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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

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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

- The revenue of the Group for the year ended 31 December 2007 increased by 37% to HK$59.3 million from the year ended 31 December 2006.

- The gross profit of the Group for the year ended 31 December 2007 increased by 28% to HK$29.6 million from HK$23.1 million in 2006.

- Net profit before income tax increased by 68% to HK$6.3 million from the figure of HK$3.8 million last year.

- Net profit after income tax increased by 68% to HK$4.3 million from the figure of HK$2.6 million last year.

- As at 31 December 2007, the cash at banks and on hand of the Group amounted to HK$13.8 million (HK$7.9 million as at 31 December 2006) and there was no borrowing.

- The Board of Directors recommend the payment of a dividend of HK0.4 cents per share (2006: Nil) for the year ended 31 December 2007.

CONSOLIDATED RESULTS

The Board of Directors of the Company are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 together with the comparative figures for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	**2007**	2006
		HK$'000	*HK$'000*
Revenue	3	**59,326**	43,165
Cost of sales		**(29,678)**	(20,092)
Gross profit		**29,648**	23,073
Other income	3	**475**	282
Other net losses	4	**(92)**	(196)
Administrative and other operating expenses		**(12,908)**	(12,111)
Research and development expenses		**(6,773)**	(4,074)
Selling and distribution costs		**(3,742)**	(3,014)
Operating profit		**6,608**	3,960
Finance costs	6.1	**(320)**	(206)
Profit before income tax	6	**6,288**	3,754
Income tax expense	7	**(1,982)**	(1,190)
Profit for the year		**4,306**	2,564
Dividends	8	**1,127**	—
Earnings per share attributable to equity holders of the Company	9		
Basic		**HK1.53 cents**	HK0.91 cents
Diluted		**HK1.52 cents**	HK0.91 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	**2007**	2006
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment		**2,580**	1,932
Development costs		**9,215**	9,393
Deferred tax assets	10	**780**	2,762
		12,575	14,087
Current assets			
Inventories		**10,179**	8,600
Trade and other receivables, deposits paid and prepayments	11	**9,072**	6,753
Held-to-maturity financial assets		**21**	17
Pledged bank deposits		**2,005**	2,691
Cash and cash equivalents		**11,771**	5,240
		33,048	23,301
Current liabilities			
Trade and other payables, deposits received and accruals	12	**8,351**	4,472
Net current assets		**24,697**	18,829
Net assets		**37,272**	32,916
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital		**28,180**	28,180
Reserves		**9,092**	4,736
Total equity		**37,272**	32,916

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital	**Share premium**	**Merger reserve**	**Translation reserve**	**Accumulated losses**	**Proposed dividend**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	28,180	24,333	4,496	—	(26,657)	—	30,352
Profit for the year	—	—	—	—	2,564	—	2,564
Total recognised income and expense for the year	—	—	—	—	2,564	—	2,564
At 31 December 2006 and 1 January 2007	28,180	24,333	4,496	—	(24,093)	—	32,916
Profit for the year	—	—	—	—	4,306	—	4,306
Translation differences recognised directly in equity	—	—	—	50	—	—	50
Proposed dividend (note 8)	—	(1,127)	—	—	—	1,127	—
Total recognised income and expense for the year	—	(1,127)	—	50	4,306	1,127	4,356
At 31 December 2007	28,180	23,206*	4,496*	50*	(19,787)*	1,127*	37,272

* The aggregated amount of the above balances of HK$9,092,000 (2006: HK$4,736,000) represented the reserves in the consolidated balance sheet.

NOTES

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The address of its registered office is Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. Its principal place of business is located at Units 2010-2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong. The Company's shares are listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (the "Group") include the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to its customers. There were no significant changes in the nature of the Group's principal activities during the year.

The 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 ("HKICPA"). 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 financial statements for the year ended 31 December 2007 were approved by the board of directors on 19 March 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretation issued by HKICPA, which are effective for the Group's financial statements beginning on 1 January 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements - Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment

The adoption of these new and amended HKFRSs had no material effect on how the results and financial position for the current or prior accounting period have been prepared. Accordingly, no prior period adjustment is required.

Amendment to HKAS 1 Presentation of Financial Statements - Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial statements and the nature and extent of risks arising from those financial statements. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or the results of operations of the Group, comparative information has been included/revised where appropriate.

HK(IFRIC) - Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.1 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions [2]
HK(IFRIC) - Int 12	Service Concession Arrangements [3]
HK(IFRIC) - Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 March 2007

[3] Effective for annual periods beginning on or after 1 January 2008

[4] Effective for annual periods beginning on or after 1 July 2008

3. REVENUE AND OTHER INCOME

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

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Sale of smart card products, software and hardware	**58,188**	41,123
Smart card related services	**1,138**	2,042
	59,326	43,165

	2007	2006
	HK$'000	*HK$'000*
Other income		
Forfeiture of deposits	**115**	—
Interest income	**351**	230
Sundry income	**9**	52
	475	282

4. OTHER NET LOSSES

	2007	2006
	HK$'000	*HK$'000*
Net foreign exchange loss	**85**	196
Loss on disposals of plant and equipment	**7**	—
	92	196

5. SEGMENT INFORMATION

Primary reporting format - business segments

During the year, 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.

2007

	Development, sale and distribution of smart card products, software and hardware	**Provision of smart card related services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	58,188	1,138	59,326
Segment results and operating profit	5,754	854	6,608
Finance costs			(320)
Profit before income tax			6,288
Income tax expense			(1,982)
Profit for the year			4,306
Capital expenditure	3,959	—	3,959
Depreciation and amortisation	3,481	—	3,481
Non-cash expenses other than depreciation and amortisation	168	—	168

2006

	Development, sale and distribution of smart card products, software and hardware	Provision of smart card related services	Total
	HK$'000	*HK$'000*	*HK$'000*
Revenue	41,123	2,042	43,165
Segment results and operating profit	2,541	1,419	3,960
Finance costs			(206)
Profit before income tax			3,754
Income tax expense			(1,190)
Profit for the year			2,564
Capital expenditure	3,209	—	3,209
Depreciation and amortisation	2,307	—	2,307
Reversal of impairment loss on development costs	(124)	—	(124)
Non-cash expenses other than depreciation and amortisation	11	—	11

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:

	2007	2006
	HK$'000	*HK$'000*
The Americas	**5,551**	5,545
Middle East and Africa	**8,691**	2,297
Asia Pacific	**14,867**	16,644
Europe	**30,217**	18,679
	59,326	43,165

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.

6. PROFIT BEFORE INCOME TAX

	2007	2006
	HK$'000	*HK$'000*

Profit before income tax is arrived at after charging/(crediting):

6.1 Finance costs:

Interests on bank borrowings wholly repayable within five years	**81**	45
Bank charges	**239**	161
	320	206

	2007	2006
	HK$'000	*HK$'000*

6.2 Other items:

Amortisation of development costs	**2,317**	1,339
Auditors' remuneration	**270**	264
Cost of inventories recognised as expense	**29,084**	19,765
Depreciation	**1,164**	968
Impairment of trade receivables	**35**	9
Reversal of impairment loss on development costs	**—**	(124)
Write-down of inventories	**49**	—
Reversal of write-down of inventories	**—**	(540)
Write-back of impairment of trade receivables	**(10)**	(134)
Bad debts	**84**	1
Total research and development expenses	**6,595**	5,195
Less: Amount capitalised as development costs	**(2,139)**	(2,460)
Add: Amortisation of development costs	**2,317**	1,339
Research and development expenses	**6,773**	4,074
Operating lease charges on land and buildings	**1,569**	1,318
Less: Amount included in research and development costs	**(138)**	(112)
	1,431	1,206

7. 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 year's assessable profits and the Company and other subsidiaries sustained losses for taxation purposes for the years ended 31 December 2006 and 2007.

No provision for overseas taxation has been made as no assessable profits arose from the operations in the People's Republic of China, the Philippines, Canada and Germany during the year ended 31 December 2007 (2006: Nil).

	2007	2006
	HK$'000	*HK$'000*
Deferred tax		
Current year	**1,982**	1,190
Income tax expense	**1,982**	1,190

8. DIVIDENDS

No interim dividend for the year ended 31 December 2007 was declared.

A dividend of HK0.4 cents (2006: Nil) per share amounting to approximately HK$1,127,000 for the year ended 31 December 2007 (2006: Nil) has been proposed by the directors after the balance sheet date. The proposal is subject to approval by the shareholders at the forthcoming annual general meeting. The dividend proposed has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of share premium for the year ended 31 December 2007.

9. 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:

	2007	2006
	HK$'000	*HK$'000*
Profit for the year for the purpose of calculating basic and diluted earnings per share	**4,306**	2,564

	2007	2006
	'000	*'000*
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	**990**	129
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**282,790**	281,929

10. DEFERRED TAX ASSETS

10.1 Deferred tax assets and liabilities recognised

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%)

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation *HK\$'000*	**Tax losses** *HK\$'000*	**Total** *HK\$'000*
At 1 January 2006	(211)	4,163	3,952
Credited/(Charged) to income statement	33	(1,223)	(1,190)
At 31 December 2006 and 1 January 2007	(178)	2,940	2,762
Charged to income statement	(63)	(1,919)	(1,982)
At 31 December 2007	(241)	1,021	780

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable.

10.2 Deferred tax assets and liabilities unrecognised

Unrecognised deferred tax assets, representing the future benefit of tax losses to the extent that the directors do not consider it probable that sufficient taxable profits will be available in the foreseeable future, amounted to HK$214,000 (2006: HK$215,000). The tax losses do not expire under current tax legislation. There were no unrecognised deferred tax liabilities.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**7,539**	6,440
Less: Impairment of receivables	**(477)**	(1,072)
Trade receivables - net	**7,062**	5,368
Other receivables	**256**	117
Deposits paid	**657**	529
Prepayments	**1,097**	739
	9,072	6,753

As at 31 December 2007, the amounts of other receivables, deposits paid and prepayments of the Group expected to be recovered after more than one year is HK$583,000 (2006: HK$109,000).

The carrying amounts of trade and other receivables approximate to their fair values.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. Movements in the provision for impairment of trade receivables are as follows:

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**1,072**	1,197
Amount written off	**(620)**	—
Impairment loss and allowances charged to the income statement	**35**	9
Write-back of impairment of trade receivables	**(10)**	(134)
At 31 December	**477**	1,072

The ageing analysis of impaired trade receivables was as follows:

	2007	2006
	HK$'000	*HK$'000*
Over 120 days	**35**	9

At each of the balance sheet date, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised.

Customers are generally granted credit terms of 30 to 60 days. As at 31 December 2007, the ageing analysis of net trade receivables was as follows:

	2007	2006
	HK$'000	*HK$'000*
0 - 30 days	**6,717**	2,993
31 - 60 days	**173**	777
61 - 90 days	**2**	36
Over 90 days	**170**	1,562
	7,062	5,368

The ageing analysis of trade receivables that are not impaired was as follows :

	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**6,106**	1,288
1 - 90 days past due	**786**	2,518
91 - 180 days past due	**12**	1,311
Over 180 days past due	**158**	251
	7,062	5,368

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

12. TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**5,075**	1,871
Deposits received	**600**	922
Accruals	**2,676**	1,679
	8,351	4,472

All of the deposits received and accruals are expected to be settled within one year of the balance sheet date.

The carrying amounts of trade and other payables approximate to their fair values.

As at 31 December 2007, the ageing analysis of trade payables was as follows:

	2007	2006
	HK$'000	*HK$'000*
0 - 30 days	**5,052**	1,833
31 - 60 days	**19**	38
61 - 90 days	**4**	—
	5,075	1,871

SCOPE OF WORK OF GRANT THORNTON

The figures in respect of the Annual Results Announcement ("Announcement") of the Company for the year ended 31 December 2007 have been agreed by the Company's auditors, Grant Thornton, to the amounts set out in the Company's consolidated financial statements for the year. The work performed by Grant Thornton in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Grant Thornton on the Announcement.

DIVIDENDS

The board of directors (the "Board") recommend the payment of a dividend of HK0.4 cents per share of HK$1,127,000 for the year ended 31 December 2007. Subject to the approval by the shareholders at the forthcoming annual general meeting on 28 April 2008, the dividends will be paid on 9 May 2008 to shareholders whose names appear on the register of members of the Company on 28 April 2008.

The declaration, payment and amount of future dividends will be at the discretion of 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 deem relevant.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 22 April 2008 to Monday, 28 April 2008, both days inclusive. In order to qualify for the proposed dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 21 April 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read along side with the Group's audited financial statements for the year ended 31 December 2007.

FINANCIAL REVIEW

The total sales of the Group increased by 37% in the year ended 31 December 2007 to HK$59.3 million from HK$43.2 million in 2006.

Smart card readers contributed to three quarters of the total sales in 2007 and recorded one-third of growth in 2007 over the figure of last year. Smart cards represented only one quarter of the sales of the Group but the growth was faster at 79% in 2007 compared to 2006. Smart card related services are usually provided to customers which request the Group to develop products customized to their specification and do not represent the Group's main income. This form of revenue fluctuates over the years.

	2007	2006	Change
	HK$'000	*HK$'000*	
Smart cards	**13,668**	7,628	+79%
Smart card readers	**44,520**	33,495	+33%
Smart card related services	**1,138**	2,042	-44%
	59,326	43,165	+37%

The biggest sales revenue was recorded in Europe. China represents the biggest market of Asia Pacific. The Group established an office in China in January 2005. Only in the fourth quarter of 2007, the Group began to have some success in penetrating this market. China has a big market of smart cards and readers but usually has its own standard and product specification. It has taken the Group some years to tackle this market. It is expected that in 2008 and the years ahead, China will bring considerable sales to the Group. In 2007, the Group continued to cultivate the USA market and is beginning to receive more substantial orders in the first quarter of 2008. Thus it is expected that the sales breakdown by region in percentage will change considerably in 2008.

	2007	2006	Change
	HK$'000	*HK$'000*	
Europe	**30,217**	18,679	+62%
Asia Pacific	**14,867**	16,644	-11%
Middle East and Africa	**8,691**	2,297	+278%
The Americas	**5,551**	5,545	+0%
	59,326	43,165	+37%

The total operating expenses and finance costs amounted to HK$23.7 million in 2007 which is 22% higher than the corresponding figure of HK$19.4 million in 2006. Headcount increased to 83 people at 31 December 2007 compared with the headcount of 70 at 31 December 2006.

Net profit before income tax increased by 68% to HK$6.3 million from the figure of HK$3.8 million last year.

	2007	2006	Change
	HK$'000	*HK$'000*	
Sales	**59,326**	43,165	+37%
Cost of sales	**(29,678)**	(20,092)	+48%
Gross profit	**29,648**	23,073	+28%
Gross profit margin	**50%**	53%	
Other income	**475**	282	+68%
Other net losses	**(92)**	(196)	-53%
Administrative and other operating expenses	**(12,908)**	(12,111)	+7%
Research and development expenses	**(6,773)**	(4,074)	+66%
Selling and distribution costs	**(3,742)**	(3,014)	+24%
Total operating expenses	**(23,423)**	(19,199)	+22%
Operating profit	**6,608**	3,960	+67%
Finance costs	**(320)**	(206)	+55%
Profit before income tax	**6,288**	3,754	+68%
Income tax	**(1,982)**	(1,190)	+67%
Profit for the year	**4,306**	2,564	+68%

BUSINESS REVIEW

The Group's mission and key business strategies

The Group has the mission to become a leading provider of smart card and smart card reader technologies in the world market. In the initial years of its business, the Group focused on the business of developing and supplying PC linked readers. It is now Asia Pacific's top supplier and the world's fourth largest supplier of PC linked readers as ranked by Frost & Sullivan, the USA-based independent market research institute. Existing customers of PC linked readers are often potential customers of other types of readers and smart cards. Thus the Group often finds existing channels for its new products.

In 2007, the Group continued to implement several key business strategies in order to make the best use of its financial resources to compete and grow in the market.

For a technology company to succeed, a number of talented people must be assembled to carry out different functions of the company, no matter its size. The Group has aligned such a pool of talents. In order to increase the economy of scale, the Group has the strategy to raise the ratio of junior employees to senior employees. The total headcount of the Group was 70 at the end of 2006 comparing with the figure of 83 at the end of 2007. The total staff costs increased from HK$12.1 million in 2006 to HK$13.4 million in 2007. The rate of increase of headcount is higher than the rate of increase of staff costs even though there were upward adjustments of the salaries of individual employees from 2006 to 2007. The reason is the increase of the ratio of junior staff members to senior staff members.

A second strategy is to make more effective use of human resources by combining the strengths of Hong Kong, Shenzhen and Manila staff teams with (1) Shenzhen staff to do more electronic hardware owing to its proximity to Chinese factories in the Pearl delta, and to serve the Chinese market; (2) Manila staff to do more software and to provide technical support to customers in the world; and (3) Hong Kong to engage in IP (intellectual property) intensive technology development, to do the key sales and marketing work and to carry out other headquarters functions.

The Group continued to develop and enhance its WEQ (Web-based EnQuiry) IT system to handle information of its big customer base, to debate on and resolve issues using its "FORUM" program, and to track its product development work from product idea formation to testing, debugging and supporting.

In 2007, the Group has continued to expand its product range by developing and supplying more sophisticated types of products built on its foundation of smart card technologies. These sophisticated products have higher unit values and are expanding the Group's potential of sales growth.

Main products introduced to the market and business opportunities

The Group developed and supplied a range of its ACR100 device which combines a USB plug-in smart card reader with a flash memory chip, for securing on-line transactions and to store data and programs safely. Tens of thousands of the Group's ACR100 devices were shipped to a customer in Italy in 2007 to be channeled to over a hundred Chamber of Commerce organizations in Italy which provide to their members these devices, named "Business Keys", for them to secure their data and on-line transactions. The project has been very successful and the customer expressed its intention to increase their purchase volumes in 2008. The average price of ACR100 is about three times that of a PC linked reader. Such applications or similar ones are being implemented in pilot runs in other countries, particularly China.

The Group introduced to the market in 2007 the world's first PCSC reader (a reader compliant to Microsoft's Personal Computer Smart Card standard) supporting Sony's Felica card and NFC standard (Near Field Communication standard, defined by Sony and NXP) as well as many other types of contactless cards. The Group delivered in the fourth quarter of 2007 the first commercial shipment of ACR122 readers to one of the leading telecom companies based in Hong Kong. These readers will be used together with the telecom company's latest multimedia VOIP (Voice over Internet Protocol) phone and a transportation payment card of Hong Kong. The reader can read the balance and the ten transactions stored in the payment card. Such consumer applications using ACR122 are gradually being accepted as the use of VOIP phones and contactless transportation payment cards are becoming very popular in the world. Since the Felica card is the most popular transportation payment card in Japan and NFC technology is actively being used in the country, the introduction of ACR122 has opened up new opportunities in Japan to the Group. The average price of ACR122 is about two times that of a PC linked reader.

The Group's introduction of more sophisticated smart cards, such as the PKI (public key infrastructure) cards (named ACOS5 cards) presented itself new opportunities. Over 150 thousands of ACOS5 cards were delivered in 2007 to a customer in Kenya as partial fulfillments of their order of 300 thousand cards. The customer uses the cards for a multi-purposed customer loyalty application for a supermarket chain. The Group launched into the market in 2007 its CryptoMate, a USB key integrating the PKI card and a reader chip. An order of five thousand units of CryptoMate was received in February 2008 from a customer in Serbia. The order is very interesting to the Group as these devices are to be issued by banks to their customers for securing on-line home-banking. Such an application is getting popular in many countries in the world. PKI cards are usually used for national identity card or health card projects. With such PKI technology built by the Group, it is aiming to supply cards for such nation-scaled projects initially in the developing countries. The average price of a smart card with PKI encryption is about three times that of a smart card using less sophisticated form of encryption.

Key products being developed

In 2007, the Group continued to perfect its desk-top and hand-held readers, built based on a 32-bit microprocessor and Linux operating system. These readers are expected to contribute substantially to the sales of the Group in 2008 and in the years to come. The first target application of these more sophisticated readers will be for the German health card project. In the first quarter of 2008, samples of these readers were delivered to the German certification authority for qualification. The German Government announced its plan to issue health cards to all its citizens, numbered at 82.4 million. At the industry estimate of around 80 cards to match one reader, the total number of readers required will be 1 million units. At an estimated market price of US$200 per unit, the market size will be substantial. Such health card applications are being spread to other European countries. In order to capture this emerging market, the Group established a company in Germany in 2007 in the name of Advanced Card Systems GmbH.

Using the technology platform of the reader using 32-bit microprocessor, the Group has developed prototypes of a sophisticated device supporting contact and contactless cards, and with a finger print scanner, for a US-based global company for physical access control (i.e. control the opening and closing of doors and gates) applications. With annual sales over tens of billion US dollars, the global company is the world's leading provider of physical access control solutions.

The Group was engaged in developing in 2007 and plans to launch in 2008 APG82, a One-time password generator based on the CAP (chip authentication program) specification defined by MasterCard, a credit card company. APG82 generates a new password every time when making an authentication of users of the Internet for on-line transactions, such as on-line banking or micro-payment. APG82 enriches the Group's range of products such as the PC linked readers or the finger print readers for secure Internet transactions.

Trade shows attended

In 2007, the Group participated in the following smart card and security trade shows in the world by setting up an exhibition booth there:

(1) "RSA Conference 2007" in the USA during February 2007;

(2) "CeBIT Hannover 2007" in Germany during March 2007;

(3) "The 9th Smart Cards + Smart Label (RFID) China Exhibition & User's Conference (SCSL 2007)" in China during May 2007;

(4) "The 9th International Smart Card and RFID Technology Exhibition & Purchase, China 2007 (SCPC 2007)" in China during June 2007;

(5) "GITEX TECHNOLOGY WEEK 2007" in Dubai during September 2007;

(6) "SmartCards Expo 2007" in India during September 2007; and

(7) "CARTES & IDentification 2007" in France during November 2007.

Of the above trade shows, Number (1), (3), (4) and (5) were participated for the first time in 2007. The Group has now the strategy to increase the variety of trade shows participated in order to widen its customer base. To control the expense budget, thus some shows will be attended in alternate years rather than every year.

PROSPECTS

The prospects of the Group are good.

By implementing its three business strategies mentioned above, the Group has gained a better economy of scale and has gained further competitiveness. The Group has now built stronger teams in three locations able to secure the business opportunities by developing new products, promoting them, supplying them and providing the needed support.

Very few Asian companies in the smart card industry have gained a reputation in the world as a provider of quality smart card products with high technology content. The Group has proven to be able continuously to develop and introduce new quality products and secure business opportunities.

The innovative product ACR100 which won the Group the "Ducoty Award", the Industry award for product innovation by "CardsNow Asia ", a famous industry journal and "Frost & Sullivan", has been proven to be a successful product and has brought to the Group considerable business in new applications.

The introduction by the Group the world's first PCSC compliant contactless reader supporting Sony's Felica cards and NFC technology is presenting us new business opportunities particularly in regions using such technologies such as Hong Kong, Singapore and Japan.

The more sophisticated eH880 and ACR880 are bringing to the Group business in the health card and physical access control applications.

The world market of smart cards and related security products which the Group develops and supplies, is growing rapidly. Smart cards are now used extensively in mobile phones, for transportation, as bank credit cards, health cards and national identity cards, etc. According to "Smart Card Technology International", a reputable trade journal published in The United Kingdom, the number of smart cards shipped in the world numbered 4.9 billion units in 2007 and the figure will increase in five years to 9.9 billion units in 2012. The rate of increase of the number of card readers shipped is expected to be higher as readers are gradually entering into the homes of consumers, thanks to the emerging home applications such as on-line banking, stock trading, micro-payment, access control of home doors, etc. Certainly, the number of homes to use readers will be much bigger than the number of organizations to use readers.

The Group has won a reputation as a world's leading supplier of PC linked readers. By making use of its customer base and by building new and innovative products based on its foundation of smart card technologies and knowledge, the Group is constantly opening up new opportunities in the expanding market.

It has always been the goal of the management of the Group to build a business with long-termed sustainable capability to grow in sales and profitability. The Group is getting closer and closer to this goal.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 31 December 2007, the Group's cash at banks and on hand amounted to HK$13.8 million (2006: HK$7.9 million) which included the pledged bank deposits of HK$2.0 million (2006: HK$2.7 million). The HK$2.0 million pledged bank deposits were to secure bank credit lines. At 31 December 2007, the credit lines offered by the banks were not utilised (2006: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 4.0 (2006: 5.2). Net asset value as at the year end date was HK$37.3 million (2006: HK$32.9 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 31 December 2007, the Group did not have any borrowings and, accordingly, the gearing ratio was zero (2006: zero). The Group keeps most of its cash in Hong Kong dollars and United States dollars in bank accounts.

INVESTMENTS

During the year, 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 year ended 31 December 2007.

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 year. There is no significant exposure to foreign exchange rate fluctuations. No hedging or other alternatives have been implemented during the year.

PLEDGE OF ASSETS

As at 31 December 2007, 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 31 December 2007, 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 31 December 2007, the Group had 83 full time employees. Staff costs amounted to HK$13.4 million (2006: HK$12.1 million). Remuneration policies 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' 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 year.

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

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company has applied the principles of the Code on Corporate Governance Practices as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Code "). The Company has complied with the requirements of the Code except for the provision A.2 of the Code, which 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.

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 met once with the external auditors to review the effectiveness of the internal control systems and the Group's audited results for the year ended 31 December 2007.

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

Hong Kong, 19 March 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.

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.