Cardlink

Technology Group Limited

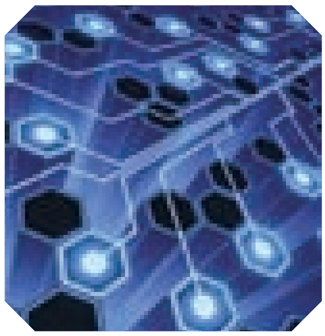
(Incorporated in the Cayman Islands with limited liability)

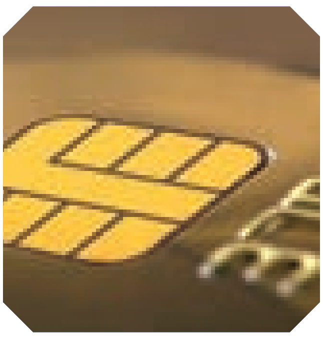
Annual Report 2009

Stock Code: 8066

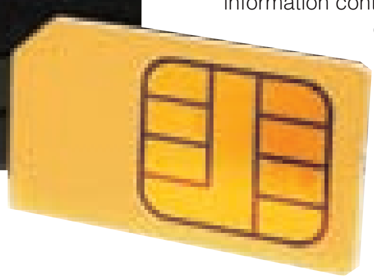
CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE").

Cardlink
Technology
Group Limited





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.



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.

Contents

Corporate Information

DIRECTORS

Executive Directors

Lily Wu *(Chairman and Chief Executive Officer)*
Chang Wei Wen
Leung Quan Yue, Michelle

Independent non-executive Directors

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

COMPLIANCE OFFICER

Lily Wu

QUALIFIED ACCOUNTANT

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Lily Wu
Chang Wei Wen

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Lily Wu
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
The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

Grant Thornton

WEBSITE ADDRESS

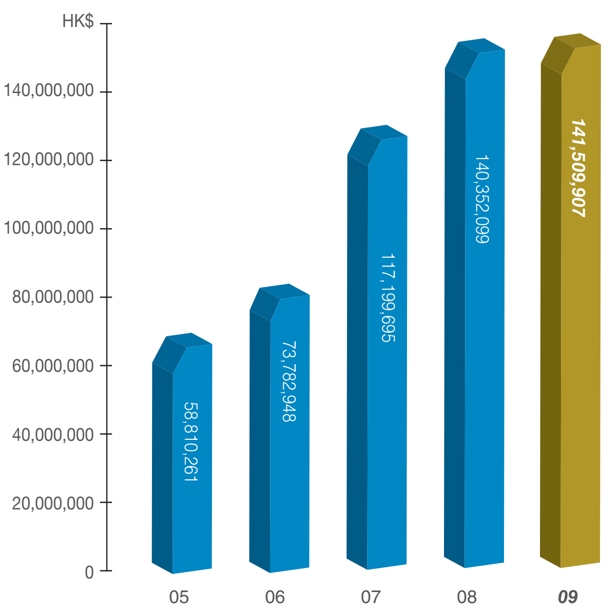
www.cardlink.com.hk

STOCK CODE

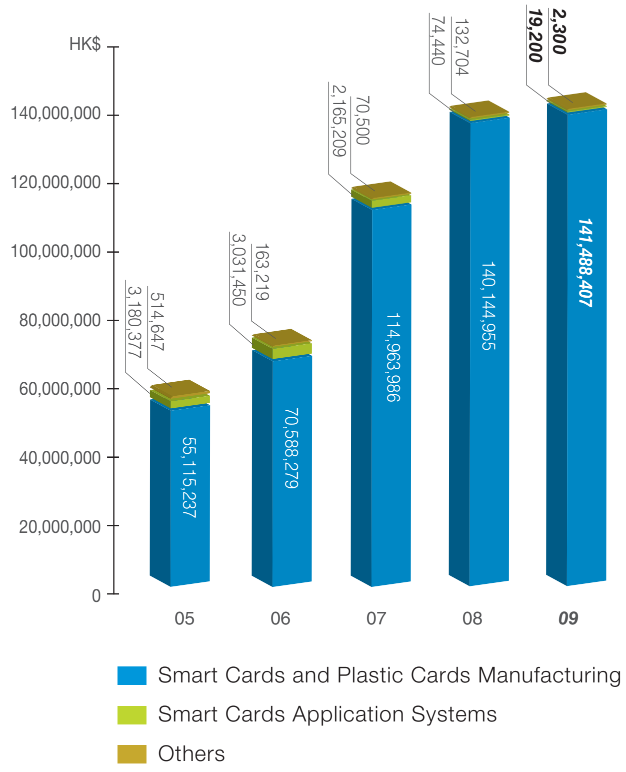
8066

Financial Highlights

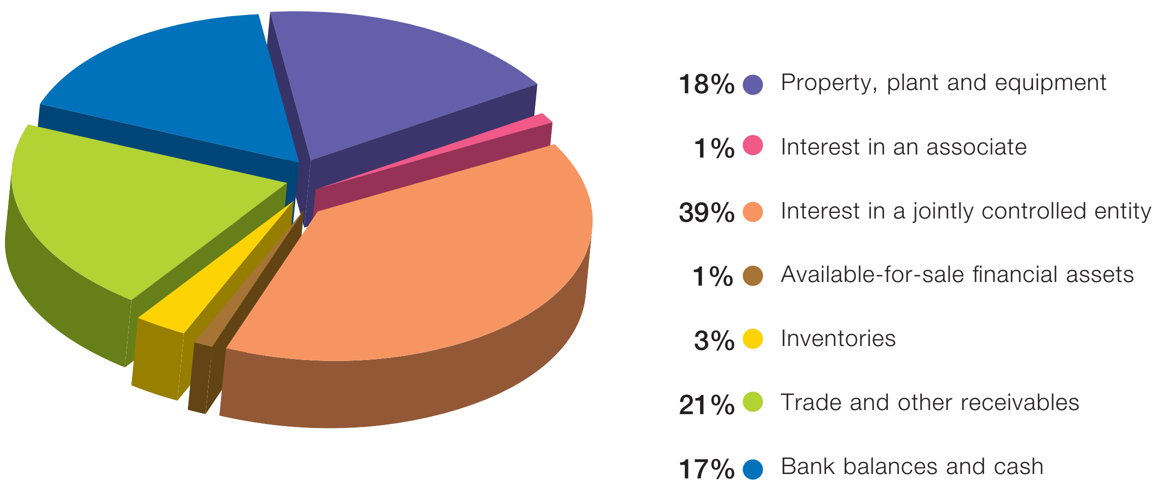
TURNOVER



TURNOVER BY SEGMENTS

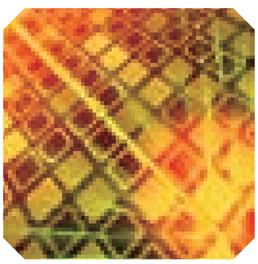


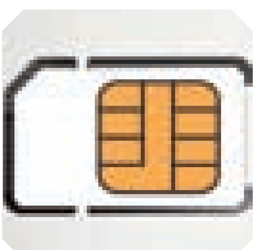
TOTAL ASSETS AT 31 DECEMBER 2009



Chairman's Statement

Cardlink
Technology
Group Limited





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 2009.*

RESULTS

For the year ended 31 December 2009, the Company recorded a consolidated turnover of HK$141.5 million *(2008: HK$140.4 million)* and profit attributable to owners of the Company of HK$10.3 million *(2008: HK$4.4 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 2009.

BUSINESS AND OPERATION 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 customised smart card application systems.

The Group faced a difficult year in 2009 as a result of the global economic downturn. Demand for SIM cards was weak in the first half of 2009 and the Group faced both sales and pricing pressures from the market. To cope with the difficult market environment, the Group managed to reduce its costs during the year by streamlining production and operations, including optimising internal resources, enhancing its cash management program, and negotiating with suppliers for better terms. Operating expenses were also scrutinised to improve efficiency. Fortunately, as the global economy recovered, Cardlink was well-positioned to take advantage as sales volume began to pick up in the third quarter and further improved in the fourth quarter.

The Group's core business of manufacturing and sales of smart cards and plastic cards continued to deliver excellent results. For four consecutive years, the Group has managed to achieve new records in turnover in this field. Despite industry-wide price pressure, the Group managed to achieve record-breaking turnover on smart cards and plastic cards of HK$141.5 million *(2008: HK$140.1 million)*. We believe Cardlink has increased its market share through greater volume, thanks to 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.

In terms of geographic breakdown, European sales continued to be the single largest market for the Group. Revenue derived from this market accounted for 34.5% of the Group's total revenue, but down by 5.6% from HK$51.8 million in 2008 to HK$48.9 million. Asia remains the second largest market for the Group. Revenue generated from this market amounted to HK$48.6 million, dropped slightly by 1.8%, and accounted for 34.3% of the Group's total revenue. The PRC market ranked the third largest market for the Group and accounted for 30.2% of the Group's total revenue. Revenue generated from this market rose significantly by 20.1%, from HK$35.6 million in 2008 to HK$42.8 million.

On the other hand, 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 in the coming year.

During the year under review, Fine Wise Holdings Limited ("Fine Wise"), an indirect wholly-owned subsidiary of the Company, entered into the Stock Purchase Agreement with Hota (USA) Holding Corp. ("Hota (USA)"), pursuant to which, Hota (USA), as issuer, has agreed to allot and issue, and Fine Wise, as subscriber, has agreed to subscribe for an additional 150,000 Series A Preferred Shares for an aggregate subscription price of USD6,000,000 at the subscription price of USD40 for each Series A Preferred Share. The closing of the subscription took place on 6 September 2009.

After closing, Fine Wise is legally and beneficially interested in 250,000 Series A Preferred Shares, representing approximately 74.07% of the entire Series A Preferred Shares in issue and 62.22% of the issued share capital of Hota (USA) as enlarged by the allotment and issue of 337,500 shares in the Hota common stock upon exercise of the conversion rights attaching to the 337,500 Series A Preferred Shares in full. Hota (USA) is treated as a jointly controlled entity of the Company.

During the year under review, the Group's share of losses of Hota (USA) and its subsidiaries amounted to HK$1.2 million. Hota's loss in 2009 is comprised of start-up operating expenses, as Hota is still in plant construction phase. Hota will only start manufacturing operations with initial revenue contributions in the second half 2010, so Cardlink will be recognising losses from Hota through most of 2010. In the long-term, the Board believes that the investment should provide the Group with direct exposure to the promising business opportunity presented by the recycling of metals and materials from scrapped automobiles and the sale of recovered metals and parts. Hota's business is not only a good potential growth and profit driver for the Group, it is also an environmentally significant operation to conserve the earth's metals resources, reduce the amount of auto waste disposed globally, and increase the amount of energy efficient recycled steel production in China.

During the year under review, the Company completed placements of a total of 30,000,000 new shares at HK$1.25 per share, raising gross and net proceeds of HK$37.5 million and HK$35.6 million, respectively. The Company also completed a private placing of a total of 61,620,000 warrants, at the warrant issue price of HK$0.025, to two subscribers. The Directors consider that the above placements would broaden the shareholder base and expand the capital base of the Company, as well as provide additional capital to the Group.

PROSPECTS

Looking forward, as the global financial crisis continues to affect the business environment in key markets such as Europe, we expect 2010 will be challenging, with likely some combination of both on-going 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

On behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, customers and business partners for their continued support. My thanks also go to the board members, and most of all, to management and all of our staff for their dedication and hard work.

Lily WU
Chairman

Hong Kong, 25 March 2010

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group's revenue was HK$141.5 million in 2009, representing a slight increase of 0.8% from HK$140.4 million in 2008.

Cost of Sales and Gross Profit

During the year under review, cost of sales increased by 0.3%, up from HK$94.0 million in 2008 to HK$94.3 million. This was due primarily to the increase in various direct costs, such as direct material costs, direct labor costs and depreciation expenses needed to meet the increased volume orders. Gross profit increased to HK$47.2 million, up by HK$0.8 million, or 1.8%, as compared to HK$46.4 million in 2008. Gross profit margin for the year ended 31 December 2009 also increased slightly to 33.4% as compared with 33.0% in last year. It was due primarily to our effective control measures on material costs and other overhead expenses despite the continuous price pressure from the market.

Other Income

Other income of HK$0.5 million (2008: HK$1.0 million) mainly comprised interest income, gain on disposal of fixed assets and income from written-off long outstanding payables. The decrease in 2009 reflected a lower interest rate environment, as well as less long outstanding payables being written off.

Selling and Distribution Costs

Selling and distribution costs decreased by 24.5% over last year to HK$6.3 million (2008: HK$8.4 million), was mainly due to the reduction in commission paid after restructuring of the sales team, and was also partly attributable to the drop in freight charges and other relating expenses as the costs were borne by 3rd party subcontractors when orders were subcontracted out.

Administrative Expenses

Administrative expenses also recorded a significant drop of HK$7.7 million or 24.9% over last year to HK$23.3 million (2008: HK$31.1 million). This was mainly due to the inclusion of the following items in 2008's figures:

(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; and

(ii) a loss on disposal of fixed assets of HK$3.9 million and other related taxes and expenses of HK$0.7 million recognised as a result of the cessation of operation of the plant in Dongguang and its subsequent disposal.

Finance Costs

In a lower interest rate environment and with less bank borrowings, the Group's finance costs were reduced by 28.8% to HK$0.4 million (2008: HK$0.5 million).

Share of Results of a Jointly Controlled Entity

Share of losses of a jointly controlled entity after tax was HK$1.2 million (2008: Nil). This was derived from the start-up losses incurred by the jointly controlled entity, Hota (USA), that is engaged in the recycling of metals and materials from scrapped automobiles and sale of recovered parts. Hota has secured its business licenses and land, and is in the stage of plant and facility construction now.

Income Tax Expense

Income tax expense of the Group in 2009 was HK$6.2 million, representing an increase of 103.8% as compared with HK$3.1 million in 2008. This was due mainly to:

(i) an under-provision of approximately HK$1.2 million was made during the year as a revised tax ruling in respect of the financial year ended 31 December 2008 was issued to Beijing Tecsun Venus Technology Limited, an indirect wholly-owned subsidiary of the Company, by the tax authority in Beijing. Under the new ruling, Beijing Tecsun Venus Technology Limited was not qualified for and hence was not entitled to certain tax concessions reserved for new technology companies. Accordingly, Beijing Tecsun Venus Technology Limited was subject to EIT at the rate of 25%, instead of 7.5%, for the year ended 31 December 2008; and

(ii) the increase in estimated taxable profits and tax rate for a subsidiary of the Company in Shenzhen.

As a result of the foregoing, profit attributable to the owners of the Company in 2009 amounted to HK$10.3 million, representing an increase of 135.3% as compared to HK$4.4 million in 2008.

PLACING OF NEW SHARES

On 12 August 2009, a placement of a total of 18,000,000 new shares of the Company at HK$1.25 per share was completed, raising gross and net proceeds of HK$22.5 million and approximately HK$21.4 million, respectively. Details of the placement of shares are set out in the Company's announcements dated 24 June 2009, 9 July 2009, 31 July 2009 and 12 August 2009.

On 14 September 2009, a further placement of a total of 12,000,000 new shares of the Company at HK$1.25 per share was completed, raising gross and net proceeds of HK$15.0 million and approximately HK$14.2 million, respectively. Details of the further placement of shares are set out in the Company's announcement dated 8 September 2009 and 14 September 2009.

PLACING OF NON-LISTED WARRANTS

On 8 September 2009, the Company as issuer entered into the conditional warrant placing agreements with two subscribers in relation to a private placing of a total of 61,620,000 warrants to the subscribers, at the warrant issue price of HK$0.025, of which Big Run Investment Co., Ltd subscribed for 21,620,000 warrants, and Kantor Holdings Limited subscribed for 40,000,000 warrants. The warrants entitle the subscribers to subscribe for the new shares of the Company at the subscription price of HK$1.125 per new share for a period of 18 months commencing from the date of issue of the warrants. The subscription price is subject to adjustments. Each warrant carries the right to subscribe for one new share of the Company. The placing was completed on 22 September 2009. Details of the placing are set out in the Company's announcements dated 9 September 2009 and 22 September 2009.

As at 31 December 2009, none of the unlisted warrants had been exercised and there were 61,620,000 warrants outstanding.

LIQUIDITY AND FINANCIAL RESOURCES/ CAPITAL STRUCTURE

During the year under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from placing of new shares and warrants. As at 31 December 2009, the Group had cash and bank balances of HK$33.9 million, finance leases payable of HK$6.4 million and a secured bank loan of HK$1.5 million.

As at 31 December 2009, 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 3.12% per annum and repayable in two years. In addition, the Group had a secured bank loan used for its working capital, and is bearing an effective interest rate of 4.01% per annum and repayable in one year.

As at 31 December 2009, the Group had current assets of HK$82.2 million and current liabilities of HK$33.1 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 2009, the Group employed a total of 597 employees, of which 14 were located in

Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$25.6 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 investments in Hota (USA) and 力欣房地產經紀（上海）有限公司, there were no other significant investments for the year ended 31 December 2009. Details of investment in Hota (USA) have been set out in "Business and Operation Review".

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 2009.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2009, there were no future plans for material investments or capital assets.

SEGMENTAL INFORMATION

Details have been set out in note 5 and are further elaborated under "Business and Operation Review" of this section.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2009, a bank deposit and certain plant and machinery with the carrying amounts of HK$926,972 and HK$4,885,374 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$36,837,280 *(2008: HK$44,053,552)* of which HK$7,817,194 *(2008: HK$18,583,655)* was outstanding as at 31 December 2009.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 4.0% as at 31 December 2009 *(2008: 11.9%)*. 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 *(2008: 1.5 HK cents)* for the year ended 31 December 2009.

Upon approval by the shareholders, the final dividend will be paid on or about 17 May 2010 to shareholders whose names appear on the register of members of the Company on 10 May 2010.

COMPETING INTERESTS

As at 31 December 2009, 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 2009, 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 2:00 p.m., on Monday, 10 May 2010, 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 Wednesday, 5 May 2010 to Monday, 10 May 2010, 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 4:30 p.m. on Tuesday, 4 May 2010.

PROPOSED CHANGE OF NAME OF THE COMPANY

The Board intends to put forward a proposal to the shareholders to approve the change of name of the Company from "Cardlink Technology Group Limited" to "Phoenitron Holdings Limited", and to adopt a new Chinese name "品創控股有限公司" to replace "鍇聯科技集團有限公司". Further announcement will be made by the Company as regards to the details of the proposed change of name of the Company in due course.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2009.

INTRODUCTION

The Board believes that good corporate governance practices are essential for effective management and enhancement of shareholder value and investor confidence. The Company has taken a proactive approach in strengthening corporate governance practices, increasing transparency and sustaining accountability to shareholders through effective internal controls, under the leadership of its experienced and committed Board.

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2009 with the exception of the code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Details relating to the foregoing deviation are summarized below.

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.

Code provision A.2.1. stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Ms. Lily Wu ("Ms. Wu") serves as the Chairman of the Board since 1 April 2006. Mr. Anton Ho, the former Chief Executive Officer, resigned from the post with effect from 1 January 2009 and the position was left vacant since his resignation. After due and careful consideration by the Board, Ms. Wu was further appointed as the Chief Executive Officer on 23 March 2009. The reasons for not splitting the roles of chairman and chief executive officer are (i) the size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; and (ii) the Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

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

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

The Board held a full board meeting in each quarter. The attendances of the Board meetings for the year ended 31 December 2009 are as follows:

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

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 2009.

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 Chairman and the Chief Executive Officer, 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 1 meeting during the year under review. Details of the attendance of the remuneration committee meetings are as follows:

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

NOMINATION OF DIRECTORS

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

AUDITORS' REMUNERATION

During the year ended 31 December 2009, 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	490
Non-audit services	
Taxation compliance services	53

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	4/4
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 2009 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

INTERNAL CONTROL

The Board has overall responsibility for the Group's systems of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the audit committee of the Company and the Board also performed 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 2009, 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 22 to 23.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 46, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 24 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. Ms. Wu earned a Bachelor of Science degree with Honors in Engineering from the California Institute of Technology.

LEUNG Quan Yue, Michelle, aged 44, 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 33, 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 when he assumed key management and operating responsibilities for the Group. He formerly 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEUNG Ka Kui Johnny, aged 53, 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 25 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, and EMCOM International Limited, a company whose shares are listed on GEM. 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 45, 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 23 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 45, 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 Karce International Holdings Company Limited, a company whose shares are listed on the Main board of the Stock Exchange, and Pan Asia Mining Limited, a company whose shares are listed on the GEM of the Stock Exchange. Mr. Chan was formerly an independent non-executive director of Prosperity Investment Holdings Limited (a company whose shares are listed on the Main Board of the Stock Exchange) and has resigned on 22 December 2009. 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 37, is the financial controller and the Company Secretary of the Group. Mr. Lau has over 13 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 2009.

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 2009 are set out in the consolidated statement of comprehensive income on page 24.

The Directors recommend the payment of a final dividend of 1.5 HK cents per share *(2008: 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 32 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 and Chief Executive Officer)*
Chang Wei Wen
Leung Quan Yue, Michelle

Independent non-executive Directors
Chan Siu Wing, Raymond
Leung Ka Kui, Johnny
Wong Ka Wai, Jeanne

In accordance with Article 87(1) of the Articles of Association, Mr. Leung Ka Kui, Johnny and Ms. Wong Ka Wai, Jeanne retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group 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 30 and 31 to the financial statements.

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$80,034,729 reserves available for distribution.

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

As at 31 December 2009, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of director	Type of interest	Number of ordinary shares of the Company	Number of underlying shares of the Company	Aggregate long positions in shares of the Company	Percentage of shareholding
Lily Wu	Personal Interest	–	1,000,000 *(Note 1)*	1,000,000	0.20
Chang Wei Wen	Personal Interest	–	800,000 *(Note 2)*	800,000	0.16
Leung Quan Yue, Michelle	Personal Interest	–	500,000 *(Note 3)*	500,000	0.10

Notes:

1. As at 31 December 2009, the named director held 1,000,000 share options conferring rights to subscribe for 1,000,000 shares.

2. As at 31 December 2009, the named director held 800,000 share options conferring rights to subscribe for 800,000 shares.

3. As at 31 December 2009, the named director held 500,000 share options conferring rights to subscribe for 500,000 shares.

Save as disclosed above, as at 31 December 2009, 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 2009, the following persons/companies had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Long positions in the shares of the Company

Name of shareholders	*Notes*	Number of ordinary shares held	Number of underlying shares held	Aggregate long positions in shares of the Company	Percentage of interests
Best Heaven Limited	*1*	83,300,000	–	83,300,000	17.03
Mr. Chu Chen Lin	*1*	83,300,000	–	83,300,000	17.03
Golden Dice Co., Ltd	*2*	82,400,000	–	82,400,000	16.85
Mr. Tsai Chi Yuan	*2*	82,400,000	–	82,400,000	16.85
Mr. Wang Tienan		31,115,000	–	31,115,000	6.36
Kantor Holdings Limited	*3, 4*	440,000	40,000,000	40,440,000	8.27
Ms. Lin Chin-Hung	*4*	440,000	40,000,000	40,440,000	8.27
Mr. Wang Jung-Tang	*5*	440,000	40,000,000	40,440,000	8.27

Notes:

1. Mr. Chu Chen Lin is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Best Heaven Limited.

2. Mr. Tsai Chi Yuan is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Golden Dice Co., Ltd.

3. As at 31 December 2009, Kantor Holdings Limited held 40,000,000 non-listed warrants conferring rights to subscribe for up to HK$45,000,000 in aggregate in cash for 40,000,000 new shares at a subscription price of HK$1.125 per share.

4. Ms. Lin Chin-Hung ("Ms. Lin") is deemed to be a substantial shareholder of the Company by virtue of her 100% beneficial interest in Kantor Holdings Limited.

5. Mr. Wang Jung-Tang is the spouse of Ms. Lin and is therefore deemed to be a substantial shareholder of the Company.

Save as disclosed above, as at 31 December 2009, 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	33%
– five largest customers in aggregate	86%

Purchases

– the largest supplier	31%
– five largest suppliers in aggregate	72%

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2009, 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 2009, 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.

SUFFICIENCY 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 88 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, 25 March 2010

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 24 to 87, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity 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.

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 2009 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
6th Floor, Nexxus Building,
41 Connaught Road Central
Hong Kong

25 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 HK$	2008 HK$
Revenue	6	**141,509,907**	140,352,099
Cost of sales		**(94,307,118)**	(93,986,143)
Gross profit		**47,202,789**	46,365,956
Other income	7	**501,974**	1,018,687
Selling and distribution costs		**(6,341,575)**	(8,398,535)
Administrative expenses		**(23,311,342)**	(31,050,954)
Finance costs	8	**(354,587)**	(498,100)
Share of results of a jointly controlled entity		**(1,161,881)**	–
Profit before income tax	9	**16,535,378**	7,437,054
Income tax expense	10	**(6,236,985)**	(3,059,752)
Profit for the year		**10,298,393**	4,377,302
Other comprehensive income			
Changes in fair value of available-for-sale financial assets		**9,607,620**	(5,915,760)
Reversal of revaluation of available-for-sale financial assets on derecognition		**(3,691,860)**	–
Exchange gain on translation of financial statements of foreign operations		**1,849,017**	2,225,895
Other comprehensive income for the year		**7,764,777**	(3,689,865)
Total comprehensive income for the year attributable to the owners of the Company		**18,063,170**	687,437
Earnings per share for profit attributable to the owners of the Company during the year	13		
– Basic		**2.19 cents**	0.97 cents
– Diluted		**2.16 cents**	0.97 cents

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$	2008 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	35,637,560	40,179,593
Interest in an associate	20	1,135,136	1,135,136
Interest in a jointly controlled entity	21	76,629,802	–
Available-for-sale financial assets	22	2,158,058	27,461,681
		115,560,556	68,776,410
Current assets			
Inventories	23	6,829,843	7,841,812
Trade and other receivables	24	41,483,512	36,509,513
Pledged bank deposits	25	926,972	926,615
Cash and cash equivalents	26	32,949,818	42,698,969
		82,190,145	87,976,909
Current liabilities			
Trade and other payables	27	26,217,755	22,720,555
Borrowings	28	5,521,649	10,766,460
Current tax liabilities		1,319,812	1,526,167
		33,059,216	35,013,182
Net current assets		49,130,929	52,963,727
Total assets less current liabilities		164,691,485	121,740,137
Non-current liabilities			
Borrowings	28	2,295,545	7,817,195
Deferred tax liabilities	29	4,707	466,364
		2,300,252	8,283,559
Net assets		162,391,233	113,456,578
EQUITY			
Share capital	30	48,910,000	45,810,000
Reserves	32	113,481,233	67,646,578
Total equity		162,391,233	113,456,578

Lily Wu
Director

Chang Wei Wen
Director

Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$	2008 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	19	132,596,236	88,096,483
Current assets			
Other receivables	24	451,914	442,630
Cash and cash equivalents	26	842,617	15,762,108
		1,294,531	16,204,738
Current liabilities			
Other payables	27	1,052,524	502,378
Net current assets		242,007	15,702,360
Net assets		132,838,243	103,798,843
EQUITY			
Share capital	30	48,910,000	45,810,000
Reserves	32	83,928,243	57,988,843
Total equity		132,838,243	103,798,843

Lily Wu
Director

Chang Wei Wen
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$	2008 HK$
Cash flows from operating activities			
Profit for the year before taxation		16,535,378	7,437,054
Adjustments for:			
Interest income	7	(41,749)	(327,519)
Depreciation	9	13,554,802	12,152,518
(Gain)/loss on disposal of property, plant and equipment	7,9	(31,702)	3,419,552
Foreign exchange		785,790	1,788,455
Finance costs	8	354,587	498,100
Share of results of a jointly controlled entity	21	1,161,881	–
Share-based payments	14	–	2,448,014
Operating profit before working capital changes		32,318,987	27,416,174
Decrease in inventories		1,011,969	1,329,260
Increase in trade and other receivables		(4,973,999)	(5,914,796)
Increase in trade and other payables		3,985,754	1,572,087
Cash generated from operations		32,342,711	24,402,725
Interest paid		(99,290)	(334,385)
Income taxes paid		(7,003,130)	(1,359,757)
Net cash generating from operating activities		25,240,291	22,708,583
Cash flows from investing activities			
Interest received		41,749	327,519
Purchase of property, plant and equipment		(8,638,700)	(9,865,136)
Purchase of available-for-sale financial assets		–	(31,219,383)
Investments in associates		–	(1,137,692)
Proceeds from disposal of property, plant and equipment		17,516	4,813,980
Acquisition of a jointly controlled entity		(46,572,300)	–
Increase in pledged bank deposits		(357)	(6,684)
Net cash used in investing activities		(55,152,092)	(37,087,396)
Cash flows from financing activities			
Interest element of finance leases rental paid		(255,297)	(163,715)
Proceeds from shares issued		38,430,000	17,908,000
Share issue expenses		(2,123,085)	(951,680)
Dividends paid		(6,871,500)	(6,690,000)
Proceeds from new bank loans		–	24,200,000
Repayments of bank loans		(6,819,730)	(29,886,824)
Capital element of finance leases rental paid		(3,946,731)	(1,726,223)
Proceeds from issue of unlisted warrants		1,540,500	–
Unlisted warrants issue expenses		(95,000)	–
Net cash generated from financing activities		19,859,157	2,689,558
Net decrease in cash and cash equivalents		(10,052,644)	(11,689,255)
Cash and cash equivalents at 1 January		42,698,969	54,178,958
Effect of foreign exchange rate changes		303,493	209,266
Cash and cash equivalents at 31 December	26	32,949,818	42,698,969

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital HK$	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Exchange difference HK$	Available-for-sale financial assets revaluation reserve HK$	Warrant reserve HK$	Accumulated profits HK$	Total HK$
At 1 January 2008	44,600,000	42,555,169	–	7	2,768,523	–	–	10,131,108	100,054,807
2007 final dividend paid during the year	–	(6,690,000)	–	–	–	–	–	–	(6,690,000)
Issue of new shares on placement	1,210,000	16,698,000	–	–	–	–	–	–	17,908,000
Share issue expenses	–	(951,680)	–	–	–	–	–	–	(951,680)
Share-based payment	–	–	2,448,014	–	–	–	–	–	2,448,014
Transactions with owners	1,210,000	9,056,320	2,448,014	–	–	–	–	–	12,714,334
Profit for the year	–	–	–	–	–	–	–	4,377,302	4,377,302
Other comprehensive income for the year									
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	(5,915,760)	–	–	(5,915,760)
– Currency translation	–	–	–	–	2,225,895	–	–	–	2,225,895
Total comprehensive income for the year	–	–	–	–	2,225,895	(5,915,760)	–	4,377,302	687,437
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**
At 1 January 2009	45,810,000	51,611,489	2,448,014	7	4,994,418	(5,915,760)	–	14,508,410	113,456,578
2008 final dividend paid during the year	–	(6,871,500)	–	–	–	–	–	–	(6,871,500)
Issue of new shares on placement	3,000,000	34,500,000	–	–	–	–	–	–	37,500,000
Issue of new shares upon exercise of share option	100,000	830,000	–	–	–	–	–	–	930,000
Share issue expenses	–	(2,132,515)	–	–	–	–	–	–	(2,132,515)
Issue of non-listing warrant	–	–	–	–	–	–	1,445,500	–	1,445,500
Transactions with owners	3,100,000	26,325,985	–	–	–	–	1,445,500	–	30,871,485
Profit for the year	–	–	–	–	–	–	–	10,298,393	10,298,393
Other comprehensive income									
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	9,607,620	–	–	9,607,620
– Reversal of revaluation on available-for-sale financial assets on derecognition	–	–	–	–	–	(3,691,860)	–	–	(3,691,860)
– Currency translation	–	–	–	–	1,849,017	–	–	–	1,849,017
Total comprehensive income for the year	–	–	–	–	1,849,017	5,915,760	–	10,298,393	18,063,170
At 31 December 2009	**48,910,000**	**77,937,474**	**2,448,014**	**7**	**6,843,435**	**–**	**1,445,500**	**24,806,803**	**162,391,233**

1. GENERAL INFORMATION

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

The financial statements for the year ended 31 December 2009 were approved for issued by the board of directors on 25 March 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 24 to 87 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").

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 adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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 and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

2.3 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.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends are recognised in the Company's profit or loss.

2.4 Associates and jointly controlled entities

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.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, an investment in an associate or a jointly controlled entity is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. 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 or jointly controlled entity's profit or loss in the period in which the investment is acquired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and jointly controlled entities (Continued)

Under the equity method, the Group's interest in the associate or jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate or jointly controlled entity'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 profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity for the year, including any impairment loss on the investment in associate or jointly controlled entity recognised for the year.

Unrealised gains on transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group's interest in the associates or jointly controlled entity. Where unrealised losses on assets sales between the Group and its associates or jointly controlled entities are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or jointly controlled entity 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 or jointly controlled entity's accounting policies to those of the Group when the associate or jointly controlled entity's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate or jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity. For this purpose, the Group's interest in the associate or jointly controlled entity 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 or jointly controlled entity.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates or jointly controlled entity. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate or jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate or jointly controlled entity and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or jointly controlled entity, including cash flows arising from the operations of the associate or jointly controlled entity and the proceeds on ultimate disposal of the investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 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 the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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 reporting 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 recognised in other comprehensive income and accumulated separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the costs 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 reporting 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 profit or loss.

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 profit or loss during the financial period in which they are incurred.

2.7 Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associate and jointly controlled entity 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.

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, in the case of investments not at fair value through profit or loss, 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 the end of each reporting period, 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 in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve 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 is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in the profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

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 profit or loss, and other changes are recognised in other comprehensive income.

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 the end of each reporting period subsequent to initial recognition.

Impairment of financial assets

At the end of each reporting period, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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 profit or loss 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 profit or loss of the period in which the reversal occurs.

(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 other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from and recognised in profit or loss 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 profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised directly in other comprehensive income. 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 profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Impairment of financial assets (Continued)

(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.

Financial assets other than 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 profit or loss.

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. Consequently, if the fair value of an available for sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. 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.

2.10 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial liabilities

The Group's financial liabilities include bank borrowings, trade and other payables and finance lease liabilities. They are included in the line items in the statement of financial position 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 in accordance with the Group's accounting policy for borrowing costs (see note 2.20).

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 profit or loss.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 2.13).

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 profit or loss 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 twelve months after the reporting date.

Trade payables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 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 profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss 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.

2.13 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Leases (Continued)

(ii) *Assets acquired under finance leases (Continued)*

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 profit or loss 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 profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges as the lessee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to the profit or loss in the accounting period in which they are incurred.

2.14 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 reporting period and adjusted to reflect the current best estimate.

2.15 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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.

2.17 Impairment of non-financial assets

Property, plant and equipment, interests in subsidiaries, interest in an associate and interest in a jointly controlled entity 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 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 statement of comprehensive income 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 the People's Republic of China (the "PRC") 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 statement of comprehensive income 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 end of the reporting period.

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

2.19 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Share-based employee compensation (Continued)

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

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

2.20 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.21 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 reporting 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 profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Accounting for income taxes (Continued)

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, associates and joint ventures, 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 reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

 (i) the same taxable entity; or

 (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets are where the assets are located.

Segment assets include all assets but investments in financial assets. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

No asymmetrical allocations have been applied to reportable segments.

2.23 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.

3. ADOPTION OF NEW OR AMENDED HKFRSS

In the current year, the Group has applied for the first time the following new standards, amendments 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 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various – Annual improvements to HKFRSs 2008	

Other than as noted below, the adoption of 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.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example revaluation of property, plant and equipment. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

3. ADOPTION OF NEW OR AMENDED HKFRSS (Continued)

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate (Continued)

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. Of these, the amendment to HKAS 28 Investments in Associates has changed the Group's accounting policies on allocation of impairment losses but did not have any impact of the current period results and financial position.

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

3. ADOPTION OF NEW OR AMENDED HKFRSS (Continued)

Annual improvements to HKFRSs 2008 (Continued)

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. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

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 provision policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the trade 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 at the end of each reporting period, 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, associates, jointly controlled entity and property, plant and equipment have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether the investment in available-for-sale financial assets and amounts due from subsidiaries are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these assets and entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

5. SEGMENT INFORMATION

The Group focuses on the sales of smart cards and plastic cards and smart card application systems. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and assessment performance is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available. Accordingly, no analysis is performed.

Geographical information:

The following table presents revenue from external customers and non-current assets information by geographical locations for the year.

	Revenue from external customers		Non-current assets	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Asia (domicile)	**48,606,522**	49,483,535	**–**	–
Europe	**48,857,876**	51,762,597	**–**	–
Hong Kong	**546,183**	1,028,907	**21,833,710**	25,102,408
PRC	**42,750,194**	35,586,062	**91,568,788**	16,212,321
Others	**749,132**	2,490,998	**–**	–
Total	**141,509,907**	140,352,099	**113,402,498**	41,314,729

The Group's revenue by geographical locations are determined by the geographical location of customers and segment assets are based on the geographical location of assets.

Information about major customers

	2009	2008
	HK$	HK$
Customer A	**46,454,495**	19,915,098
Customer B	**25,768,881**	17,776,775
Customer C	**25,464,867**	29,461,332
Customer D	**11,588,922**	13,669,749
Customer E	**2,843,613**	28,922,974

6. REVENUE

The Group's principal activities are disclosed in note 1 to these financial statements. Turnover of the Group is the revenue from these activities.

Revenue from the Group's principal activities recognised during the year is as follows:

	The Group	
	2009	2008
	HK$	HK$
Sales of smart cards and plastic cards	141,488,407	140,144,955
Sales of smart card application systems	19,200	74,440
Service and other income	2,300	132,704
	141,509,907	140,352,099

7. OTHER INCOME

	The Group	
	2009	2008
	HK$	HK$
Gain on disposal of property, plant and equipment, net	31,702	–
Interest income	41,749	327,519
Sundry income	428,523	691,168
	501,974	1,018,687

8. FINANCE COSTS

	The Group	
	2009	2008
	HK$	HK$
Interest on bank loans wholly repayable within five years	99,290	334,385
Finance charges on obligations under finance leases	255,297	163,715
	354,587	498,100

9. PROFIT BEFORE INCOME TAX

	The Group	
	2009	2008
	HK$	HK$
Profit before income tax is arrived at after charging:		
Auditors' remuneration		
Provision for the year	490,000	460,000
Underprovision in prior years	–	24,000
Bad debts written off	–	240,688
Costs of inventories recognised as an expense	94,307,118	93,986,143
Depreciation		
– Owned assets	10,893,649	10,736,961
– Leased assets	2,661,153	1,415,557
	13,554,802	12,152,518
Loss on disposal of property, plant and equipment, net	–	3,419,552
Net foreign exchange loss	2,626,584	3,465,846
Operating lease charges on land and buildings	3,676,094	3,460,789
Research and development costs	149,860	106,605

10. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Taxation for subsidiaries incorporated in the PRC is calculated on the estimated assessable profit for the year at the rates of taxation prevailing 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:

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	
	2009	2008
	HK$	HK$
Current tax		
– Hong Kong Profits Tax:		
Current year	**1,605,153**	2,218,000
Underprovision in prior year	**56,847**	–
	1,662,000	2,218,000
– PRC Enterprise Income Tax		
Current year	**3,798,489**	698,849
Underprovision in prior year	**1,238,153**	–
	5,036,642	698,849
Deferred tax		
Current year (note 29)	**(461,657)**	142,903
Total income tax expense	**6,236,985**	3,059,752

10. INCOME TAX EXPENSE (Continued)

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

	2009 HK$	2008 HK$
Profit before income tax	16,535,378	7,437,054
Income tax at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	2,728,337	1,227,111
Tax effect of non-deductible expenses	1,567,033	2,623,127
Tax effect of non-taxable revenue	(196,870)	(856,823)
Tax effect of unused tax losses not recognised	57,728	20,997
Tax effect of temporary differences not recognised	144,600	159,564
Under/(Over) provision in respect of prior year	1,295,000	(25,243)
Effect of different tax rates of subsidiaries operating in other jurisdictions	565,399	(48,636)
Others	75,758	(40,345)
Income tax expense	6,236,985	3,059,752

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of a loss of HK$1,832,085 (2008: HK$4,989,535) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year

	2009 HK$	2008 HK$
Proposed final dividend of 1.5 HK cents per share (2008: 1.5 HK cents)	7,336,500	6,871,500

The final dividend proposed after the reporting period has not been recognised.

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

	2009 HK$	2008 HK$
Final dividend in respect of the previous financial year, of 1.5 HK cents per share (2008: 1.5 HK cents)	6,871,500	6,690,000

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$10,298,393 (2008: HK$4,377,302) and the weighted average of 469,300,000 (2008: 451,983,880) 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 owners of the Company of HK$10,298,393 (2008: HK$4,377,302) and the weighted average of 476,655,748 (2008: 452,134,785) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2009	2008
Weighted average number of ordinary shares at 31 December	469,300,000	451,983,880
Effect of deemed issue of shares under the Company's share option scheme	1,023,788	150,905
Effect of deemed issue of shares on exercise of warrants	6,331,960	–
Weighted average number of ordinary shares (diluted) at 31 December	476,655,748	452,134,785

14. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	The Group 2009 HK$	2008 HK$
Salaries, wages and other benefits	23,926,363	24,389,188
Contributions to defined contribution plans	1,721,370	1,757,350
Share-based payments	–	2,448,014
	25,647,733	28,594,552

15. DIRECTORS' REMUNERATION

Directors' emoluments for the years ended 31 December 2009 and 2008 are as follows:

2009

Name	Fee HK$	Salaries, allowances and benefits in kind HK$	Retirement scheme contributions HK$	Share-based payments HK$	Total HK$
Executive Directors:					
Lily Wu	–	279,371	12,000	–	291,371
Leung Quan Yue, Michelle	–	120,000	6,000	–	126,000
Chang Wei Wen	–	573,333	21,000	–	594,333
	–	972,704	39,000	–	1,011,704
Independent non-executive Directors:					
Wong Ka Wai, Jeanne	60,000	–	–	–	60,000
Leung Ka Kui, Johnny	60,000	–	–	–	60,000
Chan Siu Wing, Raymond	60,000	–	–	–	60,000
	180,000	–	–	–	180,000
	180,000	972,704	39,000	–	1,191,704

15. DIRECTORS' REMUNERATION (Continued)

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

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2008: nil).

There was no arrangements under which a director waived or agreed to waive any emoluments during the year (2008: nil).

The value of share options granted to directors is measured according to the Group's accounting policy for share-based compensation set out in note 2.19. The details of these benefits in kind including the principal terms and number of options granted are disclosed in the directors' report.

16. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include two (2008: two) directors. The aggregate emoluments of the remaining three (2008: three) highest paid individuals are as follows:

	2009 HK$	2008 HK$
Salaries and allowances	2,406,751	2,900,776
Contributions to retirement scheme	28,855	36,000
Share-based payments	–	264,651
	2,435,606	3,201,427

The emoluments fell within the following bands:

	Number of individuals 2009	2008
Emolument bands		
Nil – HK$1,000,000	2	1
HK$1,000,001 – HK$1,500,000	1	2

Details of share options granted by the Company to employees are set out in note 31.

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 2009, the aggregate amount of employer's contribution made by the Group is HK$1,721,370 (2008: HK$1,757,350).

18. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Printing and testing equipment HK$	Office equipment HK$	Furniture and fixtures HK$	Leasehold improvement HK$	Motor vehicles HK$	Total HK$
At 1 January 2008						
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)
Exchange differences	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
Year ended 31 December 2009						
Opening net book amount	36,654,856	996,014	459,777	1,350,025	718,921	40,179,593
Additions	7,526,875	216,189	247,098	–	707,628	8,697,790
Disposals	–	(3,095)	(4,650)	–	(37,159)	(44,904)
Depreciation	(12,241,795)	(367,727)	(223,397)	(455,039)	(266,844)	(13,554,802)
Exchange differences	295,629	16,573	9,313	27,889	10,479	359,883
Closing net book amount	32,235,565	857,954	488,141	922,875	1,133,025	35,637,560
At 31 December 2009						
Cost	84,384,068	2,588,327	2,924,934	3,953,814	1,898,230	95,749,373
Accumulated depreciation	(52,148,503)	(1,730,373)	(2,436,793)	(3,030,939)	(765,205)	(60,111,813)
Net book amount	32,235,565	857,954	488,141	922,875	1,133,025	35,637,560

Printing and testing equipment of net book value of HK$9,229,054 (2008: HK$11,890,207) are held under finance leases.

19. INTERESTS IN SUBSIDIARIES – COMPANY

	2009 HK$	2008 HK$
Unlisted shares, at cost	**26,954,990**	26,954,990
Due from subsidiaries	**109,460,178**	63,509,036
Less: Provision for impairment	**(3,818,932)**	(2,367,543)
	132,596,236	88,096,483

The amounts due from subsidiaries are unsecured, interest-free and no fixed term of repayment.

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, ("BVI") 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

19. INTEREST IN SUBSIDIARIES – COMPANY (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	BVI, 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$10,000,000 registered capital	Smart card and plastic card manufacturing and sales
Ultra Force Holdings Limited	BVI, limited liability company	US$1 ordinary share	Investment holding
Waystech Group Limited	BVI, limited liability company	US$10,000 ordinary share	Investment holding
Waywise Step International Limited	BVI, limited liability company	US$100 ordinary share	Investment holding
World Praise International Limited	BVI, 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.

20. INTEREST IN AN ASSOCIATE – GROUP

	2009 HK$	2008 HK$
Share of net assets	**1,135,136**	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	RMB5,000,000 registered capital	20%	Real estate advisory

The associate has a reporting date of 31 December. The aggregate amount of the financial information of the associate is as follows:

	2009 HK$	2008 HK$
Assets	**6,392,924**	5,076,054
Liabilities	**(616,510)**	(160,045)
Revenues	**3,629,187**	1,219,352
Profit/(loss)	**861,576**	(761,991)

The Group has not incurred any contingent liabilities or other commitments relating to its investments in an associate.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP

	2009 HK$	2008 HK$
Share of net liabilities	(1,161,881)	–
Goodwill	77,791,683	–
	76,629,802	–

Details of the Group's interest in a jointly controlled entity which is an unlisted corporate entity, is as follows:

Name of joint venture	Form of business structure	Country/place of incorporation and operation	% of effective equity interest/voting right held indirectly	Principal activity
Hota (USA) Holding Corp. ("Hota (USA)")	Incorporated	United States of America/PRC	62.22%	Resources recycling

The Group's share of the jointly-controlled entity's assets, liabilities, income and expenses are as follows:

	2009 HK$	2008 HK$
Non-current assets	72,841,392	–
Current assets	33,980,396	–
Current liabilities	(12,660,345)	–
Non-current liabilities	(104,692,500)	–
Net liabilities	(10,531,057)	–
Income	40,593	–
Expenses	(1,202,474)	–
Profit for the year	(1,161,881)	–

The Group has not incurred any contingent liabilities or other commitment relating to its jointly controlled entity.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2009 HK$	2008 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: Provision for impairment	(2,300,000)	(2,300,000)
	2,158,058	2,158,058
	2,158,058	27,461,681

Notes:

(a) During the year ended 31 December 2009, the Group further acquired the Series A Preferred Shares issued by Hota USA with a principal amount of USD6,000,000 (approximately HK$46,800,000) (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 with a par value of US$0.0001 each. The Preferred Shares can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid dividend, before 3rd Quarter of 2012. As at 31 December 2009, the Group's investment in Hota USA is accounted for as interest in a jointly controlled entity (note 21).

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)	United States of America	US$4,000,000 Preferred A shares	Resources recycling

(b) Unlisted equity securities with a carrying amount of HK$2,158,058 (2008: 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.

23. INVENTORIES – GROUP

	2009 HK$	2008 HK$
Raw materials	2,878,171	3,904,377
Work-in-progress	1,711,626	1,396,045
Finished goods	2,240,046	2,541,390
	6,829,843	7,841,812

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

24. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Trade receivables				
From third parties	**35,896,851**	28,748,894	**–**	–
Other receivables				
Deposits, prepayment and other debtors	**5,586,661**	7,760,619	**451,914**	442,630
	41,483,512	36,509,513	**451,914**	442,630

The directors of the Group consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

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:

	2009	2008
	HK$	HK$
0 – 30 days	**13,304,669**	11,685,304
31 – 90 days	**20,375,613**	13,552,311
Over 90 days	**2,216,569**	3,511,279
	35,896,851	28,748,894

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

	2009	2008
	HK$	HK$
Neither past due nor impaired	**23,976,580**	19,268,201
1 – 30 days past due	**7,825,085**	5,619,588
31 – 90 days past due	**2,505,379**	1,440,993
Over 90 days past due	**1,589,807**	2,420,112
	35,896,851	28,748,894

24. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY (Continued)

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

Trade 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.

25. PLEDGED TIME DEPOSITS

Pledged time deposits have a maturity within one year. They have been pledged to secure bank borrowings (note 28).

26. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

Cash and cash equivalents include the following components:

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Cash at bank and in hand	**32,949,818**	27,043,870	**842,617**	107,010
Short-term bank deposits	**–**	15,655,099	**–**	15,655,098
Cash and cash equivalents as stated in the statement of financial position	**32,949,818**	42,698,969	**842,617**	15,762,108

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Denominated in:				
RMB	**10,506,657**	13,353,683	**–**	–
Hong Kong Dollars	**6,504,227**	21,822,374	**842,617**	15,762,108
USD	**15,938,934**	7,522,912	**–**	–
	32,949,818	42,698,969	**842,617**	15,762,108

26. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY (Continued)

The short-term bank deposits has no interest per annum (2008: 2.5% to 3%). They have a maturity of 30 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

The directors of the Group considered that the fair value of the short-term bank deposits is not materially different from their carrying amount because of the short maturity period on their inception.

Included in bank and cash balances of the Group is HK$10,506,657 (2008: HK$13,353,683) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

27. TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Trade payables				
To third parties	**20,511,904**	18,305,738	**–**	–
Other payables				
Accrued charges and other creditors	**5,705,851**	4,414,817	**1,052,524**	502,378
	26,217,755	22,720,555	**1,052,524**	502,378

The Group was granted by its suppliers credit periods ranging from 30 – 90 days. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	The Group	
	2009	2008
	HK$	HK$
0 – 30 days	**6,025,760**	4,416,106
31 – 60 days	**6,288,049**	9,116,058
61 – 90 days	**4,767,120**	1,985,527
Over 90 days	**3,430,975**	2,788,047
	20,511,904	18,305,738

All amounts are short term and hence the carrying values of the Group's trade and other payables are considered to be a reasonable approximation of fair value.

28. BORROWINGS – GROUP

	2009 HK$	2008 HK$
Non-current		
Secured bank loans	–	1,454,874
Obligations under finance leases	2,295,545	6,362,321
	2,295,545	7,817,195
Current		
Secured bank loans	1,454,874	6,819,730
Obligations under finance leases	4,066,775	3,946,730
	5,521,649	10,766,460
Total borrowings	7,817,194	18,583,655

(a) Secured bank loans

At 31 December 2009, the Group's secured bank loans are repayable as follows:

	2009 HK$	2008 HK$
Within one year	1,454,874	6,819,730
In the second year	–	1,454,874
Wholly repayable within 5 years	1,454,874	8,274,604

At the end of the reporting period, the bank loans have an effective interest rate of 4.01% per annum (2008: 4.12% per annum) and are repayable ranging from four months to two years (2008: from four months to two years). The above bank loans were secured by pledged deposits of HK$926,972 (2008: HK$926,615) (note 25), pledged plant and machinery of HK$4,885,374 (2008: HK$6,879,741) (note 35), corporate guarantee provided by the Company and its subsidiaries and personal guarantee provided by an owners of the Company.

28. BORROWINGS – GROUP (Continued)

(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	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Amount payable:				
Within one year	**4,202,029**	4,207,140	**4,066,775**	3,946,730
Between one to two years	**2,317,559**	4,207,140	**2,295,545**	4,064,834
Between two to five years	**–**	2,320,102	**–**	2,297,487
	6,519,588	10,734,382	**6,362,320**	10,309,051
Future finance charges	**(157,268)**	(425,331)	**–**	–
Present value of lease obligations	**6,362,320**	10,309,051	**6,362,320**	10,309,051

The Group has entered into finance leases for items of plant and machinery. The average lease term is three years and the average effective borrowing rate was 3.12% (2008: 3.32%). 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.

29. DEFERRED TAX – GROUP AND COMPANY

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2008: 16.5%).

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

	The Group 2009 HK$	2008 HK$
At 1 January	**(466,364)**	(323,461)
Credited/(Charged) to statement of comprehensive income *(note 10)*	**461,657**	(142,903)
At 31 December	**(4,707)**	(466,364)

Recognised deferred tax liabilities

	The Group 2009 HK$	2008 HK$
Depreciation allowances	**4,707**	(466,364)

Unrecognised deferred tax

The Group has not recognised deferred tax assets in respect of tax losses of HK$4,528,746 (2008: HK$4,178,878). 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.

Deferred tax liabilities of HK$685,683 (2008: HK601,307) have not been established for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries because the Company controls the dividend policy of these subsidiaries and it is not probable that the temporary differences will reverse in the foreseeable future. Such unremitted earnings for investments in subsidiaries totalled HK$8,525,789 at 31 December 2009 (2008: HK$6,699,573).

The Company

As at 31 December 2009, the Company had no significant unprovided deferred taxation (2008: nil).

30. SHARE CAPITAL

	2009 Number of shares	2009 HK$	2008 Number of shares	2008 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	**458,100,000**	**45,810,000**	446,000,000	44,600,000
Issue of shares upon placement of share *(note a)*	**30,000,000**	**3,000,000**	12,100,000	1,210,000
Issue of shares upon exercise of share options	**1,000,000**	**100,000**	–	–
At 31 December	**489,100,000**	**48,910,000**	458,100,000	45,810,000

Note:

(a) Pursuant to a placing agreement dated 24 June 2009 and 12 August 2009 made between the Company and a placing agent, the placing agent agreed to place, on a best effort basis, 28,000,000 shares and 12,000,000 shares respectively to the placees, who and whose ultimate beneficial owners will be independent third parties, at a subscription price of HK$1.25 per share.

On completion of the subscription on 12 August 2009 and 14 September 2009, 18,000,000 shares and 12,000,000 shares of HK$0.10 each were issued and allotted to not less than six placees at a consideration of HK$1.25 per share. The net proceeds were used to invest in Hota (USA) Holding Corp. and for general working capital.

31. 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.

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.

The share options were fully vested at the date of 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.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2009		2008	
	Number	Weighted Average exercise price HK$	Number	Weighted average exercise price HK$
Outstanding at 1 January	**3,700,000**	**0.93**	–	0.93
– Granted	**–**	**0.93**	3,700,000	0.93
– Exercised	**(1,000,000)**	**0.93**	–	0.93
Outstanding at 31 December	**2,700,000**	**0.93**	3,700,000	0.93
Exercisable at 31 December	**2,700,000**	**0.93**	3,700,000	0.93

31. SHARE OPTION SCHEME (Continued)

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

Name of participant	At 1 January 2009	Exercised during the year	At 31 December 2009	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	(1,000,000)	2,700,000			
Weighted average exercise price	0.93	0.93	0.93			

The weighted average share price for share options exercised during the year at the date of exercise was HK$1.28.

The options outstanding at 31 December 2009 had an exercise price of HK$0.93 and a weighted average remaining contractual life of 9 years (2008: 10 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$0.90, a option life of 10 years and exercise price as illustrated above. Furthermore, the calculation takes into account future dividends of HK$Nil and a volatility rate of 91.94%, based on expected share price. Risk-free interest rate was determined at 0%.

31. SHARE OPTION SCHEME (Continued)

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.

No share-base payments expense has been included in the consolidated statement of comprehensive income for 2009 (2008: HK$2,448,014) the corresponding amount of which has been credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

32. RESERVES – GROUP AND COMPANY

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$3,955,451 (2008: HK$2,854,496).

32. RESERVES – GROUP AND COMPANY (Continued)

The Company

	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Warrant reserve HK$	Accumulated loss HK$	Total HK$
At 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 and 1 January 2009	**61,816,479**	**2,448,014**	**7**	**–**	**(6,275,657)**	**57,988,843**
Loss for the year	–	–	–	–	(1,832,085)	(1,832,085)
Issue of new shares on placement	34,500,000	–	–	–	–	34,500,000
Issue of new shares upon exercise of share option	830,000	–	–	–	–	830,000
Final dividend in respect of the previous financial year	(6,871,500)	–	–	–	–	(6,871,500)
Share issue expenses	(2,132,515)	–	–	–	–	(2,132,515)
Issue of non-listing warrant	–	–	–	1,445,500	–	1,445,500
At 31 December 2009	**88,142,464**	**2,448,014**	**7**	**1,445,500**	**(8,107,742)**	**83,928,243**

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 therefore less share issue expenses.

33. MAJOR NON-CASH TRANSACTION

During the year, the Group did not further entered into finance lease arrangements not provided for in respect of assets with a total capital value at the inception of the lease. (2008: HK$12,035,274).

34. RELATED PARTY TRANSACTIONS

Members of key management during the year comprised only the executive directors whose remunerations are set out in note 15 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.

35. PLEDGE OF ASSETS – GROUP

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

	2009 HK$	2008 HK$
Plant and machinery	4,885,374	6,879,741
Pledged deposits	926,972	926,615
	5,812,346	7,806,356

36. COMMITMENTS – GROUP AND COMPANY

Capital commitments

	The Group 2009 HK$	2008 HK$
Property, plant and equipment		
Contracted but not provided for	591,364	611,111

The Company

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

36. COMMITMENTS – GROUP AND COMPANY (Continued)

Operating lease commitments

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

	The Group	
	2009	2008
	HK$	HK$
Within one year	**2,435,681**	2,167,665
In the second to fifth year inclusive	**917,831**	1,070,400
	3,353,512	3,238,065

The Group leases a number of properties under operating leases. The leases run for an initial period of one to two years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

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$36,837,280 (2008: HK$44,053,552) of which HK$7,817,194 (2008: HK$18,583,655) was outstanding as at 31 December 2009.

38. 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.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Categories of financial assets and liabilities

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

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables				
– Trade and other receivables	**37,189,100**	36,509,513	**–**	442,630
– Pledged deposits	**926,972**	926,615	**–**	–
– Bank balances and cash	**32,949,818**	42,698,969	**842,617**	15,762,108
– Due from subsidiaries	**–**	–	**105,641,246**	61,141,493
Available-for-sale financial assets				
– Investment in unlisted securities	**–**	25,303,623	**–**	–
– Investment in unlisted equity securities	**2,158,058**	2,158,058	**–**	–
	73,223,948	107,596,778	**106,483,863**	77,346,231
Financial liabilities measured at amortised cost				
– Trade and other payables	**25,000,880**	22,720,555	**1,052,524**	502,378
– Borrowings	**7,817,194**	18,583,655	**–**	–
	32,818,074	41,304,210	**1,052,524**	502,378

38. FINANCIAL RISK MANAGEMENT (Continued)

38.2 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 end of the reporting period, the Group does not hold any collateral from customers and the Group has a certain concentration of credit risk as 23% (2008: 23%) of the total trade and other receivables was due from the Group's largest customer and 68% from the five largest customers of the Group as at 31 December 2009 (2008: 52%).

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 company statements of financial position. 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.

38.3 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Liquidity risk (Continued)

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

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 end of the reporting period 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 2009					
Trade and other payables	**25,000,880**	**–**	**–**	**–**	**–**
Bank loans	**552,763**	**552,763**	**368,509**	**–**	**–**
Obligations under finance leases	**1,050,507**	**1,050,507**	**2,101,015**	**2,317,559**	**–**
	26,604,150	**1,603,270**	**2,469,524**	**2,317,559**	**–**
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

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Liquidity risk (Continued)

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 2009					
Financial guarantee contracts	**7,817,194**	**–**	**–**	**–**	**–**
Other payables	**1,052,524**	**–**	**–**	**–**	**–**
	8,869,718	**–**	**–**	**–**	**–**
At 31 December 2008					
Financial guarantee contracts	18,583,655	–	–	–	–
Other payables	502,378	–	–	–	–
	19,086,033	–	–	–	–

38.4 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 28. 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.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.4 Interest rate risk (Continued)

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% (2008:+/- 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 end of the reporting period. All other variables are held constant.

The Group

	Profit for the year and retained earnings HK$	
	+0.5%	– 0.5%
31 December 2009	**137,000**	**(137,000)**
31 December 2008	104,000	(104,000)

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 reporting period.

The sensitivity analysis included in the financial statements of the year ended 31 December 2008 has been prepared on the same basis.

The Company does not have material exposures to interest rate at the end of the reporting period (2008: nil).

38. FINANCIAL RISK MANAGEMENT (Continued)

38.5 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 analyses below have been determined based on the exposure to price risk at the reporting dates.

As at 31 December 2009, the Group does not hold any investment in unlisted securities at fair value, the Group is not subject to price risk.

As at 31 December 2008, 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.

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 end of the reporting period (2008: Nil).

38.6 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 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.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.6 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

	2009				2008			
	RMB HK$	US$ HK$	GBP HK$	EUR HK$	RMB HK$	US$ HK$	GBP HK$	EUR HK$
Trade receivables	24,000	23,285,000	–	160,000	–	18,542,000	–	2,849,000
Bank balances and cash	3,000	15,850,000	2,000	2,000	–	7,442,000	–	–
Trade payables	(17,000)	(4,207,000)	(237,000)	–	(17,000)	(2,354,000)	(134,000)	(166,000)
Gross exposure arising from recognised financial assets and liabilities	10,000	34,928,000	(235,000)	162,000	(17,000)	23,630,000	(134,000)	2,683,000

The Company does not have any exposures to foreign currencies at the end of the reporting period (2008: Nil).

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% (2008: 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 end of the reporting period 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.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.6 Foreign currency risk (Continued)

Sensitivity analysis (Continued)

The Group

	2009				2008			
	RMB	US$	GBP	EUR	RMB	US$	GBP	EUR
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Profit for the year and retained earnings	(1,000)	(2,916,000)	20,000	(14,000)	1000	(1,973,000)	11,000	(224,000)

An 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 2008.

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.

38.7 Fair value measurements recognized in the statement of financial position

The Group adopted the amendments to HKFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Company has taken advantage of the transitional provisions in the amendments to HKFRS 7 and accordingly, no comparatives for the hierarchy for fair value measurement disclosures have been presented.

38. FINANCIAL RISK MANAGEMENT (Continued)

38.7 Fair value measurements recognized in the statement of financial position (Continued)

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– *Level 1:* quoted prices (unadjusted) in active markets for identical assets and liabilities;

– *Level 2:* inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and

– *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

As at 31 December 2009, the Group does not have any financial assets measured at fair value in the statement of financial position, therefore, no information regarding fair value hierarchy is presented.

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.

39. 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 optima 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 debts.

The Group monitors capital on the basis of gearing ratio. The ratio is defined and calculated by the Group as total borrowings expressed as a percentage of total assets, at 31 December 2009 was 4.0% compared to 11.9% at 31 December 2008.

Financial Summary

For the year ended 31 December 2009

The following is a summary of the consolidated results and consolidated assets and liabilities of the Group for each of the five years ended 31 December 2009:

CONSOLIDATED RESULTS

	2005 HK$	2006 HK$	2007 HK$	2008 HK$	**2009 HK$**
Revenue	58,810,261	73,782,948	117,199,695	140,352,099	**141,509,907**
Profit/(Loss) from operations	(873,418)	1,726,353	9,839,952	7,935,154	**18,051,846**
Finance costs	(490,539)	(803,856)	(457,885)	(498,100)	**(354,587)**
Share of results of a jointly controlled entity	–	–	–	–	**(1,161,881)**
Profit/(Loss) before income tax	(1,363,957)	922,497	9,382,067	7,437,054	**16,535,378**
Income tax expense	(643,752)	(842,793)	(1,382,014)	(3,059,752)	**(6,236,985)**
Net profit/(loss) attributable to the owners	(2,007,709)	79,704	8,000,053	4,377,302	**10,298,393**
Earnings/(loss) per share					
Basic	(0.63) cents	0.025 cents	2.03 cents	0.97 cents	**2.19 cents**
Diluted	N/A	N/A	2.01 cents	0.97 cents	**2.16 cents**

CONSOLIDATED ASSETS AND LIABILITIES

	2005	2006	2007	2008	2009
Non-current assets	31,669,738	29,198,459	40,880,743	68,776,410	**115,560,556**
Current assets	39,813,595	48,036,364	94,931,672	87,976,909	**82,190,145**
Current liabilities	18,122,722	25,258,283	30,249,353	35,013,182	**33,059,216**
Non-current liabilities	4,965,234	2,818,305	5,508,255	8,283,559	**2,300,252**