



# CARDLINK TECHNOLOGY GROUP LIMITED

鐳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 2006

**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 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 and the nine months ended 30 September 2006 were approximately HK\$19,450,000 and HK\$48,648,000, representing an increase of approximately 51.6% and 7.9% respectively as compared with those of the corresponding periods in 2005.
- The Directors do not recommend any payment of an interim dividend for the nine months ended 30 September 2006.

## UNAUDITED THIRD QUARTERLY RESULTS

The board of Directors announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and the nine months ended 30 September 2006 together with the comparative figures for the corresponding periods in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2006	2005	2006	2005
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Turnover</b>	2	<b>19,450,446</b>	12,826,270	<b>48,648,422</b>	45,077,796
Cost of sales		<b>(13,368,564)</b>	(8,437,167)	<b>(37,104,460)</b>	(30,508,654)
Gross profit		<b>6,081,882</b>	4,389,103	<b>11,543,962</b>	14,569,142
Other revenue		<b>59,373</b>	187,369	<b>201,062</b>	247,716
Selling and distribution costs		<b>(1,288,496)</b>	(1,269,958)	<b>(3,868,549)</b>	(4,076,718)
Administrative expenses		<b>(3,260,905)</b>	(3,081,585)	<b>(9,888,101)</b>	(8,351,371)
Finance costs		<b>(190,545)</b>	(123,630)	<b>(606,404)</b>	(293,109)
<b>Profit (Loss) before taxation</b>		<b>1,401,309</b>	101,299	<b>(2,618,030)</b>	2,095,660
Taxation	3	<b>(173,640)</b>	–	<b>(215,546)</b>	(300,000)
<b>Profit (Loss) attributable to shareholders</b>		<b>1,227,669</b>	101,299	<b>(2,833,576)</b>	1,795,660
<b>Basic earnings (loss) per share</b>	5	<b>0.38 cents</b>	0.03 cents	<b>(0.89) cents</b>	0.56 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.

### 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.

Analysis of turnover recognised by category are as follows:

	Unaudited Group turnover			
	Three months ended 30 September		Nine months ended 30 September	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Sales of smart cards and plastic cards	19,281,264	12,214,612	46,451,309	42,154,399
Sales of smart card application systems	130,060	567,817	2,070,769	2,766,741
Service and other income	39,122	43,841	126,344	156,656
	<u>19,450,446</u>	<u>12,826,270</u>	<u>48,648,422</u>	<u>45,077,796</u>

### 3. TAXATION

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	Deferred taxation in relation to the reversal of tax losses	173,640	–	173,640
PRC foreign enterprise income tax paid	–	–	41,906	–
	<u>173,640</u>	<u>–</u>	<u>215,546</u>	<u>300,000</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 (FEIT) has been made in respect of the Group's subsidiary operating in Beijing, the PRC, as the subsidiary incurred a taxation loss for the period. During the period under review, an FEIT was paid in respect of the financial year of 2005 for the Group's subsidiary operating in Shenzhen, the PRC, which started its operation by the end of 2005. 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. After paying the FEIT for the financial year of 2005, the PRC subsidiary operating in Shenzhen is entitled to exemption from the PRC foreign enterprise income tax for the two years ending 31 December 2007 and a 50% reduction from the PRC foreign enterprise income tax for the three years ending 31 December 2010.

#### 4. DIVIDEND

The Directors do not recommend any payment of an interim dividend for the nine months ended 30 September 2006 (2005: 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 2006 is based on the unaudited profit attributable to shareholders for the three months ended 30 September 2006 of HK\$1,227,669 (three months ended 30 September 2005: HK\$101,299) and the unaudited loss attributable to shareholders for the nine months ended 30 September 2006 of HK\$2,833,576 (nine months ended 30 September 2005: profit of HK\$1,795,660) and the weighted average number of 320,000,000 shares (three months and nine months ended 30 September 2005: 320,000,000 shares) in issue during the periods.

Diluted loss per share for the nine months ended 30 September 2006 have 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 30 September 2006 and the three months and the nine months ended 30 September 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 relevant periods.

#### 6. MOVEMENT IN RESERVES

	Contributed surplus HK\$	Other reserves HK\$	Exchange difference HK\$	Accumulated profits/ (losses) HK\$	Total HK\$
At 1 January 2005	13,985,669	7	(8,407)	4,059,060	18,036,329
Profit for the period	–	–	–	1,795,660	1,795,660
Exchange difference	–	–	379,687	–	379,687
<b>At 30 September 2005</b>	<b>13,985,669</b>	<b>7</b>	<b>371,280</b>	<b>5,854,720</b>	<b>20,211,676</b>
At 1 January 2006	13,985,669	7	358,350	2,051,351	16,395,377
Loss for the period	–	–	–	(2,833,576)	(2,833,576)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	(20,810)	–	(20,810)
<b>At 30 September 2006</b>	<b>13,985,669</b>	<b>7</b>	<b>337,540</b>	<b>(782,225)</b>	<b>13,540,991</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

For the three months and the nine months ended 30 September 2006, the Group recorded an unaudited turnover of approximately HK\$19,450,000 and HK\$48,648,000 respectively, representing an increase of approximately 51.6% and 7.9% as compared to the corresponding periods in 2005 of approximately HK\$12,826,000 and HK\$45,078,000. Turnover also increased by approximately 27.8% as compared to the second quarter of 2006. The increase was due to the increase in the market sales of the Group's products.

During the period under review, the manufacturing and sales of smart cards and plastic cards continued to be the main focus of the Group's business. Out of the total turnover for the period, approximately HK\$46,451,000 or approximately 95% was generated from the manufacturing and sales of smart cards and plastic cards, and approximately HK\$2,071,000 or approximately 4% was generated from the sale of smart card application systems. Loss attributable to shareholders for the nine months ended 30 September 2006 was approximately HK\$2,834,000 (nine months ended 30 September 2005: a profit of HK\$1,796,000).

For the nine months ended 30 September 2006, gross profit margin was approximately 23.7%, representing a decrease of approximately 8.6% from approximately 32.3% for the same period in 2005. The drop was primarily due to i) the increase in depreciation charge as a number of specialised machines used in production had been purchased; and ii) the increase in direct wages and overhead costs associated with the new plant in Shenzhen and the increased sales. However, for the three months ended 30 September 2006, gross profit margin was back to approximately 31.3%, which was due to the increased in overall sales, as well as the higher value sales mix.

For the nine months ended 30 September 2006, the selling and distribution costs recorded a decrease of approximately 5.1% from approximately HK\$4,077,000 for the nine months ended 30 September 2005 to approximately HK\$3,869,000 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 increases in freight charges and transportation costs. On the other hand, administrative expenses increased by approximately 18.4% from approximately HK\$8,351,000 for the nine months ended 30 September 2005, to approximately HK\$9,888,000 for the same period in 2006. The increase was mainly associated with the new plant in Shenzhen, and also attributable to increase in other expenses like legal and professional fee and rental expenses etc.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

During the period under review, the Group financed its business operations with cash revenue generated from operating activities and finance lease arrangements. The Group had cash and bank balances of approximately HK\$11.1 million, and finance lease payables of approximately HK\$8 million, as at 30 September 2006.

As at 30 September 2006, the Group had three finance lease arrangements used for financing the acquisition of certain printing machinery and personalization equipment for the production lines in the PRC. The finance leases are all bearing an annual interest of 0.5% over the Hong Kong Prime Rate, repayable in three years, and denominated in Hong Kong dollars.

As at 30 September 2006, the Group had current assets of approximately HK\$42.1 million and current liabilities of approximately HK\$22.8 million. The current ratio, expressed as current assets over current liabilities, was maintained at the satisfactory level of approximately 1.9.

As at 30 September 2006, the shareholders' fund of the Group was about HK\$45.5 million. The Group had outstanding long-term obligations under finance leases of about HK\$3.8 million as at 30 September 2006. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, was about 8.3% as of 30 September 2006 (30 June 2006: about 11%).

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

As at 30 September 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	Number of Shares				Total	Percentage of interests
	Personal Interest	Family Interest	Corporate Interest	Other Interest		
Ho Lut Wa, Anton	6,132,000	-	-	-	6,132,000	1.9

### (ii) Rights to subscribe for Shares in the Company

As at 30 September 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 30 September 2006	Exercise price per share HK\$	Exercisable period
Ho Lut Wa, Anton	6 December 2001	8,000,000	0.282	20 December 2002 - 5 December 2011

Save as disclosed above, as at 30 September 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 30 September 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	Note	Number of shares held	Percentage of interests
Best Heaven Limited	1	83,300,000	26.03
Chu Chen-lin	1	83,300,000	26.03
i-Concepts Investment Limited	2, 3	58,400,000	18.25
Dickson Group Holdings Limited	2, 3	58,400,000	18.25
Sonic Power Limited	3	58,400,000	18.25
Wong Hon Sing	3	58,400,000	18.25
Giant International Asset Group Limited	4	22,500,000	7.03
United International Asset Limited	4	22,500,000	7.03
Tsai Chen Hui Chen	4	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. Dickson Group Holdings Limited, a listed company on the Main Board of the Stock Exchange, is deemed to be interested in 58,400,000 shares of the Company by virtue of its 100% interest in i-Concepts Investment Limited.
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. Tsai Chen Hui Chen.

Save as disclosed above, as at 30 September 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.

## CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in such code of conduct throughout the nine months ended 30 September 2006.

## **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.

The Group's unaudited results for the three months and the nine months ended 30 September 2006 have been reviewed by the audited committee.

## **COMPETING INTERESTS**

As at 30 September 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 nine months ended 30 September 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, 13 November 2006