



CARDLINK TECHNOLOGY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2004

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 Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The unaudited turnover of the Group for the three months period ended 31 March 2004 was HK\$13.2 million.
- The directors do not recommend the payment of an interim dividend for the period ended 31 March 2004.

UNAUDITED FIRST QUARTERLY RESULTS

The board of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2004 together with the comparative figures for the corresponding period in 2003 as follows:

		Unaudited	
		Three months ended 31 March	
		2004	2003
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	13,153,753	10,583,469
Cost of sales		(11,179,430)	(9,499,002)
Gross profit		1,974,323	1,084,467
Other revenue		131,649	567,121
Selling and distribution costs		(833,950)	(794,619)
Administrative expenses		(3,106,100)	(3,072,804)
Loss from operation		(1,834,078)	(2,215,835)
Finance costs		(63,401)	–
Loss from ordinary activities before taxation		(1,897,479)	(2,215,835)
Taxation	3	–	–
Loss attributable to shareholders		<u>(1,897,479)</u>	<u>(2,212,835)</u>
Basic loss per share	5	<u>(0.59) cents</u>	<u>(0.69) cents</u>

Notes:

1. Basis of presentation

The unaudited consolidated results 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 applicable disclosure provisions of the GEM Listing Rules.

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	
	Three months ended 31 March	
	2004	2003
	HK\$	HK\$
Sales of smart cards and plastic cards	12,371,043	8,017,899
Sales of smart card application systems	675,577	2,540,221
Service and other income	107,133	25,349
	<u>13,153,753</u>	<u>10,583,469</u>

3. Taxation

	Unaudited	
	Three months ended 31 March	
	2004	2003
	HK\$	HK\$
Provision for Hong Kong Profits Tax attributable to the Company and its subsidiaries	<u>-</u>	<u>-</u>

No provision for Hong Kong Profits Tax has been provided as the Group had no estimated assessable profits for the period (2003: Nil). No provision for PRC foreign enterprise income tax has been made as the Group's subsidiary operating in Beijing, PRC is under tax holiday. Pursuant to the Income Tax Law and the Detailed Rules for the Implementation of the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, the PRC subsidiary is entitled to exemption from PRC foreign enterprise income tax for the three years ending 31 December 2005 and a 50% reduction from PRC foreign enterprise income tax for the three years ending 31 December 2008.

4. Dividend

The Directors do not recommend the payment of an interim dividend for the period (2003: Nil).

5. Basic loss per share

The calculation of basic loss per share for the three months ended 31 March 2004 is based on the unaudited loss attributable to shareholders of HK\$1,897,479 (2003: HK\$2,215,835) and the weighted average number of 320,000,000 (2003: 320,000,000) shares in issue.

Diluted loss per share for the three months ended 31 March 2003 and 2004 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. Movements in reserves

	Unaudited	
	Three months ended 31 March	
	2004	2003
	HK\$	HK\$
Exchange reserve		
Balance brought forward	(8,407)	(8,407)
Addition	–	(245)
	<hr/>	<hr/>
Balance carried forward	(8,407)	(8,652)
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Retained profits		
Balance brought forward	(632,271)	6,862,942
Loss for the period	(1,897,479)	(2,215,835)
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Balance carried forward	(2,529,750)	4,647,107
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The exchange reserve represents the difference on translation of the financial statements of a PRC subsidiary.

BUSINESS REVIEW AND PROSPECTS

(a) Business Review

For the three months ended 31 March 2004, the unaudited turnover of the Group was HK\$13.2 million as compared to HK\$10.6 million for the same period in 2003. Of the total turnover amount for the period, HK\$12.4 million or 94% was generated from manufacturing and sales of smart cards and plastic cards and HK\$0.7 million or 5% was generated from the sale of smart card application systems. The gross profit margin was 15%, representing an increase of 5% from 10% for the same period in 2003. The loss attributable to shareholders was approximately HK\$1.9 million for the period under review.

The increase in turnover was mainly attributable to the growth of sales in smart card and plastic cards in Asia Pacific market, which is the direct result of the Group's proactive sales and marketing activities in the past years. On the other hand, due to the general weak economic condition, customers continue to reduce their demand for sophisticated multi-application smart card products/applications and reduce their capital expenditure on these products. Consequently, there was a substantial decrease in the turnover of smart card application systems.

With the establishment and completion of our highly automated smart card manufacturing plant in Beijing and the streamline of the business operations in Hong Kong as implemented by the management team, the Group is achieving a better operation efficiency. While the competition in the smart card industry remains fierce, the Group was able to increase its gross profit margin by 5%.

The selling and distribution costs and administration expenses recorded an increase of approximately 5% and approximately 1% respectively as compared to the same period of 2003. As various restructuring activities and extensive cost control measures have been implementing in Hong Kong, the selling and distribution costs and administration expenses in Hong Kong have been decreased substantially. The overall increase in selling and distribution costs was in line with the increase in the Group's turnover and was attributed to the increase in delivery and transportation costs. The increase of administration expenses were mainly attributed to the increased activities of our Beijing production facility, which include the increase of depreciation expenses, staff costs and other operating expenses.

Total current assets and current liabilities of the Group amounted to HK\$36.9 million and HK\$12.8 million respectively as at 31 March 2004. The Group has cash and cash equivalents of HK\$14.1 million. Among which, a bank deposit of approximately HK\$1.4 million was pledged as collateral for a finance lease arrangement in respect of certain machineries purchased by a subsidiary of the Company. As at 31 March 2004, the Group has outstanding finance leases payable of approximately HK\$4.3 million.

(b) Prospects

In order to stay competitive in the midst of the sluggish market sentiment, the Group will continue to closely monitor and rationalize its various business units so as to attain a better allocation of resources. The Group will also 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 an interim dividend for the three months ended 31 March 2004 (2003: Nil).

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

(a) Share Capital

As at 31 March 2004, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Name of Director	Number of Shares				Total	Percentage of Interests
	Personal Interest	Family Interest	Corporate Interest	Other Interest		
WONG Hon Sing	–	–	153,300,000	–	153,300,000	47.9
WONG Chi Ming	6,132,000	–	–	–	6,132,000	1.9
HO Lut Wa, Anton	6,132,000	–	–	–	6,132,000	1.9

Note: By virtue of the SFO, Mr. Wong Hon Sing is deemed to be interested in 153,300,000 shares of the Company held by Carkey Limited, which is wholly-owned by him.

(b) Options to subscribe for shares in the Company

The directors had personal interest in share options to subscribe for shares in the Company pursuant to the Company's Pre-IPO Share Option Scheme and the details as follows:

Director	Date of grant	Outstanding at 31 March 2004	Exercise price per share 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

Save as disclosed above, as at 31 March 2004, none of the Directors and chief executives of the Company has any interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the following persons (other than the Directors and chief executives of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholders	Note	Number of shares held	Percentage of interests
Carkey Limited	1	153,300,000	47.9
Wong Hon Sing	1	153,300,000	47.9
i-Concepts Investment Limited	2	58,400,000	18.3
Dickson Group Holdings Limited	2	58,400,000	18.3

Notes:

1. 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.
2. 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 58,400,000 shares of the Company.

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 three months ended 31 March 2004 have been reviewed by the audit committee.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

During the three months ended 31 March 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

COMPETING INTERESTS

As at 31 March 2004, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the three months ended 31 March 2004, 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, 10 May 2004