



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

Q2



INTERIM REPORT

*For identification only

2007

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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 six months ended 30 June 2007 slightly increased by 1% to HK\$21.8 million from the first half year of 2006.
- The gross profit of the Group for the six months ended 30 June 2007 increased by 12% to HK\$11.8 million from HK\$10.5 million for the first half year of 2006 and the gross profit margin increased to 54% from 49%.
- The Group recorded net profit after income tax of HK\$1.4 million for the six months ended 30 June 2007 (first half year of 2006: HK\$1.2 million).
- As at 30 June 2007, the cash at banks and on hand of the Group amounted to HK\$10.6 million and there was no borrowing.

The Board of Directors (the "Board") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2007 (the "Review Period").

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2007

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|--|-------|-------------------------------|------------------|-----------------------------|------------------|
| | | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Revenue | 2 | 10,951 | 10,653 | 21,838 | 21,516 |
| Cost of sales | | (4,859) | (4,858) | (10,010) | (11,000) |
| Gross profit | | 6,092 | 5,795 | 11,828 | 10,516 |
| Other revenue | | 100 | 59 | 159 | 96 |
| Other net loss | | (13) | (49) | (11) | (114) |
| Administrative and other operating expenses | | (3,053) | (2,983) | (6,026) | (6,324) |
| Research and development expenses | | (1,520) | (862) | (2,814) | (1,482) |
| Selling and distribution costs | | (755) | (734) | (1,647) | (1,415) |
| Operating profit | | 851 | 1,226 | 1,489 | 1,277 |
| Finance costs | 4.1 | (71) | (48) | (117) | (81) |
| Profit before income tax | 4 | 780 | 1,178 | 1,372 | 1,196 |
| Income tax | 5 | — | — | — | — |
| Profit for the period | | 780 | 1,178 | 1,372 | 1,196 |
| Earnings per share | 7 | | | | |
| Basic | | HK0.277 cents | HK0.418 cents | HK0.487 cents | HK0.424 cents |
| Diluted | | HK0.276 cents | HK0.418 cents | HK0.486 cents | N/A |

CONSOLIDATED BALANCE SHEET

At 30 June 2007

| | Notes | Unaudited 30 June 2007 HK\$'000 | Audited 31 December 2006 HK\$'000 |
|---|-------|--|--|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Plant and equipment | 8 | 1,844 | 1,932 |
| Development costs | | 9,440 | 9,393 |
| Deferred tax assets | | 2,762 | 2,762 |
| | | 14,046 | 14,087 |
| Current assets | | | |
| Inventories | | 10,289 | 8,600 |
| Trade and other receivables, deposits paid and prepayments | 9 | 5,525 | 6,753 |
| Held-to-maturity financial asset | | 18 | 17 |
| Pledged bank deposits | | 2,005 | 2,691 |
| Cash and cash equivalents | | 8,566 | 5,240 |
| | | 26,403 | 23,301 |
| Current liabilities | | | |
| Trade and other payables, deposits received and accruals | 10 | 6,161 | 4,472 |
| | | 20,242 | 18,829 |
| Net current assets | | | |
| | | 34,288 | 32,916 |
| EQUITY ATTRIBUTABLE TO COMPANY'S EQUITY HOLDERS | | | |
| Share capital | 11 | 28,180 | 28,180 |
| Reserves | 12 | 6,108 | 4,736 |
| | | 34,288 | 32,916 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

| | Unaudited | |
|---|--------------------------|-----------------|
| | Six months ended 30 June | |
| | 2007 | 2006 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash generated from operating activities | 4,208 | 1,984 |
| Net cash used in investing activities | (765) | (1,422) |
| Net cash (used in)/generated from financing activities | (117) | 128 |
| Net increase in cash and cash equivalents | 3,326 | 690 |
| Cash and cash equivalents at 1 January | 5,240 | 6,390 |
| Cash and cash equivalents at 30 June | 8,566 | 7,080 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total equity <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|--------------------------------------|--|------------------------------------|
| At 1 January 2006 | 28,180 | 24,333 | 4,496 | (26,657) | 30,352 |
| Profit for the period | — | — | — | 1,196 | 1,196 |
| Total recognised income and expense for the period | — | — | — | 1,196 | 1,196 |
| At 30 June 2006 | 28,180 | 24,333 | 4,496 | (25,461) | 31,548 |
| At 1 January 2007 | 28,180 | 24,333 | 4,496 | (24,093) | 32,916 |
| Profit for the period | — | — | — | 1,372 | 1,372 |
| Total recognised income and expense for the period | — | — | — | 1,372 | 1,372 |
| At 30 June 2007 | 28,180 | 24,333* | 4,496* | (22,721)* | 34,288 |

* The aggregate amount of the above balances of HK\$6,108,000 represented the reserves in the consolidated balance sheet.

NOTES ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

This condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The preparation of the condensed interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies adopted in the 2006 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 13 August 2007.

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 | | Six months ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | 30 June | | 30 June | |
| | 2007 | 2006 | 2007 | 2006 |
| | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Sale of smart card products, software and hardware | 10,727 | 10,429 | 21,251 | 20,840 |
| Smart card related services | 224 | 224 | 587 | 676 |
| | 10,951 | 10,653 | 21,838 | 21,516 |

3 SEGMENT INFORMATION

Primary reporting format – business segments

During the period, the Group was principally engaged in the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to its customers.

Six months ended 30 June 2007

| | Development, sale and distribution of smart card products, software and hardware | Provision of smart card related services | Total |
|--|---|---|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue | 21,251 | 587 | 21,838 |
| Segment result and operating profit | 1,079 | 410 | 1,489 |
| Finance costs | | | (117) |
| Segment result and profit before income tax | | | 1,372 |
| Income tax | | | — |
| Profit for the period | | | 1,372 |
| Capital expenditure | 1,604 | — | 1,604 |
| Depreciation and amortisation | 1,645 | — | 1,645 |
| Non-cash expenses other than depreciation and amortisation | 18 | — | 18 |

Six months ended 30 June 2006

| | Development, sale and distribution of smart card products, software and hardware <i>HK\$'000</i> | Provision of smart card related services <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|--|---------------------------------|
| Revenue | 20,840 | 676 | 21,516 |
| Segment result and operating profit | 809 | 468 | 1,277 |
| Finance costs | | | (81) |
| Segment result and profit before income tax | | | 1,196 |
| Income tax | | | — |
| Profit for the period | | | 1,196 |
| Capital expenditure | 1,515 | — | 1,515 |
| Depreciation and amortisation | 1,005 | — | 1,005 |

Over 90% of the segment assets and liabilities are attributable to the segment of "Development, sale and distribution of smart card products, software and hardware" and, accordingly, no segmental analysis of the Group's assets, liabilities and capital expenditure is presented.

Secondary reporting format – geographical segments

The Group's operations are mainly located in Hong Kong. The following table provides an analysis of the Group's revenue by geographical market irrespective of the origin of the goods and services.

Sales revenue by geographical markets:

| | Six months ended 30 June | |
|--------------------------------|---------------------------------|--------------------------------|
| | 2007 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> |
| The Americas | 4,054 | 3,515 |
| Asia Pacific | 5,951 | 7,246 |
| Europe, Middle East and Africa | 11,833 | 10,755 |
| | 21,838 | 21,516 |

Over 90% of the total assets and liabilities of the Group at the respective balance sheet dates were physically located in Hong Kong and substantially employed in Hong Kong. Accordingly, no geographical segmental analysis of the Group's assets and liabilities and capital expenditure is presented.

4 PROFIT BEFORE INCOME TAX

| Three months ended | | Six months ended | |
|--------------------|----------|------------------|----------|
| 30 June | | 30 June | |
| 2007 | 2006 | 2007 | 2006 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |

Profit before income tax is arrived at after charging:

4.1 Finance costs:

| | | | | |
|---|-----------|-----------|------------|-----------|
| Interests on bank borrowings wholly repayable within five years | 15 | 13 | 19 | 13 |
| Bank charges | 56 | 35 | 98 | 68 |
| | 71 | 48 | 117 | 81 |

4.2 Other items:

| | | | | |
|-----------------------------------|-----|-----|-------|-----|
| Amortisation of development costs | 635 | 288 | 1,097 | 546 |
| Depreciation | 281 | 233 | 548 | 459 |

5 INCOME TAX

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 and six months ended 30 June 2007 and 2006.

6 DIVIDENDS

The Company had not declared or paid any dividends during the three months and six months ended 30 June 2007 (2006: Nil).

7 **EARNINGS PER SHARE**

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

| | Three months ended | | Six months ended | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | 30 June | | 30 June | |
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit for the period for the purposes of calculating basic and diluted earnings per share | 780 | 1,178 | 1,372 | 1,196 |
| | | | | |
| | Three months ended | | Six months ended | |
| | 30 June | | 30 June | |
| | 2007 | 2006 | 2007 | 2006 |
| | '000 | '000 | '000 | '000 |
| Number of shares | | | | |
| Weighted average number of ordinary shares for the purposes of calculating basic earnings per share | 281,800 | 281,800 | 281,800 | 281,800 |
| Effect of dilutive potential ordinary shares relating to outstanding share options | 979 | 38 | 778 | |
| Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share | 282,779 | 281,838 | 282,578 | |

Diluted earnings per share for the six months ended 30 June 2006 was not presented because the exercise prices of the outstanding options exceeded the average market price of ordinary shares during the period.

8 PLANT AND EQUIPMENT

| | Leasehold improvements <i>HK\$'000</i> | Furniture and fixtures <i>HK\$'000</i> | Computer and office equipment <i>HK\$'000</i> | Moulds <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------------|--|---|--|---------------------------|--------------------------|
| At 1 January 2006 | | | | | |
| Cost | 527 | 410 | 2,821 | 1,290 | 5,048 |
| Accumulated depreciation | (76) | (165) | (1,841) | (815) | (2,897) |
| Net book amount | 451 | 245 | 980 | 475 | 2,151 |
| Six months ended 30 June 2006 | | | | | |
| Opening net book amount | 451 | 245 | 980 | 475 | 2,151 |
| Additions | 1 | 5 | 211 | 24 | 241 |
| Depreciation | (112) | (45) | (206) | (96) | (459) |
| Closing net book amount | 340 | 205 | 985 | 403 | 1,933 |
| At 30 June 2006 | | | | | |
| Cost | 525 | 414 | 3,013 | 1,314 | 5,266 |
| Accumulated depreciation | (185) | (209) | (2,028) | (911) | (3,333) |
| Net book amount | 340 | 205 | 985 | 403 | 1,933 |
| At 1 January 2007 | | | | | |
| Cost | 525 | 441 | 3,334 | 1,460 | 5,760 |
| Accumulated depreciation | (297) | (255) | (2,261) | (1,015) | (3,828) |
| Net book amount | 228 | 186 | 1,073 | 445 | 1,932 |
| Six months ended 30 June 2007 | | | | | |
| Opening net book amount | 228 | 186 | 1,073 | 445 | 1,932 |
| Additions | 1 | 4 | 319 | 136 | 460 |
| Depreciation | (108) | (48) | (276) | (116) | (548) |
| Closing net book amount | 121 | 142 | 1,116 | 465 | 1,844 |
| At 30 June 2007 | | | | | |
| Cost | 526 | 445 | 3,539 | 1,596 | 6,106 |
| Accumulated depreciation | (405) | (303) | (2,423) | (1,131) | (4,262) |
| Net book amount | 121 | 142 | 1,116 | 465 | 1,844 |

9 **TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS**

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Trade receivables - net | 4,479 | 5,368 |
| Other receivables, deposits paid and prepayments | 1,046 | 1,385 |
| | 5,525 | 6,753 |

Customers are generally granted credit terms of 30 to 60 days. The ageing analysis of the net trade receivables was as follows:

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|--------------|--------------------------------------|---------------------------------|
| 0-30 days | 3,143 | 2,993 |
| 31-60 days | 147 | 777 |
| 61-90 days | 210 | 36 |
| Over 90 days | 979 | 1,562 |
| | 4,479 | 5,368 |

10 **TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS**

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Trade payables | 3,977 | 1,871 |
| Other payables, deposits received and accruals | 2,184 | 2,601 |
| | 6,161 | 4,472 |

The ageing analysis of the trade payables was as follows:

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|------------|--------------------------------------|---------------------------------|
| 0-30 days | 3,707 | 1,833 |
| 31-60 days | 270 | 38 |
| | 3,977 | 1,871 |

11 SHARE CAPITAL

| | Number of shares | <i>HK\$'000</i> |
|--------------------------------------|-----------------------------|-----------------|
| | <i>'000</i> | |
| Authorised: | | |
| Ordinary shares of HK\$0.10 each | | |
| At 31 December 2006 and 30 June 2007 | 1,000,000 | 100,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.10 each | | |
| At 31 December 2006 and 30 June 2007 | 281,800 | 28,180 |

12 RESERVES

The amount of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on page 4 of the financial statements.

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

13 OPERATING LEASE COMMITMENTS

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

| | 30 June 2007 | 31 December 2006 |
|------------------------------|-------------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 377 | 873 |
| In the second to fifth years | 29 | 83 |
| | 406 | 956 |

The Group leases a number of land and buildings under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

14 MATERIAL RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Consultancy fee payable (<i>Note</i>) | 20 | 45 |
| Key management personnel remuneration | | |
| - Salaries and other short-term employee benefits | 1,758 | 2,053 |
| - Retirement benefits costs | 24 | 30 |
| | 1,782 | 2,083 |

Note: A subsidiary has entered into agreement with Mr. Tong Kam Hung for the provision of consultancy services. The terms of the consultancy fees are determined based on services provided with reference to market rates. Mr. Tong Kam Hung was interested in the agreement as a consultant and a shareholder of the Company.

At 30 June 2007, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK\$5,000,000 (30 June 2006: HK\$2,000,000) for certain banking facilities granted.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in accordance with the terms mutually agreed between the Group and the related parties.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group increased its sales revenue by only 1% in the first half of Year 2007 compared with the figure in the first half of Year 2006. The higher gross profit margins generated by the new products launched to the market more than compensated the drop in gross profit margins of the more mature products. Thus the gross profit margin as a whole increased. The bottom line increased by 15% to HK\$1.4 million.

FINANCIAL REVIEW

The sales revenue increased by 1% in the half year ended 30 June 2007 compared with the figure in the corresponding period in Year 2006. The gross profits increased by 12% as the gross profit margin increased to 54% in the first half year of 2007 from the figure of 49% in the first half year of 2006. Total expenses increased by 14% to HK\$10.6 million and the Group was able to increase its net profits by 15%.

| | Six months ended | | Change |
|----------------------------|-------------------------|----------|--------|
| | 30 June | | |
| | 2007 | 2006 | |
| | HK\$'000 | HK\$'000 | |
| Revenue | 21,838 | 21,516 | +1% |
| Cost of sales | (10,010) | (11,000) | -9% |
| Gross profit | 11,828 | 10,516 | +12% |
| Other revenue and net loss | 148 | (18) | +922% |
| Expenses | (10,604) | (9,302) | +14% |
| Profit before income tax | 1,372 | 1,196 | +15% |
| Income tax | — | — | — |
| Profit for the period | 1,372 | 1,196 | +15% |

The sales revenue breakdown by product and service shows that the sales of smart cards represented 23% of the total sales revenue in the first half of Year 2007. Smart cards sales increased 57% to HK\$4.9 million in the first half of Year 2007 from the figure of HK\$3.1 million in the first half of Year 2006. The bulk of the total sales revenue of the Group came from smart card readers of which was recorded a decrease in sales revenue by 8%. Revenue from smart card related services accounted for a small percentage of the total sales revenue. Usually such revenues resulted from the services fees for modifying the Group's products to fit the specific requirements of customers.

| | Six months ended | | |
|-----------------------------|-------------------------|-----------------|--------|
| | 30 June | | |
| | 2007 | 2006 | Change |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| Smart cards | 4,924 | 3,141 | +57% |
| Smart card readers | 16,327 | 17,699 | -8% |
| Smart card related services | 587 | 676 | -13% |
| | 21,838 | 21,516 | +1% |

The Group sold its products to customers in over eighty countries in the world. The region Europe, Middle East and Africa accounted for the biggest percentage of the sales revenue (54% in the first half of Year 2007). The Group has not reached a scale to be able to establish a network of offices in the world. Thus it co-operates with IT solution providers and distributors to serve the users of the smart cards and readers.

| | Six months ended | | |
|--------------------------------|-------------------------|-----------------|--------|
| | 30 June | | |
| | 2007 | 2006 | Change |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| The Americas | 4,054 | 3,515 | +15% |
| Asia Pacific | 5,951 | 7,246 | -18% |
| Europe, Middle East and Africa | 11,833 | 10,755 | +10% |
| | 21,838 | 21,516 | +1% |

DIVIDEND

The Board does not declare an interim dividend in respect of the six months ended 30 June 2007. 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 deem relevant.

BUSINESS REVIEW

The Group continued to execute three business strategies (1) to increase the ratio of junior to senior staff members so that one experienced staff member can guide a bigger number of junior staff members, (2) to optimize the deployment of staff members in the three offices in Hong Kong, Manila, The Philippines and Shenzhen, China and (3) to enhance its IT systems. As a result of the business strategy (1) above, the payroll did not increase as much as the headcount increase. To execute business strategy (2), more work assignments are being transferred from Hong Kong office to the Manila and Shenzhen offices whenever possible so that the headquarters can concentrate on the less routine jobs such as building relationships with key customers, planning, defining strategies, system improvement, etc. A good IT system is required to pull the staff members from different offices to work together effectively. The Group made some enhancements of its IT system.

Of the three main products which were launched in Year 2006, namely (1) ACR100, PC-linked reader with mass storage, (2) ACOS5 PKI (Public key infrastructure) smart cards for enhancing the security of using the Internet, and (3) ACR88, the portable PIN-pad reader with LCD, the first two products generated encouraging results. A European customer that started to buy ACR100 products in the first quarter of Year 2007 experienced great success in selling the product for secure storage of files and programs. It is increasing its scale of purchase. A customer in Kenya that bought, in the first half year of 2007, 70 thousand ACOS5 cards for multi-function loyalty programs and for Internet security solutions, received great responses from the customers. Deliveries for bigger quantities are expected for the second half of Year 2007.

In the first half year, the Group launched the product CryptoMate, which is a USB PKI token with embedded smart card chip, ACOS5 chips, for secure access to the Internet. The product aroused keen interest from IT solution houses and some of them are developing applications to use the product.

There are three main products being developed during the first half year of Year 2007: (1) APG82, a dynamic password generator which generates one time password for authentication of users of the Internet for on-line transactions, such as for on-line banking or on-line stock trading (2) eH880, a multi-function smart card reader with the first target use for the German health card project using smart cards and (3) ACR122, a reader for contactless smart cards including the Sony's Felica cards, such as the Hong Kong Octopus cards which are Felica cards. The ACR122 reader is to be used with the PC and can read the balance plus transaction records in a card for micro-payments, such as transportation fare payments.

PROSPECTS

The Group has built a range of products and technologies over the years. It has also established a firm customer base in all continents in the world. Its strategy to increase its economy of scale is taking effect. The new staff members, including junior staff members, are demonstrating their capability to make substantial contributions to the company in developing products, in building the IT system and in securing orders. Some customers have been waiting for the introduction of the three main products (APG82, eH880 and ACR122) actively being developed. These products are ready to be launched to the market in the coming months.

The Group aims to build the needed financial strengths to grow its business more quickly. It was able to attain a positive bottom line and a mildly positive cash flow and is thus moving in the right direction to attain its goal.

The market of smart cards, readers and related security products is growing. The Group has a small share of the total market. However, it has the technical ability to develop state-of-the-art technological products to compete in the world. It has strengthened its sales and marketing team by training junior staff members to take up more responsibilities. Once the Group reaches its economy of scale, the sales and the profitability will take off.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group's cash at banks and on hand amounted to HK\$10.6 million (30 June 2006: HK\$8.9 million) which included the pledged bank deposits of HK\$2.0 million (30 June 2006: HK\$1.8 million). The HK\$2.0 million pledged bank deposits were to secure bank credit lines. At 30 June 2007, no credit line was outstanding (30 June 2006: HK\$1.3 million).

The current ratio, being the ratio of current assets to current liabilities, was kept at 4.3 (30 June 2006: 3.2). Net asset value as at the end of the review period was HK\$34.3 million (30 June 2006: HK\$31.5 million). As at 30 June 2007, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (30 June 2006: 4.1%).

CAPITAL STRUCTURE

Since the Group got money from the Placing, the Group has relied on internally generated profit to fund its working capital needs. The Group keeps most of its cash in Hong Kong dollars and United States dollars in bank accounts.

INVESTMENTS

During the first six months, the Group did not make any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2007.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars or United States dollars and the exchange rates between such currencies have been stable during the review period. There is no significant exposure to foreign exchange rate fluctuations. No hedging or other alternatives have been implemented during the period.

PLEDGE OF ASSETS

As at 30 June 2007, the Group had pledged deposits of US\$257,000 with two banks for getting banking facilities. Save as disclosed herein, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2007, the Company had outstanding corporate guarantee of HK\$5 million (plus accrued interest thereon) to two banks in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2007, the Group had 77 full-time employees. Staff costs amounted to HK\$6.0 million (corresponding period in 2006: HK\$5.9 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

The Group has also adopted share option schemes under which the employees of the Group may be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group.

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

At 30 June 2007, 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Ordinary shares of HK\$0.10 each of the Company

| Name of director | Personal interests (Note 1) | Family interests | Corporate interests | Other interests | Total number of shares held | Percentage of the Company's issued share capital as at 30 June 2007 |
|-----------------------------------|--------------------------------|------------------|---------------------|-----------------|-----------------------------|---|
| Mr. Wong Yiu Chu, Denny (Note 2) | 80,768,000 | 39,370,522 | — | — | 120,138,522 | 42.63% |
| Ms. Tsui Kam Ling, Alice (Note 3) | 39,370,522 | 80,768,000 | — | — | 120,138,522 | 42.63% |
| Mr. Tan Keng Boon | 157,893 | — | — | — | 157,893 | 0.06% |

Notes:

- 1 The shares are registered under the names of the directors who are the beneficial owners.
- 2 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 39,370,522 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.
- 3 39,370,522 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 30 June 2007, none of the directors or their associates had any personal, family, corporate or other interest 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 30 June 2007, 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 29 June 2007 was HK\$0.28) 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 | Balance as at 1 January 2007 | Number of share options | | | Balance as at 30 June 2007 | Period during which the options are exercisable | Exercise price per share | Percentage of the Company's issued share capital as at 30 June 2007 |
|----------------------------|-----------------|---------------------------------------|---------------------------------|-----------------------------------|--------------------------------|-------------------------------------|--|--------------------------------|---|
| | | | Granted during the period | Exercised during the period | Lapsed during the period | | | | |
| Consultants & 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 have 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" 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 30 June 2007 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 30 June 2007 |
|--|------------------|--------------------------------------|---|
| 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% |
| Biswick 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% |
| Verrall 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 Biswick Holdings Limited in its capacity as trustee of a unit trust the units of which are owned by Verrall Enterprises Holdings Limited and Verrall Limited in their capacities as trustees of family trusts 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 30 June 2007 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.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

A.2 of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the “Code”) provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Yiu Chu, Denny was appointed as the chairman and chief executive officer of the Company. The roles of chairman and chief executive officer were not separated. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that his appointment being both the chairman and chief executive officer is beneficial to the business prospects of the Company. Save as disclosed above, the Company has met the code provisions set out in the Code throughout the six months ended 30 June 2007.

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 six months ended 30 June 2007.

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 six months ended 30 June 2007.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 13 August 2007