



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8210



FIRST QUARTERLY REPORT

2008

**For identification only*

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This document, for which the directors of Advanced Card Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.

HIGHLIGHTS

- The revenue of the Group for the quarter ended 31 March 2008 increased by 34% to HK\$14.6 million from the first quarter of 2007.
- The gross profit of the Group for the quarter ended 31 March 2008 increased by 37% to HK\$7.9 million from the first quarter of 2007.
- The net profit of the Group amounted to HK\$1.1 million for the three months ended 31 March 2008, which was 82% higher than the net profit in the first quarter of 2007.
- As of 31 March 2008, the cash at banks and on hand of the Group amounted to HK\$12.5 million (31 March 2007: HK\$7.5 million) and there was no borrowing from banks.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2008 together with the comparative unaudited figures for the corresponding period in 2007, as follows:

	<i>Notes</i>	Three months ended	
		2008	2007
		31 March	
		HK\$'000	HK\$'000
Revenue	2	14,631	10,887
Cost of sales		(6,762)	(5,151)
Gross profit		7,869	5,736
Other income		58	59
Other net income		6	2
Administrative and other operating expenses		(3,003)	(2,973)
Research and development expenses		(2,286)	(1,294)
Selling and distribution costs		(1,500)	(892)
Operating profit		1,144	638
Finance costs		(65)	(46)
Profit before income tax		1,079	592
Income tax expense	3	—	—
Profit for the period		1,079	592
Earnings per share attributable to equity holders of the Company 5			
Basic		HK0.383 cents	HK0.210 cents
Diluted		HK0.381 cents	HK0.210 cents

Notes:

1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted in the 2007 annual financial statements have been consistently applied to these financial statements.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. These financial statements were approved by the board of directors on 2 May 2008.

2 REVENUE

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

	Three months ended	
	31 March	
	2008	2007
	HK\$'000	HK\$'000
Sales of smart card products, software and hardware	14,254	10,524
Smart card related services	377	363
	<u>14,631</u>	<u>10,887</u>

3 INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made in the financial statements as a subsidiary of the Group has losses brought forward from previous years to offset against its current period's assessable profits and the Company and other subsidiaries sustained losses for taxation purposes for the three months ended 31 March 2007 and 2008.

4 DIVIDENDS

The Company had not declared or paid any dividends during the three months ended 31 March 2008 (2007: Nil).

5 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculations of the basic and diluted earnings per share are based on the following data:

	Three months ended	
	31 March	
	2008	2007
	HK\$'000	HK\$'000
Profit for the period for the purpose of calculating basic and diluted earnings per share	1,079	592
	Three months ended	
	31 March	
	2008	2007
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	281,800	281,800
Effect of dilutive potential ordinary shares relating to outstanding share options	1,110	588
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	282,910	282,388

6 RESERVES

	Share premium	Merger reserve	Translation reserve	Accumulated losses	Proposed dividend	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	24,333	4,496	—	(24,093)	—	4,736
Profit for the period	—	—	—	592	—	592
At 31 March 2007	24,333	4,496	—	(23,501)	—	5,328
At 1 January 2008	23,206	4,496	50	(19,787)	1,127	9,092
Profit for the period	—	—	—	1,079	—	1,079
Translation differences recognised directly in equity	—	—	28	—	—	28
At 31 March 2008	23,206	4,496	78	(18,708)	1,127	10,199

Merger reserve of the Group represents the reserve of the subsidiary that have been capitalised as a result of a share-for-share exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the Group's unaudited consolidated results for the quarter ended 31 March 2008.

Financial Review

The sales revenue increased by 34% in the first quarter of 2008 compared to the first quarter of 2007. The gross profit increased by 37% to HK\$7.9 million with the gross profit margin up from 53% to 54%. Overhead expenses increased by 32% owing to the higher research and development, and sales and marketing expenses. The net profit before tax surged by 82% to HK\$1.1 million.

The increases in sales revenue were recorded in all the three categories of products with the highest rate of increase in smart cards at 40% (34% for smart card readers and 4% for smart card related services) in the first quarter of 2008 compared with the same quarter in 2007. Smart cards accounted for 23% of the total sales revenue in this first quarter.

	Three months ended		
	31 March		
	2008	2007	Change
	HK\$'000	HK\$'000	
Smart cards	3,378	2,418	+40%
Smart card readers	10,876	8,106	+34%
Smart card related services	377	363	+4%
	14,631	10,887	+34%

In the first quarter of 2008, Europe accounted for half of the total sales revenue and was the region with the biggest growth in sales. The sales in Middle East and Africa declined in the first quarter of 2008 because in the first quarter of 2007, relatively big quantities of smart cards were delivered to a customer in Kenya. The project is reaching its end and the shipment rate has been reduced.

	Three months ended		
	31 March		
	2008	2007	Change
	HK\$'000	HK\$'000	
Europe	7,287	3,987	+83%
Asia Pacific	3,987	3,091	+29%
The Americas	2,307	1,971	+17%
Middle East and Africa	1,050	1,838	-43%
	14,631	10,887	+34%

Dividend

The Board declared a dividend for the year ended 31 December 2007. It does not declare an interim dividend in respect of the three months ended 31 March 2008. The declaration, payment, and amount of future dividends will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial condition, and such other factors as the Board may consider important.

Business Review

In line with its strategy to increase the ratio of junior to senior staff members and to combine the strengths of the three main offices, namely, Hong Kong headquarters, Shenzhen office and Manila office, the Group is actively enrolling youngsters, mainly university graduates with short periods of working experience. Also the expansion pace in both Shenzhen and Manila is much higher than in Hong Kong. The Group needs to build a much stronger team to cope with the substantial emerging business opportunities. As of 31 March 2008, the headcount was 87 versus 83 as of 31 December 2007. The Group aims to increase the headcount by 10% to 20% in the upcoming quarter, depending on its ability to get the right people.

After a substantial period of cultivation, the Group began to have certain successes in securing relatively bigger orders in the China market. The Group sold thousands of its PC linked readers in ACR38U series to a leading telecom company for issuing the smart cards to be used with mobile phones in China. It also sold hundreds of its contactless smart card readers in ACR120 series to a world leading mobile phone supplier for a pilot scheme to read the RFID (radio frequency identification) labels which are attached to batteries and mobile phones in order to avoid fake products. Since the China market is a big one owing to its huge population and rapid economic growth, the small requirements in pilot run scale could be followed by much more substantial business.

In the fourth quarter of 2007, the Group secured the first order of 2,500 units of its NFC (Near Field Communication) smart card readers in ACR122 series to a leading telecom company in Hong Kong for their pilot project to read the balance and the transaction records in the popular transportation payment cards. As a result of the progress of the project, in the first quarter of 2008, a second order of 5,000 units, i.e. twice the size of the first order was received. The Group anticipates to encounter similar applications for transportation payment cards which may require its NFC readers, in other regions of the world.

With the objective to capture the business of supplying smart card readers to Germany to be used in their nation-wide health card project, the Group is actively enhancing its readers in eH880 series in order to have them qualified against all the needed industry certifications. Meanwhile, the Group participated in March 2008 the trade show "CeBIT" in Germany with the main target to reach customers of the Group's smart card readers for the German health card market. At the same time, the Group was getting itself ready to take part in the healthcare trade show "conhIT", known as "connecting the healthcare IT" which was held in April 2008 in Germany.

Prospects

The Group considers the prospect to be good due primarily to an anticipation of significant growth of sales and profits in the upcoming quarters. It is having a better economy of scale. The Group puts emphasis on providing various on-the-job and class-room trainings to its staff members, especially the newly enrolled staff members. They are now taking more responsibilities and are contributing considerably to the Group.

The overall smart card market is growing. The Group has built a solid base of customers located in more than eighty countries in the world. A reputation has been built of supplying high quality smart card products. While the Group endeavours constantly to acquire business of its existing products, it is developing and launching new products in the pipe-line in order to maintain a strong product portfolio.

Liquidity and Financial Resources

At all times the Group maintains an adequate liquidity position. As at 31 March 2008, the Group's cash at banks and on hand amounted to HK\$12.5 million (31 March 2007: HK\$7.5 million) which included the pledged bank deposits of HK\$2.0 million (31 March 2007: HK\$2.7 million). The pledged bank deposits were to secure bank credit lines. As at 31 March 2008, the credit lines offered by the banks were not utilised (31 March 2007: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 3.8 (31 March 2007: 4.9). Net asset value as at the end of the review period was HK\$38.4 million (31 March 2007: HK\$33.5 million). As at 31 March 2008, the Group did not have any borrowings and, accordingly, the gearing ratio was zero (31 March 2007: zero).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2008, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were 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 are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of director	Long position in ordinary shares of HK\$0.10 each				Total number of shares held	Percentage of the Company's issued share capital as at 31 March 2008
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests		
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	39,778,522	—	—	120,546,522	42.78%
Ms. Tsui Kam Ling, Alice (Note 3)	39,778,522	80,768,000	—	—	120,546,522	42.78%
Mr. Tan Keng Boon	157,893	—	—	—	157,893	0.06%

Notes:

- The shares are registered under the names of the directors who are the beneficial owners.
- 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 39,778,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.
- 39,778,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 March 2008, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of 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 are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(i) Pre-IPO Share Option Plan

At 31 March 2008, the consultants and employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 March 2008 was HK\$0.33) with an exercise price of HK\$0.09 or HK\$0.24 per share under the Pre-IPO Share Option Plan (the “Plan”) of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company.

Grantees	Date granted	Number of share options				Balance as at 31 March 2008	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 March 2008
		Balance as at 1 January 2008	Granted during the period	Exercised during the period	Lapsed during the period				
Consultant & Employees	27 October 2003	1,361,607	–	–	–	1,361,607 (Note 1, 2)	10 May 2004 to 24 July 2010	HK\$0.09	0.48%
Employees	27 October 2003	862	–	–	–	862 (Note 2)	10 May 2004 to 27 December 2010	HK\$0.09	0.01%
	27 October 2003	900,776	–	–	–	900,776 (Note 3)	10 May 2004 to 20 January 2013	HK\$0.24	0.32%
		2,263,245	–	–	–	2,263,245			

Notes:

- 1 1,201,034 share options were granted to a consultant of the Group. All other options were granted to employees of the Group.
- 2 The options vested and were exercisable on 10 May 2004, which was 6 months after the listing date of the Company.
- 3 The options vested and were exercisable in three tranches as follows:
 - (a) one-third of the options have vested and were exercisable on 10 May 2004;
 - (b) a further one-third of the options have vested and were exercisable on 31 December 2004; and
 - (c) the remaining one-third of the options have vested and were exercisable on 31 December 2005.
- 4 No option was granted, exercised, cancelled or lapsed during the period.

(ii) Share Option Scheme

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Share Option Scheme (the “Scheme”). As at the date of this report, no options had been granted under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraphs headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option schemes" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares at 31 March 2008 which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 31 March 2008
Proway Investment Limited(<i>Note 2</i>)	Beneficial owner	31,740,305 shares (L)	11.26%
Morningside CyberVentures Holdings Limited (<i>Note 2</i>)	Other	31,740,305 shares (L)	11.26%
Verrall Enterprises Holdings Limited (<i>Note 2</i>)	Other	31,740,305 shares (L)	11.26%
Madam Chan Tan Ching Fen (<i>Note 2</i>)	Other	31,740,305 shares (L)	11.26%

Notes:

- 1 The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the SFO) in shares.
- 2 Proway Investment Limited is wholly owned by Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly owned by Verrall Enterprises Holdings Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).

Save as disclosed above, as at 31 March 2008 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group during the period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the three months ended 31 March 2008.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the three months ended 31 March 2008.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 2 May 2008