Cardlink

Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8066

The Possibilities are Endless

Annual Report 2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE").

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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Corporate Information

DIRECTORS

Executive Directors

Lily Wu *(Chairman)*
Ho Lut Wa, Anton *(Chief Executive Officer)*
(resigned on 1 January 2009)
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 Fulcrum Group (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

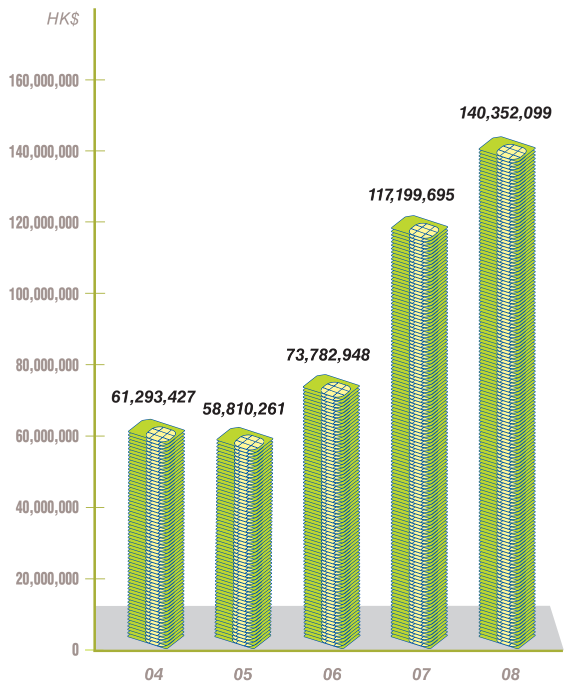
www.cardlink.com.hk

STOCK CODE

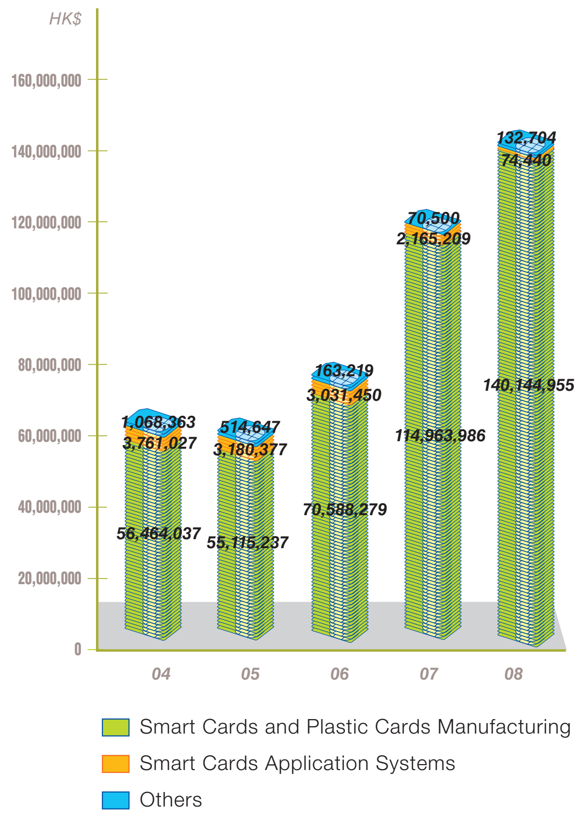
8066

Financial Highlights

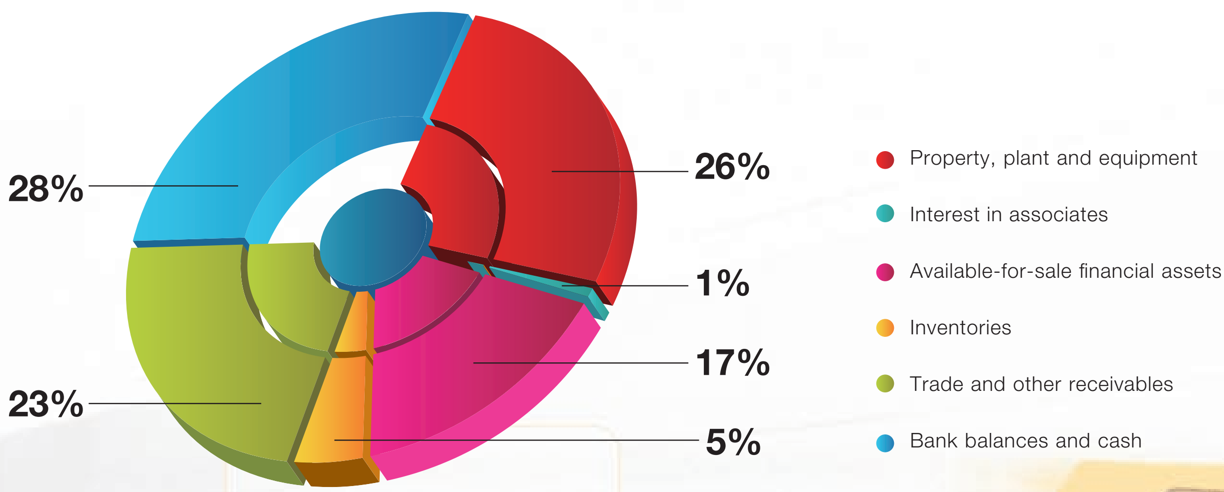
TURNOVER



TURNOVER BY SEGMENTS



TOTAL ASSETS AT 31 DECEMBER 2008



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 2008.

RESULTS

For the year ended 31 December 2008, the Company recorded a consolidated turnover of HK$140.3 million *(2007: HK$117.2 million)* and profit attributable to equity holders of HK$4.4 million *(2007: HK$8 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 2008.

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.

The Group's core business of manufacturing and sales of smart cards and plastic cards, which accounted for 99.9% of the Group's total revenue, continued to deliver 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 21.9% to a record high of HK$140.1 million *(2007: HK$115 million)*. The increase was due primarily to the overall market growth, as well as our highly automated smart card production facilities, distribution networks, and strong sales and marketing teams in Hong Kong, Shenzhen and Beijing which enable us to offer best-quality, convenient and speedy delivery services to our customers.

Chairman's Statement

Nevertheless, the effect of the strong growth in sales was offset by adverse changes in the external business and operating environment. The changes in the operating environment in China, the appreciation of Renminbi, and the slowdown of China's economic growth after the occurrence of severe natural disasters and the Olympics had made it less cost-effective to run a new, large-scale production factory in China. In addition, the sub-prime mortgage crisis in the United States has escalated into a full-blown global financial crisis, which is adversely affecting the global economy. In view of the bad sentiment in the market, the Group ceased the operation of the partly-setup plant in Dongguang. As a result, certain fixed assets were disposed of and a loss of HK$3.9 million (excluding taxes) was recognized during the year under review. The Board, however, believes that the closure of this partly-setup factory in the current market environment is the prudent action for the Group in the long run.

Revenue generated from the sales of smart card application systems was less than in the previous years, and management expects that there is unlikely to be upside changes in this market for the coming year.

In terms of geographic breakdown, European sales experienced a significant growth in 2008, and become the single largest market for the Group. Revenue derived from this market accounted for 36.9% of the Group's total revenue, and up by 60.1% from HK$32.3 million in 2007 to HK$51.8 million in 2008. Asia was the second largest market for the Group and also recorded an impressive growth of 25.2% in 2008. Revenue generated from this market amounted to HK$49.5 million and accounted for 35.3% of the Group's total revenue. The PRC market ranked the third largest market for the Group and accounted for 25.4% of the Group's total revenue. Revenue generated from this market dropped slightly by 2%, from HK$36.3 million in 2007 to HK$35.6 million in 2008.

On 5 July 2008, Fine Wise Holdings Limited, a subsidiary of the Company, completed the subscription of Series A Preferred Shares in Hota (USA) Holding Corp.. The Board believes that the investment could provide the Group with a business opportunity to take part in the recycling of scrapped automobiles and sale of recovered metals which has good potential growth and profitability in the PRC, as well as being environmentally responsible. Besides the dividend yield of Series A Preferred Shares, the Directors view the Subscription as an investment with a good return potential and will provide an opportunity for the Company to diversify its revenue base through participating in the recycling industry.

PROSPECTS

Looking forward, as the global financial crisis continues to affect the business environment, we expect 2009 will be challenging, with likely some combination of both sales and pricing pressure. We will continue to consolidate the existing SIM card businesses, manufacture with greater efficiency, seek cost and expense savings wherever possible, and to reinforce competitive strengths to solidify Cardlink's leading position in existing markets by providing quality services and to convert challenges into opportunities.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to our Board members, management team and all the employees, as well as our business partners, customers and shareholders for their continuous support and contribution to the Group.

Lily WU
Chairman

Hong Kong, 20 March 2009

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue of the Group in 2008 amounted to HK$140.4 million, representing an increase of 19.8% as compared with HK$117.2 million in 2007. The increase was mainly attributable to the growth of market share in the overseas market.

During the year under review, cost of sales increased by 15.9%, up from HK$81.1 million in 2007 to HK$94.0 million in 2008. This was due primarily to the increase in various direct costs, such as direct material costs, direct labor costs, factory overheads and depreciation expenses needed to meet the increased sales orders. Gross profit increased to HK$46.4 million, up by HK$10.3 million, or 28.4%, as compared to HK$36.1 million in 2007. Gross profit margin for the year ended 31 December 2008 also increased to 33.0% as compared with 30.8% in last year. It was due to higher value sales mix, better utilization of the Group's assets, as well as the results of cost control measures implemented during the year.

Other income of the Group in 2008 amounted to HK$1 million, representing an increase of 49.3% as compared with HK$0.7 million in 2007. Other income of the Group derived in 2008 was mainly attributable to the write-off of certain long outstanding payables, and interest income derived from the bank deposits.

Selling and distribution costs recorded an increase of HK$0.5 million, or 6.3%, from HK$7.9 million in 2007 to HK$8.4 million in 2008. The increase was reasonable given the fact that revenue increased by 19.8% during the year under review, and was attributable mainly to the increases in overseas travelling expenses, transportation costs and commission paid.

Administrative expenses recorded a huge increase in 2008, up by HK$12.1 million or 63%, from HK$19 million in 2007 to HK$31.1 million this year. The huge increase was primarily attributable to:

(i) a share-based payments expense of HK$2.5 million was recognised to account for the share options granted to the Directors and certain employees of the Group during the year;

(ii) a loss on disposal of fixed assets of HK$3.9 million (excluding taxes) was recognised as a result of the cessation of operation of the plant in Dongguang and its subsequent disposal;

(iii) exchange loss increased by HK$2.7 million as a result of the appreciation of Renminbi against Hong Kong Dollars and Euro;

(iv) increased staff costs due to the appointment of key staffs in late 2007; and

(v) increase of other general expenses in relation to the expanded business of the Group.

Finance costs of the Group in 2008 amounted to HK$0.5 million, representing an increase of 8.8% as compared with HK$0.46 million in 2007. This was due to the increase in the balance of total bank borrowings in the year.

Management Discussion and Analysis

Income tax of the Group in 2008 was HK$3.1 million, representing an increase of 121.4% as compared with HK$1.4 million in 2007. This was due mainly to the increase in estimated assessable profits arising from Hong Kong during the year. In addition, pursuant to the rules and regulations of PRC Enterprise Income Tax ("EIT"), the Group's subsidiary in Shenzhen is no longer exempted fully from EIT and is liable to half of the normal EIT rate.

As a result of the foregoing, profit attributable to equity holders of the Company in 2008 amounted to HK$4.4 million, representing a decrease of 45.3% as compared to HK$8.0 million in 2007.

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. As at 31 December 2008, the Group had cash and bank balances of HK$43.6 million, finance leases payable of HK$10.3 million and secured bank loans of HK$8.3 million.

As at 31 December 2008, the Group had two finance lease arrangements used for financing the acquisition of certain smartcard personalisation equipment for the production lines in the PRC. The finance leases are bearing an effective interest rate of 3.32% per annum and repayable in three years. In addition, the Group had secured bank loans used for its working capital, and are bearing an effective interest rate of 4.12% per annum and repayable ranging from four months to two years.

As at 31 December 2008, the Group had current assets of HK$88 million and current liabilities of HK$35 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 2.5.

EMPLOYEE INFORMATION

As at 31 December 2008, the Group employed a total of 564 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$28.6 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 notes 20 and 21 under "Notes to the Financial Statements", there were no other significant investments for the year ended 31 December 2008.

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 2008.

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2008, there were no future plans for material investments or capital assets.

SEGMENTAL INFORMATION

Details have been set out in note 16 under "Notes to the Financial Statements" and are further elaborated under "Business Review" of this section.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2008, a bank deposit and certain plant and machinery with the carrying amounts of HK$926,615 and HK$6,879,741 respectively were pledged by the Company's subsidiaries as collaterals to secure general banking facilities granted to the Group.

The Company and subsidiaries have provided guarantees of repayment in respect of bank loans and finance leases obligations of other subsidiaries amounting to HK$44,053,552 *(2007: HK$17,000,000)* of which HK$18,583,655 *(2007: HK$13,961,428)* was outstanding as at 31 December 2008.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total tangible assets of the Group, was 11.9% as at 31 December 2008 *(2007: 10.3%)*. Accordingly, the financial position of the Group remains very liquid.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of 1.5 HK cents per share *(2007: 1.5 HK cents)* for the year ended 31 December 2008.

Upon approval by the shareholders, the final dividend will be paid on or about 15 May 2009 to shareholders whose names appear on the register of members of the Company on 8 May 2009.

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 2008.

The Group's results for the year ended 31 December 2008 have been reviewed by the audit committee.

Management Discussion and Analysis

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 2008.

COMPETING INTERESTS

As at 31 December 2008, 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2008, 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 11:00 a.m., on Friday, 8 May 2009, 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 dispatched 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, 5 May 2009 to Friday, 8 May 2009, 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, 4 May 2009.

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 2008.

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 2008 are as follows:

Members	Attendance
Mr. Chang Wei Wen	4/4
Mr. Ho Lut Wa, Anton (resigned on 1 January 2009)	1/4
Ms. Leung Quan Yue, Michelle	2/4
Mr. Leung Ka Kui, Johnny	4/4
Ms. Lily Wu	4/4
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.

Corporate Governance Report

REMUNERATION OF DIRECTORS

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

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

The remuneration committee held 2 meetings during the year under review. Details of the attendance of the remuneration committee meetings are as follows:

Members	Attendance
Mr. Ho Lut Wa, Anton	1/2
Mr. Leung Ka Kui, Johnny	2/2
Ms. Lily Wu	2/2
Ms. Wong Ka Wai, Jeanne	2/2
Mr. Chan Siu Wing, Raymond	1/2

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.

Corporate Governance Report

AUDITORS' REMUNERATION

During the year ended 31 December 2008, 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	460
Non-audit services	
Taxation compliance services	25

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	4/4
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 2008 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.

Corporate Governance Report

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 quarterly 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 2008, 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 45, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 23 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 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 42, 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 18 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 43, 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 32, 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 52, 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 24 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 is currently an independent non-executive director of each of Jackin International Holdings Limited and Celestial Asia Securities Holdings Limited, companies whose shares are listed on the Main board of the Stock Exchange. 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 44, 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 22 years of experience in finance, accounting, taxation and corporate affairs. Ms. Wong is a member of the Institute of Chartered Accountants in Australia, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Society of Trust and Estate Practitioners. She holds a Bachelor Degree in Economics from the University of Sydney, Australia. Ms. Wong is currently the Managing Director of Wellex Consultancy Limited, a registered Insurance Agent, as well as the Chief Financial Officer and Consultant of a local law firm and CPA firm . Ms. Wong is also an independent non-executive director of Hua Xia Healthcare Holdings Limited, a company whose shares are listed on GEM of the Stock Exchange. Ms. Wong joined the Company in September 2001.

CHAN Siu Wing, Raymond, aged 44, 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 20 years' experience in the field of accounting, taxation, finance and trust. Mr. Chan is currently the Chief Operating Officer of the Chinachem Group and is an executive director of ENM Holdings Limited whose shares are listed on the Main Board of the Stock Exchange. Mr. Chan also holds the position of independent non-executive director of each of Prosperity Investment Holdings Limited, a company whose shares are listed on the Main board of the Stock Exchange, and Intelli-Media Group (Holdings) Limited, a company whose shares are listed on the GEM of the Stock Exchange. For a period from 18 June 2004 to 22 August 2006, Mr. Chan was an independent non-executive director of Core Healthcare Investment Holdings Limited (formerly known as Plasmagene Biosciences Limited), a company whose shares are listed on the GEM of the Stock Exchange. He gained his Bachelor of Economics from University of Sydney, Australia. He is 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 36, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 12 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 2008.

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 19 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 2008 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 *(2007: 1.5 HK cents)*.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 30 to the financial statements respectively.

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)* (resigned on 1 January 2009)
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, Mr. Chang Wei Wen and Mr. Chan Siu Wing, Raymond 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 18 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 contract for Mr. Ho Lut Wa, Anton commenced on 20 December 2001 and was completed on 19 December 2003, whereas the service contracts for Ms. Lily Wu, Ms. Leung Quan Yue, Michelle and Mr. Chang Wei Wen commenced on 3 June 2005, 22 August 2005 and 12 December 2006 respectively) and will continue thereafter unless and until terminated by either party by giving three 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 was 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' INTERESTS 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 authorised share capital during the year. Details of the movement in the Company's issued share capital and share option scheme during the year are set out in notes 28 and 29 to the financial statements.

Directors' Report

DISTRIBUTABLE RESERVES

The Company's reserve available for distribution represents the contributed surplus and other reserves less accumulated loss. At the balance sheet date, the Company had HK$55,540,829 reserves available for distribution.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 31 December 2008, 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:

(i) Long positions in the shares of the Company

	Number of shares					
Name of director	Personal interest	Family interest	Corporate interest	Other interest	Total	Percentage of interests
Lily Wu	1,000,000	–	–	–	1,000,000	0.22
Ho Lut Wa, Anton	5,037,000	–	–	–	5,037,000	1.10
Chang Wei Wen	800,000	–	–	–	800,000	0.18
Leung Quan Yue, Michelle	500,000	–	–	–	500,000	0.11

Directors' Report

(ii) Rights to subscribe for shares in the Company

As at 31 December 2008, personal interests of the Directors in share options to subscribe for shares in the Company pursuant to the Company's Share Option Scheme approved and adopted on 8 January 2008 were as follows:

Director	Date of grant	Outstanding at 31 December 2008	Exercise price per share HK$	Exercisable period
Lily Wu	17 November 2008	1,000,000	0.93	17 November 2008 to 16 November 2018
Ho Lut Wa, Anton	17 November 2008	1,000,000	0.93	17 November 2008 to 16 November 2018
Chang Wei Wen	17 November 2008	800,000	0.93	17 November 2008 to 16 November 2018
Leung Quan Yue, Michelle	17 November 2008	500,000	0.93	17 November 2008 to 16 November 2018

Save as disclosed above, as at 31 December 2008, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, 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:

Directors' Report

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	18.18
Mr. Chu Chen Lin	*1*	83,300,000	18.18
Golden Dice Co., Ltd	*2*	81,400,000	17.77
Mr. Tsai Chi Yuan	*2*	81,400,000	17.77

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.

Save as disclosed above, as at 31 December 2008, 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	21%
– five largest customers in aggregate	78%

Purchases

– the largest supplier	21%
– five largest suppliers in aggregate	70%

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.

Directors' Report

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 2008, 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 2008, 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.

SUFFICENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

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 82 of the annual report.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint, Messrs. Grant Thornton, as auditors of the Company.

For and on behalf of the Board
Lily Wu
Chairman

Hong Kong, 20 March 2009

Independent Auditors' Report

Grant Thornton
均富

Member of Grant Thornton International Ltd

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 81, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

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.

Independent Auditors' Report

GrantThornton
均富

AUDITORS' RESPONSIBILITY (Continued)

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' judgement, 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 2008 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
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

20 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$	2007 HK$
Revenue	5	**140,352,099**	117,199,695
Cost of sales		**(93,986,143)**	(81,096,683)
Gross profit		**46,365,956**	36,103,012
Other revenue	6	**1,018,687**	682,383
Selling and distribution costs		**(8,398,535)**	(7,900,184)
Administrative expenses		**(31,050,954)**	(19,045,259)
Finance costs	7	**(498,100)**	(457,885)
Profit before income tax	8	**7,437,054**	9,382,067
Income tax expense	9	**(3,059,752)**	(1,382,014)
Profit attributable to equity holders of the Company	10	**4,377,302**	8,000,053
Dividends	11	**6,871,500**	6,690,000
Earnings per share	12		
Basic		**0.97 cents**	2.03 cents
Diluted		**0.97 cents**	2.01 cents

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$	2007 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	40,179,593	38,722,685
Interest in associates	20	1,135,136	–
Available-for-sale financial assets	21	27,461,681	2,158,058
		68,776,410	40,880,743
Current assets			
Inventories	22	7,841,812	9,171,072
Trade and other receivables	23	36,509,513	30,538,801
Pledged bank deposits	24	926,615	919,931
Bank balances and cash		42,698,969	54,178,958
Taxation		–	122,910
		87,976,909	94,931,672
Current liabilities			
Trade and other payables	25	22,720,555	21,472,719
Taxation		1,526,167	–
Borrowings	26	10,766,460	8,776,634
		35,013,182	30,249,353
Net current assets		52,963,727	64,682,319
Total assets less current liabilities		121,740,137	105,563,062
Non-current liabilities			
Borrowings	26	7,817,195	5,184,794
Deferred tax liabilities	27	466,364	323,461
		8,283,559	5,508,255
Net assets		113,456,578	100,054,807
EQUITY			
Share capital	28	45,810,000	44,600,000
Reserves	30	67,646,578	55,454,807
Total equity		113,456,578	100,054,807

Lily Wu
Director

Chang Wei Wen
Director

Balance Sheet

As at 31 December 2008

	Notes	2008 HK$	2007 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	*19*	**88,096,483**	68,893,311
Current assets			
Deposits, prepayment and other debtors		**442,630**	2,838,173
Bank balances and cash		**15,762,108**	24,854,397
		16,204,738	27,692,570
Current liabilities			
Accrued charges and other creditors		**502,378**	511,837
Net current assets		**15,702,360**	27,180,733
Net assets		**103,798,843**	96,074,044
EQUITY			
Share capital	*28*	**45,810,000**	44,600,000
Reserves	*30*	**57,988,843**	51,474,044
Total equity		**103,798,843**	96,074,044

Lily Wu
Director

Chang Wei Wen
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital HK$	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Exchange difference HK$	Available-for-sale financial assets revaluation reserve HK$	Accumulated profits HK$	Total HK$
At 1 January 2007	32,000,000	13,985,669	–	7	1,041,504	–	2,131,055	49,158,235
Currency translation	–	–	–	–	1,727,019	–	–	1,727,019
Net income recognised directly in equity	–	–	–	–	1,727,019	–	–	1,727,019
Profit for the year	–	–	–	–	–	–	8,000,053	8,000,053
Total recognised income and expense for the year	–	–	–	–	1,727,019	–	8,000,053	9,727,072
Issue of new shares on placement	11,400,000	28,500,000	–	–	–	–	–	39,900,000
Issue of new shares upon exercise of share options	1,200,000	2,184,000	–	–	–	–	–	3,384,000
Share issue expenses	–	(2,114,500)	–	–	–	–	–	(2,114,500)
At 31 December 2007 and 1 January 2008	44,600,000	42,555,169	–	7	2,768,523	–	10,131,108	100,054,807
Change in fair value of available-for-sale financial assets	–	–	–	–	–	(5,915,760)	–	(5,915,760)
Currency translation	–	–	–	–	2,225,895	–	–	2,225,895
Net income (expense) recognised directly in equity	–	–	–	–	2,225,895	(5,915,760)	–	(3,689,865)
Profit for the year	–	–	–	–	–	–	4,377,302	4,377,302
Total recognised income and expense for the year	–	–	–	–	2,225,895	(5,915,760)	4,377,302	687,437
Issue of new shares on placement	1,210,000	16,698,000	–	–	–	–	–	17,908,000
Share issue expenses	–	(951,680)	–	–	–	–	–	(951,680)
2007 final dividend paid during the year	–	(6,690,000)	–	–	–	–	–	(6,690,000)
Share-based payments	–	–	2,448,014	–	–	–	–	2,448,014
Balance at 31 December 2008	**45,810,000**	**51,611,489**	**2,448,014**	**7**	**4,994,418**	**(5,915,760)**	**14,508,410**	**113,456,578**

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$	2007 HK$
Cash flows from operating activities		
Profit for the year before taxation	7,437,054	9,382,067
Adjustments for:		
Interest income	(327,519)	(488,787)
Depreciation	12,152,518	10,151,633
Share-based payments	2,448,014	–
Loss on disposal of property, plant and equipment	3,419,552	(21,145)
Foreign exchange	1,788,455	(157,170)
Finance costs	498,100	457,885
Operating profit before working capital changes	27,416,174	19,324,483
Decrease (Increase) in inventories	1,329,260	(1,336,125)
Increase in trade and other receivables	(5,914,796)	(3,713,798)
Increase in trade and other payables	1,572,087	1,371,653
Cash generated from operations	24,402,725	15,646,213
Interest paid	(334,385)	(313,804)
Income taxes paid	(1,359,757)	(1,032,349)
Net cash generating from operating activities	22,708,583	14,300,060
Cash flows from investing activities		
Interest received	327,519	488,787
Purchase of property, plant and equipment	(9,865,136)	(20,578,031)
Purchase of available-for-sale financial assets	(31,219,383)	–
Investments in associates	(1,137,692)	–
Proceeds from disposal of property, plant and equipment	4,813,980	25,000
(Increase) Decrease in pledged bank deposits	(6,684)	3,625,420
Net cash used in investing activities	(37,087,396)	(16,438,824)
Cash flows from financing activities		
Interest element of finance leases rental paid	(163,715)	(144,081)
Proceeds from shares issued	17,908,000	43,284,000
Share issue expenses	(951,680)	(2,114,500)
Dividends paid	(6,690,000)	–
Proceeds from new bank loans	24,200,000	13,664,147
Repayments of bank loans	(29,886,824)	(702,719)
Capital element of finance leases rental paid	(1,726,223)	(6,996,250)
Net cash generated from financing activities	2,689,558	46,990,597
Net (decrease) increase in cash and cash equivalents	(11,689,255)	44,851,833
Cash and cash equivalents at 1 January	54,178,958	8,959,449
Effect of foreign exchange rate changes	209,266	367,676
Cash and cash equivalents at 31 December	42,698,969	54,178,958

Notes to the Financial Statements

For the year ended 31 December 2008

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 "Corporate Information" section.

The principal activities of the Company and its subsidiaries (the "Group") include the manufacturing and sales of smart cards and plastic cards, and the provision of customised smart card application systems.

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 (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate[1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]
Various	Annual Improvements to HKFRS 2008[6]

Notes to the Financial Statements

For the year ended 31 December 2008

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers of assets from customers received on or after 1 July 2009
[6] Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, HKAS 1 (Revised) *Presentation of Financial Statements* is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 *Operating Segments* may result in new or amended disclosures. The Directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The Directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements on pages 25 to 81 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 20 March 2009.

The significant accounting policies that have been used in the preparation of these financial statements are summarised 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 except for certain financial assets which are stated at fair values. 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.

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.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange difference reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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

Interest income is recognised on a time-proportion basis using the effective interest method.

3.7 Borrowing costs

All borrowing costs are expensed as incurred.

3.8 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the rate of 20% per annum.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Impairment of non-financial assets

Property, plant and equipment and interests in subsidiaries and associates are subject to impairment testing whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Leases (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(iii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.11 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Financial assets are classified into loans and receivables and available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus any directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(ii) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled to the income statement. Interest calculated using the effective interest method is recognised in the income statement.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the income statement, and other changes are recognised in equity.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

(ii) Available-for-sale financial assets (Continued)

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

Impairment of financial assets (Continued)

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

Trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets (Continued)

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

(iii) Financial assets 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 losses are not reversed in subsequent periods.

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period.

3.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.13 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Accounting for income taxes (Continued)

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.14 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. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.15 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from contributed surplus reserve (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Retirement benefits costs and short term employee benefits

Retirement Benefits Costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute specified percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.17 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised 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 (for example, profitability and sales growth targets).

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Share-based employee compensation (Continued)

All share-based compensation is ultimately recognised 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 recognised 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 recognised 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 recognised 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 recognised in share option reserve will be transferred to retained profits.

3.18 Financial liabilities

The Group's financial liabilities include bank loans, trade and other payables and finance leasing liabilities. They are included in balance sheet line items as borrowings under current or non-current liabilities or trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 3.10).

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Financial liabilities (Continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.20 Financial guarantee issued

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 recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised 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 recognised in the income statement on initial recognition of any deferred income.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Financial guarantee issued (Continued)

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised 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 recognised less accumulated amortisation, where appropriate.

3.21 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 include corporate expenses and other expenses that cannot be allocated on a reasonable basis to the reportable segments. Segment assets consist primarily of property, plant and equipment, inventories and trade 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 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.

3.22 Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Notes to the Financial Statements

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

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 realisation 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 22, 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 investments in subsidiaries and associates 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 course the adjustments of their carrying amounts.

Notes to the Financial Statements

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iv) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below carrying value is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the management of the Group takes into account factors such as industry and sector performance and financial information regarding the investee.

(v) Fair value of available-for-sale financial assets

The fair value of the available-for-sale financial assets that are not traded in active market is determined by using valuation techniques including the discounted cash flows model. The Group uses its judgement to select a variety of methods and makes assumption that are mainly based on market conditions existing at the issue date and each balance sheet date. The inputs to these models are taken from observable markets where possible, but this is not feasible, a degree of judgement is required in establishing fair values. Changes in subjective input assumptions can materially affect the fair value estimate.

5. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and income from provision of services. Revenue recognised during the year is as follows:

	The Group	
	2008	2007
	HK$	HK$
Sales of smart cards and plastic cards	**140,144,955**	114,963,986
Sales of smart card application systems	**74,440**	2,165,209
Service and other income	**132,704**	70,500
	140,352,099	117,199,695

6. OTHER REVENUE

	The Group	
	2008	2007
	HK$	HK$
Interest income	**327,519**	488,787
Sundry income	**691,168**	172,451
Gain on disposal of property, plant and equipment	**–**	21,145
	1,018,687	682,383

Notes to the Financial Statements

For the year ended 31 December 2008

7. FINANCE COSTS

	The Group	
	2008	2007
	HK$	HK$
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**334,385**	313,804
Finance charges on obligations under finance leases	**163,715**	144,081
	498,100	457,885

8. PROFIT BEFORE INCOME TAX

	The Group	
	2008	2007
	HK$	HK$
Profit before income tax is arrived at after charging:		
Costs of inventories	**93,986,143**	81,096,683
Auditors' remuneration		
Provision for the year	**460,000**	397,300
Under provision in prior years	**24,000**	–
Depreciation	**12,152,518**	10,151,633
Research and development costs	**106,605**	597,275
Operating lease charges on land and buildings	**3,460,789**	2,981,194
Bad debts written off	**240,688**	36,000
Provision for inventories	**–**	392,546
Net foreign exchange loss	**3,465,846**	803,104
Loss on disposal of property, plant and equipment	**3,419,552**	–

Notes to the Financial Statements

For the year ended 31 December 2008

9. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% *(2007: 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 Tecsun 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.

	The Group	
	2008 HK$	2007 HK$
Current tax		
Hong Kong Profits Tax		
Current year	**2,218,000**	760,913
PRC Enterprise Income Tax	**698,849**	457,222
	2,916,849	1,218,135
Deferred tax recognised in the income statement		
Types of temporary differences:		
Depreciation allowances	**142,903**	163,879
	142,903	163,879
Total income tax expense	**3,059,752**	1,382,014

Notes to the Financial Statements

For the year ended 31 December 2008

9. INCOME TAX EXPENSE (Continued)

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2008 HK$	2007 HK$
Profit before taxation	**7,437,054**	9,382,067
Income tax at Hong Kong profits tax rate of 16.5% (2007: 17.5%)	**1,227,111**	1,641,863
Non-deductible expenses	**2,623,127**	1,250,433
Tax exempt revenue	**(856,823)**	(1,265,864)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(48,636)**	(311,512)
Unrecognised tax losses	**20,997**	66,518
Unrecognised temporary differences	**159,564**	576
Over provision in prior year	**(25,243)**	–
Others	**(40,345)**	–
Income tax expense	**3,059,752**	1,382,014

The Hong Kong SAR Government enacted a reduction in the Profits Tax Rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current and deferred tax liabilities have been calculated using the new tax rate of 16.5%.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of HK$4,989,535 *(2007: HK$84,349)* which has been dealt with in the financial statements of the Company for the year ended 31 December 2008.

11. DIVIDENDS

(a) Dividends attributable to the year

	2008 HK$	2007 HK$
Proposed final dividend of 1.5 HK cents per share (2007: 1.5 HK cents)	**6,871,500**	6,690,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of contributed surplus for the year ended 31 December 2008.

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For the year ended 31 December 2008

11. DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2008 **HK$**	2007 HK$
Final dividend in respect of the previous financial year, of 1.5 HK cents per share (2007: Nil)	**6,690,000**	–

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$4,377,302 *(2007: HK$8,000,053)* and the weighted average of 451,983,880 *(2007: 393,989,041)* ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$4,377,302 *(2007: HK$8,000,053)* and the weighted average of 452,134,785 *(2007: 398,096,153)* ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2008	2007
Weighted average number of ordinary shares at 31 December	**451,983,880**	393,989,041
Effect of deemed issue of shares under the Company's share option scheme	**150,905**	4,107,112
Weighted average number of ordinary shares (diluted) at 31 December	**452,134,785**	398,096,153

Notes to the Financial Statements

For the year ended 31 December 2008

13. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	The Group	
	2008	2007
	HK$	HK$
Salaries, wages and other benefits	**24,389,188**	19,367,385
Contributions to defined contribution plans	**1,757,350**	1,573,700
Share-based payments	**2,448,014**	–
	28,594,552	20,941,085

14. DIRECTORS' REMUNERATION

Directors' emoluments for the years ended 31 December 2008 and 2007 are as follows:

2008

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Retirement scheme contributions HK$	Share-based payments HK$	Total HK$
Executive Directors:					
Ho Lut Wa, Anton	–	1,000,000	18,000	661,625	1,679,625
Lily Wu	–	280,483	12,000	661,625	954,108
Leung Quan Yue, Michelle	–	120,000	6,000	330,813	456,813
Chang Wei Wen	–	464,516	17,000	529,300	1,010,816
	–	1,864,999	53,000	2,183,363	4,101,362
Independent non-executive Directors:					
Wong Ka Wai, Jeanne	50,000	–	–	–	50,000
Leung Ka Kui, Johnny	50,000	–	–	–	50,000
Chan Siu Wing, Raymond	50,000	–	–	–	50,000
	150,000	–	–	–	150,000
	150,000	1,864,999	53,000	2,183,363	4,251,362

Notes to the Financial Statements

For the year ended 31 December 2008

14. DIRECTORS' REMUNERATION (Continued)

2007

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Retirement scheme contributions HK$	Share-based payments 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

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 29.

Notes to the Financial Statements

For the year ended 31 December 2008

15. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two *(2007: one)* Director. The aggregate emoluments of the remaining three *(2007: four)* highest paid individuals are as follows:

	2008 HK$	2007 HK$
Salaries and allowances	**2,900,776**	2,715,796
Contributions to retirement scheme	**36,000**	47,874
Share-based payments	**264,651**	–
	3,201,427	2,763,670

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
Nil – HK$1,000,000	**1**	4
HK$1,000,001 – HK$1,500,000	**2**	–

Details of share options granted by the Company to employees are set out in note 29.

Notes to the Financial Statements

For the year ended 31 December 2008

16. SEGMENT REPORTING

Business segments:

The Group comprises the following main business segments:

	Sales of smart cards and plastic cards		Sales of smart card application systems		Others		Consolidated	
	2008 HK$	2007 HK$	**2008 HK$**	2007 HK$	**2008 HK$**	2007 HK$	**2008 HK$**	2007 HK$
Revenue								
External sales	**140,144,955**	114,963,986	**74,440**	2,165,209	**132,704**	70,500	**140,352,099**	117,199,695
Result								
Segment results	**11,963,220**	11,006,317	**13,163**	262,273	**–**	–	**11,976,383**	11,268,590
Unallocated operating income and expenses							**(4,041,229)**	(1,428,638)
Finance costs							**(498,100)**	(457,885)
Profit before income tax							**7,437,054**	9,382,067
Income tax expense							**(3,059,752)**	(1,382,014)
Profit for the year							**4,377,302**	8,000,053
Assets and liabilities								
Segment assets	**71,173,404**	63,228,090	**1,590,096**	2,629,485			**72,763,500**	65,857,575
Interest in associates							**1,135,136**	–
Unallocated assets							**82,854,683**	69,954,840
Total assets							**156,753,319**	135,812,415
Segment liabilities	**18,480,300**	13,819,992	**1,291,687**	1,704,749			**19,771,987**	15,524,741
Unallocated liabilities							**23,524,754**	20,232,867
Total liabilities							**43,296,741**	35,757,608
Other information								
Capital expenditure incurred during the year	**20,075,113**	17,340,916	**–**	–	**1,841,427**	3,237,115	**21,916,540**	20,578,031
Depreciation for the year	**11,003,894**	8,887,764	**–**	–	**1,148,624**	1,263,869	**12,152,518**	10,151,633

Notes to the Financial Statements

For the year ended 31 December 2008

16. SEGMENT REPORTING (Continued)

Geographical segments:

	Revenue				Assets				Capital expenditure			
	2008 HK$		2007 HK$		**2008 HK$**		2007 HK$		**2008 HK$**		2007 HK$	
Hong Kong	**1,028,907**	**1%**	3,303,290	3%	**83,341,157**	**53%**	74,013,231	55%	**410,918**	**2%**	3,541,371	17%
Asia	**49,483,535**	**35%**	39,525,890	33%	**–**	**–**	–	–	**–**	**–**	–	–
PRC	**35,586,062**	**25%**	36,311,003	31%	**73,412,162**	**47%**	61,799,184	45%	**21,505,622**	**98%**	17,036,660	83%
Europe	**51,762,597**	**37%**	32,321,545	28%	**–**	**–**	–	–	**–**	**–**	–	–
Others	**2,490,998**	**2%**	5,737,967	5%	**–**	**–**	–	–	**–**	**–**	–	–
	140,352,099	**100%**	117,199,695	100%	**156,753,319**	**100%**	135,812,415	100%	**21,916,540**	**100%**	20,578,031	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.

17. 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 2000, the Group participates in a Mandatory Provident Fund retirement benefits 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 2008, the aggregate amount of employer's contribution made by the Group is HK$1,757,350 *(2007: HK$1,573,700)*.

Notes to the Financial Statements

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18. 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$
At 1 January 2007						
Cost	43,659,186	1,591,466	2,244,417	2,634,496	812,300	50,941,865
Accumulated depreciation	(19,665,100)	(797,317)	(1,320,142)	(1,596,585)	(522,320)	(23,901,464)
Net book amount	23,994,086	794,149	924,275	1,037,911	289,980	27,040,401
Year ended 31 December 2007						
Opening net book amount	23,994,086	794,149	924,275	1,037,911	289,980	27,040,401
Additions	17,340,916	396,615	132,380	2,266,137	441,983	20,578,031
Disposals	–	–	–	–	(3,855)	(3,855)
Depreciation	(8,887,764)	(283,189)	(435,349)	(437,276)	(108,055)	(10,151,633)
Currency realignment	899,465	53,448	46,509	214,104	46,215	1,259,741
Closing net book amount	33,346,703	961,023	667,815	3,080,876	666,268	38,722,685
At 31 December 2007						
Cost	62,158,918	2,079,009	2,547,745	5,229,127	1,201,967	73,216,766
Accumulated depreciation	(28,812,215)	(1,117,986)	(1,879,930)	(2,148,251)	(535,699)	(34,494,081)
Net book amount	33,346,703	961,023	667,815	3,080,876	666,268	38,722,685
Year ended 31 December 2008						
Opening net book amount	**33,346,703**	**961,023**	**667,815**	**3,080,876**	**666,268**	**38,722,685**
Additions	**20,075,113**	**496,287**	**185,501**	**913,463**	**246,176**	**21,916,540**
Disposals	**(6,146,725)**	**(169,265)**	**(101,134)**	**(2,372,510)**	**–**	**(8,789,634)**
Depreciation	**(11,003,894)**	**(317,040)**	**(306,968)**	**(314,932)**	**(209,684)**	**(12,152,518)**
Currency realignment	**383,659**	**25,009**	**14,563**	**43,128**	**16,161**	**482,520**
Closing net book amount	**36,654,856**	**996,014**	**459,777**	**1,350,025**	**718,921**	**40,179,593**
At 31 December 2008						
Cost	**76,387,282**	**2,456,066**	**2,710,152**	**3,877,871**	**1,296,310**	**86,727,681**
Accumulated depreciation	**(39,732,426)**	**(1,460,052)**	**(2,250,375)**	**(2,527,846)**	**(577,389)**	**(46,548,088)**
Net book amount	**36,654,856**	**996,014**	**459,777**	**1,350,025**	**718,921**	**40,179,593**

The net book value of the Group's printing and testing equipment includes an amount of HK$11,890,207 *(2007: HK$Nil)* in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 31 December 2008

19. INTEREST IN SUBSIDIARIES

	The Company	
	2008	2007
	HK$	HK$
Unlisted shares, at cost	**26,954,990**	26,954,990
Due from subsidiaries	**63,509,036**	41,938,321
Less: Impairment loss	**(2,367,543)**	–
	88,096,483	68,893,311

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 and kind of legal entity	Particulars of issued and fully paid share capital/paid-up registered capital	Principal activities
Apex Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Inactive
Beijing Tecsun Venus Technology Limited	PRC, wholly-foreign-owned enterprises	US$1,781,842 registered capital	Smart card and plastic card manufacturing and sales
Billion Apex Limited	The British Virgin Islands, limited liability company	US$1 ordinary share	Investment holding
Cardlink Technology (HK) Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Investment holding
DG Toplink Electronics Co. Limited	PRC, wholly-foreign-owned enterprises	US$1,274,000 registered capital	Smart card and plastic card manufacturing and sales

Notes to the Financial Statements

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19. INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation and kind of legal entity	Particulars of issued and fully paid share capital/paid-up registered capital	Principal activities
Fine Wise Holdings Limited	The British Virgin Islands, limited liability company	US$10,000 ordinary share	Investment holding
Intercard Limited	Hong Kong, limited liability company	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, limited liability company	US$1 ordinary share	Investment holding
PMIS Limited	Hong Kong, limited liability company	HK$10,000 ordinary share	Development and provision of smart card application systems
Topwise Technology (SZ) Limited	PRC, wholly-foreign-owned enterprises	HK$4,000,000 registered capital	Smart card and plastic card manufacturing and sales
Ultra Force Holdings Limited	The British Virgin Islands, limited liability company	US$1 ordinary share	Investment holding
Waystech Group Limited	The British Virgin Islands, limited liability company	US$10,000 ordinary share	Investment holding
Waywise Step International Limited	The British Virgin Islands, limited liability company	US$100 ordinary share	Investment holding
World Praise International Limited	The British Virgin Islands, limited liability company	US$1 ordinary share	Investment holding

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

Notes to the Financial Statements

For the year ended 31 December 2008

20. INTEREST IN ASSOCIATES

	The Group	
	2008	2007
	HK$	HK$
Share of net assets	**1,135,136**	–

Details of the Group's associates are as follows:

Name of company	Place of incorporation	Particulars of issued and paid-up share capital/paid-up registered capital	Group's effective interest	Principal activities
力欣房地產經紀（上海）有限公司	PRC	RMB$5,000,000 registered capital	20%	Real Estate Advisory

The summarised financial information of the Group's associates are as follows:

	2008	2007
	HK$	HK$
Assets	**5,076,054**	–
Liabilities	**(160,045)**	–
Revenues	**1,219,352**	–
Loss	**(761,991)**	–

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2008	2007
	HK$	HK$
Investment in unlisted securities, at fair value *(note a)*	**25,303,623**	–
Investment in unlisted equity securities, at cost *(note b)*	**4,458,058**	4,458,058
Less: Impairment loss	**(2,300,000)**	(2,300,000)
	2,158,058	2,158,058
	27,461,681	2,158,058

Notes to the Financial Statements

For the year ended 31 December 2008

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(a) During the year ended 31 December 2008, the Group acquired the Series A Preferred Shares issued by Hota (USA) Holding Corp. ("Hota USA") with a principal amount of USD4,000,000 (approximately HK$31,219,383) (the "Preferred Shares"). The Preferred Shares are entitled to receive 5% non-cumulative dividends and are convertible, at any time after the date of issuance, into fully paid common stock of Hota USA. The Preferred Shares can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid dividend, by 3rd Quarter of 2012.

The fair value of the investment in unlisted securities is determined by the directors of the Company with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers. During the year, the fair value loss recognised directly in equity amounted to HK$5,915,760.

At 31 December 2008, the carrying amount of interests in Hota USA exceeded 10% of total assets of the Group.

Name of company	Place of incorporation	Particulars of issued share held	Principal activities
Hota (USA) Holding Corp.	United State of America	US$4,000,000 Preferred A shares	Resources recycling

(b) Unlisted equity securities with a carrying amount of HK$2,158,058 *(2007: HK$2,158,058)* 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.

The unlisted equity securities are measured at cost less impairment losses as they do not have quoted market prices in active markets and the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group plans to hold these investments for the foreseeable future.

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For the year ended 31 December 2008

22. INVENTORIES

	The Group	
	2008	2007
	HK$	HK$
Raw materials	**3,904,377**	4,664,731
Work-in-progress	**1,396,045**	1,165,073
Finished goods	**2,541,390**	3,341,268
	7,841,812	9,171,072

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

23. TRADE AND OTHER RECEIVABLES

	The Group	
	2008	2007
	HK$	HK$
Trade receivables		
From third parties	**28,748,894**	23,961,217
Other receivables		
Deposits, prepayment and other debtors	**7,760,619**	6,577,584
	36,509,513	30,538,801

The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days. Based on the invoice dates, the ageing analysis of the trade receivables is as follows:

	2008	2007
	HK$	HK$
0 – 30 days	**11,685,304**	11,283,061
31 – 90 days	**13,552,311**	8,216,978
Over 90 days	**3,511,279**	4,461,178
	28,748,894	23,961,217

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23. TRADE AND OTHER RECEIVABLES (Continued)

The ageing analysis of trade receivables that are not impaired, based on due date is as follows:

	2008 HK$	2007 HK$
Neither past due nor impaired	**19,268,201**	14,057,222
1 – 30 days past due	**5,619,588**	5,500,197
31 – 90 days past due	**1,440,993**	782,152
Over 90 days past due	**2,420,112**	3,621,646
	28,748,894	23,961,217

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.

24. PLEDGED BANK DEPOSITS

At the balance sheet date, bank deposits of HK$926,615 *(2007: HK$919,931)* were pledged by a subsidiary of the Company as collateral under certain bank loans for general working capital.

25. TRADE AND OTHER PAYABLES

	The Group	
	2008 HK$	2007 HK$
Trade payables		
To third parties	**18,305,738**	16,558,682
Other payables		
Accrued charges and other creditors	**4,414,817**	4,914,037
	22,720,555	21,472,719

Notes to the Financial Statements

For the year ended 31 December 2008

25. TRADE AND OTHER PAYABLES (Continued)

Based on the invoice dates, the ageing analysis of the trade payables is as follows:

	2008 HK$	2007 HK$
0 – 30 days	4,416,106	11,510,464
31 – 60 days	9,116,058	926,636
61 – 90 days	1,985,527	207,622
Over 90 days	2,788,047	3,913,960
	18,305,738	16,558,682

26. BORROWINGS

	The Group	
	2008 HK$	2007 HK$
Non-current		
Secured bank loans	1,454,874	5,184,794
Obligations under finance leases	6,362,321	–
	7,817,195	5,184,794
Current		
Secured bank loans	6,819,730	8,776,634
Obligations under finance leases	3,946,730	–
	10,766,460	8,776,634
Total borrowings	18,583,655	13,961,428

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26. BORROWINGS (Continued)

(a) Secured bank loans

At 31 December 2008, the Group's secured bank loans are repayable as follows:

	2008 **HK$**	2007 HK$
Within one year	**6,819,730**	8,776,634
In the second year	**1,454,874**	2,928,037
In the third to fifth year	**–**	2,256,757
Wholly repayable within 5 years	**8,274,604**	13,961,428

At the balance sheet date, the bank loans have an effective interest rate of 4.12% per annum *(2007: 5.5% per annum)* and are repayable ranging from four months to two years *(2007: from four months to three years)*. The above bank loans were secured by pledged deposits of HK$926,615 *(2007: HK$919,931)* (note 24), pledged plant and machinery of HK$6,879,741 *(2007: HK$10,903,487)* (note 33), corporate guarantee provided by the Company and its subsidiaries and personal guarantee provided by an equity holder of the Company.

(b) Obligations under finance leases

The analysis of the obligations under finance leases is as follows:

	Total minimum lease payments		**Present value of minimum lease payments**	
	2008 **HK$**	2007 HK$	**2008** **HK$**	2007 HK$
Amount payable:				
Within one year	**4,207,140**	–	**3,946,730**	–
Between one to two years	**4,207,140**	–	**4,064,834**	–
Between two to five years	**2,320,102**	–	**2,297,487**	–
	10,734,382	–	**10,309,051**	–
Future finance charges	**(425,331)**	–	**–**	–
Present value of lease obligations	**10,309,051**	–	**10,309,051**	–

The average lease term is three years and the average effective borrowing rate was 3.32% *(2007: 9%)*. 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 corporate guarantees provided by the Company and its subsidiaries.

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27. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% *(2007: 17.5%)*.

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

	The Group	
	2008	2007
	HK$	HK$
At 1 January	**(323,461)**	(159,582)
Income statement charge *(note 9)*	**(142,903)**	(163,879)
At 31 December	**(466,364)**	(323,461)

Recognised deferred tax assets (liabilities)

	The Group	
	2008	2007
	HK$	HK$
Depreciation allowances	**(466,364)**	(323,461)

Unrecognised deferred tax

The Group has not recognised deferred tax assets in respect of tax losses of HK$4,178,878 *(2007: HK$4,141,819)*. The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise benefits therefrom.

The Company

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

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28. SHARE CAPITAL

	2008		2007	
	Number of shares	**HK$**	Number of shares	HK$
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:				
Ordinary shares of HK$0.10 each				
At 1 January	**446,000,000**	**44,600,000**	320,000,000	32,000,000
Issue of shares upon placement of share *(note 1)*	**12,100,000**	**1,210,000**	114,000,000	11,400,000
Employee share option scheme – proceeds from shares issued	**–**	**–**	12,000,000	1,200,000
At 31 December	**458,100,000**	**45,810,000**	446,000,000	44,600,000

Note:

(1) Pursuant to a placing agreement dated 15 May 2008 made between the Company and a placing agent, the placing agent agreed to place, on a best effort basis, 20,000,000 shares to the places, who and whose ultimate beneficial owners will be independent third parties, at a subscription price of HK$1.48 per share.

On completion of the subscription on 4 July 2008, 12,100,000 shares of HK$0.10 each were issued and allotted to not less than six placees at a consideration of HK$1.48 per share. The net proceeds were used to invest in Hota (USA) Holding Corp. and for general working capital.

29. SHARE OPTION SCHEME

Pursuant to the resolution passed by the shareholders of the Company at the extraordinary general meeting of the Company dated 8 January 2008, a new share option scheme (the "New Share Option Scheme") was approved and adopted. The summary of the terms of the share option scheme is set out below.

The purpose of the New Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. Under the New Share Option Scheme, the board of Directors 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 grant, 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 grant and (iii) the nominal value of a share.

Notes to the Financial Statements

For the year ended 31 December 2008

29. SHARE OPTION SCHEME (Continued)

The total number of shares which may be issued upon exercise of all options which may be granted under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the Scheme.

The option period in respect of any particular option shall be determined by the board of Directors, provided that no option shall be exercisable after ten years from the date of its grant.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

On 17 November 2008, options to subscribe for an aggregate of 3,700,000 shares at an exercise price of HK$0.93 per share were granted by the Company to the Directors and certain employees of the Group.

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

Name of participant	At 1 January 2008	Granted during the year	At 31 December 2008	Date of Grant	Exercisable period	Exercise price HK$
Directors						
Lily Wu	–	1,000,000	1,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Ho Lut Wa, Anton	–	1,000,000	1,000,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Chang Wei Wen	–	800,000	800,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Leung Quan Yue, Michelle	–	500,000	500,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
Other employees						
In aggregate	–	400,000	400,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
	–	3,700,000	3,700,000			
Weighted average exercise price	–	0.93	0.93			

The above share options were fully vested at the date of grant.

Notes to the Financial Statements

For the year ended 31 December 2008

29. SHARE OPTION SCHEME (Continued)

The options outstanding at 31 December 2008 had an exercise price of HK$0.93 (2007: HK$Nil) and a weighted average remaining contractual life of 10 years (2007: Nil years).

The fair values of options granted during 2008 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included a share price of HK$0.90, an option life of 10 years and exercise price as illustrated above. Furthermore, the calculation takes into account future dividends of HK$Nil and a volatility rate of 91.94%, based on expected share price. Risk-free interest rate was determined at 0%.

The underlying expected volatility was determined by reference to historical data, adjusted for any expected changes to future volatility based on publicly available information. No special features pertinent to the options granted were incorporated into measurement of fair value.

In total, HK$2,448,014 of share-base payments expense has been included in the consolidated income statement for 2008 *(2007: HK$Nil)* the corresponding amount of which has been credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

30. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

The contributed surplus of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the share capital of the Company issued in exchange therefor less share issue expenses.

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

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$2,854,496 *(2007: HK$1,765,721)*.

Notes to the Financial Statements

For the year ended 31 December 2008

30. RESERVES (Continued)

The Company

	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Accumulated losses HK$	Total HK$
At 1 January 2007	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 and 1 January 2008	**52,760,159**	**–**	**7**	**(1,286,122)**	**51,474,044**
Loss for the year	–	–	–	(4,989,535)	(4,989,535)
Issue of new shares on placement	16,698,000	–	–	–	16,698,000
Final dividend in respect of the previous financial year	(6,690,000)	–	–	–	(6,690,000)
Share issue expenses	(951,680)	–	–	–	(951,680)
Share-based payments	–	2,448,014	–	–	2,448,014
At 31 December 2008	**61,816,479**	**2,448,014**	**7**	**(6,275,657)**	**57,988,843**

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.

31. 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$12,035,274 *(2007: HK$Nil)*.

32. RELATED PARTY TRANSACTIONS

Members of key management during the year comprised only the executive Directors whose remunerations are set out in note 14 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.

Notes to the Financial Statements

For the year ended 31 December 2008

33. PLEDGE OF ASSETS

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

	2008 HK$	2007 HK$
Plant and machinery	6,879,741	10,903,487
Pledged deposits	926,615	919,931
	7,806,356	11,823,418

34. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, 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 minimise 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 currency risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.1 Categories of financial assets and liabilities

The carrying amounts presented in the balance sheets relate to the following categories of financial assets and financial liabilities.

	The Group		The Company	
	2008 **HK$**	2007 HK$	**2008** **HK$**	2007 HK$
Financial assets				
Loans and receivables				
– Trade and other receivables	**36,509,513**	30,538,801	**442,630**	2,838,173
– Pledged deposits	**926,615**	919,931	**–**	–
– Bank balances and cash	**42,698,969**	54,178,958	**15,762,108**	24,854,397
– Due from subsidiaries	**–**	–	**61,141,493**	41,938,321
Available-for-sale financial assets				
– Investment in unlisted securities	**25,303,623**	–	**–**	–
– Investment in unlisted equity securities	**2,158,058**	2,158,058	**–**	–
	107,596,778	87,795,748	**77,346,231**	69,630,891
Financial liabilities measured at amortised cost				
– Trade and other payables	**22,720,555**	21,472,719	**502,378**	511,837
– Borrowings	**18,583,655**	13,961,428	**–**	–
	41,304,210	35,434,147	**502,378**	511,837

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.2 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. 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.

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 credit policy has been followed by the Group since prior years and is considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

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 23% *(2007: 24%)* of the total trade and other receivables was due from the Group's largest customer and 52% from the five largest customers of the Group as at 31 December 2008 *(2007: 82%)*.

Hence, the maximum exposure to credit risk is represented by the carrying amounts of bank balances and cash, pledged deposits, trade and other receivables and amounts due from subsidiaries in the consolidated and the company balance sheets. 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.

34.3 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

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 liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.3 Liquidity risk (Continued)

The table below analyses the Group's and the Company'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.

The 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 2008					
Trade and other payables	**22,720,555**	**–**	**–**	**–**	**–**
Bank loans	**5,267,293**	**552,763**	**1,105,526**	**1,474,034**	**–**
Obligations under finance leases	**1,051,785**	**1,051,785**	**2,103,570**	**4,207,140**	**2,320,102**
	29,039,633	**1,604,548**	**3,209,096**	**5,681,174**	**2,320,102**
At 31 December 2007					
Trade and other payables	21,472,719	–	–	–	–
Bank loans	783,362	6,584,211	2,572,199	3,133,449	2,307,658
	22,256,081	6,584,211	2,572,199	3,133,449	2,307,658

The Company

	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 2008					
Trade and other payables	**502,378**	**–**	**–**	**–**	**–**
At 31 December 2007					
Trade and other payables	511,837	–	–	–	–

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.4 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from bank deposits, borrowings and finance lease arrangements. Borrowings and finance lease arrangements issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages interest rate risk by monitoring its interest rate profile as set out in note 26. The Group conducts periodical review to determine preferred interest rates mix appropriate for the business profile. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The policy to manage interest rate risk has been followed by the Group since prior years is considered to be effective.

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax for the year and equity to a possible change in interest rates of +/- 0.5% *(2007: +/- 0.5%)*, with effect from the beginning of the year. The calculations are based on the Group's financial assets and liabilities held at the balance sheet date. All other variables are held constant.

The Group

	Profit for the year and retained earnings HK$	
	+0.5%	-0.5%
31 December 2008	**104,000**	**(104,000)**
31 December 2007	170,000	(170,000)

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual balance sheet date.

The sensitivity analysis included in the financial statements of the year ended 31 December 2007 has been prepared on the same basis.

The Company does not have any exposures to interest rate at the balance sheet date *(2007: Nil)*.

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.5 Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group's exposures to price risk arise from its investment in securities classified as available-for-sale financial assets. The Group has not formulated a policy to manage the price risk.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to price risk at the reporting dates.

If the share price input to the valuation model had been 10% higher or lower while all other variables were held constant, the profit or loss for the year and the retained earnings would not be affected but other components of equity would have increased or decreased by approximately HK$2,546,491 *(2007: HK$Nil)*.

It is also assumed that none of the Group's available-for-sale financial assets would be considered impaired as a result of a reasonably possible decrease in the share price.

The Company does not have any exposures to price risk at the balance sheet date *(2007: Nil)*.

34.6 Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in Renminbi ("RMB"), Great British Pounds ("GBP"), Euro ("EUR") and United Stated Dollars ("US$"). These are not the functional currencies of the Group entities to which these transactions relate.

To mitigate the Group's exposure to foreign currency risk, cash flows in foreign currencies are monitored into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short term foreign currency cash flows (due within 6 months) from longer term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

The policy to manage foreign currency risk has been followed by the Group since prior years and is considered to be effective.

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.6 Foreign currency risk (Continued)

Summary of exposure

Foreign currency denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

The Group

	2008				2007			
	RMB HK$	US$ HK$	GBP HK$	EUR HK$	RMB HK$	US$ HK$	GBP HK$	EUR HK$
Trade receivables	12,328,000	18,542,000	–	2,849,000	–	14,193,000	–	1,414,000
Bank balances and cash	2,275,000	7,442,000	–	–	7,000	9,380,000	–	–
Trade payables	(19,652,000)	(2,354,000)	(134,000)	(166,000)	(14,000)	(1,285,000)	(213,000)	–
Gross exposure arising from recognised financial assets	(5,049,000)	23,630,000	(134,000)	2,683,000	(7,000)	22,288,000	(213,000)	1,414,000

The company does not have any exposures to foreign currencies at the balance sheet date *(2007: Nil)*.

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.6 Foreign currency risk (Continued)

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax for the year and equity in regards to a 10% (2007: 10%) appreciation in the group entities' functional currencies against the respective foreign currencies. The 10% is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the balance sheet date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

The Group

	2008				2007			
	RMB	**US$**	**GBP**	**EUR**	RMB	US$	GBP	EUR
	HK$	**HK$**	**HK$**	**HK$**	HK$	HK$	HK$	HK$
Profit for the year and retained earnings	**422,000**	**(1,973,000)**	**11,000**	**(224,000)**	–	(1,839,000)	17,000	(117,000)

A 10% depreciation in the group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit for the year and equity but of opposite effect.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 December 2007.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

Notes to the Financial Statements

For the year ended 31 December 2008

34. FINANCIAL RISK MANAGEMENT (Continued)

34.7 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 2008 and 2007.

(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.

Available-for-sale financial instruments

The estimate of the fair value of the available-for-sale financial assets is measured using the valuation techniques, such as estimated discounted cash flows.

35. CAPITAL 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 2008 was 11.9% compared to 10.3% at 31 December 2007.

Notes to the Financial Statements

For the year ended 31 December 2008

36. COMMITMENTS

Capital commitments

	The Group	
	2008	2007
	HK$	HK$
Property, plant and equipment		
Contracted but not provided for	**611,111**	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	
	2008	2007
	HK$	HK$
Within one year	**2,167,665**	2,734,495
In the second to fifth year inclusive	**1,070,400**	5,129,293
	3,238,065	7,863,788

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

37. FINANCIAL GUARANTEE CONTRACTS

The Company and subsidiaries have provided guarantees of repayment in respect of bank loans and finance leases obligations of other subsidiaries amounting to HK$44,053,552 *(2007: HK$17,000,000)* of which HK$18,583,655 *(2007: HK$13,961,428)* was outstanding as at 31 December 2008.

38. COMPARATIVE FIGURES

The comparative information regarding segment reporting has been reclassified to conform to the current year's presentation, because of the change in the Group's internal financial reporting.

Financial Summary

For the year ended 31 December 2008

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 2008:

COMBINED RESULTS

	2004 HK$	2005 HK$	2006 HK$	2007 HK$	**2008** **HK$**
Revenue	61,293,427	58,810,261	73,782,948	117,199,695	**140,352,099**
Profit (Loss) from operations	5,113,199	(873,418)	1,726,353	9,839,952	**7,935,154**
Finance costs	(215,847)	(490,539)	(803,856)	(457,885)	**(498,100)**
Profit (Loss) before income tax	4,897,352	(1,363,957)	922,497	9,382,067	**7,437,054**
Income tax expense	(206,021)	(643,752)	(842,793)	(1,382,014)	**(3,059,752)**
Net profit (loss) attributable to the equity holders	4,691,331	(2,007,709)	79,704	8,000,053	**4,377,302**
Earnings (loss) per share					
Basic	1.47 cents	(0.63) cents	0.025 cents	2.03 cents	**0.97 cents**
Diluted	N/A	N/A	N/A	2.01 cents	**0.97 cents**

COMBINED ASSETS AND LIABILITIES

	2004 HK$	2005 HK$	2006 HK$	2007 HK$	**2008** **HK$**
Non-current assets	23,692,700	31,669,738	29,198,459	40,880,743	**68,776,410**
Current assets	45,202,490	39,813,595	48,036,364	94,931,672	**87,976,909**
Current liabilities	17,902,965	18,122,722	25,258,283	30,249,353	**35,013,182**
Non-current liabilities	955,896	4,965,234	2,818,305	5,508,255	**8,283,559**