



# 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 2008

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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 an unaudited turnover of about HK\$104,249,000 for the nine months ended 30 September 2008, representing an increase of about 20.9% as compared with that of the corresponding period in 2007.
- The unaudited profit attributable to shareholders for the nine months ended 30 September 2008 was about HK\$8,574,000.
- For the three months and the nine months ended 30 September 2008, the basic earnings per share were about HK\$0.0034 and about HK\$0.0191 respectively.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2008.

## 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 2008 together with the comparative figures for the corresponding periods in 2007 as follows:

## UNAUDITED CONSOLIDATED INCOME STATEMENT

		Three months ended 30 September		Nine months ended 30 September	
		2008	2007	2008	2007
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Turnover</b>	2	<b>33,818,138</b>	27,750,933	<b>104,249,415</b>	86,205,141
Cost of sales		<u>(23,038,974)</u>	<u>(19,299,945)</u>	<u>(69,594,460)</u>	<u>(60,330,119)</u>
Gross profit		<b>10,779,164</b>	8,450,988	<b>34,654,955</b>	25,875,022
Other revenue	3	<b>627,027</b>	94,776	<b>888,533</b>	212,841
Selling and distribution costs		<u>(2,871,242)</u>	<u>(1,856,949)</u>	<u>(6,733,870)</u>	<u>(5,801,801)</u>
Administrative expenses		<u>(6,171,562)</u>	<u>(4,975,241)</u>	<u>(17,689,708)</u>	<u>(13,585,777)</u>
Finance costs		<u>(147,153)</u>	<u>(91,090)</u>	<u>(349,548)</u>	<u>(311,828)</u>
<b>Profit before taxation</b>		<b>2,216,234</b>	1,622,484	<b>10,770,362</b>	6,388,457
Taxation	4	<u>(656,191)</u>	<u>(326,539)</u>	<u>(2,196,803)</u>	<u>(742,539)</u>
<b>Profit attributable to equity holders</b>		<u><b>1,560,043</b></u>	<u>1,295,945</u>	<u><b>8,573,559</b></u>	<u>5,645,918</u>
<b>Basic earnings per share</b>	6	<u><b>0.34 cents</b></u>	<u>0.32 cents</u>	<u><b>1.91 cents</b></u>	<u>1.50 cents</u>

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The Group’s unaudited results for the three months and the nine months ended 30 September 2008 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:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Sales of smart cards and plastic cards	33,774,923	27,726,184	104,078,307	85,090,763
Sales of smart card application systems	10,560	13,349	70,240	1,045,028
Service and other income	32,655	11,400	100,868	69,350
	<u>33,818,138</u>	<u>27,750,933</u>	<u>104,249,415</u>	<u>86,205,141</u>

### 3. OTHER REVENUE

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Gain on disposal of fixed assets	495,154	21,145	495,154	21,145
Interest Income	14,574	44,234	253,967	125,030
Sundry Income	117,299	29,397	139,412	66,666
	<u>627,027</u>	<u>94,776</u>	<u>888,533</u>	<u>212,841</u>

#### 4. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2007: 17.5%) on the Group's estimated assessable profits arising from Hong Kong during the period. 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.

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC Enterprise Income Tax ("EIT") as follows:

Beijing Venus Technology Limited is exempted from EIT for three years ending 31 December 2005 and was granted a 50% reduction in EIT for the period from 1 January 2006 to 31 December 2008.

Topwise Technology (SZ) Limited is exempted from EIT for two years ending 31 December 2007 and was granted a 50% reduction in EIT for the period from 1 January 2008 to 31 December 2010.

	Unaudited Three months ended 30 September 2008		Unaudited Nine months ended 30 September 2008	
	2007	2008	2007	2008
	HK\$	HK\$	HK\$	HK\$
The charge comprises:				
<b>Current tax</b>				
Hong Kong Profits Tax		559,000	203,000	1,507,000
PRC Enterprise Income Tax		18,724	123,539	611,336
		<u>577,724</u>	<u>326,539</u>	<u>2,118,336</u>
Total tax charge for the period				742,539
<b>Deferred tax recognized in the income statement</b>				
Types of temporary differences:				
Depreciation allowances		78,467	–	78,467
		<u>656,191</u>	<u>326,539</u>	<u>2,196,803</u>
				<u>742,539</u>

#### 5. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2008 (2007: NIL).

#### 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and the nine months ended 30 September 2008 is based on the unaudited profit attributable to equity holders of the Company for the three months and the nine months ended 30 September 2008 of HK\$1,560,043 and HK\$8,573,559 (three months and nine months ended 30 September 2007: HK\$1,295,945 and HK\$5,645,918 respectively) and the weighted average number of 457,705,435 shares and 449,930,292 shares (three months and nine months ended 30 September 2007: 406,847,826 shares and 376,461,538 shares respectively) in issue during the periods.

The Company has no dilutive potential ordinary shares for the three months and the nine months ended 30 September 2008 and 2007.

7. RESERVE

	<b>Contributed surplus</b> <i>HK\$</i>	<b>Other reserves</b> <i>HK\$</i>	<b>Exchange difference</b> <i>HK\$</i>	<b>Accumulated profits</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
At 1 January 2007	13,985,669	7	1,041,504	2,131,055	17,158,235
Profit for the period	–	–	–	5,645,918	5,645,918
Issue of new shares upon exercise of share options	2,184,000	–	–	–	2,184,000
Issue of new shares on placement	28,500,000	–	–	–	28,500,000
Share issue expenses	(2,114,500)	–	–	–	(2,114,500)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	9,546	–	9,546
At 30 September 2007	<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>
At 1 January 2008	42,555,169	7	2,768,523	10,131,108	55,454,807
Profit for the period	–	–	–	8,573,559	8,573,559
Dividend paid	(6,690,000)	–	–	–	(6,690,000)
Issue of new shares on placement	16,698,000	–	–	–	16,698,000
Share issue expenses	(895,400)	–	–	–	(895,400)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	1,524,166	–	1,524,166
At 30 September 2008	<b><u>51,667,769</u></b>	<b><u>7</u></b>	<b><u>4,292,689</u></b>	<b><u>18,704,667</u></b>	<b><u>74,665,132</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

For the nine months ended 30 September 2008, the unaudited turnover of the Group was about HK\$104.2 million, representing an increase of about HK\$18 million, or about 20.9%, as compared to the corresponding period in 2007 of about HK\$86.2 million. The increase in 2008 was due to the increase in the market sales of the Group's product.

Due to seasonality and competitive pressure, turnover for the third quarter dropped slightly by about HK\$1.6 million, or about 4.5%, to about HK\$33.8 million as compared to about HK\$35.4 million for the last 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\$104 million or about 99.8% was generated from the manufacturing and sales of smart cards and plastic cards, and about HK\$0.2 million or about 0.2% was generated from the sale of smart card application systems and other income. Profit attributable to shareholders for the nine months ended 30 September 2008 was about HK\$8.6 million (nine months ended 30 September 2007: about HK\$5.6 million).

For the nine months ended 30 September 2008, gross profit margin was about 33.2%, representing an increase of about 3.2% as compared to about 30% for the same period in 2007. The increase was due to higher value sales mix, as well as better utilization of the Group's assets.

For the nine months ended 30 September 2008, the selling and distribution costs recorded an increase of about HK\$0.9 million, or about 16.1%, from about HK\$5.8 million for the nine months ended 30 September 2007, to about HK\$6.7 million for the same period in 2008. The increase was attributable to an increase in freight charges, transportation costs and overseas travelling expenses, as well as an adjustment for previous under-provision of commission payable to a third party for introducing businesses. Administrative expenses also increased by about HK\$4.1 million, or about 30.2%, from about HK\$13.6 million for the nine months ended 30 September 2007, to about HK\$17.7 million for the same period in 2008. The increase was mainly due to the increase in exchange loss as a result of the appreciation of Renminbi, staff costs and various expenses.

## **Prospect**

On 5 July 2008, Fine Wise Holdings Limited, a subsidiary of the Company, has completed the subscription of Series A Preferred Shares in Hota (USA) Holding Corp.. Hota (USA) Holding Corp. is principally engaged in investment holding and its subsidiary is principally engaged in the recycling of used automobiles and sale of salvaged auto parts and metal derived from automobiles. It is expected that the investment would create greater value to our shareholders in the future.

## **LIQUIDITY AND FINANCIAL RESOURCES**

For the nine months ended 30 September 2008, 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 2008, the Group had cash and bank balances of about HK\$29.2 million, secured bank loans of about HK\$4.1 million and finance lease payable of about HK\$11.3 million.

As at 30 September 2008, the Group had current assets of about HK\$78.7 million and current liabilities of about HK\$30.7 million. The current ratio, expressed as current assets over current liabilities, was maintained at the strong level of about 2.6.

## **GEARING RATIO**

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total tangible assets of the Group, was 9.6% as at 30 September 2008 (30 June 2008: 11.3%). Accordingly, the financial position of the Group has remained very liquid.

## **SHARE OPTION SCHEME**

Pursuant to the shareholders' resolution passed at the extraordinary general meeting of the Company dated 8 January 2008, a new share option scheme ("New Share Option Scheme") was approved and adopted and the preceding share option scheme was terminated.

Under the New 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 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 grant, 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 grant and (iii) the nominal value of a Share on the date of grant, subject to a maximum of 10% of the entire issued share capital of the Company as at the date of the passing of the relevant resolutions.

No share options were granted by the Company under this scheme during the nine months ended 30 September 2008.

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

As at 30 September 2008, 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 positions in the shares of the Company**

<b>Name of Director</b>	<b>Number of Shares</b>				<b>Total</b>	<b>Percentage of interests</b>
	<b>Personal Interest</b>	<b>Family Interest</b>	<b>Corporate Interest</b>	<b>Other Interest</b>		
Ho Lut Wa, Anton	4,037,000	–	–	–	4,037,000	0.88

Save as disclosed above, as at 30 September 2008, 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 2008, 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>	<b>Notes</b>	<b>Number of shares held</b>	<b>Percentage of interests</b>
Best Heaven Limited	1	83,300,000	18.18
Mr. Chu Chen Lin	1	83,300,000	18.18
Golden Dice Co., Ltd.	2	81,400,000	17.77
Mr. Tsai Chi Yuan	2	81,400,000	17.77

*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.

Save as disclosed above, as at 30 September 2008, 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 carrying voting 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 2008.

## **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 2008, 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 2008, 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 2008