



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



INTERIM REPORT
2008

**For identification only*

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

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

HIGHLIGHTS

- The revenue of the Group for the six months ended 30 June 2008 increased by 85% to HK\$40.5 million from the first half year of 2007.
- The gross profit of the Group for the six months ended 30 June 2008 increased by 68% to HK\$19.9 million from the first half year of 2007.
- The net profit of the Group amounted to HK\$5.0 million for the six months ended 30 June 2008, which was 3.7 times the net profit in the first half year of 2007.
- As at 30 June 2008, the cash at banks and on hand of the Group amounted to HK\$14.3 million (30 June 2007: HK\$10.6 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 six months ended 30 June 2008.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2008

	Notes	Three months ended 30 June		Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue	2	25,820	10,951	40,451	21,838
Cost of sales		(13,816)	(4,859)	(20,578)	(10,010)
Gross profit		12,004	6,092	19,873	11,828
Other income		36	100	94	159
Other net income/(loss)		18	(13)	24	(11)
Administrative and other operating expenses		(3,595)	(3,053)	(6,598)	(6,026)
Research and development expenses		(2,650)	(1,520)	(4,936)	(2,814)
Selling and distribution costs		(1,789)	(755)	(3,289)	(1,647)
Operating profit		4,024	851	5,168	1,489
Finance costs	4.1	(88)	(71)	(153)	(117)
Profit before income tax	4	3,936	780	5,015	1,372
Income tax expense	5	—	—	—	—
Profit for the period		3,936	780	5,015	1,372
Earnings per share attributable to equity holders of the Company	7				
Basic		HK1.397 cents	HK0.277 cents	HK1.780 cents	HK0.487 cents
Diluted		HK1.390 cents	HK0.276 cents	HK1.772 cents	HK0.486 cents

CONSOLIDATED BALANCE SHEET

At 30 June 2008

		Unaudited	Audited
	<i>Notes</i>	30 June	31 December
		2008	2007
		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	8	3,233	2,580
Development costs		9,382	9,215
Deferred tax assets		780	780
		13,395	12,575
Current assets			
Inventories		14,677	10,179
Trade and other receivables, deposits paid and prepayments	9	13,370	9,072
Held-to-maturity financial assets		21	21
Pledged bank deposits		2,005	2,005
Cash and cash equivalents		12,296	11,771
		42,369	33,048
Current liabilities			
Trade payables, deposits received and accruals	10	14,568	8,351
		27,801	24,697
Net current assets			
		41,196	37,272
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	11	28,180	28,180
Reserves	12	13,016	9,092
		41,196	37,272

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	4,392	4,208
Net cash used in investing activities	(2,623)	(765)
Net cash used in financing activities	(1,280)	(117)
Net increase in cash and cash equivalents	489	3,326
Cash and cash equivalents at 1 January	11,771	5,240
Effect of foreign exchange rates, net	36	—
Cash and cash equivalents at 30 June	12,296	8,566

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital <i>HK\$'000</i>	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 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
At 1 January 2008	28,180	23,206	4,496	50	(19,787)	1,127	37,272
Profit for the period	—	—	—	—	5,015	—	5,015
Translation differences recognised directly in equity	—	—	—	36	—	—	36
Total recognised income and expense for the period	—	—	—	36	5,015	—	5,051
Dividend paid	—	—	—	—	—	(1,127)	(1,127)
At 30 June 2008	28,180	23,206*	4,496*	86*	(14,772)*	—*	41,196

* The aggregate amount of the above balances of HK\$13,016,000 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 2007 annual financial statements have been consistently applied to these financial statements.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. These financial statements were approved by the board of directors on 7 August 2008.

2 REVENUE

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

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Sale of smart card products, software and hardware	25,693	10,727	39,947	21,251
Smart card related services	127	224	504	587
	25,820	10,951	40,451	21,838

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 2008

	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	39,947	504	40,451
Segment results and operating profit	4,777	391	5,168
Finance costs			(153)
Profit before income tax			5,015
Income tax expense			—
Profit for the period			5,015
Capital expenditure	2,720	—	2,720
Depreciation and amortisation	1,897	—	1,897
Non-cash expenses other than depreciation and amortisation	222	—	222

Six months ended 30 June 2007

	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	21,251	587	21,838
Segment results and operating profit	1,079	410	1,489
Finance costs			(117)
Profit before income tax			1,372
Income tax expense			—
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

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 and liabilities is presented.

Secondary reporting format – geographical segments

The Group's operations are 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	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	24,175	8,456
Asia Pacific	9,417	5,951
The Americas	3,641	4,054
Middle East and Africa	3,218	3,377
	40,451	21,838

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	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax is arrived at after charging:				
4.1 Finance costs:				
Interests on bank borrowings wholly repayable within five years	27	15	41	19
Bank charges	61	56	112	98
	88	71	153	117
4.2 Other items:				
Amortisation of development costs	607	635	1,221	1,097
Depreciation	358	281	676	548

5 INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made in the financial statements as a subsidiary of the Group has losses brought forward from previous years to offset against its current period's assessable profits and the Company and other subsidiaries sustained losses for taxation purposes for the three months and six months ended 30 June 2007 and 2008.

6 DIVIDENDS

A dividend of HK0.4 cents per share amounting to approximately HK\$1,127,000 for the year ended 31 December 2007 had been approved by the shareholders at the annual general meeting and was subsequently paid on 9 May 2008.

The Company had not declared any dividends during the three months and six months ended 30 June 2008 (2007: Nil).

7 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period for the purpose of calculating basic and diluted earnings per share	3,936	780	5,015	1,372

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	'000	'000	'000	'000
Number of shares				

Weighted average number of ordinary shares for the purpose 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	1,293	979	1,210	778
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Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	283,093	282,779	283,010	282,578
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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 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
At 1 January 2008					
Cost	831	565	3,798	1,774	6,968
Accumulated depreciation	(195)	(292)	(2,643)	(1,258)	(4,388)
Net book amount	636	273	1,155	516	2,580
Six months ended 30 June 2008					
Opening net book amount	636	273	1,155	516	2,580
Additions	289	120	693	230	1,332
Disposal	—	(2)	(1)	—	(3)
Depreciation	(161)	(57)	(319)	(139)	(676)
Closing net book amount	764	334	1,528	607	3,233
At 30 June 2008					
Cost	1,099	670	4,469	2,004	8,242
Accumulated depreciation	(335)	(336)	(2,941)	(1,397)	(5,009)
Net book amount	764	334	1,528	607	3,233

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

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Trade receivables - net	11,972	7,062
Other receivables, deposits paid and prepayments	1,398	2,010
	13,370	9,072

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

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
0-30 days	10,559	6,717
31-60 days	741	173
61-90 days	539	2
Over 90 days	133	170
	11,972	7,062

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

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Trade payables	10,820	5,075
Deposits received and accruals	3,748	3,276
	14,568	8,351

The ageing analysis of the trade payables was as follows:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
0-30 days	9,970	5,052
31-60 days	769	19
61-90 days	69	4
Over 90 days	12	—
	10,820	5,075

11 SHARE CAPITAL

	Number of shares	<i>HK\$'000</i>
	<i>'000</i>	
Authorised:		
Ordinary shares of HK\$0.10 each		
At 31 December 2007 and 30 June 2008	1,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 31 December 2007 and 30 June 2008	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 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,600	1,281
In the second to fifth years, inclusive	1,868	1,976
	3,468	3,257

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	
	2008	2007
	HK\$'000	HK\$'000
Consultancy fee payable (<i>note (i)</i>)	—	20
Key management personnel remuneration		
- Salaries and other short-term employee benefits	1,688	1,758
- Retirement benefits costs	24	24
	1,712	1,782

Note:

- (i) 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 is interested in the agreement as a consultant and a shareholder of the Company.

At 30 June 2008, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK\$6,000,000 (30 June 2007: HK\$5,000,000) for certain banking facilities granted, which remained unused as at 30 June 2007 and 2008.

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 85% to HK\$40.5 million in the first half year ended 30 June 2008 compared with the figure of HK\$21.8 million in the first half year of 2007. The net profit before income tax amounted to HK\$5.0 million which was 3.7 times the net profit before income tax of HK\$1.4 million in the first half of Year 2007.

FINANCIAL REVIEW

The sales revenue increased by 85% in the first half year of 2008 to HK\$40.5 million from the corresponding figure last year of HK\$21.8 million. The gross profit increased at a lower rate of 68% owing to reduced gross profit margin from 54% in the first half year of 2007 to 49% in the first half year of 2008. The reduced gross profit margin resulted from several orders of relative big sizes which generated lower margins owing to volume discounts.

The expenses increased by 41% to HK\$15.0 million owing to increased headcount (from 77 employees at 30 June 2007 to 101 employees at 30 June 2008) and general increase in salaries in Hong Kong dollar term in the Group's main offices of Hong Kong, Manila and Shenzhen in the environment of positive inflation rates in the three regions and as a result of the weakened Hong Kong dollar compared with the Philippines Peso and the Chinese Renminbi. Rental also increased as the Group moved its Shenzhen office and Manila office for more space to accommodate the expanded headcount.

The Group's strategy of increasing the ratio of junior staff members to senior staff members and providing good training to new staff members is taking effect. With a more cost effective team, the bottom line is gradually improving. The profit before income tax in the first half year of 2008 was HK\$5.0 million which was 3.7 times the net profit before income tax in the first half year of 2007.

	Six months ended		Change
	30 June		
	2008	2007	
	HK\$'000	HK\$'000	
Revenue	40,451	21,838	+85%
Cost of sales	(20,578)	(10,010)	+106%
Gross profit	19,873	11,828	+68%
Other income and net income/(loss)	118	148	-20%
Expenses	(14,976)	(10,604)	+41%
Profit before income tax	5,015	1,372	+266%
Income tax expense	—	—	—
Profit for the period	5,015	1,372	+266%

The sales revenue of smart cards and of smart card readers increased by 46% and 101% respectively in the first half year of 2008. Smart card related services represent the design fees which the Group charges its customers for designing products or modifying products to fit the specific requirements of customers. This portion of the sales revenue fluctuates but represents only a small percentage of the total sales revenue.

	Six months ended		
	30 June		
	2008	2007	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Smart cards	7,192	4,924	+46%
Smart card readers	32,755	16,327	+101%
Smart card related services	504	587	-14%
	40,451	21,838	+85%

The Group sells its products to over one hundred countries in the world. The region Europe accounted for the biggest percentage of the sales (60% of total sales in the first half year of 2008) and recorded the biggest growth comparing with the growths in other regions. Usually new products launched to the market will find customers in Europe first as it is often the world's region adopting a new product or a new application first.

	Six months ended		
	30 June		
	2008	2007	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Europe	24,175	8,456	+186%
Asia Pacific	9,417	5,951	+58%
The Americas	3,641	4,054	-10%
Middle East and Africa	3,218	3,377	-5%
	40,451	21,838	+85%

DIVIDEND

The Board does not declare an interim dividend in respect of the six months ended 30 June 2008. The declaration, payment, and amount of future dividends will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial condition, and such other factors as the Board may consider important.

BUSINESS REVIEW

The Group continued its strategy to increase the ratio of junior to senior staff members and to combine the strengths of the three main offices, namely, Hong Kong headquarters, Shenzhen office and Manila office. The Group expanded its headcounts of all three offices in the first half year with total headcount of 101 at 30 June 2008 versus the total headcount of 83 at 31 December 2007. Staff members enrolled in 2007 began to take up more responsibilities and the overall productivity of the company improved. The management of the Group believe that the market is big enough and the business opportunities being presented are sufficient to allow the Group to expand its headcount further.

The Group got interesting new business deals in the first half year of 2008. Orders were received of 120,000 PC linked readers to be used for reading and writing on the Poland national identity cards for on-line government and insurance services. The full quantity of readers were shipped in the same first half year. The Group got in the same period an order of 100,000 PC linked readers to be used to authenticate users of VOIP (voice over Internet protocol) phones for home banking and other on-line services in South Korea. The home banking services allow subscribers to check balances and transaction records and to transfer money to different bank accounts. With the intelligent VOIP phone linked to the Internet, users do not need a PC to perform these tasks. Sixty thousands of the readers were shipped with the rest planned to be shipped in the third quarter of 2008.

The new contactless card reader ACR122 supporting a wide range of contactless cards and RFID (Radio Frequency Identification) tags and supporting the NFC (Near Field Communication) technology was launched at the end of 2007 as the world's first NFC reader compliant to Microsoft's Integrated Circuit(s) Cards Interface Devices standard. Many inquiries on this reader were received in the first half year of 2008 and some inquiries turned into interesting orders. The Group got an interesting order of ACR122 from a global telecom company based in France to read RFID tags attached to goods sold in retail outlets. Once a person waves the tag attached on the product, be it a toy teddy bear or a CD, on the reader linked to a PC, he will be brought to the special websites containing interesting information about the products. NFC technology permits the RFID inside a mobile phone to behave like a contactless smart card and is getting very popular initially in Japan and then in various countries in the world.

The Group received orders of expanded sizes of the flash drive integrated with a smart card reader, called ACR100, particularly from Italy. ACR100 has the inbuilt flash memory to hold data and programs securely. Its reader supports a micro-processor smart card to protect the information in the flash through encryption and decryption.

In order to enhance the chances of long-termed growth and profitability, the Group constantly develops new technologies and products to introduce to the market. The products built on the platform of a 32-bit microprocessor were actively being developed and enhanced. In this product range were included the device eH880 meant to be for the German health card project and the device ACR880, a portable version of eH880, meant for reading smart card based identity cards and for reading transportation payment cards. The Group plans to launch a new reader based on the 32-bit microprocessor platform in the second half year of 2008.

PROSPECTS

The Group has built a customer base located in over one hundred countries in the world. It continues to launch products some of which are among the industry's most advanced products, such as its NFC contactless smart card reader, ACR122.

The availability of financial resources is often the most significant constraint on the growth of a technology-intensive company. By increasing the ratio of the junior to senior people and combining the strengths of the people in the three main offices in Hong Kong, Shenzhen and Manila, the Group is increasing its productivity handsomely. As a result the liquidity and the overall financial conditions of the Group have been improving.

At the same time, the market of smart cards and readers is growing and there are rooms for expansion by the Group.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 30 June 2008, the Group's cash at banks and on hand amounted to HK\$14.3 million (30 June 2007: HK\$10.6 million) which included the pledged bank deposits of HK\$2.0 million (30 June 2007: HK\$2.0 million). The HK\$2.0 million pledged bank deposits were to secure bank credit lines. At 30 June 2008, the credit lines offered by the banks were not utilised (30 June 2007: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 2.9 (30 June 2007: 4.3). Net asset value as at 30 June 2008 was HK\$41.2 million (30 June 2007: HK\$34.3 million).

CAPITAL STRUCTURE

The Group's equity capital, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. Usage of bank lines has been minimal. As at 30 June 2008, the Group did not have any bank borrowing and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (30 June 2007: zero). 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 material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2008.

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 2008, 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 2008, the Company had outstanding corporate guarantee of HK\$6 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 2008, the Group had 101 full time employees. Staff costs amounted to HK\$8.4 million (corresponding period in 2007: HK\$6.0 million). Remuneration polices 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 2008, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Name of director	Long position in ordinary shares of HK\$0.10 each					Total number of shares held	Percentage of the Company's issued share capital as at 30 June 2008
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests			
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	39,778,522	—	—	120,546,522	42.78%	
Ms. Tsui Kam Ling, Alice (Note 3)	39,778,522	80,768,000	—	—	120,546,522	42.78%	
Mr. Tan Keng Boon	157,893	—	—	—	157,893	0.06%	

Notes:

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

Save as disclosed above, to the best knowledge of the directors of the Company, as at 30 June 2008, 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 2008, the consultants and employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2008 was HK\$0.36) 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 2008	Number of share options			Balance as at 30 June 2008	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 June 2008
			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 vested and were exercisable in three tranches as follows:
 - (a) one-third of the options vested and were exercisable on 10 May 2004;
 - (b) a further one-third of the options vested and were exercisable on 31 December 2004; and
 - (c) the remaining one-third of the options 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 30 June 2008 which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

			Percentage of the Company's issued share capital as at 30 June 2008
	Capacity	Total number of ordinary shares held	
Proway Investment Limited (<i>Note 2</i>)	Beneficial Owner	31,740,305 shares (L)	11.26%
Morningside CyberVentures Holdings Limited (<i>Note 2</i>)	Other	31,740,305 shares (L)	11.26%
Verrall Enterprises Holdings Limited (<i>Note 2</i>)	Other	31,740,305 shares (L)	11.26%
Madam Chan Tan Ching Fen (<i>Note 2</i>)	Other	31,740,305 shares (L)	11.26%
Mr. Tjio Kay Loen (<i>Note 3</i>)	Beneficial Owner and Other	22,600,000 shares (L)	8.02%
Warren Securities Limited	Beneficial Owner	14,200,000 shares (L)	5.04%

Notes:

- 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.
- Proway Investment Limited is wholly owned by Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly owned by Verrall Enterprises Holdings Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).
- Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,200,000 shares and 1,000,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen) and Raffles Capital Pte Limited (a company which is owned as to 56% by Mr. Tjio Kay Loen) respectively. Mr. Tjio Lay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 30 June 2008 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

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

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

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

A.2 of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules 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 2008.

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 2008.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the six months ended 30 June 2008.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 7 August 2008