



## **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 2008**

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\* For identification only

## **HIGHLIGHTS**

- The revenue of the Group for the quarter ended 31 March 2008 increased by 34% to HK\$14.6 million from the first quarter of 2007.
- The gross profit of the Group for the quarter ended 31 March 2008 increased by 37% to HK\$7.9 million from the first quarter of 2007.
- The net profit of the Group amounted to HK\$1.1 million for the three months ended 31 March 2008, which was 82% higher than the net profit in the first quarter of 2007.
- As of 31 March 2008, the cash at banks and on hand of the Group amounted to HK\$12.5 million (31 March 2007: HK\$7.5 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 ended 31 March 2008 together with the comparative unaudited figures for the corresponding period in 2007, as follows:

		<b>Three months ended</b>	
		<b>31 March</b>	
	<i>Notes</i>	<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	2	<b>14,631</b>	10,887
Cost of sales		<b>(6,762)</b>	(5,151)
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Gross profit		<b>7,869</b>	5,736
Other income		<b>58</b>	59
Other net income		<b>6</b>	2
Administrative and other operating expenses		<b>(3,003)</b>	(2,973)
Research and development expenses		<b>(2,286)</b>	(1,294)
Selling and distribution costs		<b>(1,500)</b>	(892)
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<b>Operating profit</b>		<b>1,144</b>	638
Finance costs		<b>(65)</b>	(46)
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<b>Profit before income tax</b>		<b>1,079</b>	592
Income tax expense	3	<b>—</b>	—
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<b>Profit for the period</b>		<b>1,079</b>	592
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<b>Earnings per share attributable</b>			
<b>to equity holders of the Company</b>	5		
Basic		<b>HK0.383 cents</b>	HK0.210 cents
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Diluted		<b>HK0.381 cents</b>	HK0.210 cents
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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. The financial statements 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 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 2 May 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:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>HK\$’000</b>	HK\$’000
Sales of smart card products, software and hardware	<b>14,254</b>	10,524
Smart card related services	<b>377</b>	363
	<b>14,631</b>	10,887

## 3 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 ended 31 March 2007 and 2008.

## 4 DIVIDENDS

The Company had not declared or paid any dividends during the three months ended 31 March 2008 (2007: Nil).

## 5 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:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Profit for the period for the purpose of calculating basic and diluted earnings per share	<b>1,079</b>	592

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>'000</b>	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>281,800</b>	281,800
Effect of dilutive potential ordinary shares relating to outstanding share options	<b>1,110</b>	588
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b>282,910</b>	282,388

## 6 RESERVES

	<b>Share premium</b>	<b>Merger reserve</b>	<b>Translation reserve</b>	<b>Accumulated losses</b>	<b>Proposed dividend</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
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

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 results for the quarter ended 31 March 2008.

### Financial Review

The sales revenue increased by 34% in the first quarter of 2008 compared to the first quarter of 2007. The gross profit increased by 37% to HK\$7.9 million with the gross profit margin up from 53% to 54%. Overhead expenses increased by 32% owing to the higher research and development, and sales and marketing expenses. The net profit before tax surged by 82% to HK\$1.1 million.

The increases in sales revenue were recorded in all the three categories of products with the highest rate of increase in smart cards at 40% (34% for smart card readers and 4% for smart card related services) in the first quarter of 2008 compared with the same quarter in 2007. Smart cards accounted for 23% of the total sales revenue in this first quarter.

	Three months ended		
	31 March		
	2008	2007	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Smart cards	<b>3,378</b>	2,418	+40%
Smart card readers	<b>10,876</b>	8,106	+34%
Smart card related services	<b>377</b>	363	+4%
	<b>14,631</b>	10,887	+34%

In the first quarter of 2008, Europe accounted for half of the total sales revenue and was the region with the biggest growth in sales. The sales in Middle East and Africa declined in the first quarter of 2008 because in the first quarter of 2007, relatively big quantities of smart cards were delivered to a customer in Kenya. The project is reaching its end and the shipment rate has been reduced.

	<b>Three months ended</b>		
	<b>31 March</b>		
	<b>2008</b>	2007	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Europe	<b>7,287</b>	3,987	+83%
Asia Pacific	<b>3,987</b>	3,091	+29%
The Americas	<b>2,307</b>	1,971	+17%
Middle East and Africa	<b>1,050</b>	1,838	-43%
	<b>14,631</b>	10,887	+34%

## **Dividend**

The Board declared a dividend for the year ended 31 December 2007. It does not declare an interim dividend in respect of the three months ended 31 March 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**

In line with 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 is actively enrolling youngsters, mainly university graduates with short periods of working experience. Also the expansion pace in both Shenzhen and Manila is much higher than in Hong Kong. The Group needs to build a much stronger team to cope with the substantial emerging business opportunities. As of 31 March 2008, the headcount was 87 versus 83 as of 31 December 2007. The Group aims to increase the headcount by 10% to 20% in the upcoming quarter, depending on its ability to get the right people.

After a substantial period of cultivation, the Group began to have certain successes in securing relatively bigger orders in the China market. The Group sold thousands of its PC linked readers in ACR38U series to a leading telecom company for issuing the smart cards to be used with mobile phones in China. It also sold hundreds of its contactless smart card readers in ACR120 series to a world leading mobile phone supplier for a pilot scheme to read the RFID (radio frequency identification) labels which are attached to batteries and mobile phones in order to avoid fake products. Since the China market is a big one owing to its huge population and rapid economic growth, the small requirements in pilot run scale could be followed by much more substantial business.

In the fourth quarter of 2007, the Group secured the first order of 2,500 units of its NFC (Near Field Communication) smart card readers in ACR122 series to a leading telecom company in Hong Kong for their pilot project to read the balance and the transaction records in the popular transportation payment cards. As a result of the progress of the project, in the first quarter of 2008, a second order of 5,000 units, i.e. twice the size of the first order was received. The Group anticipates to encounter similar applications for transportation payment cards which may require its NFC readers, in other regions of the world.

With the objective to capture the business of supplying smart card readers to Germany to be used in their nation-wide health card project, the Group is actively enhancing its readers in eH880 series in order to have them qualified against all the needed industry certifications. Meanwhile, the Group participated in March 2008 the trade show “CeBIT” in Germany with the main target to reach customers of the Group’s smart card readers for the German health card market. At the same time, the Group was getting itself ready to take part in the healthcare trade show “conhIT”, known as “connecting the healthcare IT” which was held in April 2008 in Germany.

## **Prospects**

The Group considers the prospect to be good due primarily to an anticipation of significant growth of sales and profits in the upcoming quarters. It is having a better economy of scale. The Group puts emphasis on providing various on-the-job and classroom trainings to its staff members, especially the newly enrolled staff members. They are now taking more responsibilities and are contributing considerably to the Group.

The overall smart card market is growing. The Group has built a solid base of customers located in more than eighty countries in the world. A reputation has been built of supplying high quality smart card products. While the Group endeavours constantly to acquire business of its existing products, it is developing and launching new products in the pipe-line in order to maintain a strong product portfolio.



## **Liquidity and Financial Resources**

At all times the Group maintains an adequate liquidity position. As at 31 March 2008, the Group's cash at banks and on hand amounted to HK\$12.5 million (31 March 2007: HK\$7.5 million) which included the pledged bank deposits of HK\$2.0 million (31 March 2007: HK\$2.7 million). The pledged bank deposits were to secure bank credit lines. As at 31 March 2008, the credit lines offered by the banks were not utilised (31 March 2007: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 3.8 (31 March 2007: 4.9). Net asset value as at the end of the review period was HK\$38.4 million (31 March 2007: HK\$33.5 million). As at 31 March 2008, the Group did not have any borrowings and, accordingly, the gearing ratio was zero (31 March 2007: 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 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 three months ended 31 March 2008.

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

Hong Kong, 2 May 2008

*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.*

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