



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)

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

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

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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 the 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 2004 was approximately HK\$42,300,000, representing an 41% increase as compared with that of the corresponding period in 2003.
- The Directors do not recommend any payment of an interim dividend for the nine months ended 30 September 2004.

UNAUDITED THIRD QUARTERLY RESULTS

The board of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

	<i>Note</i>	Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2004	2003	2004	2003
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	14,812,941	9,251,936	42,311,654	30,093,416
Cost of sales		(9,257,039)	(8,675,682)	(30,686,863)	(27,065,058)
Gross profit		5,555,902	576,254	11,624,791	3,028,358
Other revenue		76,548	311,028	213,480	1,435,227
Selling and distribution costs		(1,058,364)	(668,423)	(2,921,665)	(2,124,396)
Administrative expenses		(2,866,525)	(3,492,729)	(7,955,976)	(9,641,178)
Profit/(Loss) from operation		1,707,561	(3,273,870)	960,630	(7,301,989)
Finance costs		(50,774)	(77,277)	(171,599)	(77,277)
Profit/(Loss) from ordinary activities before taxation		1,656,787	(3,351,147)	789,031	(7,379,266)
Taxation	3	–	–	–	–
Profit/(Loss) attributable to shareholders		1,656,787	(3,351,147)	789,031	(7,379,266)
Basic earnings/(loss) per share	5	0.52 cents	(1.05) cents	0.25 cents	(2.31) cents

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 Institute of Certified Public 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 Group turnover			
	Three months ended 30 September		Nine months ended 30 September	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Sales of smart cards and plastic cards	13,389,018	8,257,299	40,002,462	26,372,916
Sales of smart card application systems	748,444	973,879	1,406,581	3,638,540
Others	675,479	20,758	902,611	81,960
	<u>14,812,941</u>	<u>9,251,936</u>	<u>42,311,654</u>	<u>30,093,416</u>

3. Taxation

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
	Provision for Hong Kong Profits Tax attributable to the Company and its subsidiaries	<u>-</u>	<u>-</u>	<u>-</u>

No provision for Hong Kong Profits Tax has been made 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.

There was no material unprovided deferred tax for the periods.

4. Dividend

The Directors do not recommend any payment of an interim dividend for the period ended 30 September 2004 (2003: HK\$Nil).

5. Basic Earnings/(loss) per Share

The calculation of basic earnings/(loss) per share for the three months and the nine months ended 30 September 2004 is based on the unaudited profit attributable to shareholders of HK\$1,656,787 and HK\$789,031 (2003: loss of HK\$3,351,147 and HK\$7,379,266), and the weighted average number of 320,000,000 shares in issue (2003: 320,000,000).

Diluted earnings per share for the three months and the nine months ended 30 September 2004 have not been presented as the exercise price of the share options granted by the Company was higher than the average market price for shares during the relevant periods.

6. Movement in reserves

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Exchange reserve				
Balance brought forward	(8,407)	(8,652)	(8,407)	(8,407)
Exchange difference	—	245	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance carried forward	<u>(8,407)</u>	<u>(8,407)</u>	<u>(8,407)</u>	<u>(8,407)</u>
Retained profits				
Balance brought forward	(1,500,027)	2,834,823	(632,271)	6,862,942
Profit/(Loss) for the period	<u>1,656,787</u>	<u>(3,351,147)</u>	<u>789,031</u>	<u>(7,379,266)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance carried forward	<u>156,760</u>	<u>(516,324)</u>	<u>156,760</u>	<u>(516,324)</u>

The exchange difference of the Group represents the differences on translation of the financial statements of a PRC subsidiary.

MANAGEMENT DISCUSSION AND ANALYSIS

(a) Business Review

During the period under review, the Group's business strategy to focus on the manufacturing and sales of smart card and to expand its market presence in the PRC is proved to be successful. Turnover of the Group grew by 41% from HK\$30,090,000 for the nine months ended 30 September 2003 to HK\$42,310,000 for the same period in 2004. The increase in turnover during the period was mainly attributable to the increase in sales of smart cards and plastic cards. Gross profit margin also increased to 27% for the nine months ended 30 September 2004, as compared to only 10% for the same period in 2003. The increase in gross profit margin was due to the lowering of the production and operating costs and increased sales of value-added service for card production which yields a higher margin.

For the three months and the nine months ended 30 September 2004, the Group recorded profit attributable to shareholders of HK\$1,660,000 and HK\$790,000 respectively, as compared to the loss of HK\$3,350,000 and HK\$7,380,000 for the same periods in 2003.

Manufacturing and sales of smart cards and plastic cards

During the period under review, manufacturing and sales of smart cards and plastic cards remained as the core revenue generator of the Group, accounting for HK\$40,000,000 or 95% (2003: HK\$26,370,000 or 88%) of the Group's total turnover and representing an increase of approximately 52% as compared to the corresponding period in 2003. The management will explore more smart card business opportunities with a view to further enhancing its market presence in the PRC.

Sales of smart cards application systems

Customers were still cautious and inclined to reduce their demand for sophisticated multi-application smart card products/application and withheld their capital expenditure on these products. For the nine months ended 30 September 2004, sales of smart card application systems amounting to HK\$1,410,000 or 3% (2003: HK\$3,640,000 or 12%) of the Group's total turnover and representing a decline of 61% as compared to the same period in 2003. The management expects that it will pick up steadily in 2005.

The selling and distribution costs recorded an increase of approximately 38% while the administration expenses dropped by 17%. The increase in selling and distribution costs was in line with the increase in turnover and was due to the increased selling and marketing activities. The decrease in administrative expenses was mainly attributed to the reduced staff costs in Hong Kong, decrease in amortization of intangible assets which had been fully written off in 2003, and decrease in depreciation of office fixed assets.

Total current assets and current liabilities of the Group amounted to approximately HK\$41.9 million and HK\$13.3 million respectively as at 30 September 2004. As at 30 September 2004, the Group has a bank balance of HK\$14.6 million, of which bank deposits 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. The Group has long-term obligations under finance leases of HK\$1.4 million as at 30 September 2004.

(b) Prospects

In view of the anticipated growth in demand of smart cards in the PRC, the Directors intend to enhance the capacity of the production facilities of the Group so as to satisfy the substantial growth in the smart card industry. Moreover, apart from fostering closer business relationships with existing clients, the Group has recently formed an alliance with a strategic partner in the PRC which the Directors believe that it will bring synergy to and strive for further growth of the Company. Please also refer to the reports of the Company dated 1 September 2004 and 28 October 2004 for further details.

DIVIDEND

The Directors do not recommend any payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

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

As at 30 September 2004, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares of the Company

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

(b) Rights to subscribe for shares in the Company

As at 30 September 2004, 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 30 September 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 30 September 2004, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of the Group:

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

Save as disclosed above, as at 30 September 2004, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of any other member of the Group.

AUDIT COMMITTEE

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

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 2004 have been reviewed by the audit committee.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

During the nine months ended 30 September 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 30 September 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 nine months ended 30 September 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, 9 November 2004