK\$</i>              | <i>HK\$</i>  |
| <b>Turnover</b>                                   | 2            | <b>29,296,072</b>          | 15,222,474   | <b>58,454,208</b>        | 29,197,976   |
| Cost of sales                                     |              | <b>(20,764,033)</b>        | (12,585,921) | <b>(41,030,174)</b>      | (23,735,896) |
| <b>Gross profit</b>                               |              | <b>8,532,039</b>           | 2,636,553    | <b>17,424,034</b>        | 5,462,080    |
| Other revenue                                     | 3            | <b>38,228</b>              | 87,705       | <b>118,065</b>           | 141,689      |
| Selling and distribution costs                    |              | <b>(1,886,982)</b>         | (1,243,223)  | <b>(3,944,852)</b>       | (2,580,053)  |
| Administrative expenses                           |              | <b>(4,236,109)</b>         | (3,413,683)  | <b>(8,610,536)</b>       | (6,627,196)  |
| Finance costs                                     | 4            | <b>(50,665)</b>            | (217,774)    | <b>(220,738)</b>         | (415,859)    |
| <b>Profit (Loss) before taxation</b>              | 4            | <b>2,396,511</b>           | (2,150,422)  | <b>4,765,973</b>         | (4,019,339)  |
| Taxation  | 5            | <b>(66,000)</b>            | (41,906)     | <b>(416,000)</b>         | (41,906)     |
| <b>Profit (Loss) attributable to shareholders</b> |              | <b>2,330,511</b>           | (2,192,328)  | <b>4,349,973</b>         | (4,061,245)  |
| <b>Basic earnings (loss) per share</b>            |              | <b>0.61 cents</b>          | (0.69) cents | <b>1.20 cents</b>        | (1.27) cents |

## CONDENSED CONSOLIDATED BALANCE SHEET

|  | <i>Notes</i> | <b>Unaudited<br/>30 June<br/>2007<br/>HK\$</b> | Audited<br>31 December<br>2006<br>HK\$ |
|--|--------------|--|--|
| <b>Non-current assets</b>                      |              |  |  |
| Property, plant and equipment                  |              | 23,147,091                                     | 27,040,401                             |
| Intangible assets                              |              | 86,700   | –                                      |
| Available-for-sale financial assets            | 8            | <u>2,158,058</u>                               | <u>2,158,058</u>                       |
|  |              | <b>25,391,849</b>                              | 29,198,459                             |
| <b>Current assets</b>                          |              |  |  |
| Inventories                                    | 9            | 10,307,640                                     | 7,834,947                              |
| Trade and other receivables                    | 10           | 34,092,990                                     | 26,696,617                             |
| Pledged bank deposits                          | 11           | 907,896  | 4,545,351                              |
| Bank balances and cash                         |              | <u>14,844,340</u>                              | <u>8,959,449</u>                       |
|  |              | <b>60,152,866</b>                              | 48,036,364                             |
| <b>Current liabilities</b>                     |              |  |  |
| Trade and other payables                       | 12           | 21,185,438                                     | 19,895,769                             |
| Taxation                                       |              | 440,987  | 24,987                                 |
| Current portion of interest-bearing borrowings | 13           | <u>4,000,000</u>                               | <u>5,337,527</u>                       |
|  |              | <b>25,626,425</b>                              | 25,258,283                             |
| <b>Net current assets</b>                      |              | <u><b>34,526,441</b></u>                       | <u>22,778,081</u>                      |
| <b>Total assets less current liabilities</b>   |              | <b>59,918,290</b>                              | 51,976,540                             |
| <b>Non-current liabilities</b>                 |              |  |  |
| Long term interest-bearing borrowings          | 13           | –  | 2,658,723                              |
| Deferred tax liabilities                       |              | <u>159,582</u>                                 | <u>159,582</u>                         |
|  |              | <b>159,582</b>                                 | 2,818,305                              |
| <b>NET ASSETS</b>                              |              | <u><b>59,758,708</b></u>                       | <u>49,158,235</u>                      |
| <b>CAPITAL AND RESERVES</b>                    |              |  |  |
| Share capital                                  |              | 38,400,000                                     | 32,000,000                             |
| Reserves                                       |              | <u>21,358,708</u>                              | <u>17,158,235</u>                      |
|  |              | <b>59,758,708</b>                              | 49,158,235                             |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

|   | <b>Share capital</b> | <b>Contributed surplus</b> | <b>Other reserves</b> | <b>Exchange difference</b> | <b>Accumulated profits (losses)</b> | <b>Total</b>      |
|---|----------------------|----------------------------|-----------------------|----------------------------|-------------------------------------|-------------------|
|   | <i>HK\$</i>          | <i>HK\$</i>                | <i>HK\$</i>           | <i>HK\$</i>                | <i>HK\$</i>                         | <i>HK\$</i>       |
| At 1 January 2006   | 32,000,000           | 13,985,669                 | 7                     | 358,350                    | 2,051,351                           | 48,395,377        |
| Loss for the period   | -                    | -                          | -                     | -                          | (4,061,245)                         | (4,061,245)       |
| Exchange difference on translation of financial statements of overseas subsidiaries | -                    | -                          | -                     | (5,281)                    | -                                   | (5,281)           |
|   | <u>32,000,000</u>    | <u>13,985,669</u>          | <u>7</u>              | <u>353,069</u>             | <u>(2,009,894)</u>                  | <u>44,328,851</u> |
| At 30 June 2006   | <u>32,000,000</u>    | <u>13,985,669</u>          | <u>7</u>              | <u>353,069</u>             | <u>(2,009,894)</u>                  | <u>44,328,851</u> |
| At 1 January 2007   | 32,000,000           | 13,985,669                 | 7                     | 1,041,504                  | 2,131,055                           | 49,158,235        |
| Placing of shares   | 6,400,000            | -                          | -                     | -                          | -                                   | 6,400,000         |
| Share issue expenses  | -                    | (149,500)                  | -                     | -                          | -                                   | (149,500)         |
| Profit for the period   | -                    | -                          | -                     | -                          | 4,349,973                           | 4,349,973         |
|   | <u>38,400,000</u>    | <u>13,836,169</u>          | <u>7</u>              | <u>1,041,504</u>           | <u>6,481,028</u>                    | <u>59,758,708</u> |
| At 30 June 2007   | <u>38,400,000</u>    | <u>13,836,169</u>          | <u>7</u>              | <u>1,041,504</u>           | <u>6,481,028</u>                    | <u>59,758,708</u> |

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

|   | <b>Six months ended 30 June</b> |                         |
|---|---------------------------------|-------------------------|
|   | <b>2007</b>                     | 2006                    |
|   | <b>HK\$</b>                     | <b>HK\$</b>             |
| <b>Net cash generated from operating activities</b>           | <b>1,263,524</b>                | 1,795,583               |
| <b>Net cash used in investing activities</b>                  | <b>(1,126,259)</b>              | (1,093,508)             |
| <b>Net cash generated from (used in) financing activities</b> | <b>2,110,171</b>                | (3,190,164)             |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>2,247,436</b>                | (2,488,089)             |
| <b>Cash and cash equivalents brought forward</b>              | <b>13,504,800</b>               | 10,076,772              |
| <b>Cash and cash equivalents carried forward</b>              | <b><u>15,752,236</u></b>        | <b><u>7,588,683</u></b> |
| <b>Analysis of the balances of cash and cash equivalents</b>  |                                 |                         |
| Pledged bank deposits   | <b>907,896</b>                  | 4,155,593               |
| Bank balances and cash  | <b>14,844,340</b>               | 3,433,090               |
|   | <b><u>15,752,236</u></b>        | <b><u>7,588,683</u></b> |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The Group's unaudited interim financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted and methods of computation are consistent with those followed in the preparation of the Company's audited financial statements for the year ended 31 December 2006.

The Group has adopted the following standards, amendment and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2007. The adoption of such standards, amendment and interpretations did not have material effect on these financial statements.

|                    |  |
|--------------------|--|
| HKAS 1 (Amendment) | Capital disclosures                        |
| HKFRS 7            | Financial instruments: Disclosures         |
| HK(IFRIC) – Int 8  | Scope of HKFRS 2                           |
| HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment |

The Group has not early adopted the following standards and interpretations that have been issued but not yet effective. The adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

|                    |  |
|--------------------|--|
| HKFRS 8            | Operating segments                             |
| HK(IFRIC) – Int 11 | HKFRS 2: Group and Treasury Share Transactions |
| HK(IFRIC) – Int 12 | Service Concession Arrangements                |

### 2. TURNOVER

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

Turnover recognised by category are as follows:

|   | Unaudited<br>Group turnover   |                   |                             |                   |
|---|-------------------------------|-------------------|-----------------------------|-------------------|
|   | Three months ended<br>30 June |                   | Six months ended<br>30 June |                   |
|   | 2007<br>HK\$                  | 2006<br>HK\$      | 2007<br>HK\$                | 2006<br>HK\$      |
| Sales of smart cards and plastic cards  | 29,050,374                    | 13,567,881        | 57,364,579                  | 27,170,045        |
| Sales of smart card application systems | 192,723                       | 1,618,769         | 1,031,679                   | 1,940,709         |
| Service and other income                | 52,975                        | 35,824            | 57,950                      | 87,222            |
|   | <b>29,296,072</b>             | <b>15,222,474</b> | <b>58,454,208</b>           | <b>29,197,976</b> |

### 3. OTHER REVENUE

|                 | Unaudited<br>Three months ended<br>30 June |               | Unaudited<br>Six months ended<br>30 June |                |
|-----------------|--|---------------|--|----------------|
|                 | 2007<br>HK\$                               | 2006<br>HK\$  | 2007<br>HK\$                             | 2006<br>HK\$   |
| Interest Income | 34,512                                     | 60,858        | 80,796                                   | 114,842        |
| Sundry Income   | 3,716                                      | 26,847        | 37,269                                   | 26,847         |
|                 | <u>38,228</u>                              | <u>87,705</u> | <u>118,065</u>                           | <u>141,689</u> |

### 4. PROFIT(LOSS) BEFORE TAXATION

|  | Unaudited<br>Three months ended<br>30 June |              | Unaudited<br>Six months ended<br>30 June |              |
|--|--|--------------|--|--------------|
|  | 2007<br>HK\$                               | 2006<br>HK\$ | 2007<br>HK\$                             | 2006<br>HK\$ |

This is arrived at after charging:

(a) Finance costs

|  |               |                |                |                |
|--|---------------|----------------|----------------|----------------|
| Interest on bank loans,<br>overdrafts and other<br>borrowings wholly<br>repayable within<br>five years | 50,665        | –              | 76,657         | –              |
| Finance charges on<br>obligations under<br>finance leases  | –             | 217,774        | 144,081        | 415,859        |
|  | <u>50,665</u> | <u>217,774</u> | <u>220,738</u> | <u>415,859</u> |

(b) Other items

|   |                |                |                  |                  |
|---|----------------|----------------|------------------|------------------|
| Cost of inventories                     | 20,764,033     | 12,585,921     | 41,030,174       | 23,735,896       |
| Staff costs                             | 5,059,889      | 3,278,531      | 10,299,466       | 6,437,361        |
| Depreciation                            | 2,526,979      | 2,298,761      | 5,013,664        | 4,517,373        |
| Research and<br>development costs       | 400,000        | 5,535          | 400,000          | 34,540           |
| Operating lease payments<br>on premises | 790,069        | 653,465        | 1,431,073        | 1,292,054        |
|   | <u>790,069</u> | <u>653,465</u> | <u>1,431,073</u> | <u>1,292,054</u> |



## 5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: nil) on the Group's estimated assessable profits arising from Hong Kong during the period. Taxation for subsidiaries incorporated in the People's Republic of China ("PRC") is charged at the appropriate current rates of taxation ruling in the PRC.

|   | Unaudited<br>Three months ended<br>30 June |               | Unaudited<br>Six months ended<br>30 June |               |
|---|--|---------------|--|---------------|
|   | 2007<br>HK\$                               | 2006<br>HK\$  | 2007<br>HK\$                             | 2006<br>HK\$  |
| <b>Current tax</b>  |  |               |  |               |
| Hong Kong Profits Tax:  |  |               |  |               |
| Current year  | 66,000                                     | –             | 416,000                                  | –             |
| Underprovision of PRC<br>Enterprise Income Tax<br>in prior year | –  | 41,906        | –  | 41,906        |
| Total tax charge for the period                                 | <u>66,000</u>                              | <u>41,906</u> | <u>416,000</u>                           | <u>41,906</u> |

No provision for PRC enterprise income tax has been made for the current period in respect of the Group's subsidiaries operating in Beijing and Shenzhen, the PRC, as the subsidiaries incurred a taxation loss for the period and is under tax holiday, respectively.

## 6. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2007 (2006: NIL).

## 7. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the three months and the six months ended 30 June 2007 is based on the unaudited profit attributable to shareholders for the three months and the six months ended 30 June 2007 of HK\$2,330,511 and HK\$4,349,973 (three months and six months ended 30 June 2006: loss of HK\$2,192,328 and HK\$4,061,245 respectively) and the weighted average number of 384,000,000 shares and 361,016,575 shares (three months and six months ended 30 June 2006: 320,000,000 shares) in issue during the periods.

Diluted earnings per share for the three months and the six months ended 30 June 2007 have not been presented as the exercise price of the share options granted by the Company was higher than the average market price of the Company's shares during the relevant periods. Diluted loss per share for the three months and the six months ended 30 June 2006 had not been presented as the share options outstanding during the periods have an anti-dilutive effect on the basic loss per share.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                     | Unaudited<br>30 June<br>2007<br>HK\$ | Audited<br>31 December<br>2006<br>HK\$ |
|-------------------------------------|--------------------------------------|--|
| Unlisted equity securities, at cost | 4,458,058                            | 4,458,058                              |
| Less: Impairment loss               | (2,300,000)                          | (2,300,000)                            |
|                                     | <u>2,158,058</u>                     | <u>2,158,058</u>                       |

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.

## 9. INVENTORIES

|                  | Unaudited<br>30 June<br>2007<br>HK\$ | Audited<br>31 December<br>2006<br>HK\$ |
|------------------|--------------------------------------|--|
| Raw materials    | 5,346,675                            | 4,334,093                              |
| Work-in-progress | 1,468,571                            | 1,369,966                              |
| Finished goods   | 3,492,394                            | 2,130,888                              |
|                  | <u>10,307,640</u>                    | <u>7,834,947</u>                       |

## 10. TRADE AND OTHER RECEIVABLES

|  | Unaudited<br>30 June<br>2007<br>HK\$ | Audited<br>31 December<br>2006<br>HK\$ |
|--|--------------------------------------|--|
| <b>Trade receivables</b>               |                                      |  |
| From third parties                     | 25,885,260                           | 23,188,131                             |
| <b>Other receivables</b>               |                                      |  |
| Deposits, prepayment and other debtors | 8,207,730                            | 3,508,486                              |
|  | <u>34,092,990</u>                    | <u>26,696,617</u>                      |

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

|                   | Unaudited<br>30 June<br>2007<br>HK\$ | Audited<br>31 December<br>2006<br>HK\$ |
|-------------------|--------------------------------------|--|
| Current – 30 days | 17,045,443                           | 20,247,262                             |
| 31 – 90 days      | 6,005,195                            | 1,354,031                              |
| Over 90 days      | 2,834,622                            | 1,586,838                              |
|                   | <u>25,885,260</u>                    | <u>23,188,131</u>                      |

## 11. PLEDGED BANK DEPOSITS

At 30 June 2007, a bank deposit of HK\$907,896 (31 December 2006: bank deposits of HK\$4,545,351) was pledged to secure certain banking facilities for a subsidiary of the Company.

## 12. TRADE AND OTHER PAYABLES

|                                     | Unaudited<br>30 June<br>2007<br>HK\$ | Audited<br>31 December<br>2006<br>HK\$ |
|-------------------------------------|--------------------------------------|--|
| <b>Trade payables</b>               |                                      |  |
| To third parties                    | 15,807,933                           | 15,605,149                             |
| <b>Other payables</b>               |                                      |  |
| Accrued charges and other creditors | 5,377,505                            | 2,730,620                              |
| Due to a shareholder                | –                                    | 1,560,000                              |
|                                     | <u>21,185,438</u>                    | <u>19,895,769</u>                      |

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

|                   | Unaudited<br>30 June<br>2007<br>HK\$ | Audited<br>31 December<br>2006<br>HK\$ |
|-------------------|--------------------------------------|--|
| Current – 30 days | 12,652,462                           | 13,731,531                             |
| 31 – 60 days      | 376,077                              | 624,318                                |
| 61 – 90 days      | 113,320                              | 370,563                                |
| Over 90 days      | 2,666,074                            | 878,737                                |
|                   | <u>15,807,933</u>                    | <u>15,605,149</u>                      |

## 13. INTEREST-BEARING BORROWINGS

|                                  | Unaudited<br>30 June<br>2007<br>HK\$ | Audited<br>31 December<br>2006<br>HK\$ |
|----------------------------------|--------------------------------------|--|
| Secured bank loans               | 4,000,000                            | 1,000,000                              |
| Obligations under finance leases | –                                    | 6,996,250                              |
|                                  | <u>4,000,000</u>                     | <u>7,996,250</u>                       |
| Current portion                  | 4,000,000                            | 5,337,527                              |
| Non-current portion              | –                                    | 2,658,723                              |
|                                  | <u>4,000,000</u>                     | <u>7,996,250</u>                       |

At the balance sheet date, the bank loans have an effective interest rates ranging from 6.43% to 6.93% per annum and are repayable within one year. The above bank loans were secured by a pledged deposit of HK\$907,896 (note 11), corporate guarantee provided by the Company and personal guarantee provided by a shareholder of the Company.

## 14. 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        |                    |
|--|--|-------------------|---|------------------|------------------|----------------|---------------------|--------------------|
|  | Six months ended                       |                   | Six months ended                        |                  | Six months ended |                | Six months ended    |                    |
|  | 30 June                                |                   | 30 June                                 |                  | 30 June          |                | 30 June             |                    |
|  | 2007                                   | 2006              | 2007                                    | 2006             | 2007             | 2006           | 2007                | 2006               |
|  | HK\$                                   | HK\$              | HK\$                                    | HK\$             | HK\$             | HK\$           | HK\$                | HK\$               |
| <b>Turnover</b>                                |  |                   |   |                  |                  |                |                     |                    |
| External sales                                 | <u>57,364,579</u>                      | <u>27,170,045</u> | <u>1,031,679</u>                        | <u>1,940,709</u> | <u>57,950</u>    | <u>87,222</u>  | <u>58,454,208</u>   | <u>29,197,976</u>  |
| <b>Result</b>                                  |  |                   |   |                  |                  |                |                     |                    |
| Segment result                                 | <u>17,233,946</u>                      | <u>5,131,114</u>  | <u>132,138</u>                          | <u>243,744</u>   |                  |                | <u>17,366,084</u>   | <u>5,374,858</u>   |
| Unallocated operating income and expenses      |  |                   |   |                  |                  |                | <u>(12,379,373)</u> | <u>(8,978,338)</u> |
| Finance costs                                  |  |                   |   |                  |                  |                | <u>(220,738)</u>    | <u>(415,859)</u>   |
| Profit (Loss) before taxation                  |  |                   |   |                  |                  |                | <u>4,765,973</u>    | <u>(4,019,339)</u> |
| Taxation                                       |  |                   |   |                  |                  |                | <u>(416,000)</u>    | <u>(41,906)</u>    |
| Profit (Loss) attributable to shareholders     |  |                   |   |                  |                  |                | <u>4,349,973</u>    | <u>(4,061,245)</u> |
| <b>Assets and liabilities</b>                  |  |                   |   |                  |                  |                |                     |                    |
| Segment assets                                 | <u>54,450,169</u>                      | <u>49,382,367</u> | <u>1,716,353</u>                        | <u>541,755</u>   |                  |                | <u>56,166,522</u>   | <u>49,924,122</u>  |
| Unallocated assets                             |  |                   |   |                  |                  |                | <u>29,378,193</u>   | <u>19,888,197</u>  |
| Total assets                                   |  |                   |   |                  |                  |                | <u>85,544,715</u>   | <u>69,812,319</u>  |
| Segment liabilities                            | <u>16,473,910</u>                      | <u>22,752,778</u> | <u>1,704,748</u>                        | <u>812,550</u>   |                  |                | <u>18,178,658</u>   | <u>23,565,328</u>  |
| Unallocated liabilities                        |  |                   |   |                  |                  |                | <u>7,607,349</u>    | <u>1,918,140</u>   |
| Total liabilities                              |  |                   |   |                  |                  |                | <u>25,786,007</u>   | <u>25,483,468</u>  |
| <b>Other information</b>                       |  |                   |   |                  |                  |                |                     |                    |
| Capital expenditure incurred during the period | <u>964,966</u>                         | <u>3,562,528</u>  | <u>-</u>                                | <u>-</u>         | <u>242,088</u>   | <u>565,771</u> | <u>1,207,054</u>    | <u>4,128,299</u>   |
| Depreciation for the period                    | <u>4,397,555</u>                       | <u>3,956,882</u>  | <u>-</u>                                | <u>-</u>         | <u>616,109</u>   | <u>560,491</u> | <u>5,013,664</u>    | <u>4,517,373</u>   |

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business and Financial Review**

For the six months ended 30 June 2007, the unaudited turnover of the Group was about HK\$58.5 million, representing an increase of about HK\$29.3 million, or about 100.2%, as compared to the corresponding period in 2006 of about HK\$29.2 million. Turnover also increased slightly by about 0.5% as compared to the first quarter of 2007. The increase in 2007 was due to the increase in the market sales of the Group's product.

During the period under review, the manufacturing and sales of smart cards and plastic cards continued to be the main focus of the Group's business. Out of the total turnover for the period, about HK\$57.4 million or about 98.1% was generated from the manufacturing and sales of smart cards and plastic cards, and about HK\$1.1 million or about 1.9% was generated from the sale of smart card application systems and other income. Profit attributable to shareholders for the six months ended 30 June 2007 was about HK\$4.3 million (six months ended 30 June 2006: loss of about HK\$4.1 million).

For the six months ended 30 June 2007, gross profit margin was about 29.8%, representing an increase of about 11.1% as compared to about 18.7% for the same period in 2006. The increase was due to higher value sales mix, as well as better utilization of the Group's assets. However, the gross profit margin for the second quarter of 2007 has dropped slightly by about 1.4%, from about 30.5% in the first quarter of 2007, to about 29.1%. The decrease was largely attributable to the incurrence of HK\$0.4 million on research and development in the second quarter of 2007.

For the six months ended 30 June 2007, the selling and distribution costs recorded an increase of about HK\$1.3 million, or about 52.9%, from about HK\$2.6 million for the six months ended 30 June 2006 to about HK\$3.9 million for the same period in 2007. The increase in selling and distribution costs was in line with sales and was attributable to the increases in freight charges, transportation costs and staff commission. Administrative expenses also increased by about HK\$2 million, or about 29.9%, from about HK\$6.6 million for the six months ended 30 June 2006, to about HK\$8.6 million for the same period in 2007. The increase was mainly due to the increase in professional fee, and staff costs as a result of continued expansion of production scale.

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

For the six months ended 30 June 2007, the Group financed its business operations with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from placing of new shares. As at 30 June 2007, the Group had cash and bank balances of about HK\$15.7 million and secured bank loans of HK\$4 million.

During the period under review, the Group had redeemed all the finance lease arrangements which were used for financing the acquisition of certain printing machinery and personalization equipment for the production lines in the PRC. The Group had two secured bank loans used for its working capital. The secured bank loans are bearing interest of 2% over 12-month Hongkong Interbank Offer Rate per annum and repayable within one year, and 1.75% over 4-month Hongkong Interbank Offer Rate per annum and repayable within four months respectively, and denominated in Hong Kong dollars.

As at 30 June 2007, the Group had current assets of about HK\$60.2 million and current liabilities of about HK\$25.6 million. The current ratio, expressed as current assets over current liabilities, was maintained at the satisfactory level of about 2.3.

As at 30 June 2007, the shareholders' fund of the Group was about HK\$59.8 million and there were no outstanding long-term interest-bearing borrowings. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' funds, was nil as of 30 June 2007 (31 December 2006: about 5.4%).

#### **EMPLOYEE INFORMATION**

As at 30 June 2007, the Company employed a total of 556 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was about HK\$10.3 million for the period 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.

#### **SIGNIFICANT INVESTMENTS**

With the exception of the investment disclosed in note 8 under "Notes to the Unaudited Interim Financial Statements", there were no other significant investments for the period ended 30 June 2007.

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

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2007.

#### **SEGMENTAL INFORMATION**

Details have been set out in note 14 under "Notes to the Unaudited Interim Financial Statements" and are further elaborated under "Business and Financial Review" section.

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

As at 30 June 2007, the Company's bank deposit of about HK\$0.9 million was pledged to secure the banking facilities of a subsidiary of the Company.

The Company has provided guarantees of repayment to the bank in respect of the banking facilities granted to a subsidiary to the extent of HK\$8 million (31 December 2006: about HK\$12.6 million) of which HK\$4 million (31 December 2006: about HK\$8 million) was outstanding as at 30 June 2007.

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

As at 30 June 2007, there were no future plans for material investments or capital assets.

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

As substantial portion of the Group's operations are in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the Directors believe that the Group is not subject to significant exchange risk. No hedging or other alternatives have been implemented.

## **SHARE OPTION SCHEME**

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

### **(i) Share Option Scheme**

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

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 six months ended 30 June 2007.

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

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. On 6 December 2001, options to subscribe for an aggregate of 28,800,000 Shares at an exercise price of HK\$0.282 per share were granted by the Company to the Directors and certain employees of the Group. Pursuant to the Pre-IPO Share Option Scheme, five executive Directors of the Group were granted options to subscribe for an aggregate of 24,000,000 Shares in the Company and two senior management staff were granted options to subscribe for an aggregate of 4,800,000 Shares in the Company.

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

As at 30 June 2007, the total number of Pre-IPO share options outstanding was 12,000,000.



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

As at 30 June 2007, 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 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

| Name of Director | Number of Shares  |                 |                    |                | Total     | Percentage of interests |
|------------------|-------------------|-----------------|--------------------|----------------|-----------|-------------------------|
|                  | Personal Interest | Family Interest | Corporate Interest | Other Interest |           |                         |
| Ho Lut Wa, Anton | 6,132,000         | –               | –                  | –              | 6,132,000 | 1.6                     |

### (ii) Rights to subscribe for shares in the Company

As at 30 June 2007, 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 as at 30 June 2007 | Exercise price per share HK\$ | Exercisable period                 |
|------------------|-----------------|--------------------------------|-------------------------------|------------------------------------|
| Ho Lut Wa, Anton | 6 December 2001 | 8,000,000                      | 0.282                         | 20 December 2002 – 5 December 2011 |

Save as disclosed above, as at 30 June 2007, 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 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, 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:

| <b>Name of shareholders</b>             | <b>Notes</b> | <b>Number of shares held</b> | <b>Percentage of interests</b> |
|---|--------------|------------------------------|--------------------------------|
| Best Heaven Limited                     | 1            | 83,300,000                   | 21.69                          |
| Mr. Chu Chen Lin                        | 1            | 83,300,000                   | 21.69                          |
| Golden Dice Co., Ltd.                   | 2            | 64,000,000                   | 16.67                          |
| Mr. Tsai Chi Yuan                       | 2            | 64,000,000                   | 16.67                          |
| i-Concepts Investment Limited           | 3, 4         | 58,400,000                   | 15.21                          |
| Dickson Group Holdings Limited          | 3, 4         | 58,400,000                   | 15.21                          |
| Sonic Power Limited                     | 4            | 58,400,000                   | 15.21                          |
| Mr. Wong Hon Sing                       | 4            | 58,400,000                   | 15.21                          |
| Giant International Asset Group Limited | 5            | 22,500,000                   | 5.86                           |
| United International Asset Limited      | 5            | 22,500,000                   | 5.86                           |
| Ms. Tsai Chen Hui Chen                  | 5            | 22,500,000                   | 5.86                           |

*Notes:*

1. Mr. Chu Chen Lin is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Best Heaven Limited.
2. Mr. Tsai Chi Yuan is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Golden Dice Co., Ltd.
3. i-Concepts Investment Limited is a wholly-owned subsidiary of Dickson Group Holdings Limited, a company listed on the Main Board of the Stock Exchange and Dickson Group Holding Limited is therefore deemed to be interested in the shares of the Company.
4. i-Concepts Investment Limited has pledged its entire shareholding interest in the Company to Sonic Power Limited which is wholly owned by Mr. Wong Hon Sing. Therefore, each of Sonic Power Limited and Mr. Wong Hon Sing is deemed to be a substantial shareholder of the Company.
5. Giant International Asset Group Limited is 33.33% held by United International Asset Limited which in turn is 100% held by Ms. Tsai Chen Hui Chen.

Save as disclosed above, as at 30 June 2007, 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.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules throughout the period under review.

## **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 six months ended 30 June 2007.

## **AUDIT COMMITTEE**

The Company has 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 independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

The Group's unaudited results for the three months and the six months ended 30 June 2007 have been reviewed by the audit committee.

## **COMPETING INTERESTS**

As at 30 June 2007, none of the directors or the management shareholders or any of their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

**PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

For and on behalf of the Board  
**Lily Wu**  
*Chairman*

Hong Kong, 10 August 2007