Cardlink

Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8066

Annual Report 2007

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 these 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 of the Stock Exchange 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.

Cardlink
Technology Group Limited

Cardlink Technology Group Limited • Annual Report 2007

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Corporate Information

DIRECTORS

Executive Directors

Lily Wu *(Chairman)*
Ho Lut Wa, Anton *(Chief Executive Officer)*
Chang Wei Wen
Leung Quan Yue, Michelle

Independent non-executive Directors

Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

COMPLIANCE OFFICER

Lily Wu

QUALIFIED ACCOUNTANT

Lau Ka Chung *(FCPA, ACS, ACIS)*

COMPANY SECRETARY

Lau Ka Chung *(FCPA, ACS, ACIS)*

AUTHORISED REPRESENTATIVES

Lily Wu
Chang Wei Wen

AUDIT COMMITTEE

Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

REMUNERATION COMMITTEE

Lily Wu
Ho Lut Wa, Anton
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY-1111
Cayman Islands

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

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

PRINCIPAL BANKERS

First Commercial Bank
Nanyang Commercial Bank Limited

AUDITORS

Grant Thornton

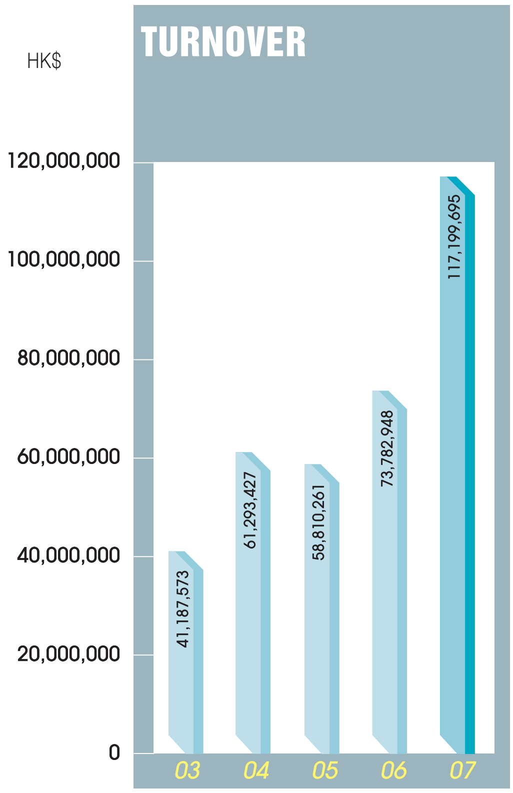
WEBSITE ADDRESS

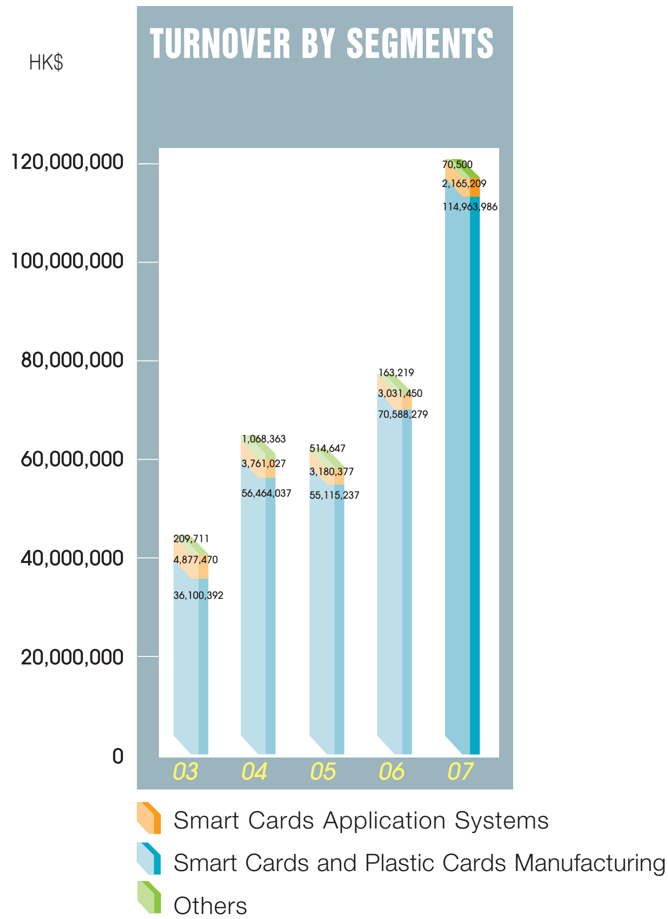
www.cardlink.com.hk

STOCK CODE

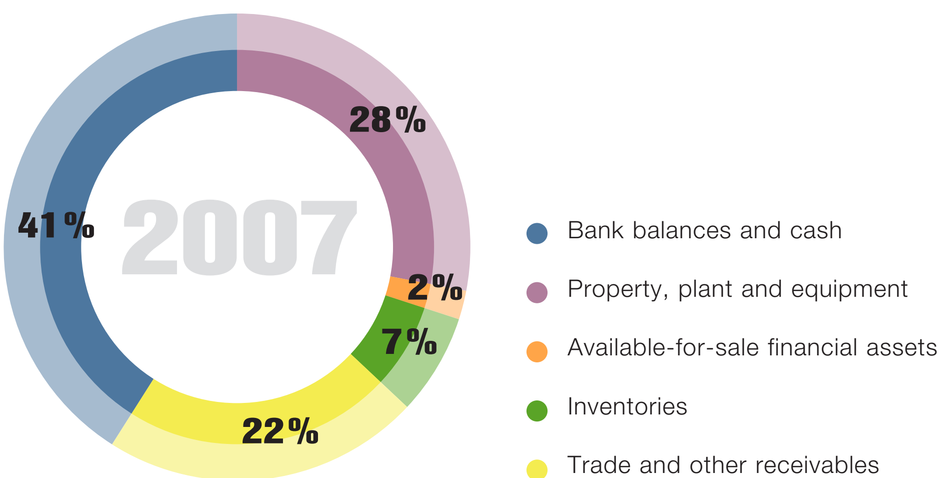
8066

Financial Highlights





TOTAL ASSETS AT 31 DECEMBER 2007



Chairman's Statement

TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present to you the results of **Cardlink Technology Group Limited** (the "Company" or "Cardlink") and its subsidiaries (together, the "Group") for the financial year ended 31 December 2007.

2007 was a year to remember, one where we made excellent progress- achieving record high in revenue, operating profits and market shares, whilst also shaping the business for continued success in the future. The Company has performed well and achieved significant operational successes. During the year under review, our production capacity in Beijing and Shenzhen were also enhanced further to deliver the best quality and rapid turnaround time to our customers. With the right business strategies, we are positioning to seize increasing opportunities in the future.

RESULTS

For the year ended 31 December 2007, the Company recorded a consolidated turnover of about HK$117.2 million *(2006: about HK$73.8 million)* and profit attributable to equity holders of about HK$8 million *(2006: about HK$0.1 million)*.

DIVIDEND

The Board (the "Board") of Directors (the "Directors") of the Company recommends the payment of a final dividend of 1.5 HK cents for the year ended 31 December 2007.

Chairman's Statement

BUSINESS REVIEW

During the year under review, the Group was principally engaged in the manufacturing and sales of smart cards and plastic cards. The Group was also engaged in the provision of customized smart card application systems.

In 2007, the Group's core business of manufacturing and sales of smart cards and plastic cards record an excellent performance. For three consecutive years, the Group managed to achieve new records in turnover in this field. The Group's turnover on smart cards and plastic cards rose by 62.9% to a record high of HK$115 million *(2006: 70.6 million)*. Despite the competition in the telecommunications market was very keen, the Group was still able to deliver such impressive growth in revenue, this was due primarily to the overall market growth, as well as our highly automated smart card production facilities and distribution networks in Shenzhen and Beijing which enable us to offer best-quality, convenient and speedy delivery services to our customers, and thanks also to the relentless efforts of our strong sales and marketing teams.

Although revenue generated from the sales of smart card application systems was less than that in the previous years, it continued to generate modest profit to the Group. The management expects that there unlikely to be a significant upside changes in the market for the coming year.

PROSPECTS

We believe that the outlook for FY2008 will be challenging but yet optimistic. The remarkable success in 2007 proved that our present business strategies are working satisfactorily. Looking ahead, the Group will continue to consolidate its existing SIM cards businesses while exploring new business opportunities that will complement and enhancing its existing businesses. We also aim at ensuring flexible, efficient and cost effective manufacturing operations, as well as to deepen our relationship with existing customers and develop new customer relationships in existing and new market segments. In order to maximize return to the Company and the shareholder in the long run, the Board may also seek for new business opportunities which offer good earnings and growth potential to strengthen the Group's existing investment portfolio. By pursuing the correct business strategies and the continual implementation of operating disciplines, the Board is confidence that we will be in a position to continue growing the Company, and enhancing shareholder value.

ACKNOWLEDGEMENT

In conclusion, I would like to thank all of our stakeholders for their support over the last year. We rely on the goodwill and commitment of our suppliers, customers and investors as we continue to maintain our momentum of growth. In particular, I give special thanks to our 650 staff, each of whom has played their part in this rewarding year.

Lily WU
Chairman

Hong Kong, 17 March 2008

Management Discussion and Analysis

BUSINESS REVIEW

Cardlink continues to meet its challenges this year with record breaking results. The Group posted a profit attributable to equity holders of HK$8 million on the back of HK$117.2 million revenue for the financial year ended 31 December 2007.

The Group's growth momentum, which started to build up in the latter half of 2006, continued to gather and drive further gains this year. The Group's revenue for the year grew 58.8% to a record high of HK$117.2 million, including the sales of smart cards and plastic cards, and the provision of smart card application systems and service and other income, which accounted for about 98.1% and about 1.9%, respectively, of the Group revenue.

In terms of geographic breakdown, the South Asia market is still the largest single market for the Group, accounted for about HK$39.5 million, or about 33% of the total revenue. The PRC market ranked the second largest market for the Group, which amounted to about HK$36.3 million, or about 31%, of the total revenue. The Europe market also experienced a strong growth this year, up from about HK$8.8 million in 2006 to about HK$32.3 million in 2007, and accounted for about 28% of the Group's revenue. Other geographic areas also showed encouraging results and offer promising opportunities for growth in the future.

FINANCIAL REVIEW

Revenue for the year ended 31 December 2007 was about HK$117.2 million, representing an increase of about HK$43.4 million, or about 58.8%, as compared to the last year of about HK$73.8 million. Profit attributable to equity holders for the year was about HK$8 million.

Gross profit margin for the year ended 31 December 2007 increased to about 30.8% as compared with about 27.5% in last year. It was due to higher value sales mix, as well as better utilization of the Group's assets. During the year under review, cost of sales increased from about HK$53.5 million in 2006 to about HK$81.1 million in 2007, representing an increase of about 51.5%, the increase was in line with the corresponding increase in revenue of 58.8%.

Selling and distribution costs recorded an increase of about HK$2.6 million, or about 48.5%, from about HK$5.3 million in 2006 to about HK$7.9 million in 2007. The increase was also in line with the corresponding increase in revenue of 58.8%, and was associated with the increases in such selling expenses like freight charges, transportation costs and staff commission. Administrative expenses also recorded an increase of about HK$5.5 million, or about 40.6%, from about HK$13.5 million in 2006 to about HK$19 million in 2007. The increase in administrative expenses was primarily attributable to the increase in professional fee, staff costs and various expenses as a result of continued expansion of the Group.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE

During the year under review, 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. The liquidity and financial resources of the Group gradually improved as compared to previous years. As at 31 December 2007, the Group had cash and bank balances of about HK$55.1 million and secured bank loans of HK$14 million.

During the year 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. As at 31 December 2007, the Group had secured bank loans used for its working capital, and are bearing an effective interest rate of 5.5% per annum and repayable ranging from four months to three years.

As at 31 December 2007, the Group had current assets of about HK$94.9 million and current liabilities of about HK$30.2 million. The current ratio, expressed as current assets over current liabilities, was maintained at the strong level of about 3.1.

EMPLOYEE INFORMATION

As at 31 December 2007, the Group employed a total of 647 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$20.9 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.

SIGNIFICANT INVESTMENTS

With the exception of the investment disclosed in note 17 under "Notes to the Financial Statements", there were no other significant investments for the year ended 31 December 2007.

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 2007.

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group will continue to consolidate its existing businesses while exploring new business opportunities that will complement and enhancing its existing businesses.

Saved as disclosed in the announcements of the Company dated 9 November 2007 and 14 December 2007, there were no future plans for material investments or capital assets as at 31 December 2007.

SEGMENTAL INFORMATION

Details have been set out in note 13 under "Notes to the Financial Statements" and are further elaborated under "Business Review" and "Financial Review" of this section.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2007, a bank deposit and certain plant and machinery with the carrying amounts of HK$919,931 and HK$10,903,487 respectively were pledged by the Company's subsidiaries as collaterals to secure general banking facilities granted to the Group.

The Company and a subsidiary have provided guarantees of repayment in respect of bank loans and finance leases obligations of other subsidiaries amounting to HK$17,000,000 *(2006: HK$12,604,934)* of which HK$13,961,428 *(2006: HK$7,996,250)* was outstanding as at 31 December 2007.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total tangible assets of the Group, was 10.3% as at 31 December 2007 *(2006: 10.4%)*. Accordingly, the financial position of the Group has remained very liquid.

Management Discussion and Analysis

FINAL DIVIDEND

In light of the strong financial performance of the Company, the Directors recommend the payment of a final dividend of 1.5 HK cents per share *(2006: Nil)* for the year ended 31 December 2007.

Upon approval by the shareholders, the final dividend will be paid on or about 16 May 2008 to shareholders whose names appear on the register of members of the Company on 9 May 2008.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. 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. Four audit committee meetings were held during the financial year 2007.

The Group's results for the year ended 31 December 2007 have been reviewed by the audit committee.

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 Practice set out in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2007.

COMPETING INTERESTS

As at 31 December 2007, none of the directors or the management shareholders or any of its 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.

Management Discussion and Analysis

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the shareholders of the Company will be held at 10:00 a.m., on Friday, 9 May 2008, at Unit 302, 3rd Floor, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong and the notice of AGM will be published and despatched to the shareholders in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 6 May 2008 to Friday, 9 May 2008, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for the proposed final dividend to be approved at the AGM and attending the AGM, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Monday, 5 May 2008.

Corporate Governance Report

INTRODUCTION

The Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the year 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 of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2007.

BOARD OF DIRECTORS

The Board is responsible for overseeing 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.

The Board currently comprises four executive Directors and three independent non-executive Directors whose biographical details are set out on pages 15 to 16 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 2007 are as follows:

Members	**Attendance**
Mr. Chang Wei Wen	4/4
Mr. Ho Lut Wa, Anton	4/4
Ms. Leung Quan Yue, Michelle	1/4
Mr. Leung Ka Kui, Johnny	3/4
Ms. Lily Wu	2/4
Ms. Wong Ka Wai, Jeanne	3/4
Mr. Chan Siu Wing, Raymond	3/4

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, Ms. Lily Wu, 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.

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. Chan Siu Wing, Raymond.

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.

Although no formal meeting was held during the financial year, the members regularly discuss matters relating to the emolument policy and long-term incentive schemes of the Company.

NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association (the "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 2007, the fees paid/payable to the auditors of the Company 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	360
Non-audit services	
Taxation compliance services	11

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. Chan Siu Wing, Raymond. 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	3/4
Ms. Wong Ka Wai, Jeanne	3/4
Mr. Chan Siu Wing, Raymond	3/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2007 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.

INTERNAL CONTROL

The Board has overall responsibility for the Group's systems of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the audit committee of the Company and the Board also performed quarter review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Group.

DIRECTORS' RESPONSIBILITY ON THE ACCOUNTS

The directors of the Company acknowledge their responsibility for preparing the accounts for the year ended 31 December 2007, 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 "INDEPENDENT AUDITORS' REPORT" on pages 23 to 24.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 44, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 22 years of experience in the technology sector investment research and industry analysis. She is currently an independent investment analyst on technology companies for private equity firms, 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.

HO Lut Wa, Anton, aged 41, is an executive Director and the Chief Executive Officer of the Company. 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 17 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.

LEUNG Quan Yue, Michelle, aged 42, is an executive Director. She was appointed as Director of the Company in August 2005. Ms. Leung has solid experience in investment and technology. She is a founding partner of Lunar Capital Management, a private equity fund focused on Greater China. 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.

CHANG Wei Wen, aged 31, is an executive Director. He was appointed as a non-executive Director of the Company in May 2006 and was re-designated as an executive Director of the Company in December 2006. He is currently worked as an assistant to directors of a Taiwan company, which is principally engaged in international trade and wholesale of information software and electronic materials. Mr. Chang obtained a Bachelor of Organization Management degree from Patten University.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui Johnny, aged 50, is an independent non-executive Director. He is one of the members of the audit committee and the remuneration committee of the Company. Mr. Leung is a qualified solicitor in Hong Kong, the United Kingdom and Singapore. He has over 23 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 43, is an independent non-executive Director. She is the chairman of the audit committee and one of the members of the remuneration committee of the Company. Ms. Wong has over 21 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 Managing Director of Wellex Consultancy Limited, as well as the Chief Financial Officer of Pang & Associates, a law firm in Hong Kong. Ms. Wong is also an independent non-executive director of Hua Xia Healthcare Holdings Limited, a company listed on GEM of the Stock Exchange. Ms. Wong joined the Company in September 2001.

CHAN Siu Wing, Raymond, aged 43, is an independent non-executive Director. He is one of the members of the audit committee and the remuneration committee of the Company. Mr. Chan has over 18 years of experience in accounting, taxation and finance. He is currently an independent non-executive director of Prosperity Investment Holdings Limited and the financial controller and company secretary of Hua Xia Healthcare Holdings Limited. He was an independent non-executive director of Core Healthcare Investment Holdings Limited and resigned in August 2006. He gained his Bachelor of Economics from University of Sydney, Australia. He is a member of the Hong Kong Securities Institute, a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants, a Certified Practising Accountant of CPA Australia Limited and a founding member of Macau Society of Certified Practising Accountant.

SENIOR MANAGEMENT

LAU Ka Chung, aged 35, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 11 years of experience in auditing, accounting & finance, taxation and corporate compliance. Mr. Lau holds a Master degree in Corporate Governance from the Hong Kong Polytechnic University and 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, as well as an associate member of The Institute of Chartered Secretaries and Administrators in United Kingdom and The Hong Kong Institute of Chartered Secretaries in Hong Kong. Mr. Lau joined the Group in May 2003.

Directors' Report

The Directors have pleasure in submitting the annual report of the Company together with its audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services. Details of the principal activities of its subsidiaries are set out in note 16 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 systems.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 25.

The Directors recommend the payment of a final dividend of 1.5 HK cents per share *(2006: Nil)*.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

DIRECTORS

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

Executive Directors

Lily Wu *(Chairman)*
Ho Lut Wa, Anton *(Chief Executive Officer)*
Chang Wei Wen
Leung Quan Yue, Michelle

Independent non-executive Directors

Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

In accordance with Article 87(1) of the Articles of Association, Ms. Leung Quan Yue, Michelle, Ms. Lily Wu and Mr. Ho Lut Wa, Anton retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Report

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Each executive Director has entered into a service contract with the Company for an initial term of two years (the service contracts for Mr. Ho Lut Wa, Anton, Ms. Lily Wu and Ms. Leung Quan Yue, Michelle commenced respectively on 20 December 2001, 3 June 2005 and 22 August 2005 and were completed on 19 December 2003, 2 June 2007 and 21 August 2007 respectively, whereas the service contract for Mr. Chang Wei Wen commenced on 12 December 2006) and will continue thereafter unless and until terminated by either party by giving three months prior written notice to the other (save and except Mr. Ho Lut Wa, Anton whose contract can be terminated by either party by giving two months prior written notice to the other) and such appointment is subject at all times to the Articles of Association. 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, 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. Chan Siu Wing, Raymond whose appointment commenced on 12 February 2007) and will continue thereafter unless and until terminated by either the Company or the relevant independent non-executive Director by giving one month prior written notice and such appointment is subject at all times to the Articles of Association. The appointment of each independent non-executive Director was renewed automatically on 20 December 2008 (save and except Mr. Chan Siu Wing, Raymond whose appointment will be renewed automatically on 12 February 2009).

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).

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance (as defined in rule 18.25 of the GEM Listing Rules) to which the Company or its subsidiaries was a party and in which a Director 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 authorized share capital during the year. Details of the movement in the Company's issued share capital and share option during the year are set out in notes 24 and 25 to the financial statements.

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

As at 31 December 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 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, were as follows:

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
Ho Lut Wa, Anton	4,037,000	–	–	–	4,037,000	0.91

Save as disclosed above, as at 31 December 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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following persons/companies had interests 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 the Company or any other member of the Group:

Long positions in the shares of the Company

Name of shareholders	*Note*	Number of shares held	Percentage of interests
Best Heaven Limited	*1*	83,300,000	18.68
Mr. Chu Chen Lin	*1*	83,300,000	18.68
Golden Dice Co., Ltd.	*2*	81,400,000	18.25
Mr. Tsai Chi Yuan	*2*	81,400,000	18.25
Giant International Asset Group Limited	*3*	22,500,000	5.04
United International Asset Limited	*3*	22,500,000	5.04
Ms. Tsai Chen Hui Chen	*3*	22,500,000	5.04

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. 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 31 December 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.

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	24%
– five largest customers in aggregate	82%

Purchases

– the largest supplier	27%
– five largest suppliers in aggregate	67%

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 Articles of Association, or the laws and regulations of the 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 2007, 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 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.

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 68 of the annual report.

Directors' Report

AUDITORS

On 1 June 2007, Moores Rowland Mazars, the then auditors of the Company, changed its name to Moores Rowland and combined its business with Grant Thornton on even date. As a result, Moores Rowland resigned as the auditors of the Company with effect from 5 December 2007.

The proposed appointment of Grant Thornton as auditors of the Company has been approved by the shareholders at the extraordinary general meeting of the Company held on 8 January 2008. A resolution will be submitted to the annual general meeting of the Company to re-appoint, Grant Thornton, as auditors of the Company.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 17 March 2008

Independent Auditors' Report

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

We have audited the consolidated financial statements of Cardlink Technology Group Limited (the "Company") set out on pages 25 to 67, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditors' Report

Grant Thornton
均富

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong, 17 March 2008

Certified Public Accountants
Member of Grant Thornton International Ltd

Consolidated Income Statement

Year ended 31 December 2007

	Note	2007 HK$	2006 HK$
Turnover	5	**117,199,695**	73,782,948
Cost of sales		**(81,096,683)**	(53,522,654)
Gross profit		**36,103,012**	20,260,294
Other revenue	5	**682,383**	331,864
Selling and distribution costs		**(7,900,184)**	(5,320,195)
Administrative expenses		**(19,045,259)**	(13,545,610)
Finance costs	6	**(457,885)**	(803,856)
Profit before taxation	6	**9,382,067**	922,497
Taxation	9	**(1,382,014)**	(842,793)
Profit for the year		**8,000,053**	79,704
Attributable to:			
Equity holders of the Company	10	**8,000,053**	79,704
Dividends	11	**6,690,000**	–
Earnings per share	12		
Basic		**2.03 cents**	0.025 cents
Diluted		**2.01 cents**	N/A

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 HK$	2006 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**38,722,685**	27,040,401
Available-for-sale financial assets	*17*	**2,158,058**	2,158,058
		40,880,743	29,198,459
Current assets			
Inventories	*18*	**9,171,072**	7,834,947
Trade and other receivables	*19*	**30,538,801**	26,696,617
Pledged bank deposits	*20*	**919,931**	4,545,351
Bank balances and cash		**54,178,958**	8,959,449
Taxation		**122,910**	–
		94,931,672	48,036,364
Current liabilities			
Trade and other payables	*21*	**21,472,719**	19,895,769
Taxation		**–**	24,987
Current portion of interest-bearing borrowings	*22*	**8,776,634**	5,337,527
		30,249,353	25,258,283
Net current assets		**64,682,319**	22,778,081
Total assets less current liabilities		**105,563,062**	51,976,540
Non-current liabilities			
Long term interest-bearing borrowings	*22*	**5,184,794**	2,658,723
Deferred tax liabilities	*23*	**323,461**	159,582
		5,508,255	2,818,305
Net assets		**100,054,807**	49,158,235
CAPITAL AND RESERVES			
Share capital	*24*	**44,600,000**	32,000,000
Reserves	*26*	**55,454,807**	17,158,235
Total equity		**100,054,807**	49,158,235

Approved and authorized for issue by the board of Directors on 17 March 2008

Lily Wu
Director

Chang Wei Wen
Director

Balance Sheet

At 31 December 2007

	Note	2007 HK$	2006 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	*16*	**68,893,311**	52,279,793
Current assets			
Deposits, prepayment and other debtors		**2,838,173**	161,843
Pledged bank deposits	*20*	**–**	4,241,674
Bank balances and cash		**24,854,397**	41,010
		27,692,570	4,444,527
Current liabilities			
Accrued charges and other creditors		**511,837**	1,735,427
Net current assets		**27,180,733**	2,709,100
Net assets		**96,074,044**	54,988,893
CAPITAL AND RESERVES			
Share capital	*24*	**44,600,000**	32,000,000
Reserves	*26*	**51,474,044**	22,988,893
Total equity		**96,074,044**	54,988,893

Approved and authorized for issue by the board of Directors on 17 March 2008

Lily Wu
Director

Chang Wei Wen
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	2007 HK$	2006 HK$
Shareholders' equity as at 1 January	**49,158,235**	48,395,377
Exchange differences on translation of financial statements of overseas subsidiaries	**1,727,019**	683,154
Proceeds from shares issued	**41,169,500**	–
Profit for the year	**8,000,053**	79,704
Shareholders' equity as at 31 December	**100,054,807**	49,158,235

Consolidated Cash Flow Statement

Year ended 31 December 2007

	2007 HK$	2006 HK$
Operating activities		
Profit before taxation	9,382,067	922,497
Adjustment for:		
Interest income	(488,787)	(244,880)
Depreciation	10,151,633	9,270,627
Gain on disposal of property, plant and equipment	(21,145)	–
Foreign exchange	(157,170)	–
Finance costs	457,885	803,856
Operating profit before changes in working capital	19,324,483	10,752,100
Increase in inventories	(1,336,125)	(3,737,921)
Increase in trade and other receivables	(3,713,798)	(898,657)
Increase in trade and other payables	1,371,653	7,055,402
Cash generated from operations	15,646,213	13,170,924
Interest paid	(313,804)	(32,799)
Tax paid	(1,032,349)	(164,679)
Net cash generated from operating activities	14,300,060	12,973,446
Investing activities		
Interest received	488,787	244,880
Purchase of property, plant and equipment	(20,578,031)	(4,238,703)
Proceeds from disposal of property, plant and equipment	25,000	–
Net cash used in investing activities	(20,064,244)	(3,993,823)
Financing activities		
Interest element of finance leases rental paid	(144,081)	(771,057)
Proceeds from shares issued	43,284,000	–
Share issue expenses	(2,114,500)	–
Proceeds from new bank loans	13,664,147	–
Repayments of bank loans	(702,719)	–
Capital element of finance leases rental paid	(6,996,250)	(4,804,677)
Net cash generated from (used in) financing activities	46,990,597	(5,575,734)
Net increase in cash and cash equivalents	41,226,413	3,403,889
Cash and cash equivalents at 1 January	13,504,800	10,076,772
Effect of foreign exchange rate changes	367,676	24,139
Cash and cash equivalents at 31 December	55,098,889	13,504,800
Analysis of the balances of cash and cash equivalents		
Pledged bank deposits	919,931	4,545,351
Bank balances and cash	54,178,958	8,959,449
	55,098,889	13,504,800

Notes to the Financial Statements

Year ended 31 December 2007

1. GENERAL INFORMATION

Cardlink Technology Group Limited 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 Company's registered office and principal place of business of the Company are disclosed in the "Corporate Information" section.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), 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").

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations issued by the HKICPA, which are effective for the Group's financial statements beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2.1 HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 30.

2.2 HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Disclosure and Presentation and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements.

Notes to the Financial Statements

Year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

2.3 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The Directors are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [2]
HK(IFRIC) – Int 12	Service Concession Arrangements [3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 March 2007

[3] Effective for annual periods beginning on or after 1 January 2008

[4] Effective for annual periods beginning on or after 1 July 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Notes to the Financial Statements

Year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 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.

3.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use 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 the shorter of their expected useful lives or the terms of the leases.

3.4 Subsidiaries

A subsidiary is an entity in which the Company has the power to control 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 impairment losses. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3.5 Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognized when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognized only when the liability is extinguished.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial instruments (Continued)

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortized cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortization process are recognized in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognized 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 gain or loss previously reported in equity is transferred to 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 impairment loss.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortized cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank loans and other borrowings and obligations under finance leases. All financial liabilities except for derivatives are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Notes to the Financial Statements

Year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognized less accumulated amortization, where appropriate.

3.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.8 Revenue recognition

Revenue is recognized 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 recognized upon transfer of risks and rewards of ownership, which generally coincides with time when goods are delivered to customers and the title is passed.

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

Interest income is recognized on a time-proportion basis using the effective interest method to the net carrying amount of the financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 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").

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing 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 are recognized in the income statement.

On consolidation, the balance sheet of foreign operations 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 financial statements of foreign operations are recognized in a separate component of equity and such equity component is recognized in income statement upon disposal of the foreign operations.

The consolidated financial statements are presented in Hong Kong dollars, which is the primary economic environment in which the Company operates.

3.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realizable 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.

3.11 Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognized no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its 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 recognized as an 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 recognized in prior years. Reversal of impairment loss is recognized as income immediately.

Notes to the Financial Statements

Year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Provisions

A provision is recognized 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 recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain.

3.13 Leases

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 recognized as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance 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. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

3.14 Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and 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 recognized as expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Share-based payment transactions

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognized in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognized as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve. If vesting periods or other vesting conditions apply, the expense is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognized in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

3.16 Taxation

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The deferred tax liabilities and 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 at the balance sheet date. Deferred tax assets are recognized 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 utilized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Related parties

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3.18 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables and mainly exclude corporate assets and available-for-sale investment. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

(ii) Allowance for inventories

The Company's management reviews the condition of inventories, as stated in note 18, at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

(iii) Impairment of investments, property, plant and equipment and receivables

The Group assesses annually if investment in subsidiaries and property, plant and equipment have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether the investment in available-for-sale financial assets and amounts due from subsidiaries are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these assets and entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

Notes to the Financial Statements

Year ended 31 December 2007

5. TURNOVER AND REVENUE

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

Turnover and revenue recognized by category are as follows:

	The Group	
	2007	2006
	HK$	HK$
Turnover		
Sales of smart cards and plastic cards	**114,963,986**	70,588,279
Sales of smart card application systems	**2,165,209**	3,031,450
Service and other income	**70,500**	163,219
	117,199,695	73,782,948
Other revenue		
Interest income	**488,787**	244,880
Sundry income	**172,451**	86,984
Gain on disposal of property, plant and equipment	**21,145**	–
	682,383	331,864
	117,882,078	74,114,812

6. PROFIT BEFORE TAXATION

	The Group 2007 HK$	2006 HK$
This is arrived at after charging:		
(a) Financial costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**313,804**	32,799
Finance charges on obligations under finance leases	**144,081**	771,057
	457,885	803,856
(b) Other items		
Employee benefits expense including Directors' emoluments	**19,367,385**	13,000,225
Contributions to defined contribution plans	**1,573,700**	897,244
	20,941,085	13,897,469
Costs of inventories	**81,096,683**	53,522,654
Auditors' remuneration	**397,300**	415,664
Depreciation	**10,151,633**	9,270,627
Research and development costs	**597,275**	37,800
Operating lease payments on premises	**2,981,194**	2,498,699
Bad debts written off	**36,000**	26,447
Provision for inventories	**392,546**	–

Notes to the Financial Statements

Year ended 31 December 2007

7. DIRECTORS' EMOLUMENTS

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

	The Group	
	2007 HK$	2006 HK$
Fee	**152,530**	185,323
Other emoluments:		
Salaries and other emoluments	**1,581,068**	1,282,408
Contributions to retirement scheme	**45,484**	41,839
	1,779,082	1,509,570

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

Details of share options granted by the Company to its Directors are set out in note 25.

The remuneration of each Director of the Company for the years ended 31 December 2007 and 2006, disclosed pursuant to the GEM listing Rules, is set out below:

2007

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:				
Ho Lut Wa, Anton	–	1,000,000	18,000	1,018,000
Lily Wu	–	281,068	12,000	293,068
Leung Quan Yue, Michelle	–	120,000	6,000	126,000
Chang Wei Wen	–	180,000	9,484	189,484
	–	1,581,068	45,484	1,626,552
Independent non-executive Directors:				
Wong Ka Wai, Jeanne	50,000	–	–	50,000
Leung Ka Kui, Johnny	50,000	–	–	50,000
Wong Wai Kwong, David	9,946	–	–	9,946
Chan Siu Wing, Raymond	42,584	–	–	42,584
	152,530	–	–	152,530
	152,530	1,581,068	45,484	1,779,082

7. DIRECTORS' EMOLUMENTS (Continued)

2006

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:				
Ho Lut Wa, Anton	–	812,774	20,839	833,613
Fung Wing Mou, Bernard	–	30,000	1,500	31,500
Lily Wu	–	279,957	12,000	291,957
Wong Chi Ming	–	30,000	1,500	31,500
Leung Quan Yue, Michelle	–	120,000	6,000	126,000
Chang Wei Wen*	–	9,677	–	9,677
	–	1,282,408	41,839	1,324,247
Non-executive Director:				
Chang Wei Wen*	35,323	–	–	35,323
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
	185,323	1,282,408	41,839	1,509,570

* Chang Wei Wen was redesignated from non-executive Director to executive Director with effective from 12 December 2006.

Notes to the Financial Statements

Year ended 31 December 2007

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include one *(2006: one)* Director. The aggregate emoluments of the remaining four *(2006: four)* highest paid individuals are as follows:

	2007 HK$	2006 HK$
Salaries and allowances	**2,715,796**	2,026,409
Contributions to retirement scheme	**47,874**	47,899
	2,763,670	2,074,308

The remuneration of each of these four *(2006: four)* individuals are less than HK$1,000,000 in both years.

Details of share options granted by the Company to employees are set out in note 25.

9. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% *(2006: 17.5%)* on the Group's estimated assessable profits arising from Hong Kong during the year. 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.

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC Enterprise Income Tax ("EIT") as follows:

Beijing Venus Technology Limited is exempted from EIT for three years ending 31 December 2005 and was granted a 50% reduction in EIT for the period from 1 January 2006 to 31 December 2008.

Topwise Technology (SZ) Limited is exempted from EIT for two years ending 31 December 2007 and was granted a 50% reduction in EIT for the period from 1 January 2008 to 31 December 2010.

9. TAXATION (Continued)

	The Group	
	2007	2006
	HK$	HK$
The charge comprises:		
Current tax		
Hong Kong Profits Tax:		
Current year	**760,913**	147,760
PRC Enterprise Income Tax	**457,222**	–
Underprovision of PRC Enterprise Income Tax in prior year	**–**	41,906
	1,218,135	189,666
Deferred tax recognized in the income statement		
Types of temporary differences:		
Depreciation allowances	**163,879**	(81,416)
Tax losses	**–**	734,543
	163,879	653,127
Total tax charge for the year	**1,382,014**	842,793

Reconciliation of tax expense	**2007** **HK$**	2006 HK$
Profit before taxation	**9,382,067**	922,497
Income tax at applicable tax rate of 17.5% *(2006: 17.5%)*	**1,641,863**	161,438
Non-deductible expenses	**1,250,433**	2,707,841
Tax exempt revenue	**(1,265,864)**	(2,062,560)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(311,512)**	(75,096)
Unrecognized tax losses	**66,518**	69,717
Unrecognized temporary differences	**576**	797
Underprovision of overseas tax in prior year	**–**	41,906
Others	**–**	(1,250)
Tax expense for the year	**1,382,014**	842,793

The applicable tax rate is the Hong Kong profits tax rate of 17.5% *(2006: 17.5%)*.

Notes to the Financial Statements

Year ended 31 December 2007

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of HK$84,349 *(2006: HK$318,111)* which has been dealt with in the financial statements of the Company for the year ended 31 December 2007.

11. DIVIDENDS

Dividends attributable to the year

	2007 HK$	2006 HK$
Proposed final dividend of 1.5 HK cents per share *(2006: Nil)*	**6,690,000**	–

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$8,000,053 *(2006: HK$79,704)* and the weighted average of 393,989,041 *(2006: 320,000,000)* ordinary shares in issue during the year.

(b) Diluted earnings per share

For the year ended 31 December 2007, the calculation of diluted earnings per share is based on profit attributable to equity holders of the Company of HK$8,000,053 and the weighted average number of ordinary shares of 398,096,153 calculated as follows:

Weighted average number of ordinary shares (diluted)

Weighted average number of ordinary shares at 31 December 2007	393,989,041
Effect of deemed issue of shares under the Company's share option scheme	4,107,112
Weighted average number of ordinary shares (diluted) at 31 December 2007	398,096,153

For the year ended 31 December 2006, no diluted earnings per share has been presented because the exercise price of the Company's share options was higher than the average market price per share for that year.

Notes to the Financial Statements

Year ended 31 December 2007

13. 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	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$	2007 HK$	2006 HK$	2007 HK$	2006 HK$
Turnover								
External sales	**114,963,986**	70,588,279	**2,165,209**	3,031,450	**70,500**	163,219	**117,199,695**	73,782,948
Result								
Segment result	**27,870,055**	14,303,765	**262,273**	473,116			**28,132,328**	14,776,881
Unallocated operating income and expenses							**(18,292,376)**	(13,050,528)
Finance costs							**(457,885)**	(803,856)
Profit before taxation							**9,382,067**	922,497
Taxation							**(1,382,014)**	(842,793)
Profit attributable to the equity holders							**8,000,053**	79,704
Assets and liabilities								
Segment assets	**63,228,090**	51,701,780	**2,629,485**	1,433,877			**65,857,575**	53,135,657
Unallocated assets							**69,954,840**	24,099,166
Total assets							**135,812,415**	77,234,823
Segment liabilities	**21,781,419**	22,102,149	**1,704,749**	876,933			**23,486,168**	22,979,082
Unallocated liabilities							**12,271,440**	5,097,506
Total liabilities							**35,757,608**	28,076,588
Other information								
Capital expenditure incurred during the year	**17,340,916**	6,156,674	**–**	–	**3,237,115**	793,529	**20,578,031**	6,950,203
Depreciation for the year	**8,887,764**	8,132,621	**–**	–	**1,263,869**	1,138,006	**10,151,633**	9,270,627

Notes to the Financial Statements

Year ended 31 December 2007

13. SEGMENT REPORTING (Continued)

Geographical segments:

	Revenue				Assets				Capital expenditure			
	2007 HK$		2006 HK$		2007 HK$		2006 HK$		2007 HK$		2006 HK$	
Hong Kong	3,303,290	3%	5,166,849	7%	74,013,231	55%	27,572,070	36%	9,547,775	46%	51,081	1%
North Asia	43,466	-	161,324	–	-	-	–	–	-	-	–	–
PRC	36,311,003	31%	24,893,036	34%	61,799,184	45%	49,662,753	64%	11,030,256	54%	6,899,122	99%
South Asia	39,482,424	33%	31,291,110	42%	-	-	–	–	-	-	–	–
Europe	32,321,545	28%	8,849,839	12%	-	-	–	–	-	-	–	–
Others	5,737,967	5%	3,420,790	5%	-	-	–	–	-	-	–	–
	117,199,695	100%	73,782,948	100%	135,812,415	100%	77,234,823	100%	20,578,031	100%	6,950,203	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.

14. 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 2007, the aggregate amount of employer's contribution made by the Group is HK$1,573,700 *(2006: HK$897,244)*.

Notes to the Financial Statements

Year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Printing and testing equipment HK$	Office equipment HK$	Furniture and fixtures HK$	Leasehold improvement HK$	Motor vehicles HK$	Total HK$
Cost						
At 1 January 2006	37,196,974	1,193,413	1,974,298	2,407,011	686,855	43,458,551
Additions during the year	6,156,674	362,898	183,516	142,529	104,586	6,950,203
Currency realignment	305,538	35,155	86,603	84,956	20,859	533,111
At 1 January 2007	43,659,186	1,591,466	2,244,417	2,634,496	812,300	50,941,865
Additions during the year	17,340,916	396,615	132,380	2,266,137	441,983	20,578,031
Disposal	–	–	–	–	(115,652)	(115,652)
Currency realignment	1,158,816	90,928	170,948	328,494	63,336	1,812,522
At 31 December 2007	**62,158,918**	**2,079,009**	**2,547,745**	**5,229,127**	**1,201,967**	**73,216,766**
Accumulated depreciation						
At 1 January 2006	11,457,450	554,954	868,932	1,155,801	403,279	14,440,416
Charge for the year	8,132,621	230,057	401,690	396,580	109,679	9,270,627
Currency realignment	75,029	12,306	49,520	44,204	9,362	190,421
At 1 January 2007	19,665,100	797,317	1,320,142	1,596,585	522,320	23,901,464
Charge for the year	8,887,764	283,189	435,349	437,276	108,055	10,151,633
Written back on disposal	–	–	–	–	(111,797)	(111,797)
Currency realignment	259,351	37,480	124,439	114,390	17,121	552,781
At 31 December 2007	**28,812,215**	**1,117,986**	**1,879,930**	**2,148,251**	**535,699**	**34,494,081**
Net book value						
At 31 December 2007	**33,346,703**	**961,023**	**667,815**	**3,080,876**	**666,268**	**38,722,685**
At 31 December 2006	23,994,086	794,149	924,275	1,037,911	289,980	27,040,401

The net book value of the Group's printing and testing equipment includes an amount of HK$Nil *(2006: HK$8,865,706)* in respect of assets held under finance leases.

Notes to the Financial Statements

Year ended 31 December 2007

16. INTEREST IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$	HK$
Unlisted shares, at cost	**26,954,990**	26,954,990
Due from subsidiaries	**41,938,321**	25,324,803
	68,893,311	52,279,793

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term 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*	PRC	US$500,000 registered capital	Smart card and plastic card manufacturing and sales
Billion Apex Limited	The British Virgin Islands	US$1 ordinary share	Investment holding
Cardlink Technology (HK) Limited	Hong Kong	HK$10,000 ordinary share	Investment holding
DG Toplink Electronics Co. Limited*	PRC	US$1,000,000 registered capital	Smart card and plastic card manufacturing and sales
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

16. INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Issued and fully paid share capital/paid-up registered capital	Principal activities
PMIS Limited	Hong Kong	HK$10,000 ordinary share	Development and provision of smart card application systems
Topwise Technology (SZ) Limited*	PRC	HK$2,000,000 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
Waywise Step International Limited	The British Virgin Islands	US$100 ordinary share	Investment holding
World Praise International Limited	The British Virgin Islands	US$1 ordinary share	Investment holding

* Registered as wholly-foreign-owned enterprises under the PRC law.

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

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Year ended 31 December 2007

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2007	2006
	HK$	HK$
Unlisted equity securities, at cost	**4,458,058**	4,458,058
Less : Impairment loss	**(2,300,000)**	(2,300,000)
	2,158,058	2,158,058

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.

18. INVENTORIES

	The Group	
	2007	2006
	HK$	HK$
Raw materials	**4,664,731**	4,334,093
Work-in-progress	**1,165,073**	1,369,966
Finished goods	**3,341,268**	2,130,888
	9,171,072	7,834,947

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

19. TRADE AND OTHER RECEIVABLES

	The Group	
	2007	2006
	HK$	HK$
Trade receivables		
From third parties	**23,961,217**	23,188,131
Other receivables		
Deposits, prepayment and other debtors	**6,577,584**	3,508,486
	30,538,801	26,696,617

19. TRADE AND OTHER RECEIVABLES (Continued)

The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days. The ageing analysis of trade receivables that are not impaired is as follows:

	The Group	
	2007	2006
	HK$	HK$
Neither past due nor impaired	**14,057,222**	14,974,247
1 – 30 days past due	**5,500,197**	5,273,015
31 – 90 days past due	**782,152**	1,354,031
Over 90 days past due	**3,621,646**	1,586,838
	23,961,217	23,188,131

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20. PLEDGED BANK DEPOSITS

At the balance sheet date, bank deposits of HK$Nil *(2006: HK$4,241,674)* and HK$919,931 *(2006: HK$303,677)* were pledged by the Company and its subsidiaries respectively as collateral under certain finance lease arrangements for the purchase of machineries and bank loans for general working capital. The total bank deposits pledged by the Group amounted to HK$919,931 *(2006: HK$4,545,351)*.

Notes to the Financial Statements

Year ended 31 December 2007

21. TRADE AND OTHER PAYABLES

		The Group	
		2007	2006
	Note	**HK$**	HK$
Trade payables			
To third parties		**16,558,682**	15,605,149
Other payables			
Accrued charges and other creditors		**4,914,037**	2,730,620
Due to a shareholder	*(a)*	**–**	1,560,000
		21,472,719	19,895,769

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

	The Group	
	2007	2006
	HK$	HK$
Current – 30 days	**11,510,464**	13,731,531
31 – 60 days	**926,636**	624,318
61 – 90 days	**207,622**	370,563
Over 90 days	**3,913,960**	878,737
	16,558,682	15,605,149

(a) The amount due was unsecured, interest-free and was fully settled during the year.

22. INTEREST-BEARING BORROWINGS

	The Group	
	2007	2006
	HK$	HK$
Secured bank loans	**13,961,428**	1,000,000
Obligations under finance leases	**–**	6,996,250
	13,961,428	7,996,250
Current portion	**8,776,634**	5,337,527
Non-current portion	**5,184,794**	2,658,723
	13,961,428	7,996,250

22. INTEREST-BEARING BORROWINGS (Continued)

At the balance sheet date, the bank loans have an effective interest rate of 5.5% per annum and are repayable ranging from four months to three years. The above bank loans were secured by pledged deposits of HK$919,931 *(2006: HK$303,677)* (note 20), pledged plant and machinery of HK$10,903,487 *(2006: HK$Nil)* (note 29), corporate guarantee provided by the Company and its subsidiaries and personal guarantee provided by an equity holder of the Company.

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Amount payable:				
Within one year	**–**	4,763,556	**–**	4,337,527
Between one to two years	**–**	2,598,084	**–**	2,489,339
Between two to five years	**–**	171,221	**–**	169,384
	–	7,532,861	**–**	6,996,250
Future finance charges	**–**	(536,611)	**–**	–
Present value of lease obligations	**–**	6,996,250	**–**	6,996,250

The average lease term is three years and the average effective borrowing rate was 9% *(2006: 8.57%)*. All leases are repayable in fixed monthly principal installments plus interest and no arrangements have been entered into for contingent rental payments. The above leases were secured by pledged deposits of HK$Nil *(2006: HK$4,241,674)* and corporate guarantees provided by the Company and its subsidiaries. The above finance leases were fully settled during the year.

Notes to the Financial Statements

Year ended 31 December 2007

23. DEFERRED TAXATION

The movement for the year in the Group's net deferred tax position was as follows:

	The Group	
	2007	2006
	HK$	HK$
At beginning of year	**(159,582)**	493,545
Income statement charge *(note 9)*	**(163,879)**	(653,127)
At the balance sheet date	**(323,461)**	(159,582)

Recognized deferred tax liabilities

	2007	2006
	HK$	HK$
Depreciation allowances	**(323,461)**	(159,582)

Unrecognized deferred tax

The Group has not recognized deferred tax assets in respect of tax losses of HK$4,141,819 *(2006: HK$3,744,636)*. The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Group can utilize benefits therefrom.

The Company

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

24. SHARE CAPITAL

	2007 Number of shares	**2007** HK$	2006 Number of shares	2006 HK$
Authorised:				
Ordinary shares of HK$0.10 each				
At 1 January and 31 December	**1,000,000,000**	**100,000,000**	1,000,000,000	100,000,000

Issued and fully paid:

	Note	**Number of shares**	**HK$**
Ordinary shares of HK$0.10 each			
At 1 January 2006 and 1 January 2007		320,000,000	32,000,000
Issue of shares upon placement of share	*1*	114,000,000	11,400,000
Employee share option scheme			
– proceeds from shares issued	*2*	12,000,000	1,200,000
At 31 December 2007		446,000,000	44,600,000

Notes:

(1a) Pursuant to a subscription agreement dated 26 February 2007 entered into between the Company and Golden Dice Co., Ltd. ("Golden Dice"), a company beneficially owned by Mr. Tsai Chi Yuan, the Company agreed to allot and issue 64,000,000 shares at HK$0.10 each to Golden Dice.

On completion of the subscription on 7 March 2007, 64,000,000 shares of HK$0.10 each were issued and allotted to Golden Dice at a consideration of HK$0.10 per share. The net proceeds were used to reduce the overall indebtedness of the Group and for additional working capital.

(1b) Pursuant to a placing agreement dated 14 August 2007 entered into between the Company and a placing agent, the placing agent agreed to place, on a best effort basis, 54,000,000 shares to the placees, who and whose ultimate beneficial owners will be independent third parties, at a placing price of HK$0.67 per share.

On completion of the subscription on 27 August 2007, 50,000,000 shares of HK$0.10 each were issued and allotted to not less than six placees at a consideration of HK$0.67 per share. The net proceeds were used to reduce the overall indebtedness of the Group and for additional working capital.

(2) On 30 August 2007 and 3 September 2007 the issued share capital of the Company was increased by HK$1,200,000 due to the exercise of share options by a Director and an employee.

Notes to the Financial Statements

Year ended 31 December 2007

25. 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 authorized committee thereof which shall include the independent non-executive Directors may, at its discretion, invite any employees including any executive directors of any companies in the Group to take up options at HK$1.00 per option to subscribe for shares in the Company 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) shall not exceed 10% of the total number of shares in issue as at the date of listing of shares of the Company.

No share options were granted by the Company under this scheme since the adoption of the scheme. On 8 January 2008, a new share option scheme was adopted by the board of Directors and the preceding Share Option Scheme was terminated.

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognize 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.

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 paid the Company HK$1.00.

During the year ended 31 December 2006, 8,000,000 options granted under the Pre-IPO Share Option Scheme to two ex-Directors were lapsed. During the year, all outstanding share options granted under the Pre-IPO Share Option Scheme were fully exercised.

25. SHARE OPTION SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

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

Name of participant	At 1 January 2006	Lapsed during the year	At 31 December 2006	Exercise period of share options	Exercise price of share options HK$
Directors					
Wong Chi Ming (resigned on 1 April 2006)	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	(8,000,000)	8,000,000		
Other employees					
In aggregate	4,000,000	–	4,000,000	20 December 2002 to 5 December 2011	0.282
	20,000,000	(8,000,000)	12,000,000		

Name of participant	At 1 January 2007	Exercised during the year	At 31 December 2007	Exercise period of share options	price of share options HK$
Directors					
Ho Lut Wa, Anton	8,000,000	(8,000,000)	–	20 December 2002 to 5 December 2011	0.282
Other employees					
In aggregate	4,000,000	(4,000,000)	–	20 December 2002 to 5 December 2011	0.282
	12,000,000	(12,000,000)	–		

The weighted average remaining contractual life for the share options outstanding at the balance sheet date was Nil years *(2006: 5 years)*.

All options under the Pre-IPO Share Option Scheme were granted before 7 November 2002 and had vested before 1 January 2005. Therefore, the Group does not recognize the fair value of such share options as an expense in accordance with the transitional provisions of HKFRS 2.

Notes to the Financial Statements

Year ended 31 December 2007

26. RESERVES

The Group

	Contributed surplus HK$	Other reserves HK$	Exchange difference HK$	Accumulated profits HK$	Total HK$
At 1 January 2006	13,985,669	7	358,350	2,051,351	16,395,377
Profit for the year	–	–	–	79,704	79,704
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	683,154	–	683,154
At 31 December 2006	13,985,669	7	1,041,504	2,131,055	17,158,235
Profit for the year	–	–	–	8,000,053	8,000,053
Issue of new shares upon exercise of share options	2,184,000	–	–	–	2,184,000
Issue of new shares on placement	28,500,000	–	–	–	28,500,000
Shares issue expenses	(2,114,500)	–	–	–	(2,114,500)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	1,727,019	–	1,727,019
At 31 December 2007 *(Note)*	**42,555,169**	**7**	**2,768,523**	**10,131,108**	**55,454,807**

The Company

	Contributed surplus HK$	Other reserves HK$	Accumulated losses HK$	Total HK$
At 1 January 2006	24,190,659	7	(883,662)	23,307,004
Loss for year	–	–	(318,111)	(318,111)
At 31 December 2006	24,190,659	7	(1,201,773)	22,988,893
Loss for the year	–	–	(84,349)	(84,349)
Issue of new shares upon exercise of share options	2,184,000	–	–	2,184,000
Issue of new shares on placement	28,500,000	–	–	28,500,000
Share issue expenses	(2,114,500)	–	–	(2,114,500)
At 31 December 2007 *(Note)*	**52,760,159**	**7**	**(1,286,122)**	**51,474,044**

Note: A proposed final dividend of HK$6,690,000 was included in the balance at 31 December 2007.

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

26. RESERVES (Continued)

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

Certain portion of the retained earnings of the Company's PRC subsidiaries is restricted for distribution. Under the relevant PRC laws and regulations, the Company's wholly-owned PRC subsidiaries are required to appropriate at least 10% of profit after tax to general reserve fund until reaching 50% of the registered capital. The general reserve fund can be applied to set-off accumulated losses and to convert into paid-in capital. Such restricted profits included in the Group's accumulated profits amounted to approximately HK$1,765,721 *(2006: HK$704,000)*.

The contributed surplus of the Company represents the difference between the combined net assets value 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 Company's contributed surplus and other reserves are available for distribution in the form of bonus shares.

27. 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$Nil *(2006: HK$2,711,500)*.

28. RELATED PARTY TRANSACTIONS

Members of key management during the year comprised only the executive Directors whose remuneration is set out in note 7 to the financial statements. Save as disclosed elsewhere in these financial statements, the Group has no other transactions with related parties during the current year.

29. PLEDGE OF ASSETS

The carrying amounts of the following assets have been pledged to secure general banking facilities granted to the Group:

	2007 **HK$**	2006 HK$
Plant and machinery	**10,903,487**	–
Pledged deposits	**919,931**	4,545,351
	11,823,418	4,545,351

Notes to the Financial Statements

Year ended 31 December 2007

30. FINANCIAL INSTRUMENTS

30.1 Categories of financial instruments

	The Group	
	2007 HK$	2006 HK$
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade and other receivables	**30,538,801**	26,696,617
Pledged deposits	**919,931**	4,545,351
Bank balances and cash	**54,178,958**	8,959,449
	85,637,690	40,201,417
Available-for-sale financial assets		
Available-for-sale investments	**2,158,058**	2,158,058
Financial liabilities		
Amortized cost		
Trade and other payables	**21,472,719**	19,895,769
Short-term bank borrowings – secured	**6,000,000**	1,000,000
Long-term bank borrowings – secured	**7,961,428**	–
Obligations under finance leases	**–**	6,996,250
	35,434,147	27,892,019

30.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

In light of the simplicity of the operations, the risk management of the Group is carried out by the Board of Directors directly. The Board discusses both formally and informally principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, deposits with banks and trade and other receivables.

Cash and cash equivalents and deposits with banks are normally placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

30. FINANCIAL INSTRUMENTS (Continued)

30.2 Financial risk factors (Continued)

Credit risk (Continued)

Management has a credit policy in place for approving the credit limits and the exposures to credit risk are monitored such that any outstanding debtors are reviewed and followed up on an ongoing basis. Credit evaluations are performed on customers requiring a credit over a certain amount including assessing the customer's creditworthiness and financial standing.

The general credit terms allowed range from 30 to 90 days. As at the balance sheet date, the Group does not hold any collateral from customers and the Group has a certain concentration of credit risk as 24% *(2006: 24%)* of the total trade and other receivables was due from the Group's largest customer and 82% from the five largest customers of the Group as at 31 December 2007 *(2006: 76%)*.

Hence, the maximum exposure to credit risk is represented by the carrying amounts of cash and cash equivalents, deposits with banks and trade and other receivables in the consolidated balance sheet. The Group has no other financial assets which carrying significant exposure to credit risk. The Group does not provide any other guarantees which would expose the Group to credit risk.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the Financial Statements

Year ended 31 December 2007

30. FINANCIAL INSTRUMENTS (Continued)

30.2 Financial risk factors (Continued)

Liquidity risk (Continued)

Group

	Less than 3 months HK$	Between 3 and 6 months HK$	Between 6 and 12 months HK$	Between 1 and 2 years HK$	Between 2 and 3 years HK$
At 31 December 2007					
Trade and other payables	21,472,719	–	–	–	–
Short-term bank borrowings	–	5,000,000	1,000,000	–	–
Long-term bank borrowings	680,833	690,042	1,405,759	2,928,037	2,256,757
At 31 December 2006					
Trade and other payables	18,335,769	–	–	–	–
Short-term bank borrowings	–	–	1,000,000	–	–
Obligations under finance leases	1,050,362	1,072,637	2,214,528	2,405,942	252,781
Due to shareholders	1,560,000	–	–	–	–

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings and finance lease arrangements. Borrowings and finance lease arrangements issued at variable rates expose the Group to cash flow interest rate risk. In accordance with the terms of the bank borrowings, the interest rate will be adjusted should the Hong Kong dollars prime rate be changed. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and accumulated profits by approximately HK$206,000 *(2006: HK$28,000)*. The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

30. FINANCIAL INSTRUMENTS (Continued)

30.2 Financial risk factors (Continued)

Foreign exchange risk

The Group operates mainly in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Chinese Renminbi and the United States dollars. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with United States dollars as the rate of exchange between Hong Kong dollars and the United States dollars is controlled within a tight range. Permanent changes in foreign exchange rates would have an impact on consolidated financial statements.

At 31 December 2007, if Hong Kong dollar had weakened/strengthened by 10% against the Chinese Renminbi with all other variables held constant, post-tax profit for the year would have been HK$683 *(2006: HK$46,613 higher/lower)* lower/higher, mainly as a result of foreign exchange gains/losses on translation of Chinese Renminbi-denominated trade and other receivables and bank balances and cash. The Group does not hedge its foreign currency risks with Chinese Renminbi. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is defined and calculated by the Group as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2007 was 10.3% compared to 10.4% at 31 December 2006.

Fair value estimation

(i) *Fair values*

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

Notes to the Financial Statements

Year ended 31 December 2007

30. FINANCIAL INSTRUMENTS (Continued)

30.2 Financial risk factors (Continued)

Fair value estimation (Continued)

(ii) Fair values estimation

Interest-bearing short-term and long-term loans and finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

Trade receivables and payables

The carrying values less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

31. COMMITMENTS

Capital commitments

	The Group	
	2007	2006
	HK$	HK$
Property, plant and equipment		
Contracted but not provided for	**210,000**	–

At the balance sheet date, the Company did not have any significant capital commitments.

Operating lease commitments

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

	The Group	
	2007	2006
	HK$	HK$
Within one year	**2,734,495**	710,960
In the second to fifth year inclusive	**5,129,293**	–
	7,863,788	710,960

At the balance sheet date, the Company did not have any significant operating lease commitments.

32. FINANCIAL GUARANTEE CONTRACTS

The Company and a subsidiary have provided guarantees of repayment in respect of bank loans and finance leases obligations of other subsidiaries amounting to HK$17,000,000 *(2006: HK$12,604,934)* of which HK$13,961,428 *(2006: HK$7,996,250)* was outstanding as at 31 December 2007.

33. COMPARATIVE FIGURES

As a result of adopting HKFRS 7 “Financial instruments: Disclosures”, and the amendments to HKAS 1 (Amendment) “Capital disclosures”, certain comparative figures have been added to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2 to the financial statements.

Financial Summary

For the year ended 31 December 2007

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 2007:

COMBINED RESULTS

	2003 HK$	2004 HK$	2005 HK$	2006 HK$	**2007** **HK$**
Turnover	41,187,573	61,293,427	58,810,261	73,782,948	**117,199,695**
Profit (Loss) from operations	(9,083,347)	5,113,199	(873,418)	1,726,353	**9,839,952**
Finance costs	(147,184)	(215,847)	(490,539)	(803,856)	**(457,885)**
Profit (Loss) before taxation	(9,230,531)	4,897,352	(1,363,957)	922,497	**9,382,067**
Taxation	1,735,318	(206,021)	(643,752)	(842,793)	**(1,382,014)**
Net profit (loss) attributable to the equity holders	(7,495,213)	4,691,331	(2,007,709)	79,704	**8,000,053**
Earnings (Loss) per share					
Basic	(2.34) cents	1.47 cents	(0.63) cents	0.025 cents	**2.03 cents**
Diluted	N/A	N/A	N/A	N/A	**2.01 cents**

COMBINED ASSETS AND LIABILITIES

	2003 HK$	2004 HK$	2005 HK$	2006 HK$	**2007** **HK$**
Non-current assets	29,401,408	23,692,700	31,669,738	29,198,459	**40,880,743**
Current assets	31,630,774	45,202,490	39,813,595	48,036,364	**94,931,672**
Current liabilities	12,819,496	17,902,965	18,122,722	25,258,283	**30,249,353**
Non-current liabilities	2,867,688	955,896	4,965,234	2,818,305	**5,508,255**