



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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007

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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

- In the third quarter of 2007, the Group recorded a sales amount of HK\$16.4 million which was 52% higher than the sales in the third quarter of 2006. The sales in the first nine months of 2007 increased to HK\$38.2 million which was 18% higher than the sales in the first nine months of 2006.
- The gross profit in this current quarter amounted to HK\$7.8 million comparing with the gross profit of HK\$6.2 million in the third quarter of 2006. The gross profit amounted to HK\$19.6 million in the first nine months of 2007 versus HK\$16.7 million in the first nine months of 2006.
- The net profit in the quarter amounted of HK\$2.2 million, which is 41% higher than the net profit in the third quarter of 2006. The net profit in the first nine months of 2007 increased by 29% to HK\$3.6 million compared with the figure in the first nine months in Year 2006.
- As of 30 September 2007, the cash at banks and on hand of the Group amounted to HK\$11.7 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 and nine months ended 30 September 2007 together with the comparative unaudited figures for the corresponding periods in 2006, as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Revenue	2	16,353	10,776	38,191	32,292
Cost of sales		(8,570)	(4,598)	(18,580)	(15,598)
Gross profit		7,783	6,178	19,611	16,694
Other revenue		94	85	253	181
Other net income/(loss)		12	(49)	1	(163)
Administrative and other operating expenses		(3,041)	(2,770)	(9,067)	(9,094)
Research and development expenses		(1,762)	(1,120)	(4,576)	(2,602)
Selling and distribution costs		(816)	(697)	(2,463)	(2,112)
Operating profit		2,270	1,627	3,759	2,904
Finance costs		(88)	(75)	(205)	(156)
Profit before income tax		2,182	1,552	3,554	2,748
Income tax	3	—	—	—	—
Profit for the period		2,182	1,552	3,554	2,748
Earnings per share	5				
Basic		HK0.774 cents	HK0.551 cents	HK1.261 cents	HK0.975 cents
Diluted		HK0.771 cents	HK0.550 cents	HK1.257 cents	HK0.975 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, and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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 9 November 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 30 September		Nine months ended 30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	16,171	9,745	37,422	30,585
Smart card related services	182	1,031	769	1,707
	16,353	10,776	38,191	32,292

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 and nine months ended 30 September 2007 and 2006.

4 DIVIDENDS

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

5 EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	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	2,182	1,552	3,554	2,748

	Three months ended		Nine months ended	
	30 September		30 September	
	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
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Effect of dilutive potential ordinary shares relating to outstanding share options	1,174	257	877	79
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Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	282,974	282,057	282,677	281,879
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6 RESERVES

	Share premium	Merger reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	24,333	4,496	(26,657)	2,172
Profit for the period	—	—	2,748	2,748
At 30 September 2006	24,333	4,496	(23,909)	4,920
At 1 January 2007	24,333	4,496	(24,093)	4,736
Profit for the period	—	—	3,554	3,554
At 30 September 2007	24,333	4,496	(20,539)	8,290

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the quarter ended 30 September 2007, the Group recorded sales of HK\$16.4 million which is higher than the sales in the third quarter of 2006 by 52% and is higher than the sales in the second quarter of 2007 by 49%. Owing to the increase in sales, the increase in gross profit and the increase of expenses to a lesser extent, the net profit improved by 41% to HK\$2.2 million in the third quarter of 2007 compared with net profit in the third quarter of 2006.

FINANCIAL REVIEW

The sales of the Group in the third quarter of 2007 increased by 52% to HK\$16.4 million compared with the figure of HK\$10.8 million in the third quarter of 2006. The sales in the first nine months of 2007 increased by 18% compared with the sales in the first nine months of 2006. The increase in sales in this current quarter was across different types of products including smart cards, PC linked readers and PC linked readers with mass storage. The gross profit increased by 26% in the third quarter of 2007 compared with the gross profit in the third quarter of 2006 and increased by 17% in the first nine months of 2007 versus the gross profit in the first nine months of 2006. The net profit increased by 41% to HK\$2.2 million in the current quarter compared with HK\$1.6 million in the same quarter a year ago. The net profit in the first nine months of 2007 increased by 29% to HK\$3.6 million compared with the figure in the first nine months in Year 2006.

	Three months ended			Nine months ended		
	30 September		Change	30 September		Change
	2007	2006		2007	2006	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Revenue	16,353	10,776	+52%	38,191	32,292	+18%
Cost of sales	(8,570)	(4,598)	+86%	(18,580)	(15,598)	+19%
Gross profit	7,783	6,178	+26%	19,611	16,694	+17%
Other revenue and net income/loss	106	36	+194%	254	18	+1,311%
Expenses	(5,707)	(4,662)	+22%	(16,311)	(13,964)	+17%
Profit before income tax	2,182	1,552	+41%	3,554	2,748	+29%
Income tax	—	—	—	—	—	—
Profit for the period	2,182	1,552	+41%	3,554	2,748	+29%

The sales breakdown by product and service shows that the sales of smart cards increased faster than the sales of smart card readers even though smart card readers still accounted for the bulk of the total sales (73% in the first nine months of Year 2007).

	Three months ended			Nine months ended		
	30 September			30 September		
	2007	2006	Change	2007	2006	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	
Smart cards	4,772	1,587	+201%	9,696	4,728	+105%
Smart card readers	11,399	8,158	+40%	27,726	25,857	+7%
Smart card related services	182	1,031	-82%	769	1,707	-55%
	16,353	10,776	+52%	38,191	32,292	+18%

The sales breakdown by region shows that the region Europe, Middle East and Africa accounted for 64% of the total sales in the first nine months of 2007. The sales to this region continued to increase. The sales to Europe represented the bulk of the sales to the region of Europe, Middle East and Africa. Europe represents the continent that is ahead of the other continents in the world in the adoption of smart card and security technology in the daily life of the consumer. When the Group introduces products in state-of-the-art technology to the market, usually Europe is the first target. In fact, in the first nine months of 2007, relatively the highest percentage of engineering and sales and marketing resources were spent for the European region. The Group is expecting to have more financial resources in 2008 and so more activities can be carried out in the Asia Pacific and the Americas regions.

	Three months ended			Nine months ended		
	30 September			30 September		
	2007	2006	Change	2007	2006	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	
The Americas	560	1,251	-55%	4,614	4,766	-3%
Asia Pacific	3,162	4,918	-36%	9,113	12,164	-25%
Europe, Middle East and Africa	12,631	4,607	+174%	24,464	15,362	+59%
	16,353	10,776	+52%	38,191	32,292	+18%

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 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 consider important.

BUSINESS REVIEW

In the third quarter of 2007, the Group recorded larger sales in different types of product (compared with the quarter a year ago and compared with the second quarter of 2007) and continued to secure new sales from the emerging products especially (1) ACR100, i.e. PC linked readers with mass storage for securing data files and software and (2) ACOS5 cards, i.e. PKI (Public Key Infrastructure) smart cards for enhancing the security of using the Internet.

The Group continued to develop its three main smart cards readers (1) APG82, a dynamic password generator developed based on Master CAP (chip authentication program) specification defined by MasterCard. The device generates one time password for authentication of users of the Internet for on-line transactions, such as on-line banking or stock trading. A prototype of APG82 was produced and the product is to be submitted for certification against industry standards, (2) eH880, a multi-function smart card reader for the German health card project using smart cards. Samples have been generated and will be submitted in the fourth quarter of Year 2007 to the German authority for certification and (3) ACR122, a reader for contactless smart cards including the Sony's Felica cards, such as the Hong Kong Octopus cards. It is used to read the balance plus the transaction records in a card for micro-payment, such as payment for transportation fares. The Group is a pioneering provider of this type of product. Lots of inquiries of this new product were received, particularly in Asia where a few regions (such as Hong Kong, Singapore and Japan) use the Sony's Felica cards for micro-payment.

In the first nine months of 2007, the Group put relatively the most resources to the Europe, Middle East and Africa market. The USA market requires products with specifications somewhat different from the European market. More engineering and marketing resources will be spent in products catered to the USA market in 2008.

China and Japan represent two important markets in Asia Pacific. In the last couple of years, the Group allocated substantial resources to serve the Chinese market. The Group expects that the efforts will bear fruit in China in the near future. The Japanese smart card market is dominated by the contactless cards supplied by Sony. The new reader ACR122 being launched by the Group supports the Sony cards and is expected to help the Group penetrate the Japanese market.

PROSPECTS

The Group has been implementing the strategy of combining the strengths of the staff members in the three main offices of Hong Kong, Manila and Shenzhen and of optimizing the use of human resources in any of these offices through the constant improvement of the IT system and through training of staff members especially junior ones. This strategy is gradually taking effect. The Group has built a team of people that can develop and produce state-of-the-art smart card and related security products at competitive engineering and production costs. Also the Group has accumulated the experience and skills to promote its products widely to the world at competitive costs. It has built a strong base of satisfied customers in over eighty countries in the world by initially focusing on supplying high-quality and good-featured PC linked readers very early to the market. It has now built and has launched more sophisticated readers with higher unit value for the world market. In the business of supplying smart cards, the Group is focusing on certain market segments which are not being well served by the big smart card players. The Group is gaining some reward in this niche smart card market and will in due course get into the bigger market segments of smart cards.

The world market for smart cards is increasing. According to Eurosmart, a smart card industry association based in Europe, the world shipment of smart cards in Year 2006 increased by 27% to 3.2 billion units and the figure for 2007 is forecasted to increase to 3.7 billion units. With the growth of smart card shipments, the demand of smart card readers will increase accordingly. The Group has great confidence to capture a bigger market share of this market which is itself growing.

The Group aims to attain more financial resources in order to build the business more quickly. Internally generated profits represent a source of funds as the Group has been increasing its net profits and has attained a positive cash flow. Once more financial resources have been built, a better economy of scale will be achieved and the growth of sales and profitability is expected to accelerate.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2007, the Group's cash at banks and on hand amounted to HK\$11.7 million (30 September 2006: HK\$8.2 million) which included the pledged bank deposits of HK\$2.0 million (30 September 2006: HK\$2.7 million). The HK\$2.0 million pledged bank deposits were to secure bank credit lines. At 30 September 2007, there was no outstanding under the credit lines (30 September 2006: HK\$0.9 million).

The current ratio was kept at 3.8 (30 September 2006: 4.0). Net asset value as at the end of the review period was HK\$36.5 million (30 September 2006: HK\$33.1 million). As at 30 September 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 September 2006: 2.7%).

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 nine months ended 30 September 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 nine months ended 30 September 2007.

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

Hong Kong, 9 November 2007

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.bkgem.com> on the "Latest Company Announcements" page for at least 7 days from the day of its posting.