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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Phoenitron Holdings Limited (the “**Company**”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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**PHOENITRON**  
**PHOENITRON HOLDINGS LIMITED**  
**品創控股有限公司**  
*(formerly known as Cardlink Technology Group Limited 錯聯科技集團有限公司)*  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 8066)**

**MAJOR TRANSACTION;**  
**DISCLOSURE PURSUANT TO RULE 17.18 OF THE GEM LISTING RULES**  
**AND**  
**NOTICE OF EXTRAORDINARY GENERAL MEETING**

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A notice convening an extraordinary general meeting (the “**EGM**”) of the Company to be held on Wednesday, 20 October 2010 at 11:00 a.m. at Unit 302, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong is set out on pages 65 to 66 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

*This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting.*

4 October 2010

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## CHARACTERISTICS OF GEM

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**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“Board”	the board of Directors
“Borrower”	Hota (USA) Holding Corp., a company organised and existing under and by virtue of the Delaware General Corporation Law, the United States of America
“Business Day(s)”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	Phoenitron Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Wednesday, 20 October 2010 at 11:00 a.m. to consider and, if thought fit, approve, among other matters, the Loan Agreement and the transactions contemplated thereunder
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hota Common Stock”	the common stock in the share capital of the Borrower of par value of USD0.0001 per share
“Hota Group”	the Borrower and the PRC Company
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons of the Company in accordance with the GEM Listing Rules

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## DEFINITIONS

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“Latest Practicable Date”	29 September 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Loan”	the loan in the principal amount of USD8,500,000 to be made available by the Company to the Borrower pursuant to the terms and conditions of the Loan Agreement
“Loan Agreement”	the loan agreement dated 23 August 2010 and entered into between the Company and the Borrower in relation to the grant of the Loan
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“PRC Company”	張家港永峰泰環保科技有限公司 (Hota Auto Recycling Corporation), a company established under the laws of the PRC, the wholly-owned subsidiary of the Borrower
“Repayment Date”	the date falling six months from the drawdown date of the Loan by the Borrower (or such other date as may be agreed between the Company and the Borrower)
“Series A Preferred Share(s)”	each a series A preferred share(s) of the Borrower, convertible into one share of the Hota Common Stock
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“USD”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

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## LETTER FROM THE BOARD

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PHOENITRON

### PHOENITRON HOLDINGS LIMITED

### 品創控股有限公司

(formerly known as Cardlink Technology Group Limited 錯聯科技集團有限公司)  
(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8066)

*Executive Directors:*

Ms. Lily Wu  
Ms. Leung Quan Yue, Michelle  
Mr. Chang Wei Wen

*Independent non-executive Directors:*

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

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

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

4 October 2010

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION;  
DISCLOSURE PURSUANT TO RULE 17.18 OF THE GEM LISTING RULES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

#### INTRODUCTION

Reference is made to the announcement of the Company dated 24 August 2010 in which the Board announced that on 23 August 2010, the Company entered into the conditional Loan Agreement with the Borrower in relation to the grant of the Loan in the amount of USD8,500,000.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide further details of the Loan Agreement and general information of the Group.

### **The Loan Agreement**

Date: 23 August 2010

Parties: The Company as the lender  
The Borrower

The Borrower is an investment holding company incorporated in the United States of America on 14 June 2006, the principal assets of which is its equity holdings in the entire issued share capital in the PRC Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Borrower and its ultimate beneficial owners are Independent Third Parties.

With reference to the announcement of the Company dated 16 September 2009, Fine Wise Holdings Limited, an indirect wholly-owned subsidiary of the Company, is legally and beneficially interested in 250,000 Series A Preferred Shares, representing (i) approximately 74.04% of the entire Series A Preferred Shares in issue; and (ii) approximately 62.22% of the issue share capital of the Borrower as enlarged by the allotment and issue of the 337,500 shares of Hota Common Stock upon exercise of the conversion rights attaching to the existing 337,500 Series A Preferred Shares in issue. The Borrower is treated as a jointly-controlled entity of the Company.

Apart from the previous subscription of 250,000 Series A Preferred Shares as disclosed in the announcements of the Company dated 30 July 2009 and 16 September 2009 respectively, the Company had no prior transactions or relationship with Hota (USA) or its beneficial owners which require aggregation under Rules 19.22 and 20.25 of the GEM Listing Rules.

Pursuant to the Loan Agreement, subject to the fulfillment of the conditions precedent, the Company has agreed to make the Loan in the amount of USD8,500,000 available to the Borrower. The Loan is unsecured.

The aggregate sum of the Loan to be deposited with the Borrower is determined after arm's length negotiations between the Borrower and the Company with reference to the amount required by the Hota Group in carrying its business.

### **Repayment**

The Borrower will repay the Loan together with any unpaid interest accrued thereon on the Repayment Date to the Company.

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## LETTER FROM THE BOARD

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If the Borrower fails to repay the Loan in the principal sum and/or any unpaid interest accrued thereon on the Repayment Date, the Company shall have absolute discretion and election to demand the Borrower to issue and allot ordinary shares or preferred shares of the Borrower to setoff against the entire outstanding amount of the Loan and/or any interest accrued thereon payable by the Borrower under the Loan Agreement, the terms of which shall be further negotiated and agreed between the parties if the possible loan capitalization is materialized. The Company will comply with the requirements of the GEM Listing Rules and will make further announcement in respect of the possible loan capitalization should any formal agreement be entered into as and when appropriate in accordance with the GEM Listing Rules.

### **Conditions of the Loan Agreement**

The Loan Agreement is conditional upon, among others, the following conditions having been fulfilled:

- (i) all necessary approvals, consents, authorisations and licences required to be obtained on the part of the Borrower in relation to the transactions contemplated under the Loan Agreement having been obtained;
- (ii) all representations and warranties made by the Borrower in the Loan Agreement or in connection herewith shall be true and correct with the same effect as though made on and as of drawdown date with reference to the facts and circumstances then subsisting;
- (iii) no event of default shall have occurred or potential event of default shall have occurred (or would be likely to occur as a result of the Loan being made); and
- (iv) if necessary, the passing by the Shareholders of ordinary resolution approving the transactions contemplated under the Loan Agreement.

### **Interest**

Interest shall be at the rate of 10% per annum accrued on the Loan drawn from the drawdown date of the Loan by the Borrower. The Borrower shall pay the Loan in the principal sum and interest accrued on the Loan on the Repayment Date in one lump sum.

### **Reasons for the entering into of the Loan Agreement**

The Borrower is an investment holding company incorporated in the United States of America and the principal assets of which is its equity holdings in the entire issued share capital in the PRC Company. The PRC Company is established under the laws of the PRC on 30 October 2007, and is principally engaged in the business of disintegration of used automobiles and sale of metal derived from automobiles.

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## LETTER FROM THE BOARD

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The Hota Group is one of the enterprises which have been granted permission by the State Environmental Protection Administration of the PRC to set up factory for processing of imported scrap automobiles in Zhangjiagang, PRC, and is the only foreign invested enterprise which is involved in environmental-friendly aspect of the automobile industry.

With reference to the announcement of the Company dated 12 August 2010, in view of the development plan of a station for re-manufacturing of used parts of second-handed automobiles in the Zhangjiagang Bonded Area as announced by the relevant authority in the PRC, the PRC Company intends to obtain permission from the relevant authority to commence its remanufacturing of used parts of second-handed automobiles business in the Zhangjiagang Bonded Area. The Loan is advanced by the Company to the Borrower for the purpose financing the Hota Group in the payment of (i) the set up of facilities and factories in Zhangjiagang; (ii) the commencement of its re-manufacturing of used parts of second-handed automobiles businesses in Zhangjiagang; and (iii) the general working capital of the Hota Group.

The Board believes that the Loan will enhance the development progress and profitability of the PRC Company which in return is in line with the investment plan of the Group to take part and develop in the disintegration of used automobiles and sale of metal industry which the Group considers is of great potential and prospect in the PRC.

The Directors have also considered the potential risks involved in the entering into of the Loan Agreement. In light that the Company may at its sole discretion and election to demand the Borrower to issue and allot ordinary shares or preferred shares of the Borrower to set-off against the entire outstanding amount of the Loan and/or any interest accrued thereon payable by the Borrower under the Loan Agreement, the Board considers that the benefits of the Loan Agreement override the potential risks.

Given as aforesaid, the Directors consider that the Loan Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties to the Loan Agreement and that the conditions and terms of the Loan Agreement are fair and reasonable and are in the interests of the Shareholders as a whole.

### **Financial effect of the Loan**

The provision of the Loan will contribute an interest income of approximately HK\$1,105,000 to the Group for the year ended 31 December 2010, which represents 10.73% on the audited net profit of the Group for the year ended 31 December 2009. The principal amount of the Loan represents 33.53% on the total assets as per the Company's audited consolidated financial statement as at 31 December 2009. The Loan is financed by the internal resources of the Group; no material impact will be bore upon the liabilities of the Group. The granting of the Loan does not have impact on the assets, both non-current and current assets, of the Group.

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## LETTER FROM THE BOARD

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### **LISTING RULES IMPLICATION**

The entering into of the Loan Agreement constitutes a major transaction on the part of the Company under the GEM Listing Rules and the grant of the Loan by the Company is subject to the approval of the Shareholders at the EGM. To the best of the Directors' knowledge, information and belief having made reasonable enquiries, no Shareholders have a material interest in the Loan Agreement and are required to abstain from voting at the EGM. The Company will seek Shareholders' approval for the Loan Agreement and the transactions contemplated thereunder.

The grant of the Loan by the Company also constitutes a financial assistance to affiliated companies of the Company under Rule 17.18 of the GEM Listing Rules and the details of which is disclosed herein in compliance with Rule 17.18 of the GEM Listing Rules.

### **EGM**

A notice convening the EGM to be held at Unit 302, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Wednesday, 20 October 2010 at 11:00 a.m. is set out on pages 65 to 66 of this circular.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### **RECOMMENDATION**

The Board considers that the terms of the grant of the Loan is fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM.

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## LETTER FROM THE BOARD

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### GENERAL

Your attention is drawn to the general information set out in the appendices of this circular.

By order of the Board  
**Phoenitron Holdings Limited**  
**Chang Wei Wen**  
*Executive Director*

## 1. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

During the six months ended 30 June 2010, the Group was principally engaged in the manufacturing and sales of smart cards and plastic cards, and the provision of customised smart card application systems. Through its 62.2% owned jointly controlled entity, the Group is also one of the largest licensed scrap auto importer and recyclers in China.

During the period under review, the Group recorded an unaudited revenue of about HK\$71,359,000 and unaudited profit attributable to the owners of the Company of about HK\$708,000. It is expected that the market competition continuous to be fierce and the Group will face both sales and pricing pressures. To help off-set the negative impact of the market environment, the Group will continue to streamline its production and operations, including optimising internal resources, enhancing its cash management program, and negotiating with suppliers for better terms. Operating expenses will also be scrutinized to improve efficiency.

During the period under review, the Group's share of losses of Hota (USA) and its subsidiaries amounted to HK\$1.6 million. Hota's loss in first half of 2010 is comprised of start-up operating expenses, as Hota is still in its initial plant construction phase. Hota should start manufacturing operations with initial revenue contributions sometime in the second half of 2010. The Board believes that the investment in Hota 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.

## 2. INDEBTEDNESS

As at 31 August 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as follows:

### **Borrowings**

As at 31 August 2010, the Group had outstanding borrowings of approximately HK\$16,568,000, comprising secured bank borrowings of HK\$12,903,000 and other borrowings of HK\$3,665,000.

Included in secured bank borrowing of HK\$2,728,000 was secured by certain property, plant and equipment with net book amount of approximately HK\$3,455,000. In addition to the above, part of the secured bank borrowing of HK\$10,074,000 was further secured by a corporate guarantee from the Company and HK\$101,000 was secured by the Group's bank deposits in amount of HK\$927,000.

All other borrowings were obligation under finance leases, repayable in fixed monthly principal installments plus interest.

**Contingent Liabilities**

As at 31 August 2010, the Group had no material contingent liabilities.

Saved as disclosed above, the Group did not have any other outstanding bank or other borrowings, mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, guarantee, liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments or other contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of the business on 31 August 2010.

Saved as disclosed above, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 August 2010.

**3. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Group including the internally generated funds, the present bank and other facilities, the Group will have sufficient working capital for at least twelve months from the date of this circular.

**4. FINANCIAL SUMMARY**

The following is a summary of the consolidated financial information of the Group for the three year ended 31 December 2009, as extracted from the relevant annual reports of the Company:

**Consolidated Results**

	<b>2007</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>	<b>2009</b> <i>HK\$</i>
Revenue	<u>117,199,695</u>	<u>140,352,099</u>	<u>141,509,907</u>
Profit from operations	9,839,952	7,935,154	18,051,846
Finance costs	(457,885)	(498,100)	(354,587)
Share of results of a jointly controlled entity	<u>–</u>	<u>–</u>	<u>(1,161,881)</u>
Profit before income tax	9,382,067	7,437,054	16,535,378
Income tax expense	<u>(1,382,014)</u>	<u>(3,059,752)</u>	<u>(6,236,985)</u>
Net profit attributable to the owners	<u>8,000,053</u>	<u>4,377,302</u>	<u>10,298,393</u>
Earnings per share			
Basic	<u>2.03 cents</u>	<u>0.97 cents</u>	<u>2.19 cents</u>
Diluted	<u>2.01 cents</u>	<u>0.97 cents</u>	<u>2.16 cents</u>

**Combined Assets and Liabilities**

Non-current assets	40,880,743	68,776,410	115,560,556
Current assets	94,931,672	87,976,909	82,190,145
Current liabilities	30,249,353	35,013,182	33,059,216
Non-current liabilities	<u>5,508,255</u>	<u>8,283,559</u>	<u>2,300,252</u>

## 5. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated statement of comprehensive income, consolidated statement of financial position, statement of financial position of the Company, consolidated statement of cash flows and consolidated statement of changes in equity together with the notes to the financial statements of the Group as extracted from pages 24 to 87 of the annual report of the Company for the year ended 31 December 2009. References to page numbers in this section are to the page numbers of such annual report of the Company.

**Consolidated Statement of Comprehensive Income**

*For the year ended 31 December 2009*

	<i>Notes</i>	<b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
<b>Revenue</b>	6	141,509,907	140,352,099
Cost of sales		<u>(94,307,118)</u>	<u>(93,986,143)</u>
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		<u>(1,161,881)</u>	<u>–</u>
<b>Profit before income tax</b>	9	16,535,378	7,437,054
Income tax expense	10	<u>(6,236,985)</u>	<u>(3,059,752)</u>
<b>Profit for the year</b>		<u>10,298,393</u>	<u>4,377,302</u>
<b>Other comprehensive income</b>			
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		<u>1,849,017</u>	<u>2,225,895</u>
Other comprehensive income for the year		7,764,777	(3,689,865)
<b>Total comprehensive income for the year attributable to the owners of the Company</b>		<u>18,063,170</u>	<u>687,437</u>
<b>Earnings per share for profit attributable to the owners of the Company during the year</b>	<i>13</i>		
– Basic		2.19 cents	0.97 cents
– Diluted		<u>2.16 cents</u>	<u>0.97 cents</u>

**Consolidated Statement of Financial Position***As at 31 December 2009*

	<i>Notes</i>	<b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
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
		<u>115,560,556</u>	<u>68,776,410</u>
<b>Current assets</b>			
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
		<u>82,190,145</u>	<u>87,976,909</u>
<b>Current liabilities</b>			
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
		<u>33,059,216</u>	<u>35,013,182</u>
<b>Net current assets</b>		<u>49,130,929</u>	<u>52,963,727</u>
<b>Total assets less current liabilities</b>		164,691,485	121,740,137
<b>Non-current liabilities</b>			
Borrowings	28	2,295,545	7,817,195
Deferred tax liabilities	29	4,707	466,364
		<u>2,300,252</u>	<u>8,283,559</u>
<b>Net assets</b>		<u>162,391,233</u>	<u>113,456,578</u>
<b>EQUITY</b>			
Share capital	30	48,910,000	45,810,000
Reserves	32	113,481,233	67,646,578
<b>Total equity</b>		<u>162,391,233</u>	<u>113,456,578</u>

**Statement of Financial Position***As at 31 December 2009*

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

**Consolidated Statement of Cash Flows**  
For the year ended 31 December 2009

	<i>Notes</i>	<b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
<b>Cash flows from operating activities</b>			
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
		<hr/>	<hr/>
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
		<hr/>	<hr/>
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)
		<hr/>	<hr/>
<b>Net cash generating from operating activities</b>		<b>25,240,291</b>	<b>22,708,583</b>
<b>Cash flows from investing activities</b>			
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)
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>(55,152,092)</b>	<b>(37,087,396)</b>
<b>Cash flows from financing activities</b>			
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)	–
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		<b>19,859,157</b>	<b>2,689,558</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(10,052,644)</b>	<b>(11,689,255)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>42,698,969</b>	<b>54,178,958</b>
Effect of foreign exchange rate changes		303,493	209,266
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	26	<b>32,949,818</b>	<b>42,698,969</b>
		<hr/> <hr/>	<hr/> <hr/>

**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
<b>Transactions with owners</b>	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
<b>Total comprehensive income for the year</b>	-	-	-	-	2,225,895	(5,915,760)	-	4,377,302	687,437
<b>At 31 December 2008</b>	<u>45,810,000</u>	<u>51,611,489</u>	<u>2,448,014</u>	<u>7</u>	<u>4,994,418</u>	<u>(5,915,760)</u>	<u>-</u>	<u>14,508,410</u>	<u>113,456,578</u>
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
<b>Transactions with owners</b>	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
<b>Total comprehensive income for the year</b>	-	-	-	-	1,849,017	5,915,760	-	10,298,393	18,063,170
<b>At 31 December 2009</b>	<u>48,910,000</u>	<u>77,937,474</u>	<u>2,448,014</u>	<u>7</u>	<u>6,843,435</u>	<u>-</u>	<u>1,445,500</u>	<u>24,806,803</u>	<u>162,391,233</u>

**Notes to the Financial Statements**

*For the year ended 31 December 2009*

**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.

**2.2 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.

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.

### **2.5 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.

### **2.6 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.

### 2.8 *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.

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.

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.

(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.

## **2.11 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.

### **2.12 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.

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.

#### **2.16 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.

### **2.18 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).

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.

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.

**2.22 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 policies 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.

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.

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	<u>141,509,907</u>	<u>140,352,099</u>	<u>113,402,498</u>	<u>41,314,729</u>

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	<u>2,843,613</u>	<u>28,922,974</u>

## 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	<u>2,300</u>	<u>132,704</u>
Total	<u>141,509,907</u>	<u>140,352,099</u>

## 7. Other Income

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

## 8. Finance Costs

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

## 9. Profit before Income Tax

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>
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
	<u>149,860</u>	<u>106,605</u>

**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.

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

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

	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>
Profit before income tax	<u><u>16,535,378</u></u>	<u><u>7,437,054</u></u>
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)
	<u>6,236,985</u>	<u>3,059,752</u>
Income tax expense	<u><u>6,236,985</u></u>	<u><u>3,059,752</u></u>

**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*

	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>
Proposed final dividend of 1.5 HK cents per share (2008: 1.5 HK cents)	<u>7,336,500</u>	<u>6,871,500</u>

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*

	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>
Final dividend in respect of the previous financial year, of 1.5 HK cents per share (2008: 1.5 HK cents)	<u>6,871,500</u>	<u>6,690,000</u>

**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)*

	<b>2009</b>	<b>2008</b>
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	<u>6,331,960</u>	<u>–</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>476,655,748</u>	<u>452,134,785</u>

## 14. Employee benefit Expense (including directors' emoluments)

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>
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
	<u>25,647,733</u>	<u>28,594,552</u>

## 15. Directors' Remuneration

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

**2009**

<b>Name</b>	<b>Fee</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Retirement scheme contributions</b>	<b>Share-based payments</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
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
	<u>–</u>	<u>972,704</u>	<u>39,000</u>	<u>–</u>	<u>1,011,704</u>
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
	<u>180,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>180,000</u>
	<u>180,000</u>	<u>972,704</u>	<u>39,000</u>	<u>–</u>	<u>1,191,704</u>

## 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:

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

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2009</b>	<b>2008</b>
Emolument bands		
Nil – HK\$1,000,000	2	1
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>2</u>

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	<u>33,346,703</u>	<u>961,023</u>	<u>667,815</u>	<u>3,080,876</u>	<u>666,268</u>	<u>38,722,685</u>
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	<u>36,654,856</u>	<u>996,014</u>	<u>459,777</u>	<u>1,350,025</u>	<u>718,921</u>	<u>40,179,593</u>
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	<u>36,654,856</u>	<u>996,014</u>	<u>459,777</u>	<u>1,350,025</u>	<u>718,921</u>	<u>40,179,593</u>
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	<u>32,235,565</u>	<u>857,954</u>	<u>488,141</u>	<u>922,875</u>	<u>1,133,025</u>	<u>35,637,560</u>
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	<u>32,235,565</u>	<u>857,954</u>	<u>488,141</u>	<u>922,875</u>	<u>1,133,025</u>	<u>35,637,560</u>

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
	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
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

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
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	–
	<u>76,629,802</u>	<u>–</u>

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	<u>(10,531,057)</u>	<u>–</u>
Income	40,593	–
Expenses	(1,202,474)	–
Profit for the year	<u>(1,161,881)</u>	<u>–</u>

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)
	<u>2,158,058</u>	<u>2,158,058</u>
	<u>2,158,058</u>	<u>27,461,681</u>

*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
	<u>6,829,843</u>	<u>7,841,812</u>

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 HK\$	2008 HK\$	2009 HK\$	2008 HK\$
<b>Trade receivables</b>				
From third parties	35,896,851	28,748,894	–	–
<b>Other receivables</b>				
Deposits, prepayment and other debtors	5,586,661	7,760,619	451,914	442,630
	<u>41,483,512</u>	<u>36,509,513</u>	<u>451,914</u>	<u>442,630</u>

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:

	<b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
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
	<u>35,896,851</u>	<u>28,748,894</u>

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

	<b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
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
	<u>35,896,851</u>	<u>28,748,894</u>

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:

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

	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	–	–
	<u>32,949,818</u>	<u>42,698,969</u>	<u>842,617</u>	<u>15,762,108</u>

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\$
<b>Trade payables</b>				
To third parties	20,511,904	18,305,738	–	–
<b>Other payables</b>				
Accrued charges and other creditors	<u>5,705,851</u>	<u>4,414,817</u>	<u>1,052,524</u>	<u>502,378</u>
	<u>26,217,755</u>	<u>22,720,555</u>	<u>1,052,524</u>	<u>502,378</u>

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	<u>3,430,975</u>	<u>2,788,047</u>
	<u>20,511,904</u>	<u>18,305,738</u>

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

*(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
	<u>1,454,874</u>	<u>8,274,604</u>

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.

*(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 HK\$	2008 HK\$	2009 HK\$	2008 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
	<u>6,519,588</u>	<u>10,734,382</u>	<u>6,362,320</u>	<u>10,309,051</u>
Future finance charges	(157,268)	(425,331)	–	–
Present value of lease obligations	<u><u>6,362,320</u></u>	<u><u>10,309,051</u></u>	<u><u>6,362,320</u></u>	<u><u>10,309,051</u></u>

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:

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>
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

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>
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		2008	
	<i>Number of shares</i>	<i>HK\$</i>	<i>Number of shares</i>	<i>HK\$</i>
Authorised:				
Ordinary shares of HK\$0.10 each				
At 1 January and 31 December	<u>1,000,000,000</u>	<u>100,000,000</u>	<u>1,000,000,000</u>	<u>100,000,000</u>
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 ( <i>note a</i> )	30,000,000	3,000,000	12,100,000	1,210,000
Issue of shares upon exercise of share options	<u>1,000,000</u>	<u>100,000</u>	<u>–</u>	<u>–</u>
At 31 December	<u>489,100,000</u>	<u>48,910,000</u>	<u>458,100,000</u>	<u>45,810,000</u>

*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.

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

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	
	<i>Number</i>	<b>Weighted Average exercise price <i>HK\$</i></b>	<i>Number</i>	<b>Weighted average exercise price <i>HK\$</i></b>
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
	<u>2,700,000</u>	<u>0.93</u>	<u>3,700,000</u>	<u>0.93</u>
Outstanding at 31 December	<u>2,700,000</u>	<u>0.93</u>	<u>3,700,000</u>	<u>0.93</u>
Exercisable at 31 December	<u>2,700,000</u>	<u>0.93</u>	<u>3,700,000</u>	<u>0.93</u>

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

<b>Name of participant</b>	<b>At 1 January 2009</b>	<b>Exercised during the year</b>	<b>At 31 December 2009</b>	<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price <i>HK\$</i></b>
<i>Directors</i>						
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
<i>Other employees</i>						
In aggregate	400,000	–	400,000	17 November 2008	17 November 2008 to 16 November 2018	0.93
	<u>3,700,000</u>	<u>(1,000,000)</u>	<u>2,700,000</u>			
Weighted average exercise price	<u>0.93</u>	<u>0.93</u>	<u>0.93</u>			

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%.

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).

*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	<u>88,142,464</u>	<u>2,448,014</u>	<u>7</u>	<u>1,445,500</u>	<u>(8,107,742)</u>	<u>83,928,243</u>

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:

	<b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
Plant and machinery	4,885,374	6,879,741
Pledged deposits	926,972	926,615
	<u>5,812,346</u>	<u>7,806,356</u>

**36. Commitments – Group and Company***Capital commitments*

	<b>The Group</b> <b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
Property, plant and equipment Contracted but not provided for	<u>591,364</u>	<u>611,111</u>

*The Company*

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

*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:

	<b>The Group</b> <b>2009</b> <i>HK\$</i>	<b>2008</b> <i>HK\$</i>
Within one year	2,435,681	2,167,665
In the second to fifth year inclusive	917,831	1,070,400
	<u>3,353,512</u>	<u>3,238,065</u>

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.

**38.1 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.

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Financial assets</b>				
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	–	–
	<u>73,223,948</u>	<u>107,596,778</u>	<u>106,483,863</u>	<u>77,346,231</u>
<b>Financial liabilities measured at amortised cost</b>				
– Trade and other payables	25,000,880	22,720,555	1,052,524	502,378
– Borrowings	7,817,194	18,583,655	–	–
	<u>32,818,074</u>	<u>41,304,210</u>	<u>1,052,524</u>	<u>502,378</u>

### **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.

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

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

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*

	<b>Less than 3 months HK\$</b>	<b>Between 3 and 6 months HK\$</b>	<b>Between 6 and 12 months HK\$</b>	<b>Between 1 and 2 years HK\$</b>	<b>Between 2 and 3 years HK\$</b>
<b>At 31 December 2009</b>					
Trade and other payables	25,000,880	–	–	–	–
Bank loans	552,763	552,763	368,509	–	–
Obligations under finance leases	<u>1,050,507</u>	<u>1,050,507</u>	<u>2,101,015</u>	<u>2,317,559</u>	<u>–</u>
	<u><u>26,604,150</u></u>	<u><u>1,603,270</u></u>	<u><u>2,469,524</u></u>	<u><u>2,317,559</u></u>	<u><u>–</u></u>
<b>At 31 December 2008</b>					
Trade and other payables	22,720,555	–	–	–	–
Bank loans	5,267,293	552,763	1,105,526	1,474,034	–
Obligations under finance leases	<u>1,051,785</u>	<u>1,051,785</u>	<u>2,103,570</u>	<u>4,207,140</u>	<u>2,320,102</u>
	<u><u>29,039,633</u></u>	<u><u>1,604,548</u></u>	<u><u>3,209,096</u></u>	<u><u>5,681,174</u></u>	<u><u>2,320,102</u></u>

*The Company*

	<b>Less than 3 months HK\$</b>	<b>Between 3 and 6 months HK\$</b>	<b>Between 6 and 12 months HK\$</b>	<b>Between 1 and 2 years HK\$</b>	<b>Between 2 and 3 years HK\$</b>
<b>At 31 December 2009</b>					
Financial guarantee contracts	7,817,194	–	–	–	–
Other payables	<u>1,052,524</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>8,869,718</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
<b>At 31 December 2008</b>					
Financial guarantee contracts	18,583,655	–	–	–	–
Other payables	<u>502,378</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>19,086,033</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

**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.

*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**

	<b>Profit for the year and retained earnings</b>	
	<i>HK\$</i>	
	+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).

**38.5 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 States 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.

*Summary of exposure*

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

	<b>The Group</b>							
	<b>2009</b>				<b>2008</b>			
	<b>RMB</b> <i>HK\$</i>	<b>US\$</b> <i>HK\$</i>	<b>GBP</b> <i>HK\$</i>	<b>EUR</b> <i>HK\$</i>	<b>RMB</b> <i>HK\$</i>	<b>US\$</b> <i>HK\$</i>	<b>GBP</b> <i>HK\$</i>	<b>EUR</b> <i>HK\$</i>
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	<u>10,000</u>	<u>34,928,000</u>	<u>(235,000)</u>	<u>162,000</u>	<u>(17,000)</u>	<u>23,630,000</u>	<u>(134,000)</u>	<u>2,683,000</u>

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.

	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)	1,000	(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.

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 optimal capital structure to reduce the cost of capital.

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

## **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2009, the date to which the latest published audited financial statements of the Group were made up.

**(1) RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this circular misleading.

**(2) DISCLOSURE OF INTERESTS****(a) Directors' and chief executives' interests and short position in shares, underlying shares and debentures**

As at the Latest Practicable Date, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

**(i) Interest in Shares:**

<b>Name of Director</b>	<b>Nature of interests</b>	<b>Number of Shares</b>	<b>Approximate percentage of shareholdings (%)</b>
Mr. Chang Wei Wen	Beneficial owner	800,000 (L)	0.16

*(L) Long position*

*(ii) Interest in share options:*

Name of Director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options granted
Ms. Lily Wu (Note 1)	8 January 2008	17 November 2008 to 16 November 2018	0.93	1,000,000
Ms. Leung Quan Yue, Michelle (Note 2)	8 January 2008	17 November 2008 to 16 November 2018	0.93	500,000

*Notes:*

1. Ms. Lily Wu, an executive Director, holds 1,000,000 share options conferring rights to subscribe for 1,000,000 Shares.
2. Ms. Leung Quan Yue, Michelle, an executive Director, holds 500,000 share options conferring rights to subscribe for 500,000 Shares.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the share of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were 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 are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Substantial Shareholders' and other persons' interests in Shares and underlying shares**

As at the Latest Practicable Date, the interests and short positions of persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company 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 are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

<b>Name of Shareholders</b>	<b>Nature of interests</b>	<b>Number of Shares</b>	<b>Approximate percentage of shareholdings (%)</b>
Mr. Chu Chen Lin ( <i>Note 1</i> )	Interest of controlled corporation	63,300,000 (L)	12.54
	Beneficial owner	63,300,000 (L)	12.54
Mr. Tsai Chi Yuan ( <i>Note 2</i> )	Interest of controlled corporation	82,400,000 (L)	16.32
	Beneficial owner	82,400,000 (L)	16.32

(L) Long position

Notes:

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

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**(3) DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**(4) COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors (as defined in the Listing Rules) or their respective associates has any interest in a business which competes or may compete with the business of the Group or have or may have any conflicts of interests with the Group.

**(5) LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**(6) MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date and which is or may be material:

1. the Loan Agreement;
2. the conditional warrant placing agreement dated 8 September 2009 and entered into between the Company and Big Run Investment Co., Ltd. in relation to the subscription of 21,620,000 non-listed warrants of the Company by Big Run Investment Co., Ltd.;
3. the conditional warrant placing agreement dated 8 September 2009 and entered into between the Company and Kantor Holdings Limited in relation to the subscription of 40,000,000 non-listed warrants of the Company by Kantor Holdings Limited;
4. the conditional placing agreement dated 7 September 2009 and entered into between the Company and KGI Capital Asia Limited as the placing agent in relation to the placing of a maximum of 12,000,000 Shares;
5. the conditional placing agreement dated 12 August 2009 and entered into between the Company and KGI Capital Asia Limited as the placing agent in relation to the placing of a maximum of 12,000,000 Shares;
6. the conditional stock purchase agreement dated 29 July 2009 and entered into between Fine Wise Holdings Limited and Hota (USA) Holding Corp. (“**Hota (USA)**”) relating to the subscription and issue of 150,000 series A preferred shares of Hota (USA);
7. the supplemental letter of intent dated 9 July 2009 and entered into between the Company and Hota (USA) to extend the proposed date of closing of the subscription by the Company of 150,000 series A preferred shares in Hota (USA);

8. the loan agreement dated 25 June 2009 and entered into between the Company as lender and Hota (USA) as borrower in relation to the grant of loan of USD500,000;
9. the conditional placing agreement dated 23 June 2009 and entered into between the Company and KGI Capital Asia Limited as the placing agent in relation to the placing of a maximum of 28,000,000 Shares; and
10. the letter of intent dated 10 June 2009 and entered into between the Company and Hota (USA) in relation to the subscription by the Company of 150,000 series A preferred shares in Hota (USA).

#### (7) EXPERT AND CONSENT

The following are the qualification of the expert who have given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Grant Thornton	Certified Public Accountants

Grant Thornton has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which it appears as at the Latest Practicable Date.

As at the Latest Practicable Date, Grant Thornton does not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Grant Thornton does not have any direct or indirect interests in any assets which had been since 31 December 2009, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, any members of the Group.

#### (8) MISCELLANEOUS

- (a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Group were made up.

- (c) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the head office and principal place of business in Hong Kong is at Unit 302, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The company secretary of the Company is Mr. Lau Ka Chung. Mr. Lau Ka Chung 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.
- (f) The compliance officer of the Company appointed under Rule 5.19 of the GEM Listing Rules is Ms. Lily Wu. Ms. Lily Wu holds a Bachelor of science degree with Honors in Engineering from the California Institute of Technology.
- (g) The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

Profile of each of the audit committee members is as follows:

**WONG Ka Wai, Jeanne**, aged 46, 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.

**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.

**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 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.

#### **(9) DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 302, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix II;
- (c) the written consents of the experts referred to in the paragraph headed "Expert and consent" in this appendix II;
- (d) the annual reports of the Company for each of the two financial years ended 31 December 2008 and 31 December 2009; and
- (e) a copy of this circular.

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## NOTICE OF EGM

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PHOENITRON

### PHOENITRON HOLDINGS LIMITED

### 品創控股有限公司

(formerly known as Cardlink Technology Group Limited 錯聯科技集團有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8066)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**Meeting**”) of Phoenitron Holdings Limited (the “**Company**”) will be held at Unit 302, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Wednesday, 20 October 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as ordinary resolution:

#### ORDINARY RESOLUTION

“**THAT**

- (a) the conditional loan agreement (the “**Loan Agreement**”, details of which are disclosed in the circular of the Company dated 4 October 2010 (the “**Circular**”) dated 23 August 2010 and entered into between the Company as lender and Hota (USA) Holding Corp. (“**Hota (USA)**”) as borrower in relation to the grant of the loan in the principal amount of USD8,500,000 to be made available by the Company to Hota (USA) pursuant to the terms and conditions of the Loan Agreement (a copy of the Agreement is marked “A” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and
- (b) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Loan Agreement and the transactions contemplated thereunder;

By order of the Board  
**Phoenitron Holdings Limited**  
**Chang Wei Wen**  
*Executive Director*

Hong Kong, 4 October 2010

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## NOTICE OF EGM

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*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Head office and principal place of*

*business in Hong Kong:*  
Unit 302, Seapower Centre  
73 Lei Muk Road  
Kwai Chung  
New Territories  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies (if the member is a holder of two or more shares) to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.