



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

Q3



THIRD QUARTERLY REPORT

**For identification only*

2007

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

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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

- In the third quarter of 2007, the Group recorded a sales amount of HK\$16.4 million which was 52% higher than the sales in the third quarter of 2006. The sales in the first nine months of 2007 increased to HK\$38.2 million which was 18% higher than the sales in the first nine months of 2006.
- The gross profit in this current quarter amounted to HK\$7.8 million comparing with the gross profit of HK\$6.2 million in the third quarter of 2006. The gross profit amounted to HK\$19.6 million in the first nine months of 2007 versus HK\$16.7 million in the first nine months of 2006.
- The net profit in the quarter amounted of HK\$2.2 million, which was 41% higher than the net profit in the third quarter of 2006. The net profit in the first nine months of 2007 increased by 29% to HK\$3.6 million compared with the figure in the first nine months in Year 2006.
- As of 30 September 2007, the cash at banks and on hand of the Group amounted to HK\$11.7 million and there was no borrowing from banks.

UNAUDITED CONSOLIDATED RESULTS

The Board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2007 together with the comparative unaudited figures for the corresponding periods in 2006, as follows:

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

Notes:

1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The accounting policies adopted in the 2006 annual financial statements have been consistently applied to these financial statements.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. These financial statements were approved by the board of directors on 9 November 2007.

2 REVENUE

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

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

3 INCOME TAX

No provision for Hong Kong profits tax has been made in the financial statements as a subsidiary of the Group has losses brought forward from previous years to offset against its current period's assessable profits and the Company and other subsidiaries sustained losses for taxation purposes for the three months and nine months ended 30 September 2007 and 2006.

4 DIVIDENDS

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

5 EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period for the purposes of calculating basic and diluted earnings per share	2,182	1,552	3,554	2,748

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	'000	'000	'000	'000

Number of shares

Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	281,800	281,800	281,800	281,800
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Effect of dilutive potential ordinary shares relating to outstanding share options	1,174	257	877	79
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Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	282,974	282,057	282,677	281,879
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6 RESERVES

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

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

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

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

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

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

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

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2007. The declaration, payment, and amount of future dividends will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial condition, and such other factors as the Board may consider important.

BUSINESS REVIEW

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

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

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

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

PROSPECTS

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

The current ratio was kept at 3.8 (30 September 2006: 4.0). Net asset value as at the end of the review period was HK\$36.5 million (30 September 2006: HK\$33.1 million). As at 30 September 2007, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (30 September 2006: 2.7%).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 2007, 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	Ordinary shares of HK\$0.10 each of the Company					Total number of shares held	Percentage of the Company's issued share capital as at 30 September 2007
	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:

- 1 The shares are registered under the names of the directors who are the beneficial owners.
- 2 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.
- 3 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 September 2007, 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 September 2007, 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 28 September 2007 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 2007	Number of share options			Balance as at 30 September 2007	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 September 2007
			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 have vested and were exercisable in three tranches as follows:
 - (a) one-third of the options have vested and were exercisable on 10 May 2004;
 - (b) a further one-third of the options have vested and were exercisable on 31 December 2004; and
 - (c) the remaining one-third of the options have 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" 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 September 2007 which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 30 September 2007
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%

Notes:

- 1 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.
- 2 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).

Save as disclosed above, as at 30 September 2007 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.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company (“dealings rules”) on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the nine months ended 30 September 2007.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the nine months ended 30 September 2007.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 9 November 2007