



CARDLINK TECHNOLOGY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

THIRD QUARTER RESULTS REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2002

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

HIGHLIGHTS

- The unaudited turnover of the Group for the nine months period ended 30 September 2002 was HK\$25,939,791.
- The directors do not recommend the payment of an interim dividend for the period ended 30 September 2002.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Directors”) of Cardlink Technology Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2002 together with the comparative figures for the corresponding periods in 2001 as follows:

	<i>Note</i>	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Turnover	2	13,723,895	11,872,995	25,939,791	33,882,418
Cost of sales		(11,353,691)	(5,434,142)	(18,886,661)	(17,445,625)
Gross profit		2,370,204	6,438,853	7,053,130	16,436,793
Other revenue		408,925	46,390	807,038	212,819
Gain on disposal of investments		—	78,165	—	133,927
Selling and distribution costs		(996,991)	(549,725)	(2,491,251)	(1,413,162)
Administrative expenses		(2,295,176)	(1,959,195)	(6,835,036)	(5,916,502)
(Loss) Profit from operation		(513,038)	4,054,488	(1,466,119)	9,453,875
Finance costs		—	(6,905)	—	(526,817)
Share of result of associate		—	—	—	(212)
(Loss) Profit before taxation		(513,038)	4,047,583	(1,466,119)	8,926,846
Taxation	3	67,000	(646,000)	177,000	(1,415,000)
(Loss) Profit attributable to the shareholders		(446,038)	3,401,583	(1,289,119)	7,511,846
Dividend	4	—	—	—	6,400,000
Basic (loss) earnings per share	5	(0.14) cents	1.42 cents	(0.40) cents	3.13 cents

Notes:

1. Group reorganization and basis of presentation

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 6 September 2001. Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the Group structure in connection with the listing of the Company’s shares on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the companies now comprising the Group on 6 December 2001. Further details of the Reorganisation are set out in the Company’s prospectus dated 13 December 2001 (the “Prospectus”). The shares of the Company were listed on GEM of the Stock Exchange on 20 December 2001.

The unaudited consolidated results have been prepared using the merger basis of accounting as if the existing Group’s structure had been in place throughout the period from 1 January 2001 to 30 September 2002.

The unaudited consolidated results of the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The accounting policies adopted in 2001 annual financial statements have been consistently applied by the Group.

2. Turnover

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

Turnover recognised by category is as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Turnover				
Sales of smart cards and plastic cards	8,818,463	5,335,334	18,325,941	18,687,594
Sales of smart card application systems	4,883,450	6,484,542	7,434,113	14,560,131
Service and other income	21,982	53,119	179,737	634,693
	<u>13,723,895</u>	<u>11,872,995</u>	<u>25,939,791</u>	<u>33,882,418</u>

3. Taxation

The credit (charge) comprises:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Provision for Hong Kong Profits Tax attributable to the Company and its subsidiaries	<u>67,000</u>	<u>(646,000)</u>	<u>177,000</u>	<u>(1,415,000)</u>

Hong Kong Profits Tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period.

The Group has no significant unprovided deferred tax for the period.

4. Dividend

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Dividend	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,400,000</u>

The Directors do not recommend the payment of an interim dividend for the period.

The dividend of HK\$6,400,000 were paid by InterCard Limited, a wholly-owned subsidiary of the Company, to its then shareholders prior to the completion of the Reorganisation on 6 December 2001. Details of the Reorganisation are set out in the Prospectus.

5. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 September 2002 is based on the respective unaudited loss attributable to the shareholders of HK\$446,038 and HK\$1,289,119 (2001: unaudited profit of HK\$3,401,583 and HK\$7,511,846) and the weighted average number of 320,000,000 (2001: 240,000,000) shares in issue on the assumption that the Reorganization had been effective on 1 January 2001.

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 30 September 2002 and 2001.

6. Movement in reserves

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Exchange reserve				
Balance brought forward	—	—	—	—
Addition	<u>1,500</u>	<u>—</u>	<u>1,500</u>	<u>—</u>
Balance carried forward	<u><u>1,500</u></u>	<u><u>—</u></u>	<u><u>1,500</u></u>	<u><u>—</u></u>
Retained profits				
Balance brought forward	9,132,966	4,711,557	9,976,047	7,001,294
(Loss) Profit for the period	(446,038)	3,401,583	(1,289,119)	7,511,846
Dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,400,000)</u>
Balance carried forward	<u><u>8,686,928</u></u>	<u><u>8,113,140</u></u>	<u><u>8,686,928</u></u>	<u><u>8,113,140</u></u>

The exchange reserve represents the exchange differences on translation of overseas operation.

BUSINESS REVIEW AND PROSPECTS

(a) Business Review

During the period under review, the Group maintains its operations under continuous economic uncertainty and unfavorable market sentiment. The unaudited turnover of the Group was approximately HK\$26 million for the nine months ended 30 September 2002 as compared to approximately HK\$34 million for the same period of 2001.

The general weak economic condition and continuous global economic downturn had translated into setback in commercial confidence and widespread risk aversion sentiment which made customers became more cautious in placing orders, and even withheld some of the orders. The cancellation and delay in job orders had led to the substantial decrease in the turnover of smart card application systems. Moreover, our customers were forced to yield to the continuous price drop in order to stay competitive against the striking downturn of the GSM SIM card market and the overall tough pricing environment. This had posed a price pressure to smart card printing. As a consequence there was a substantial price cut in smart card printing and had adversely diluted the profit margin of the products. The gross profit margin of the Group for the period under review was decreased to approximately 27.2% as compared to approximately 48.5% for the same period of 2001.

The Group has also taken strategic steps to achieve higher efficiency in resources allocation by implementing various operational rationalization programs, which include rationalization in staffing, and more resources were employed to promote the Group's products/application system with a view to expanding its customer's base. High calibre staff was recruited to strengthen the sales and marketing team in order to penetrate into the Asia Pacific market. The selling and distribution costs and administration expenses recorded an increase by approximately 76.3% and approximately 15.5% respectively as compared to the same period of 2001. The increase in expenditure was in line with the Group's expansion plan and has contributed to the downturn in profit. The unaudited loss attributable to the shareholders for this nine month period was approximately HK\$1.3 million as compared to the unaudited profit of approximately HK\$7.5 million for the same period of 2001.

The Group has total current assets of approximately HK\$37.7 million and current liabilities of approximately HK\$4.9 million as at 30 September 2002. As at 30 September 2002, the Group has a bank balance of approximately HK\$22.4 million of which bank deposits of approximately HK\$2 million were pledged as collateral for the short term banking facilities of a subsidiary of the Company. For the period under review, the Group financed its operations with internal funding and has no outstanding borrowings as at 30 September 2002. The Group will apply the proceeds from the initial public offering to finance its expansion plan such as the upgrading and enhancement of the products, the research and development program and the establishment of production premises in the PRC. The unutilized proceeds were placed in Hong Kong dollars short-term interest bearing deposits with banks.

During the period, Beijing Venus Technology Limited had been incorporated in Beijing, the PRC. It is a wholly owned subsidiary of the Group. It aims to support the anticipated growth in the production of smart cards and related peripheral hardware in the PRC. The new production premises is located at Zhongguancun Science and Technology Park. It is anticipated that initial operation will commence by the end of the fourth quarter of this year.

(b) Prospects

The Group continues its effort to penetrate into Asia Pacific region to explore new markets and to diversify its customer base by adopting the competitive pricing policy. New business networking has been established in various Asian countries which the Group believes that new stream of revenue can be generated in the foreseeable future.

The Group believes that with the establishment of the new production premises in Beijing, the PRC, the Group has taken a strategic step to explore this huge potential PRC market for new business opportunities.

Looking ahead, the management believes that the Asia Pacific markets, notably the PRC, have possessed enormous business opportunities. The management will ensure that every effort is made to enable the Group to weather the prevalent market condition and to maintain its competitiveness in the local as well as the Asia Pacific markets so as to expand its customer base to bring significant prospects to the Group.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2002.

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

(a) Share Capital

As at 30 September 2002, the interests of the Directors in share capital of the Company or any associated corporation as recorded in the register of the Company required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of listed issuer as referred to in rule 5.40 of the GEM Listing Rules are set out below:

Name of Director	Note	Number of Shares held				Total
		Personal Interest	Family Interest	Corporate Interest	Other Interest	
WONG Hon Sing	1	—	—	153,300,000	—	153,300,000
WONG Chi Ming		6,132,000	—	—	—	6,132,000
HO Lut Wa, Anton		6,132,000	—	—	—	6,132,000
WONG Ka Chu		3,504,000	—	—	—	3,504,000

Note 1: 153,300,000 Shares are held by Carkey Limited which is wholly owned by Mr. WONG Hon Sing.

(b) Share Options

On 6 December 2001, two share option schemes of the Company were approved by shareholders of the Company, namely, the Pre-IPO Share Option Scheme and the Share Option Scheme (both terms as defined in the Prospectus). The Summary of the terms of the two schemes has been set out in Appendix IV of the Prospectus under the section headed “Share Option Schemes”.

As at 30 September 2002, no option has been granted or agreed to be granted pursuant to the Share Option Scheme.

The Company had granted a total of 28,800,000 options under the Pre-IPO Share Option Scheme to its executive directors and employees.

As at 30 September 2002, details of the share options outstanding are as follows:

Name of Director	Date of Grant	Number of options outstanding as at 30 September 2002	Exercise price of options HK\$
WONG Hon Sing	6 December 2001	4,000,000	0.282
WONG Chi Ming	6 December 2001	4,000,000	0.282
HO Lut Wa, Anton	6 December 2001	8,000,000	0.282
WONG Ka Chu	6 December 2001	4,000,000	0.282
LEI Heong Man	6 December 2001	4,000,000	0.282

2 employees of the Group have been granted 4,800,000 options on 6 December 2001 at an exercise price of HK\$0.282.

The exercise period for all the options granted under the Pre-IPO Share Option Scheme shall commence on the date falling 12 months after the Listing Date (20 December 2001) and end on 5 December 2011 (both dates inclusive).

Save as disclosed above, at no time during the nine months ended 30 September 2002 were rights to acquire benefits by means of the acquisition of shares in or debentures of the company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder		Number of shares held	Percentage of interests
	<i>Note</i>		
Carkey Limited	(i)	153,300,000	47.9
Wong Hon Sing	(i)	153,300,000	47.9
i-Concepts Investment Limited	(ii)	58,400,000	18.3
Dickson Group Holdings Limited	(ii)	58,400,000	18.3

Note:

- (i) Mr. Wong Hon Sing is deemed to be a substantial shareholder of the Company by reason of his 100% beneficial interest in Carkey Limited. The Shareholding is duplicated in the directors' and chief executive's interests disclosed above.
- (ii) i-Concepts Investment Limited is a wholly owned subsidiary of Dickson Group Holdings Limited, a listed company on the main board of the Stock Exchange and Dickson Group Holdings Limited is therefore deemed to be interested in the Shares

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprised two independent non-executive Directors, namely, Ms. WONG Ka Wai, Jeanne and Mr. LEUNG Ka Kui, Johnny.

The primary duties of the audit committee are to review the Company's annual report and accounts, half year reports and quarterly reports and to provide advice and comments thereon to the board of Directors.

The Group's unaudited results for the nine months ended 30 September 2002 have been reviewed by the audit committee.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the nine months ended 30 September 2002, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

COMPETING INTERESTS

As at 30 September 2002, none of the directors or the management shareholders (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

INTEREST OF SPONSOR

As notified by Tai Fook Capital Limited (the “Sponsor”), the Company’s sponsor, neither the Sponsor nor its directors or employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 30 September 2002.

Pursuant to the agreement dated 13 December 2001 entered in between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company’s retained sponsor for the period from 20 December 2001, the date on which the shares of the Company are listed, until 31 December 2003.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the nine months ended 30 September 2002, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the Company’s shares during the period.

By Order of the Board
WONG Chi Ming
Chairman

Hong Kong, 8 November 2002