



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 RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2009

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification only

HIGHLIGHTS

- The revenue of the Group for the quarter ended 31 March 2009 increased by 5% to HK\$15.4 million from HK\$14.6 million in the first quarter of 2008.
- The gross profit of the Group for the quarter ended 31 March 2009 increased by 17% to HK\$9.2 million from HK\$7.9 million in the first quarter of 2008.
- Net profit before income tax decreased by 41% to HK\$637,000 for the quarter ended 31 March 2009 from HK\$1,079,000 in the first quarter of 2008.
- Net profit after income tax decreased by 62% to HK\$407,000 for the quarter ended 31 March 2009 from HK\$1,079,000 in the first quarter of 2008.
- As of 31 March 2009, the cash at banks and on hand of the Group amounted to HK\$20.6 million and there was no borrowing.

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

		Three months ended	
		31 March	
	<i>Notes</i>	2009	2008
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2	15,422	14,631
Cost of sales		(6,201)	(6,762)
<hr/>			
Gross profit		9,221	7,869
Other income		7	58
Other net income		—	6
Administrative expenses		(3,914)	(3,003)
Research and development expenses		(2,803)	(2,286)
Selling and distribution costs		(1,796)	(1,500)
<hr/>			
Operating profit		715	1,144
Finance costs		(78)	(65)
<hr/>			
Profit before income tax	3	637	1,079
Income tax expense	4	(230)	—
<hr/>			
Profit for the period		407	1,079
<hr/> <hr/>			
Earnings per share for profit attributable			
to the equity holders of the Company			
during the period			
	6		
Basic		HK0.144 cents	HK0.383 cents
<hr/> <hr/>			
Diluted		HK0.144 cents	HK0.381 cents
<hr/> <hr/>			

Notes:

1. BASIS OF PREPARATION

The financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

The 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 (“HKICPA”). The financial statements also 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 2008 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied, for the first time, certain new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant and effective for the Group’s financial statements for the annual period beginning on 1 January 2009. The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the three months ended 31 March 2009 were approved for issue by the board of directors on 8 May 2009.

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	
	2009	2008
	HK\$’000	HK\$’000
Sales of smart card products, software and hardware	13,933	14,254
Smart card related services	1,489	377
	15,422	14,631

3. PROFIT BEFORE INCOME TAX

Three months ended	
31 March	
2009	2008
<i>HK\$'000</i>	<i>HK\$'000</i>

Profit before income tax is arrived at after charging:

3.1 Finance costs:

Interest on bank borrowings wholly repayable within five years	13	14
Bank charges	65	51
	78	65

3.2 Other items:

Amortisation of development costs	482	614
Depreciation	437	318

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the three months ended 31 March 2009. No provision for Hong Kong profits tax was made during the three months ended 31 March 2008 as a subsidiary of the Group had losses brought forward from previous years to offset against its assessable profits for the three months ended 31 March 2008 and the Company and other subsidiaries had sustained losses for taxation purposes.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% on gross income incurred in the Philippines during the period (2008: Nil). No provision for overseas tax in other locations including the Peoples' Republic of China, Canada and Germany has been made as no assessable profits arose from the operations in these locations (2008: Nil).

Three months ended	
31 March	
2009	2008
<i>HK\$'000</i>	<i>HK\$'000</i>

Current tax – tax for the period

– Hong Kong	202	—
– Overseas	28	—
	230	—

5. DIVIDENDS

The Company had not declared or paid any dividends during the three months ended 31 March 2009 (2008: Nil).

6. EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD

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

	Three months ended 31 March	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period for the purposes of calculating basic and diluted earnings per share	407	1,079
	Three months ended 31 March	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	1,015	1,110
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	282,815	282,910

7. RESERVES

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Proposed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
At 1 January 2009	20,952	4,496	13	(10,083)	2,254	17,632
Profit for the period	—	—	—	407	—	407
Translation differences recognised directly in equity	—	—	1	—	—	1
At 31 March 2009	20,952	4,496	14	(9,676)	2,254	18,040

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 financial results for the quarter ended 31 March 2009.

Financial Review

The sales revenue increased by 5% to HK\$15.4 million in the first quarter of 2009 compared with the corresponding figure of HK\$14.6 million in 2008. The gross profit amount increased at a higher rate of 17% to HK\$9.2 million owing to a higher gross profit margin in the first quarter of 2009 at 60% versus 54% in the first quarter of 2008. The increase of gross profit margin was owing to the higher service income earned through the Group's design work for customizing products for its clients. The increase in overhead expenses exceeded the increase in gross profit amount and as a result the profit before tax decreased to HK\$637,000 compared with the corresponding figure of HK\$1,079,000 last year.

The sales revenue of smart cards increased by 2% in the first quarter of 2009 compared with the sales figure in the first quarter of 2008 while the sales revenue of smart card readers decreased by 4%. The service fee amounted to HK\$1.5 million, approximately 10% of the total revenue in the first quarter of 2009.

	Three months ended		
	31 March		
	2009	2008	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Smart cards	3,460	3,378	+2%
Smart card readers	10,473	10,876	-4%
Smart card related services	1,489	377	+295%
	15,422	14,631	+5%

The regional breakdown showed that the sales revenue decreased by 10% in Europe and by 9% in the Middle East and Africa, on a quarter to quarter basis. The sales revenue in the Americas increased relatively more at 58% while it increased by 6% in the Asia Pacific.

	Three months ended		
	31 March		
	2009	2008	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Europe	6,568	7,287	-10%
Asia Pacific	4,245	3,987	+6%
The Americas	3,651	2,307	+58%
Middle East and Africa	958	1,050	-9%
	15,422	14,631	+5%

Dividend

The Board does not declare an interim dividend in respect of the three months ended 31 March 2009. 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

The first quarter of 2009 was not a quarter of great sales volume. However, it was a quarter witnessing emerging business opportunities which may produce results in the subsequent quarters. The Group's China office started generating considerably more bookings for the Group. The Group's sales representatives in Japan established new contacts from Japan. In March 2009, the Group attended the *IC Card World* exhibition held in Tokyo, Japan and two delegates of the Group gave speeches in the exhibition's seminar. The Group is gaining exposure in the Japanese market. Likewise, with the aim to make the Group better known in the world especially in the Europe, Middle East and Africa (EMEA) market, and to meet with existing customers and potential customers, the Group participated in the *CeBIT 2009* exhibition held in Hannover, Germany.

The Group completed the development of a new PC-linked reader compliant to FIPS (Federal Information Processing Standards) in the first quarter of 2009. This would facilitate the Group's sales to the US market. In addition, the Group appointed a distributor to sell the readers, particularly to the US government.

During the period, the Group actively carried out pilot production runs of two important customized products, viz. a contactless smart card terminal developed for a customer in Japan, to be used for payment solutions tailored for the Japanese market, and a terminal supporting contactless cards and fingerprint scanning developed for a US-based global company for physical control purposes. The product sophistication and the high quality standards set by the Japanese and US companies have prompted the Group to enhance its production process as well as product quality.

In the quarter, the Group began the development of two models of dynamic password generators empowered by smart cards for secure logical access control. The devices when launched in 2009 will enrich the Group's offering of dynamic password generators for the banking market.

The Group expects that much more new products will be launched in 2009 than in 2008. The Group will continue to be actively engaged in the work to strengthen its operations and IT system in order to ensure the efficiency and quality in production and in logistics for these new products as well as for existing products.

Prospects

The Group has secured only a small share of the total smart card and reader market of billions of US dollars even though in more specific market segments, such as the PC-linked smart card reader market segment, the Group has a more notable share of the market. The total world smart card market is expected to be growing in the medium and long term basis. Whether the market will expand or shrink in the short term should not affect much the propensity of the Group to grow. The management has the confidence to expand the business and, taking advantage of the reduced tightness of the human resources market owing to the economic downturn, has been trying to attract new talents. At the end of the first quarter of 2009, the Group's total headcount stood at 136, an increase by 9 persons from the figure at the end of 2008.

According to the annual customer satisfaction surveys, the Group received positive feedbacks from customers regarding the Group's product quality and services. As the Group launches its new products in 2009, it is more likely to receive orders from these satisfied customers.

With a wider range of smart card technologies, a network of satisfied customers and a workforce dedicated to the success of the Group, the management believe that the prospects are promising.

Liquidity And Financial Resources

At all times the Group maintains an adequate liquidity position. As at 31 March 2009, the Group's cash at banks and on hand amounted to HK\$20.6 million (31 March 2008: HK\$12.5 million) which included the pledged bank deposits of HK\$0.9 million (31 March 2008: HK\$2.0 million). The pledged bank deposits were to secure bank credit lines. At 31 March 2009, the credit lines offered by the banks were not utilised (31 March 2008: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 4.2 (31 March 2008: 3.8). Net asset value as at 31 March 2009 was HK\$46.2 million (31 March 2008: HK\$38.4 million). As at 31 March 2009, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (31 March 2008: zero).

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 2009.

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 2009.

By order of the Board of
Advanced Card Systems Holdings Limited
WONG Yiu Chu, Denny
Chairman

Hong Kong, 8 May 2009

As at the date of this announcement, 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.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least 7 days from the day of its posting.