



CARDLINK TECHNOLOGY GROUP LIMITED

錯聯科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2003

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “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 Growth Enterprise Market 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 ended 30 September 2003 was approximately HK\$30.1 million, representing a 16% increase as compared with that of the corresponding period in 2002.
- The Directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2003.

UNAUDITED THIRD QUARTERLY 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 (collectively, the “Group”) for the nine months ended 30 September 2003 together with the comparative figures for the corresponding periods in 2002 as follows:

	<i>Note</i>	Unaudited		Unaudited	
		Three months ended 30 September		Nine months ended 30 September	
		2003	2002	2003	2002
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	9,251,936	13,723,895	30,093,416	25,939,791
Cost of sales		(8,675,682)	(11,353,691)	(27,065,058)	(18,886,661)
Gross profit		576,254	2,370,204	3,028,358	7,053,130
Other revenue		311,028	408,925	1,435,227	807,038
Selling and distribution costs		(668,423)	(996,991)	(2,124,396)	(2,491,251)
Administrative expenses		(3,492,729)	(2,295,176)	(9,641,178)	(6,835,036)
Loss from operation		(3,273,870)	(513,038)	(7,301,989)	(1,466,119)
Finance costs		(77,277)	–	(77,277)	–
Loss before taxation		(3,351,147)	(513,038)	(7,379,266)	(1,466,119)
Taxation	3	–	67,000	–	177,000
Net loss attributable to the shareholders		(3,351,147)	(446,038)	(7,379,266)	(1,289,119)
Dividend	4	–	–	–	–
Loss per share – Basic	5	(1.05) cents	(0.14) cents	(2.31) cents	(0.40) cents

Notes:

1. Basis of presentation

The unaudited consolidated results have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure provisions of the Rules governing the Listing of Securities on the GEM of the Stock Exchange.

The accounting policies adopted in 2002 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 Group turnover			
	Three months ended 30 September		Nine months ended 30 September	
	2003	2002	2003	2002
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sales of smart cards and plastic cards	8,257,299	8,818,463	26,372,916	18,325,941
Sales of smart card application systems	973,879	4,883,450	3,638,540	7,434,113
Others	20,758	21,982	81,960	179,737
	<u>9,251,936</u>	<u>13,723,895</u>	<u>30,093,416</u>	<u>25,939,791</u>

3. Taxation

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2003	2002	2003	2002
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>

The credit (charge) comprises:

Overprovision for Hong Kong Profits Tax in previous period attributable to the Company and its subsidiaries	<u>-</u>	<u>67,000</u>	<u>-</u>	<u>177,000</u>
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No provision for Hong Kong Profits Tax has been provided as the Group had no estimated assessable profits for the period. In prior period, Hong Kong Profits Tax has been provided at the rate of 16% on the Group's estimated assessable profits.

There was no material unprovided deferred tax for the periods.

4. Dividend

The Directors do not recommend the payment of any interim dividend for the period ended 30 September 2003 (2002: HK\$NIL).

5. Loss per share

The calculation of basic loss per share for the three months and the nine months ended 30 September 2003 is based on the unaudited loss attributable to the shareholders of HK\$3,351,147 and HK\$7,379,266 (2002: loss of HK\$446,038 and HK\$1,289,119) and the weighted average number of 320,000,000 shares in issue (2002: 320,000,000).

Diluted loss per share for the three months and nine months ended 30 September 2003 have not been presented as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share for the relevant periods.

6. Movement in reserves

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Exchange reserve				
Balance brought forward	(8,652)	–	(8,407)	–
Addition	245	1,500	–	1,500
Balance carried forward	<u>(8,407)</u>	<u>1,500</u>	<u>(8,407)</u>	<u>1,500</u>
Retained profits				
Balance brought forward	2,834,823	9,132,966	6,862,942	9,976,047
Loss for the period	<u>(3,351,147)</u>	<u>(446,038)</u>	<u>(7,379,266)</u>	<u>(1,289,119)</u>
Balance carried forward	<u>(516,324)</u>	<u>8,686,928</u>	<u>(516,324)</u>	<u>8,686,928</u>

The exchange reserve represents the exchange differences on translation of the financial statements of PRC subsidiaries.

BUSINESS AND FINANCIAL REVIEW

For the nine months ended 30 September 2003, the unaudited turnover of the Group was approximately HK\$30.1 million as compared to HK\$26 million for the same period in 2002. Though there was an increase in the turnover, the gross profit margin of the Group for the period under review decreased to 10.1% as compared to 27.2% for the same period in 2002. The decrease of profit margin was mainly attributable to the Group's sales strategy to stay competitive in the midst of negative market sentiment.

The keen competition in the smart card industry has adversely affected the business of the initially higher margined smart card application systems and substantially squeezed the margin of smart card manufacturing. The smart card manufacturing business continued to be the Group's major source of income and attributed to approximately 87.6% of the Group's turnover.

The development of our Beijing production facility has been slowly resumed as the city recovered from the Severe Acute Respiratory Syndrome. The Beijing production facility contributed approximately 42% to the total turnover for the nine months ended 30 September 2003.

As the Beijing production facility has become operational, the selling and distribution costs decreased by approximately 14.7% whereas administrative expenses recorded an increase by approximately 41.1% over the same period in 2002. The increase of administrative expenses were mainly attributed to the increased activities of our Beijing production facility, the increase of depreciation expenses due to deployment of additional machineries for the expansion of production capacity, increase in research and development expenses as well as the increase in expenses incurred in various restructuring activities implemented by the Group during the period.

The unaudited loss for the period under review was HK\$7.4 million as compared to the unaudited loss of HK\$1.3 million for the same period in 2002.

Total current assets and current liabilities of the Group amounted to approximately HK\$27.8 million and HK\$9.2 million respectively as at 30 September 2003. As at 30 September 2003, the Group has a bank balance of HK\$10 million, of which bank deposits of approximately HK\$2.4 million were pledged as collateral for short term banking facilities of the subsidiaries of the Company. The Group has long-term obligations under finance leases of HK\$3.3 million as at 30 September 2003.

With the progress of the development of our Beijing production facility, the management has taken measures to restructure the production facility in Hong Kong in order to have a better utilization of resources and to increase the operation efficiency.

Prospects

In order to stay competitive under the prevailing gloomy economic climate, the management will continue its effort to rationalize the various business units and to attain a better allocation of resources. The Group will explore more smart card business opportunities through cooperation with its strategic partners in the PRC and worldwide and by way of accelerating its sales and marketing efforts with a view to further diversifying its customer base.

The management of the Company will work towards the direction to enable the Company to capitalize on the business opportunities arising from the bouncing back of Hong Kong's economy.

DIVIDEND

The Directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2003 (2002: Nil).

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

(a) Share Capital

As at 30 September 2003, the interests or short position of the Directors in share and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“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 were taken or deemed to have under such provisions of the SFO), or which were required to be kept pursuant to Section 352 of the SFO, or which were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Pursuant to a pre-IPO share option scheme (the “Pre-IPO Scheme”) adopted by the Company on 6 December 2001, the Company had granted pre-IPO options on the Company’s ordinary shares to the following Directors. Details of the share options outstanding as at 30 September 2003 were as follows:

Name of Director	Date of Grant	Number of options outstanding as at 30 September 2003	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 Company had granted a total of 28,800,000 options under the Pre-IPO Share Option Scheme to its executive Directors and employees.

None of the options granted under the Pre-IPO Scheme have been exercised, cancelled or lapsed during the period from the date of grant of such options to 30 September 2003.

On 6 December 2001, the shareholders of the Company adopted a share option scheme (the "Share Option Scheme"), the terms of which set out in the Appendix IV of the Prospectus under the section headed "Share Option Schemes".

As at 30 September 2003, no option has been granted or agreed to be granted pursuant to the Share Option Scheme.

Save as disclosed above, as at 30 September 2003, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be kept pursuant to Section 352 of the SFO, or which were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the nine months ended 30 September 2003 was the Company or any of its subsidiaries a party to any arrangements to enable any director or their respective spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the following persons had an interest or short position in the shares or underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO, or were directly or indirectly, interested in 10% or more of the issued share capital of the Company carrying rights to vote in all circumstances at general meeting of any other members of the Group.

Name of shareholder	Note	Number of shares held	Percentage of interests
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

Notes:

- (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.

Save as disclosed above, as at 30 September 2003, the Directors of the Company were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO, or directly or indirectly, interested in 10% or more of the issued share capital of the Company carrying rights to vote in all circumstances at general meeting of any other members of the Group.

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 2003 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 2003, 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 2003, 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 at 30 September 2003, as notified by Tai Fook Capital Limited (the "Sponsor"), the Company's sponsor, neither the Sponsor nor its directors or employees or associates had any interest in the share capital of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the agreement dated 13 December 2001 entered into 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 2003, 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, 7 November 2003