



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)

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2006

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This report, for which the directors (the “Directors”) of Cardlink Technology Group Limited 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 three months ended 31 March 2006 was approximately HK\$13,976,000, representing a decrease of 20% as compared with that of the corresponding period in 2005.
- The Directors do not recommend any payment of an interim dividend for the three months ended 31 March 2006.

UNAUDITED FIRST QUARTERLY RESULTS

The board of directors (the “Board”) of Cardlink Technology Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months ended 31 March 2006 together with the comparative figures for the corresponding period in 2005 as follows:

		Unaudited	
		Three months ended 31 March	
		2006	2005
	<i>Note</i>	HK\$	HK\$
Turnover	2	13,975,502	17,442,633
Cost of sales		(11,149,975)	(12,434,468)
Gross profit		2,825,527	5,008,165
Other revenue		53,984	16,372
Selling and distribution costs		(1,336,830)	(1,462,960)
Administrative expenses		(3,213,513)	(2,662,929)
Finance costs		(198,085)	(85,361)
(Loss) Profit before taxation		(1,868,917)	813,287
Taxation	3	–	–
(Loss) Profit after taxation		(1,868,917)	813,287
Basic (loss) earnings per share	5	(0.58) cents	0.25 cents

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations 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.

The Group's unaudited results for the three months ended 31 March 2006 have been reviewed by the audit committee.

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	
	2006	2005
	HK\$	HK\$
Sales of smart cards and plastic cards	13,602,164	16,618,904
Sales of smart card application systems	321,940	776,076
Service and other income	51,398	47,653
	<u>13,975,502</u>	<u>17,442,633</u>

3. TAXATION

	Unaudited Three months ended 31 March	
	2006	2005
	HK\$	HK\$
Provision for Hong Kong Profits Tax attributable to the Company and its subsidiaries	<u>-</u>	<u>-</u>

Hong Kong Profits Tax has not been provided as the Group's estimated assessable profits for the period is wholly absorbed by unrelieved tax losses brought forward from previous years (2005: Nil). No provision for PRC foreign enterprise income tax has been made as the Group's subsidiary operating in Beijing, PRC incurred a taxation loss for the period, and the Group's subsidiary operating in Shenzhen, 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 operating in Beijing is entitled to a 50% reduction from the PRC foreign enterprise income tax for the three years ending 31 December 2008. The PRC subsidiary operating in Shenzhen is entitled to exemption from the PRC foreign enterprise income tax for the two years ending 31 December 2006 and a 50% reduction from the PRC foreign enterprise income tax for the three years ending 31 December 2009.

4. DIVIDEND

The Directors do not recommend any payment of an interim dividend for the three months ended 31 March 2006 (2005: NIL).

5. BASIC (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the three months ended 31 March 2006 is based on the unaudited loss attributable to shareholders of HK\$1,868,917 (*three months ended 31 March 2005: a profit of HK\$813,287*) and the weighted average number of 320,000,000 shares (*three months ended 31 March 2005: 320,000,000 shares*) in issue during the period.

Diluted loss per share for the three months ended 31 March 2006 has not been presented as the share options outstanding during the period have an anti-dilutive effect on the basic loss per share. Diluted earnings per share for the three months ended 31 March 2005 had 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 period.

6. MOVEMENT IN RESERVES

	Contributed surplus HK\$	Other reserves HK\$	Exchange difference HK\$	Accumulated profits HK\$	Total HK\$
At 1 January 2005	13,985,669	7	(8,407)	4,059,060	18,036,329
Profit for the period	–	–	–	813,287	813,287
At 31 March 2005	13,985,669	7	(8,407)	4,872,347	18,849,616
At 1 January 2006	13,985,669	7	358,350	2,051,351	16,395,377
Loss for the period	–	–	–	(1,868,917)	(1,868,917)
Exchange difference	–	–	2,125	–	2,125
At 31 March 2006	13,985,669	7	360,475	182,434	14,528,585

The exchange difference of the Group represents the difference on translation of the financial statements of the PRC subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the three months ended 31 March 2006, the unaudited turnover of the Group was about HK\$13,976,000, representing a decline of about 20% as compared to the same period in 2005, which was about HK\$17,443,000. The loss of certain market share by our key customer in the PRC SIM card market since the second half of 2005 had adversely affected the business of the Group. Out of the total turnover for the period, about HK\$13,602,000 or about 97% was generated from the manufacturing and sales of smart cards and plastic cards, and about HK\$322,000 or about 2% was generated from the sale of smart card application systems. Loss attributable to shareholders for the three months ended 31 March 2006 was about HK\$1,869,000 (three months ended 31 March 2005: a profit of HK\$813,000).

For the period under review, gross profit margin was about 20.2%, representing a decrease of about 8.5% from about 28.7% for the same period in 2005. The drop was primarily due to the increase in depreciation charge as a number of specialised machines had been purchased after the first quarter of 2005. The drop was also attributable to the increase in direct wages and overhead costs associated with the new plant in Shenzhen, which was setup in late 2005 with a view to enhancing the Group's competitiveness in the future.

For the three months ended 31 March 2006, the selling and distribution costs recorded a decrease of about 9% from about HK\$1,463,000 for the three months ended 31 March 2005 to about HK\$1,337,000 for the same period in 2006. The decrease in selling and distribution costs was due to the savings in staff costs, but was partly offset by the increased freight charges and transportation costs due to increased selling activities in the overseas market. On the other hand, administrative expenses increased by about 21% from about HK\$2,663,000 for the three months ended 31 March 2005, to about HK\$3,214,000 for the same period in 2006. The increase was mainly associated with the new plant in Shenzhen.

Total current assets and current liabilities of the Group amounted to about HK\$39,580,000 and about HK\$20,067,000 respectively as at 31 March 2006. The Group had cash and cash equivalents of about HK\$11,401,000 as at 31 March 2006, among which, bank deposits of approximately HK\$4,115,000 were pledged as collateral for finance lease arrangements in respect of certain machinery purchased by the subsidiaries of the Company. As at 31 March 2006, the Group has outstanding finance leases payable of approximately HK\$10,486,000.

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

As at 31 March 2006, 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 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 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long positions in the Shares of the Company

Name of Director	Personal Interest	Number of Shares			Total	Percentage of interests
		Family Interest	Corporate Interest	Other Interest		
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 Chi Ming subsequently resigned on 1 April 2006.

(ii) Rights to subscribe for Shares in the Company

As at 31 March 2006, personal interest of the Directors in share options to subscribe for shares in the Company pursuant to the Company's Pre-IPO Share Option Scheme were as follows:

Director	Date of grant	Outstanding as at 31 March 2006	Exercise price per share HK\$	Exercisable period
Wong Chi Ming	6 December 2001	4,000,000	0.282	20 December 2002– 5 December 2011
Ho Lut Wa, Anton	6 December 2001	8,000,000	0.282	20 December 2002– 5 December 2011

Note: Subsequent to the resignation of Mr. Wong Chi Ming on 1 April 2006, 4,000,000 Pre-IPO share options previously granted to him were cancelled as at 1 May 2006.

Save as disclosed above, as at 31 March 2006, 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 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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
Best Heaven Limited	<i>1</i>	83,300,000	26.03
Chu Chen-lin	<i>1</i>	83,300,000	26.03
i-Concepts Investment Limited	<i>2, 3</i>	58,400,000	18.25
Dickson Group Holdings Limited	<i>2, 3</i>	58,400,000	18.25
Sonic Power Limited	<i>3</i>	58,400,000	18.25
Wong Hon Sing	<i>3</i>	58,400,000	18.25
Giant International Asset Group Limited	<i>4</i>	22,500,000	7.03
United International Asset Limited	<i>4</i>	22,500,000	7.03
Chen Hui Chen	<i>4</i>	22,500,000	7.03

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. 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 58,400,000 shares of the Company.
3. i-concepts Investment Limited has pledged its entire shareholding interest in the Company to Sonic Power Limited which is wholly owned by Mr. Wong Hon Sing. Therefore, each of Sonic Power Limited and Mr. Wong Hon Sing is deemed to be interested in 58,400,000 shares of the Company.
4. Giant International Asset Group Limited is 33.33% held by United International Asset Limited which in turn is 100% held by Ms. Chen Hui Chen.

Save as disclosed above, as at 31 March 2006, 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 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. Wong Wai Kwong, David. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

COMPETING INTERESTS

As at 31 March 2006, none of the directors or the management shareholders or any of their respective associates (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, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

Lily Wu

Chairman

Hong Kong, 4 May 2006