



# 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 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.*

## **SUMMARY**

- The Group recorded unaudited turnover of about HK\$27,751,000 and about HK\$86,205,000 for the three months and the nine months end 30 September 2007, representing an increase of about 42.7% and 77.2% respectively as compared with that of the corresponding periods in 2006.
- The unaudited profit attributable to shareholders for the three months and the nine months ended 30 September 2007 were about HK\$1,296,000 and HK\$5,646,000.
- For the three months and the nine months ended 30 September 2007, the basic earnings per share were about HK\$0.0032 and about HK\$0.015 respectively.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2007.

## UNAUDITED THIRD 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 and the nine months ended 30 September 2007 together with the comparative figures for the corresponding periods in 2006 as follows:

### UNAUDITED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Three months ended		Nine months ended	
		30 September		30 September	
		2007	2006	2007	2006
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Turnover</b>	2	<b>27,750,933</b>	19,450,446	<b>86,205,141</b>	48,648,422
Cost of sales		<b>(19,299,945)</b>	(13,368,564)	<b>(60,330,119)</b>	(37,104,460)
Gross profit		<b>8,450,988</b>	6,081,882	<b>25,875,022</b>	11,543,962
Other revenue		<b>94,776</b>	59,373	<b>212,841</b>	201,062
Selling and distribution costs		<b>(1,856,949)</b>	(1,288,496)	<b>(5,801,801)</b>	(3,868,549)
Administrative expenses		<b>(4,975,241)</b>	(3,260,905)	<b>(13,585,777)</b>	(9,888,101)
Finance costs		<b>(91,090)</b>	(190,545)	<b>(311,828)</b>	(606,404)
<b>Profit (Loss) before taxation</b>		<b>1,622,484</b>	1,401,309	<b>6,388,457</b>	(2,618,030)
Taxation	3	<b>(326,539)</b>	(173,640)	<b>(742,539)</b>	(215,546)
<b>Profit (Loss) attributable to shareholders</b>		<b>1,295,945</b>	1,227,669	<b>5,645,918</b>	(2,833,576)
<b>Basic earnings (loss) per share</b>	5	<b>0.32 cents</b>	0.38 cents	<b>1.50 cents</b>	(0.89) cents

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The Group's 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 requirements of the GEM Listing Rules. The accounting policies adopted and methods of computation are consistent with those followed in the preparation of the Company's audited financial statements for the year ended 31 December 2006.

The Group's unaudited results for the three months and the nine months ended 30 September 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 are as follows:

	<b>Unaudited Group turnover</b>			
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Sales of smart cards and plastic cards	<b>27,726,184</b>	19,281,264	<b>85,090,763</b>	46,451,309
Sales of smart card application systems	<b>13,349</b>	130,060	<b>1,045,028</b>	2,070,769
Service and other income	<b>11,400</b>	39,122	<b>69,350</b>	126,344
	<b><u>27,750,933</u></b>	<u>19,450,446</u>	<b><u>86,205,141</u></b>	<u>48,648,422</u>

### 3. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: nil) on the Group's estimated assessable profits arising from Hong Kong during the periods. Taxation for subsidiaries incorporated in the People's Republic of China ("PRC") is charged at the appropriate current rates of taxation ruling in the PRC.

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
<b>Current tax</b>				
Hong Kong Profits Tax:				
Current year	<b>203,000</b>	–	<b>619,000</b>	–
Deferred taxation in relation to the reversal of tax losses	–	173,640	–	173,640
PRC Enterprise Income Tax:				
Current year	<b>123,539</b>	–	<b>123,539</b>	–
Tax paid for prior year	–	–	–	41,906
Total tax charge for the period	<b><u>326,539</u></b>	<u>173,640</u>	<b><u>742,539</u></b>	<u>215,546</u>

#### 4. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2007 (2006: NIL).

#### 5. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the three months and the nine months ended 30 September 2007 is based on the unaudited profit attributable to shareholders for the three months and the nine months ended 30 September 2007 of HK\$1,295,945 and HK\$5,645,918 (*three months and nine months ended 30 September 2006: HK\$1,227,669 and loss of HK\$2,833,576 respectively*) and the weighted average number of 406,847,826 shares and 376,461,538 shares (*three months and nine months ended 30 September 2006: 320,000,000 shares*) in issue during the periods.

The Company had no potential dilutive shares for the nine months ended 30 September 2007. Diluted loss per share for the three months and the nine months ended 30 September 2006 had not been presented as the exercise price of the share options granted by the Company was higher than the average price for shares for the three months ended 30 September 2006 and the share options outstanding during the nine months ended 30 September 2006 had 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	–	–	–	(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><u>13,985,669</u></b>	<b><u>7</u></b>	<b><u>337,540</u></b>	<b><u>(782,225)</u></b>	<b><u>13,540,991</u></b>
At 1 January 2007	13,985,669	7	1,041,504	2,131,055	17,158,235
Placing of new shares	28,500,000	–	–	–	28,500,000
Exercise of options	2,184,000	–	–	–	2,184,000
Share issue expenses	(2,114,500)	–	–	–	(2,114,500)
Profit for the period	–	–	–	5,645,918	5,645,918
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	9,546	–	9,546
<b>At 30 September 2007</b>	<b><u>42,555,169</u></b>	<b><u>7</u></b>	<b><u>1,051,050</u></b>	<b><u>7,776,973</u></b>	<b><u>51,383,199</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

For the nine months ended 30 September 2007, the unaudited turnover of the Group was about HK\$86.2 million, representing an increase of about HK\$37.6 million, or about 77.2%, as compared to the corresponding period in 2006 of about HK\$48.6 million. The increase in 2007 was due to the increase in the market sales of the Group's products.

Due to seasonality, turnover for the third quarter dropped by about HK\$1.5 million, or about 5.3%, from about HK\$29.3 million in the prior quarter.

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\$85.1 million or about 98.7% was generated from the manufacturing and sales of smart cards and plastic cards, and about HK\$1.1 million or about 1.3% was generated from the sale of smart card application systems and other income. Profit attributable to shareholders for the nine months ended 30 September 2007 was about HK\$5.6 million (nine months ended 30 September 2006: loss of about HK\$2.8 million).

For the nine months ended 30 September 2007, gross profit margin was about 30%, representing an increase of about 6.3% as compared to about 23.7% 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. Gross profit margin for the third quarter of 2007 also increased slightly by about 1.4%, from about 29.1% in the second quarter of 2007, to about 30.5%. The increase was largely attributable to the savings from effective control on material costs but was partly offset by the incurrence of certain initial setup costs and necessary running costs associated with the new plant in Dongguang which is expected to commence operations by the end of 2007.

For the nine months ended 30 September 2007, the selling and distribution costs recorded an increase of about HK\$1.9 million, or about 50%, from about HK\$3.9 million for the nine months ended 30 September 2006 to about HK\$5.8 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 HK\$3.7 million, or about 37.4%, from about HK\$9.9 million for the nine months ended 30 September 2006, to about HK\$13.6 million for the same period in 2007. The increase was mainly due to the increase in professional fee, staff costs as a result of continued expansion of production scale, as well as various running costs associated with the new plant in Dongguang.

## **Prospect**

Looking ahead, we will stay focused on driving progressive growth on our SIM card products in various regions. Upon the commencement of the new plant in Dongguang by the end of 2007, the production capacity of the Group would be enhanced substantially to meet customers' demand and to grasp opportunities in the rapid growing smart card business. Our management team will also keep looking for investment opportunities prudently to create greater value to our core business.

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

For the nine months ended 30 September 2007, the Group financed its business operations with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from placing of new shares. As at 30 September 2007, the Group had cash and bank balances of about HK\$55.6 million, finance lease arrangements of about HK\$6.1 million and secured bank loans of HK\$5 million.

As at 30 September 2007, the Group had two 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 interests of 1.5% below the Hong Kong Prime Rate per annum, repayable in three years, and denominated in Hong Kong Dollars. In addition, the Group had two secured bank loans used to meet working capital needs. The secured 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 30 September 2007, the Group had current assets of about HK\$94.3 million and current liabilities of about HK\$30.7 million. The current ratio, expressed as current assets over current liabilities, was maintained at the satisfactory level of about 3.1.

As at 30 September 2007, the shareholders' fund of the Group was about HK\$96 million. The Group had outstanding long-term obligations under finance leases of about HK\$4.1 million as at 30 September 2007. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' funds, was about 4.2% as of 30 September 2007 (*30 June 2007: nil*).

## SHARE OPTION SCHEMES

Pursuant to the written resolutions of the shareholders of the Company dated 6 December 2001, two share option schemes, namely the pre-IPO share option scheme (“Pre-IPO Share Option Scheme”) and the share option scheme (“Share Option Scheme”), were approved and adopted. The summary of the terms of the two share option schemes is set out below.

### (i) Share Option Scheme

Under the Share Option Scheme, the board of Directors or a duly authorised committee thereof which shall include the independent non-executive Directors may, at its discretion, invite any employee including any executive director of any company in the Group to take up options at HK\$1.00 per option to subscribe for shares in the Company (the “Shares”) at the higher of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediate preceding the date of offer and (iii) the nominal value of a Share, subject to a maximum of 10% of the total number of Shares in issue from time to time.

The total number of Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company (but excluding the Pre-IPO Share Option Scheme in respect of 28,800,000 shares) shall not exceed 10% of the total number of Shares in issue immediately following completion of the Placing and Capitalisation Issue.

No share options were granted by the Company under this scheme during the nine months ended 30 September 2007.

### (ii) Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. On 6 December 2001, options to subscribe for an aggregate of 28,800,000 Shares at an exercise price of HK\$0.282 per share were granted by the Company to the Directors and certain employees of the Group. Pursuant to the Pre-IPO Share Option Scheme, five executive Directors of the Group were granted options to subscribe for an aggregate of 24,000,000 Shares in the Company and two senior management staff were granted options to subscribe for an aggregate of 4,800,000 Shares in the Company.

Each of the grantee to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise any time after the expiry of 12 months from the listing date and end on 5 December 2011 (both date inclusive). Upon acceptance of the grant of options, each grantee pays to the Company HK\$1.00.



As at 30 September 2007, there was no share options outstanding under the Pre-IPO share options scheme and the movements during the nine months ended 30 September 2007 were as follows:

Name of participant	At 1 January 2007	Exercised during the period	At 30 September 2007	Exercise period of share options	Exercise price of share options HK\$
<i>Directors</i>					
Ho Lut Wa, Anton	8,000,000	(8,000,000)	–	20 December 2002 to 5 December 2011	0.282
<i>Other employees</i>					
In aggregate	4,000,000	(4,000,000)	–	20 December 2002 to 5 December 2011	0.282
	12,000,000	(12,000,000)	–		

#### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS**

As at 30 September 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:

#### **Long position 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	5,037,000	–	–	–	5,037,000	1.13

Save as disclosed above, as at 30 September 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 30 September 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:

<b>Name of shareholders</b>	<i>Note</i>	<b>Number of shares held</b>	<b>Percentage of interests</b>
Best Heaven Limited	<i>1</i>	83,300,000	18.68
Mr. Chu Chen Lin	<i>1</i>	83,300,000	18.68
Golden Dice Co., Ltd.	<i>2</i>	64,000,000	14.35
Mr. Tsai Chi Yuan	<i>2</i>	64,000,000	14.35
i-Concepts Investment Limited	<i>3</i>	55,900,000	12.53
Dickson Group Holdings Limited	<i>3</i>	55,900,000	12.53
Giant International Asset Group Limited	<i>4</i>	22,500,000	5.04
United International Asset Limited	<i>4</i>	22,500,000	5.04
Ms. Tsai Chen Hui Chen	<i>4</i>	22,500,000	5.04

*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 Holding Limited is therefore deemed to be interested in the 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 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.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out 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 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 30 September 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 nine months ended 30 September 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, 8 November 2007