



**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*

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**FIRST QUARTERLY REPORT**

*\*For identification only*

**2007**

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

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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

- Revenue of the Group for the quarter ended 31 March 2007 remained essentially the same at HK\$10.9 million as revenue recorded in the first quarter of 2006.
- Gross profit of the Group for the quarter ended 31 March 2007 increased by 21% to HK\$5.7 million from the first quarter of 2006.
- The profit of the Group amounted to HK\$592,000 for the three months ended 31 March 2007 as compared to HK\$18,000 for the first quarter of 2006.

## UNAUDITED CONSOLIDATED RESULTS

The Board of Directors is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2007 together with the comparative unaudited figures for the corresponding period in 2006, as follows:

	<i>Notes</i>	<b>Three months ended</b>	
		<b>31 March</b>	
		<b>2007</b>	<b>2006</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	2	<b>10,887</b>	10,863
Cost of sales		<b>(5,151)</b>	(6,142)
<b>Gross profit</b>		<b>5,736</b>	4,721
Other revenue		<b>59</b>	37
Other net income/(loss)		<b>2</b>	(65)
Administrative and other operating expenses		<b>(2,973)</b>	(3,341)
Research and development expenses		<b>(1,294)</b>	(620)
Selling and distribution costs		<b>(892)</b>	(681)
<b>Operating profit</b>		<b>638</b>	51
Finance costs		<b>(46)</b>	(33)
<b>Profit before income tax</b>		<b>592</b>	18
Income tax	3	<b>—</b>	—
<b>Profit for the period</b>		<b>592</b>	18
<b>Earnings per share</b>	5		
Basic		<b>HK0.210 cents</b>	HK0.006 cents
Diluted		<b>HK0.210 cents</b>	N/A

Notes:

## 1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") 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 disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

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.

## 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	
	2007	2006
	HK\$'000	HK\$'000
Sales of smart card products, software and hardware	10,524	10,411
Smart card related services	363	452
	<u>10,887</u>	<u>10,863</u>

## 3 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 ended 31 March 2007 and 2006.

## 4 DIVIDENDS

The Company had not declared or paid any dividends during the three months ended 31 March 2007 (2006: Nil).

## 5 EARNINGS PER SHARE

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period for the purposes of calculating basic and diluted earnings per share	592	18

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2007</b>	<b>2006</b>
	<b>'000</b>	<b>'000</b>

### Number of shares

Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<b>281,800</b>	281,800
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Effect of dilutive potential ordinary shares relating to outstanding share options	<b>588</b>	
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Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<b>282,388</b>	
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Diluted earnings per share for the period ended 31 March 2006 was not presented because the exercise prices of the outstanding options exceeded the average market price of the Company's ordinary shares during the period.

## 6 RESERVES

	<b>Share premium</b>	<b>Merger reserves</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2006	24,333	4,496	(26,657)	2,172
Profit for the period	—	—	18	18
At 31 March 2006	24,333	4,496	(26,639)	2,190
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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

There was no significant change in revenue in the quarter ended 31 March 2007 compared with the corresponding figure in the quarter ended March 31 2006. The gross profit increased by 21% owing to the enhanced gross profit margin. The net profit before tax increased to HK\$592,000 in this quarter compared with the figure HK\$18,000 in the quarter a year before. With promising new products, the Group continued its efforts to secure sales orders and is expecting to get a respectable sales growth in the remaining of 2007.

### Financial Review

Revenue for the Group for the quarter ended 31 March 2007 remained essentially the same at HK\$10.9 million as turnover recorded in the first quarter of 2006.

Gross profit of the Group for the quarter ended 31 March 2007 increased by 21% to HK\$5.7 million from the first quarter of 2006 owing to increased gross profit margin to 53% this quarter compared with 43% as recorded in the first quarter of 2006.

The net profit of the Group for the first quarter of 2007 increased to HK\$592,000 compared with HK\$18,000 in the first quarter of 2006.

Revenue breakdown by product line:

	Three months ended		Change
	31 March		
	2007	2006	
	HK\$'000	HK\$'000	
Smart cards	2,418	1,720	+41%
PC linked readers	5,698	6,746	-16%
Other products	2,408	1,945	+24%
	<b>10,524</b>	10,411	
Smart card related services	363	452	-20%
	<b>10,887</b>	10,863	

The most significant revenue growth by percentage came from the Group's smart cards, mainly owing to the business generated by the new smart cards called ACOS5 cards which are PKI (Public Key Infrastructure) cards for high security applications particularly for enhancing the security in accessing the Internet network.

Revenue breakdown by geographical market:

	<b>Three months ended</b>		Change
	<b>31 March</b>		
	<b>2007</b>	2006	
	<b>HK\$'000</b>	HK\$'000	
Europe, Middle East and Africa	<b>5,825</b>	5,303	+10%
Asia Pacific	<b>3,091</b>	3,790	-18%
The Americas	<b>1,971</b>	1,770	+11%
	<b>10,887</b>	10,863	

Europe, Middle East and Africa remained to be the top region in terms of sales amount even though the percentage of sales in the three regions may fluctuate from quarter to quarter.

### **Business Review**

In order to increase its competitiveness in the world market, the Group continued to execute three strategies as outlined in Chairman's statement in the Annual Report of Year 2006: (1) to increase the ratio of junior to senior staff members (2) to improve the allocation of work to the three offices in Hong Kong, Manila and Shenzhen and to streamline their activities and (3) to enhance the IT system. There have been continuous progress and the Group will continue its efforts in these areas in the remaining of 2007.

The new products launched in 2006 attracted interests of quite a number of customers and generated sales of commercial scales in the first quarter of 2007. The device ACR100 which is a flash drive integrated with a PC linked reader found new applications. One customer in Europe bought ACR100 devices for distributing to users for storing lots of files securely through the use of the smart card inserted into the reader of ACR100. Another customer in the Middle East used it for storing securely programs to handle the data in the flash. The Group delivered the first forty thousands of ACOS5 cards to a customer in Kenya as partial fulfillment of the customer's total order of 100,000 cards for multi-function loyalty programs for a supermarket store chain in Kenya.

In the first quarter of 2007, the main product launched was CryptoMate, which is a USB PKI token with an embedded smart card chip, ACOS5 chip, for enhancing the security in accessing the PC and the Internet network. It is good for on-line applications such as enterprise banking, e-Commerce or secured access to web servers. The target customers of this device are the software developers who would develop application software to be used with CryptoMate.

The Group continued to develop APG82, a dynamic password generator which generates one time password to provide a means of authentication in non face-to-face transactions such as on-line banking transactions. The development of eH880 is in progress. It is a multi-function smart card reader using a 32-bit microprocessor and the main target use is for the German health-care scheme using smart cards.

In February 2007, the Group had a booth for the first time in its history in the trade show called "RSA Conference 2007" held in San Francisco, USA. The show is the right place for the Group to show its smart cards and readers for Internet security. A considerable number of new customers were met. In March 2007, the Group participated "CeBIT Hannover 2007", held in Hannover, Germany.

## Prospects

The Group was able to attain a positive bottom line and a mildly positive cash flow. It is exerting its best efforts to achieve an economy of scale through its strategies as outlined in the first paragraph in the Business Review above. The Group believes that its smart card business as a whole is sustainable as the market is growing and the Group has captured only a small share of the total world market even though it has a great geographical coverage. The Group continues to make some progress every day and is looking forward to the reaching of a critical mass. Its sales and net profit will then take off.

## Liquidity and Financial Resources

As at 31 March 2007, the Group's cash at banks and on hand amounted to HK\$7.5 million (31 March 2006: HK\$6.7 million) which included the pledged bank deposits of HK\$2.7 million (31 March 2006: HK\$1.8 million). Out of the HK\$2.7 million pledged bank deposits, HK\$0.7 million was pledged for a performance bond issued by a bank to a customer who gave the Group a prepayment for ordering the Group's products being developed. The balance of HK\$2.0 million was to secure bank credit lines. At 31 March 2007, no credit line has been utilized (31 March 2006: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 4.9 (31 March 2006: 3.3). Net asset value as at the end of the review period was HK\$33.5 million (31 March 2006: HK\$30.4 million). As at 31 March 2007, the Group did not have any borrowing and, accordingly, the gearing ratio was zero (31 March 2006: zero).



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

At 31 March 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 GEM Listing Rules were as follows:

### (i) Interests in issued shares

Name of director	Ordinary shares of HK\$0.10 each				Total number of shares held	Percentage of the Company's issued share capital as at 31 March 2007
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests		
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	38,034,522	—	—	118,802,522	42.16%
Ms. Tsui Kam Ling, Alice (Note 3)	38,034,522	80,768,000	—	—	118,802,522	42.16%
Mr. Tan Keng Boon	709,893	—	—	—	709,893	0.25%

#### 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 38,034,522 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.
- 38,034,522 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.

## (ii) Interests in underlying shares

The directors and chief executive of the Company have been granted options under the share option schemes, details of which are set out in the section “Share option schemes” below.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 March 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 31 March 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 30 March 2007 was HK\$0.244) 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 31 March 2007	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 March 2007
			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 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" 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 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 31 March 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 31 March 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.

## **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 codes of conduct regarding securities transactions by directors as defined in the Code. 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 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 three months ended 31 March 2007.

By order of the Board  
**WONG Yiu Chu, Denny**  
*Chairman*

Hong Kong, 11 May 2007