



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 2007

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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 (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 2007 was about HK\$29,158,000, representing an increase of about 108.6% as compared with that of the corresponding period in 2006.
- The Directors do not recommend any payment of an interim dividend for the three months ended 31 March 2007.

UNAUDITED FIRST QUARTERLY RESULTS

The board (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 2007 together with the comparative figures for the corresponding period in 2006 as follows:

CONSOLIDATED INCOME STATEMENT

| | | Unaudited | |
|---------------------------------------------------|-------------|-----------------------------|--------------|
| | | Three months ended 31 March | |
| | | 2007 | 2006 |
| | | HK\$ | HK\$ |
| | <i>Note</i> | | |
| Turnover | 2 | 29,158,136 | 13,975,502 |
| Cost of sales | | (20,266,141) | (11,149,975) |
| Gross profit | | 8,891,995 | 2,825,527 |
| Other revenue | | 79,837 | 53,984 |
| Selling and distribution costs | | (2,057,870) | (1,336,830) |
| Administrative expenses | | (4,374,427) | (3,213,513) |
| Finance costs | | (170,073) | (198,085) |
| Profit (Loss) before taxation | | 2,369,462 | (1,868,917) |
| Taxation | 3 | (350,000) | – |
| Profit (Loss) attributable to shareholders | | 2,019,462 | (1,868,917) |
| Basic earnings (loss) per share | 5 | 0.60 cents | (0.58) 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 2007 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 | |
|-----------------------------------------|------------------------------------------|-------------------|
| | 2007 | 2006 |
| | HK\$ | HK\$ |
| Sales of smart cards and plastic cards | 28,314,205 | 13,602,164 |
| Sales of smart card application systems | 838,956 | 321,940 |
| Service and other income | 4,975 | 51,398 |
| | <u>29,158,136</u> | <u>13,975,502</u> |

3. TAXATION

| | Unaudited Three months ended 31 March | |
|--------------------------------------------------------------------------------------|------------------------------------------|----------|
| | 2007 | 2006 |
| | HK\$ | HK\$ |
| Provision for Hong Kong Profits Tax attributable to the Company and its subsidiaries | <u>350,000</u> | <u>–</u> |

Hong Kong Profits Tax has been provided at the rate of 17.5% on the Group's estimated assessable profits arising from Hong Kong during the period (2006: Nil). No provision for PRC foreign enterprise income tax 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, and the Group's subsidiary operating in Shenzhen, the PRC, is under tax holiday.

4. DIVIDEND

The Directors do not recommend any payment of an interim dividend for the three months ended 31 March 2007 (2006: NIL).

5. BASIC EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the three months ended 31 March 2007 is based on the unaudited profit attributable to shareholders for the three months ended 31 March 2007 of about HK\$2,019,462 (*three months ended 31 March 2006: loss of about HK\$1,868,917*) and the weighted average number of 337,777,778 shares (*three months ended 31 March 2006: 320,000,000 shares*) in issue during the period.

Diluted earnings per share for the three months ended 31 March 2007 has not been presented as the exercise price of the share options granted by the Company was higher than the average market price of the Company's shares during the period. Diluted loss per share for the three months ended 31 March 2006 had not been presented as the share options outstanding during the period have an anti-dilutive effect on the basic loss per share.

6. RESERVES

| | Contributed surplus HK\$ | Other reserves HK\$ | Exchange difference HK\$ | Accumulated profits HK\$ | Total HK\$ |
|-------------------------------------------------------------------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|-------------------|
| 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 on translation of financial statements of overseas subsidiaries | – | – | 2,125 | – | 2,125 |
| At 31 March 2006 | 13,985,669 | 7 | 360,475 | 182,434 | 14,528,585 |
| At 1 January 2007 | 13,985,669 | 7 | 1,041,504 | 2,131,055 | 17,158,235 |
| Share issue expenses | (149,500) | – | – | – | (149,500) |
| Profit for the period | – | – | – | 2,019,462 | 2,019,462 |
| At 31 March 2007 | 13,836,169 | 7 | 1,041,504 | 4,150,517 | 19,028,197 |

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the three months ended 31 March 2007, the Group showed consistent strong growth in sales since the latter half of 2006. The unaudited turnover of the Group during the period was about HK\$29.2 million, representing an increase of about HK\$15.2 million, or about 108.6% as compared to the corresponding period in 2006 of about HK\$14 million. Turnover also increased by about 16% as compared to the fourth quarter of 2006. The increase was due to the increase in the market sales of the Group's product.

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, about HK\$28.3 million or about 97% was generated from the manufacturing and sales of smart cards and plastic cards, and about HK\$0.8 million or about 3% was generated from the sale of smart card application systems. Profit attributable to shareholders for the three months ended 31 March 2007 was about HK\$2 million (three months ended 31 March 2006: loss of about HK\$1.8 million).

For the three months ended 31 March 2007, gross profit margin was about 30.5%, representing an increase of about 10.3% from approximately 20.2% for the same period in 2006. The increase was due to higher value sales mix, as well as better utilization of the Group's assets.

For the three months ended 31 March 2007, the selling and distribution costs recorded an increase of about 53.9%, from about HK\$1.3 million for the three months ended 31 March 2006 to about HK\$2.1 million for the same period in 2007. The increase in selling and distribution costs was in line with sales and was attributable to the increases in freight charges, transportation costs and staff commission. Administrative expenses also increased by about 36.1% from about HK\$3.2 million for the three months ended 31 March 2006, to about HK\$4.4 million for the same period in 2007. The increase was mainly due to increase in legal and professional fee and staff costs 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, finance lease arrangements and net proceeds from placing of new shares. As at 31 March 2007, the Group had cash and bank balances of about HK\$11.5 million and two secured bank loans of about HK\$1.4 million.

During the period under review, the Group had redeemed all the finance lease arrangements which were used for financing the acquisition of certain printing machinery and personalization equipment for the production lines in the PRC. The Group had two bank loans used for its working capital. The bank loans are bearing interest of 2% over 12-month Hongkong Interbank Offer Rate per annum and repayable within one year, and 1.75% over 4-month Hongkong Interbank Offer Rate per annum and repayable within four months respectively, and denominated in Hong Kong dollars.

As at 31 March 2007, the Group had current assets of about HK\$55.5 million and current liabilities of about HK\$24.9 million. The current ratio, expressed as current assets over current liabilities, was maintained at the satisfactory level of approximately 2.2.

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

As at 31 March 2007, 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 5.46 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 | 1.6 |

(ii) Rights to subscribe for shares in the Company

As at 31 March 2007, 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 2007 | 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 31 March 2007, 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 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, 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 | 21.69 |
| Mr. Chu Chen Lin | 1 | 83,300,000 | 21.69 |
| Golden Dice Co., Ltd. | 2 | 64,000,000 | 16.67 |
| Mr. Tsai Chi Yuan | 2 | 64,000,000 | 16.67 |
| i-Concepts Investment Limited | 3, 4 | 58,400,000 | 15.21 |
| Dickson Group Holdings Limited | 3, 4 | 58,400,000 | 15.21 |
| Sonic Power Limited | 4 | 58,400,000 | 15.21 |
| Mr. Wong Hon Sing | 4 | 58,400,000 | 15.21 |
| Giant International Asset Group Limited | 5 | 22,500,000 | 5.86 |
| United International Asset Limited | 5 | 22,500,000 | 5.86 |
| Ms. Tsai Chen Hui Chen | 5 | 22,500,000 | 5.86 |

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. Mr. Tsai Chi Yuan is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Golden Dice Co., Ltd.
3. i-Concepts Investment Limited is a wholly-owned subsidiary of Dickson Group Holdings Limited, a company listed on the Main Board of the Stock Exchange and Dickson Group Holdings Limited is therefore deemed to be interested in the shares of the Company.
4. 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 a substantial shareholder of the Company.
5. 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 31 March 2007, 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 three months ended 31 March 2007.

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. Chan Siu Wing, Raymond. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

COMPETING INTERESTS

As at 31 March 2007, 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 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

For and on behalf of the Board

Lily Wu

Chairman

Hong Kong, 7 May 2007