



# 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 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.*

## SUMMARY

- The Group recorded an unaudited revenue of about HK\$101,910,000 for the nine months ended 30 September 2009, representing a drop of 2.2% as compared with that of the corresponding period in 2008.
- The unaudited profit attributable to equity holders of the Company for the nine months ended 30 September 2009 was about HK\$6,782,000.
- For the three months and the nine months ended 30 September 2009, the basic earnings per share were about HK\$0.0057 and about HK\$0.0147 respectively.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2009.

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

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 30 September		Nine months ended 30 September	
		2009	2008	2009	2008
	Notes	HK\$	HK\$	HK\$	HK\$
<b>Revenue</b>	2	<b>35,849,758</b>	33,818,138	<b>101,910,051</b>	104,249,415
Cost of sales		<u>(24,352,845)</u>	<u>(23,038,974)</u>	<u>(67,912,606)</u>	<u>(69,594,460)</u>
Gross profit		<b>11,496,913</b>	10,779,164	<b>33,997,445</b>	34,654,955
Other revenue	3	<b>32,610</b>	627,027	<b>113,275</b>	888,533
Selling and distribution costs		<u>(1,724,062)</u>	<u>(2,871,242)</u>	<u>(4,702,436)</u>	<u>(6,733,870)</u>
Administrative expenses		<u>(5,937,468)</u>	<u>(6,171,562)</u>	<u>(17,958,311)</u>	<u>(17,689,708)</u>
Finance costs	4	<u>(80,693)</u>	<u>(147,153)</u>	<u>(286,012)</u>	<u>(349,548)</u>
<b>Profit before income tax</b>		<b>3,787,300</b>	2,216,234	<b>11,163,961</b>	10,770,362
Income tax expense	5	<u>(1,122,026)</u>	<u>(656,191)</u>	<u>(4,381,731)</u>	<u>(2,196,803)</u>
<b>Profit attributable to equity holders of the Company</b>		<u><b>2,665,274</b></u>	<u>1,560,043</u>	<u><b>6,782,230</b></u>	<u>8,573,559</u>
<b>Earnings per share</b>	7				
Basic		<u><b>0.57 cents</b></u>	<u>0.34 cents</u>	<u><b>1.47 cents</b></u>	<u>1.91 cents</u>
Diluted		<u><b>0.56 cents</b></u>	<u>n/a</u>	<u><b>1.46 cents</b></u>	<u>n/a</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Profit for the period	<u>2,665,274</u>	<u>1,560,043</u>	<u>6,782,230</u>	<u>8,573,559</u>
Other comprehensive income/(loss):				
Exchange differences on translating foreign operations	<u>378,133</u>	<u>(56,324)</u>	<u>1,671,963</u>	<u>1,524,166</u>
Total comprehensive income for the period	<u><b>3,043,407</b></u>	<u>1,503,719</u>	<u><b>8,454,193</b></u>	<u>10,097,725</u>
Total comprehensive income attributable to equity holders of the Company	<u><b>3,043,407</b></u>	<u>1,503,719</u>	<u><b>8,454,193</b></u>	<u>10,097,725</u>

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Contributed surplus	Share option reserve	Other reserves	Exchange difference	Warrants reserve	Available- for-sale financial assets revaluation reserve	Accumulated profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2008	44,600,000	42,555,169	-	7	2,768,523	-	-	10,131,108	100,054,807
Total comprehensive income for the period	-	-	-	-	1,524,166	-	-	8,573,559	10,097,725
Issue of new shares on placement	1,210,000	16,698,000	-	-	-	-	-	-	17,908,000
Share issue expenses	-	(895,400)	-	-	-	-	-	-	(895,400)
2007 final dividend paid during the period	-	(6,690,000)	-	-	-	-	-	-	(6,690,000)
At 30 September 2008	<u>45,810,000</u>	<u>51,667,769</u>	<u>-</u>	<u>7</u>	<u>4,292,689</u>	<u>-</u>	<u>-</u>	<u>18,704,667</u>	<u>120,475,132</u>
At 1 January 2009	45,810,000	51,611,489	2,448,014	7	4,994,418	-	(5,915,760)	14,508,410	113,456,578
Total comprehensive income for the period	-	-	-	-	1,671,963	-	-	6,782,230	8,454,193
Issue of new shares upon exercise of share options	100,000	830,000	-	-	-	-	-	-	930,000
Issue of new shares on placement	3,000,000	34,500,000	-	-	-	-	-	-	37,500,000
Share issue expenses	-	(1,880,585)	-	-	-	-	-	-	(1,880,585)
Issue of unlisted warrants	-	-	-	-	-	1,540,500	-	-	1,540,500
2008 final dividend paid during the period	-	(6,871,500)	-	-	-	-	-	-	(6,871,500)
At 30 September 2009	<u>48,910,000</u>	<u>78,189,404</u>	<u>2,448,014</u>	<u>7</u>	<u>6,666,381</u>	<u>1,540,500</u>	<u>(5,915,760)</u>	<u>21,290,640</u>	<u>153,129,186</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, which collective term includes all applicable individual Hong Kong Financial Reporting Standards (“HKFRS”), 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 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 2008, except for the following amendments and interpretations issued by HKICPA which are or have become effective, and did not have any material impact on the accounting policies of the Group.

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosure about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments Recognition and Measurement
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation

The Group’s unaudited results for the three months and the nine months ended 30 September 2009 have been reviewed by the audit committee.

### 2. REVENUE AND TURNOVER

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

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2009 HK\$	2008 HK\$	2009 HK\$	2008 HK\$
Sales of smart cards and plastic cards	35,846,558	33,774,923	101,896,101	104,078,307
Sales of smart card application systems	3,200	10,560	13,950	70,240
Service and other income	–	32,655	–	100,868
	<u>35,849,758</u>	<u>33,818,138</u>	<u>101,910,051</u>	<u>104,249,415</u>

### 3. OTHER REVENUE

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2009 HK\$	2008 HK\$	2009 HK\$	2008 HK\$
Interest income	11,963	14,574	30,060	253,967
Gain on disposal of property, plant and equipment	20,101	495,154	31,702	495,154
Sundry income	546	117,299	51,513	139,412
	<u>32,610</u>	<u>627,027</u>	<u>113,275</u>	<u>888,533</u>

### 4. FINANCE COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2009 HK\$	2008 HK\$	2009 HK\$	2008 HK\$
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	20,536	71,050	83,425	273,445
Finance charges on obligations under finance leases	60,157	76,103	202,587	76,103
	<u>80,693</u>	<u>147,153</u>	<u>286,012</u>	<u>349,548</u>

### 5. 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 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 2007. Beijing Venus Technology Limited is currently subject to income tax on its taxable income at a rate of 25%.

In last quarter, an underprovision of EIT of HK\$1,238,153 was made as a revised tax ruling in respect of the financial year ended 31 December 2008 was issued to Beijing Venus Technology Limited by the tax authority in Beijing. Under the new ruling, Beijing Venus Technology Limited was not qualified for and hence was not entitled to certain tax concessions of being a new technology company. Accordingly, Beijing Venus Technology Limited was subject to EIT at the rate of 25%, instead of 7.5%, for the year ended 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 2009 HK\$		Unaudited Nine months ended 30 September 2009 HK\$	
		2008 HK\$		2008 HK\$
The charge comprises:				
<b>Current tax</b>				
Hong Kong Profits Tax	307,000	559,000	1,357,000	1,507,000
PRC Enterprise Income Tax	1,045,238	18,724	2,358,536	611,336
	<u>1,352,238</u>	<u>577,724</u>	<u>3,715,536</u>	<u>2,118,336</u>
Underprovision of PRC Enterprise Income Tax in prior year	–	–	1,238,153	–
	<u>1,352,238</u>	<u>577,724</u>	<u>4,953,689</u>	<u>2,118,336</u>
<b>Deferred tax recognized in the income statement</b>				
Types of temporary differences:				
Depreciation allowances	(230,212)	78,467	(571,958)	78,467
Total tax charge for the period	<u>1,122,026</u>	<u>656,191</u>	<u>4,381,731</u>	<u>2,196,803</u>

## 6. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2009 (2008: NIL).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and the nine months ended 30 September 2009 is based on the unaudited profit attributable to equity holders of the Company for the three months and the nine months ended 30 September 2009 of HK\$2,665,274 and HK\$6,782,230 (*three months and nine months ended 30 September 2008: HK\$1,560,043 and HK\$8,573,559 respectively*) and the weighted average number of 471,100,000 and 462,554,212 (*three months and nine months ended 30 September 2008: 457,705,435 shares and 449,930,292 shares*) ordinary shares respectively in issue during the periods.

The calculation of diluted earnings per share for the three months and the nine months ended 30 September 2009 is based on the unaudited profit attributable to equity holders of the Company for the three months and the nine months ended 30 September 2009 of HK\$2,665,274 and HK\$6,782,230 and the weighted average number of 473,462,569 and 463,031,551 ordinary shares respectively, calculated as follows:

### Weighted average number of ordinary shares (diluted)

	Unaudited Three months ended 30 September 2009	Unaudited Nine months ended 30 September 2009
Weighted average number of ordinary shares	471,100,000	462,554,212
Effect of deemed issue of shares under the Company's warrant placing agreements	1,382,625	–
Effect of deemed issue of shares under the Company's share option scheme	<u>979,944</u>	<u>477,339</u>
Weighted average number of ordinary shares (diluted)	<u>473,462,569</u>	<u>463,031,551</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

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

The business environment was challenging, and the Group faced both sales and pricing pressures from the market. For the nine months ended 30 September 2009, revenue of the Group amounted to HK\$101.9 million, representing a drop of HK\$2.3 million or 2.2%, as compared to HK\$104.2 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 and the fierce competition in the market, 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 2.4%, from HK\$69.6 million for the nine months ended 30 September 2008, to HK\$67.9 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. Therefore, despite the drop in average selling price during the period under review, the gross profit margin actually increased slightly to 33.4%, as compared to 33.2% for the corresponding period in 2008. However, due to the drop in revenue, gross profit for the nine months ended 30 September 2009 dropped by HK\$0.7 million, or 1.9%, from HK\$34.7 million in 2008, to HK\$34.0 million.

During the period under review, selling and distribution costs recorded a decrease of HK\$2.0 million or 30.2%, from HK\$6.7 million in 2008 to HK\$4.7 million. The decrease was attributable primarily to decreases in overseas travelling expenses, freight charges, and commission paid.

On the other hand, administrative expenses recorded a slight increase of HK\$0.3 million or 1.5%, from HK\$17.7 million in 2008 to HK\$18.0 million in 2009. The increase was primarily attributable to the redundancy payment to certain staffs with an aim of streamlining the operations and enhancing the Group's competitiveness.



## **PLACING OF NEW SHARES**

On 12 August 2009, a placement of a total of 18,000,000 new shares of the Company at HK\$1.25 per share was completed, raising gross and net proceeds of HK\$22.5 million and approximately HK\$21.3 million respectively. Details of the placement of shares are set out in the Company's announcements dated 24 June 2009, 9 July 2009, 31 July 2009 and 12 August 2009.

On 14 September 2009, a further placement of a total of 12,000,000 new shares of the Company at HK\$1.25 per share was completed, raising gross and net proceeds of HK\$15.0 million and approximately HK\$14.2 million respectively. Details of the further placement of shares are set out in the Company's announcements dated 8 September 2009 and 14 September 2009.

## **PLACING OF NON-LISTED WARRANTS**

On 8 September 2009, the Company as issuer entered into the conditional warrant placing agreements with two subscribers in relation to a private placing of a total of 61,620,000 warrants to the subscribers, at the warrant issue price of HK\$0.025, of which Big Run Investment Co., Ltd will subscribe for 21,620,000 warrants, and Kantor Holdings Limited will subscribe for 40,000,000 warrants. The warrants entitle the subscribers to subscribe for the new shares of the Company at the subscription price of HK\$1.125 per new share for a period of 18 months commencing from the date of issue of the warrants. The subscription price is subject to adjustments. Each warrant carries the right to subscribe for one new share of the Company. The placing was completed on 22 September 2009.

Details of the placing are set out on the Company's announcements dated 9 September 2009 and 22 September 2009.

As at 30 September 2009, none of the unlisted warrants has been exercised and there were 61,620,000 warrants outstanding.

## **LIQUIDITY AND FINANCIAL RESOURCES**

For the nine months ended 30 September 2009, 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 and non-listed warrants. As at 30 September 2009, the Group had cash and bank balances of HK\$31.7 million, finance lease payable of HK\$7.4 million and secured bank loans of HK\$2.0 million.

As at 30 September 2009, the Group had current assets of HK\$82.8 million and current liabilities of HK\$36.0 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 2.3.

## **GEARING RATIO**

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total tangible assets of the Group, was 4.9% as at 30 September 2009 (*30 June 2009: 7.3%*). Accordingly, the financial position of the Group remains very liquid.

## **SIGNIFICANT INVESTMENTS**

On 29 July 2009, Fine Wise Holdings Limited (“Fine Wise”), an indirect wholly owned subsidiary of the Company, entered into the Stock Purchase Agreement with Hota (USA) Holding Corp. (“Hota (USA)”), pursuant to which, Hota (USA), as issuer, has agreed to allot and issue, and Fine Wise, as subscriber, has agreed to subscribe for an additional 150,000 Series A Preferred Shares for an aggregate subscription price of USD6,000,000 (equivalent to approximately HK\$46,800,000) at the subscription price of USD40 (equivalent to approximately HK\$312) for each Series A Preferred Share. The closing of the subscription took place on 16 September 2009.

After closing, Fine Wise is legally and beneficially interested in 250,000 Series A Preferred Shares, representing approximately 74.07% of the entire Series A Preferred Shares in issue and 62.22% of the issued share capital of Hota (USA) as enlarged by the allotment and issue of the 337,500 shares in the Hota common stock upon exercise of the conversion rights attaching to the 337,500 Series A Preferred Shares in full. Hota (USA) will be treated as a jointly-controlled entity of the Company.

Details of the subscription are set out on the Company’s announcements dated 30 July 2009, 17 August 2009, 1 September 2009 and 16 September 2009.

## DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 30 September 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 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 Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in shares of the Company

Name	Type of Interest	Number of ordinary shares of the Company	Number of underlying shares of the Company	Aggregate long positions in shares of the Company	Percentage of shareholding
<i>Directors</i>					
Lily Wu	Personal Interest	–	1,000,000 <i>(Note 1)</i>	1,000,000	0.20
Chang Wei Wen	Personal Interest	–	800,000 <i>(Note 2)</i>	800,000	0.16
Leung Quan Yue, Michelle	Personal Interest	–	500,000 <i>(Note 3)</i>	500,000	0.10

#### Notes:

- As at 30 September 2009, the named director held 1,000,000 share options conferring rights to subscribe for 1,000,000 shares.
- As at 30 September 2009, the named director held 800,000 share options conferring rights to subscribe for 800,000 shares.
- As at 30 September 2009, the named director held 500,000 share options conferring rights to subscribe for 500,000 shares.

Save as disclosed above, as at 30 September 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 Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 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:

### Long positions in shares of the Company

Name	Notes	Number of ordinary shares held	Number of underlying shares held	Aggregate long positions in shares of the Company	Percentage of shareholding
Best Heaven Limited	1	83,300,000	–	83,300,000	17.03
Mr. Chu Chen Lin	1	83,300,000	–	83,300,000	17.03
Golden Dice Co., Ltd.	2	82,400,000	–	82,400,000	16.85
Mr. Tsai Chi Yuan	2	82,400,000	–	82,400,000	16.85
Mr. Wang Tienan		31,115,000	–	31,115,000	6.36
Kantor Holdings Limited	3, 4	440,000	40,000,000	40,440,000	8.27
Ms. Lin Chin-Hung	4	440,000	40,000,000	40,440,000	8.27
Mr. Wang Jung-Tang	5	440,000	40,000,000	40,440,000	8.27

#### 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. As at 30 September 2009, Kantor Holdings Limited held 40,000,000 non-listed warrants conferring rights to subscribe for up to HK\$45,000,000 in aggregate in cash for 40,000,000 new shares at a subscription price of HK\$1.125 per share.
4. Ms. Lin Chin-Hung (“Ms. Lin”) is deemed to be a substantial shareholder of the Company by virtue of her 100% beneficial interest in Kantor Holdings Limited.
5. Mr. Wang Jung-Tang is the spouse of Ms. Lin and is therefore deemed to be a substantial shareholder of the Company.

Save as disclosed above, as at 30 September 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 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**

The corporate governance principles of the company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the nine months ended 30 September 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 to separate 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 nine months ended 30 September 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 30 September 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 nine months ended 30 September 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, 11 November 2009