



# 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)

## FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2009

### CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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 revenue of the Group for the three months ended 31 March 2009 was HK\$33,036,000, representing a decrease of 5.7% as compared with that of the corresponding period in 2008.
- The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2009.

## 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 2009 together with the comparative figures for the corresponding period in 2008 as follows:

## CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Three months ended	
		31 March	
		2009	2008
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Revenue</b>	2	<b>33,036,190</b>	35,028,858
Cost of sales		<u>(21,659,934)</u>	<u>(23,417,371)</u>
Gross profit		<b>11,376,256</b>	11,611,487
Other revenue		<b>10,378</b>	206,772
Selling and distribution costs		<b>(1,526,166)</b>	(1,797,652)
Administrative expenses		<b>(6,183,251)</b>	(5,873,655)
Finance costs		<u>(112,606)</u>	<u>(110,474)</u>
<b>Profit before income tax</b>		<b>3,564,611</b>	4,036,478
Income tax expense	3	<u>(943,979)</u>	<u>(830,990)</u>
<b>Profit attributable to equity holders of the Company</b>		<u><b>2,620,632</b></u>	<u>3,205,488</u>
<b>Earnings per share</b>	5		
Basic		<u><b>0.57 cents</b></u>	<u>0.72 cents</u>

Notes:

## 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 provisions of the GEM Listing Rules.

The Group’s unaudited results for the three months ended 31 March 2009 have been reviewed by the audit committee.

## 2. REVENUE

Revenue, which is also the Group’s turnover, represents total invoiced value of goods supplied and income from provision of services. Revenue recognised during the period is as follows:

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2009</b>	2008
	<b>HK\$</b>	<b>HK\$</b>
Sales of smart cards and plastic cards	<b>33,032,690</b>	34,944,001
Sales of smart card application systems	<b>3,500</b>	50,060
Service and other income	<b>–</b>	34,797
	<b><u>33,036,190</u></b>	<b><u>35,028,858</u></b>

### 3. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2008: 16.5%) 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 Tecsun 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. Beijing Venus Technology Limited is currently subject to income tax on its taxable income at a rate of 25%.

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.

	<b>Unaudited Three months ended 31 March</b>	
	<b>2009</b>	2008
	<b>HK\$</b>	<b>HK\$</b>
The charge comprises:		
<b>Current tax</b>		
Hong Kong Profit Tax	<b>666,000</b>	421,000
PRC Enterprise Income Tax	<b>391,167</b>	367,532
	<b>1,057,167</b>	788,532
<b>Deferred tax recognised in the income statement</b>		
Types of temporary differences:		
Depreciation allowances	<b>(113,188)</b>	42,458
	<b>943,979</b>	830,990

### 4. DIVIDEND

The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2009 (2008: NIL).

### 5. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2009 is based on the unaudited profit attributable to equity holders of the Company for the three months ended 31 March 2009 of HK\$2,620,632 (three months ended 31 March 2008: HK\$3,205,488) and the weighted average number of 458,100,000 shares (three months ended 31 March 2008: 446,000,000 shares) in issue during the period.

Diluted earnings per share for the three months ended 31 March 2009 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 earnings per share for the three months ended 31 March 2008 had not been presented as the Company has no dilutive potential ordinary shares for the three months ended 31 March 2008.

## 6. RESERVES

	Contributed surplus <i>HK\$</i>	Share option reserve <i>HK\$</i>	Other reserves <i>HK\$</i>	Exchange difference <i>HK\$</i>	Available-for sale financial assets revaluation reserve <i>HK\$</i>	Accumulated profits <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2008	42,555,169	–	7	2,768,523	–	10,131,108	55,454,807
Profit for the period	–	–	–	–	–	3,205,488	3,205,488
Currency translation	–	–	–	942,741	–	–	942,741
At 31 March 2008	<u>42,555,169</u>	<u>–</u>	<u>7</u>	<u>3,711,264</u>	<u>–</u>	<u>13,336,596</u>	<u>59,603,036</u>
At 1 January 2009	51,611,489	2,448,014	7	4,994,418	(5,915,760)	14,508,410	67,646,578
Profit for the period	–	–	–	–	–	2,620,632	2,620,632
Currency translation	–	–	–	950,078	–	–	950,078
At 31 March 2009	<u>51,611,489</u>	<u>2,448,014</u>	<u>7</u>	<u>5,944,496</u>	<u>(5,915,760)</u>	<u>17,129,042</u>	<u>71,217,288</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

During the period under review, the Group was principally engaged in the manufacturing and sales of smart cards and plastic cards. The Group was also engaged in the provision of customised smart card application system.

The business environment was challenging in the first quarter of 2009, and the Group faced both sales and pricing pressures from the market. For the three months ended 31 March 2009, revenue of the Group amounted to HK\$33.0 million, representing a drop of HK\$2 million or 5.7%, as compared to HK\$35.0 million for the corresponding period in 2008. We anticipate that this adverse market condition may last for a certain period of time.

To cope with a possible prolonged economic setback, the management aims at, including but not limited to, enhancing the production efficiency and seeking cost and expense savings wherever possible. During the period under review, cost of sales dropped by HK\$1.7 million or 7.5%, from HK\$23.4 million for the three months ended 31 March 2008, to HK\$21.7 million. The decrease was partly due to the drop in sales, partly due to a change in sales mix favoring personalisation services which has lower cost of sales, and partly due to the implementation of various cost control measures. Gross profit margin for the first quarter of 2009 increased to 34.4%, as compared to 33.1% for the corresponding period in 2008. Despite the drop in sales, gross profit amounted to HK\$11.4 million for the three months ended 31 March 2009, representing a drop of only HK\$0.2 million or 2%, as compared to HK\$11.6 million for the corresponding period in 2008.

During the period under review, selling and distribution costs recorded a decrease of HK\$0.3 million or 15.1%, from HK\$1.8 million in 2008 to HK\$1.5 million. The decrease was attributable primarily to decreases in overseas travelling expenses and freight charges.

On the other hand, administrative expenses recorded an increase of HK\$0.3 million or 5.3%, from HK\$5.9 million in 2008 to HK\$6.2 million this quarter. The increase was primarily attributable to the increase in exchange loss arising from the appreciation of Renminbi against Hong Kong Dollar, the increase in salary due to appointment of key staff but partly offset by the decrease in other operating expenses like legal and professional fees and various office expenses.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the period under review, the Group financed its business operations with cash revenue generated from operating activities, bank loans and finance lease arrangements. As at 31 March 2009, the Group had cash and bank balances of HK\$39.0 million, finance leases payable of HK\$9.3 million and secured bank loans of HK\$3.1 million.

As at 31 March 2009, the Group had two finance lease arrangements used for financing the acquisition of certain smartcard personalisation equipment for the production lines in the PRC. The finance leases are bearing an effective interest rate of 3.32% per annum and repayable in three years.

As at 31 March 2009, the Group had current assets of HK\$85.4 million and current liabilities of HK\$29.8 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 2.9.

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

As at 31 March 2009, 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		
Lily Wu	1,000,000	–	–	–	1,000,000	0.22
Chang Wei Wen	800,000	–	–	–	800,000	0.18
Leung Quan Yue, Michelle	500,000	–	–	–	500,000	0.11

(ii) **Rights to subscribe for shares in the Company**

<b>Director</b>	<b>Date of grant</b>	<b>Outstanding at 31 March 2009</b>	<b>Exercise price per share HK\$</b>	<b>Exercisable period</b>
Lily Wu	17 November 2008	1,000,000	0.93	17 November 2008 to 16 November 2018
Chang Wei Wen	17 November 2008	800,000	0.93	17 November 2008 to 16 November 2018
Leung Quan Yue, Michelle	17 November 2008	500,000	0.93	17 November 2008 to 16 November 2018

Save as disclosed above, as at 31 March 2009, 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 2009, 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	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 31 March 2009, 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 corporate governance principles of the company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the three months ended 31 March 2009, the Group has complied with the code provisions in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A 2.1 stipulated in the following paragraphs.

The Code provision A 2.1 stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Ms. Lily Wu (“Ms. Wu”) serves as the Chairman of the Board since 1 April 2006. Mr. Anton Ho, the former Chief Executive Officer, resigned from the post with effect from 1 January 2009 and the position was left vacant since his resignation. After due and careful consideration by the Board, Ms. Wu was further appointed as the Chief Executive Officer on 23 March 2009. The reason for not splitting the roles of chairman and chief executive officer are as follows:

- The size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; and
- The Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

Thus, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company.

## **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 2009.

## **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 2009, 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 2009, 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 May 2009