



## **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 2008**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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\* For identification only

## HIGHLIGHTS

- The revenue of the Group for the year ended 31 December 2008 increased by 62% to HK\$96.1 million from the year ended 31 December 2007.
- The gross profit of the Group for the year ended 31 December 2008 increased by 50% to HK\$44.5 million from HK\$29.6 million in 2007.
- Net profit before income tax increased by 99% to HK\$12.5 million from the figure of HK\$6.3 million last year.
- Net profit after income tax increased by 125% to HK\$9.7 million from the figure of HK\$4.3 million last year.
- As at 31 December 2008, the cash at banks and on hand of the Group amounted to HK\$23.6 million (HK\$13.8 million as at 31 December 2007) and there was no borrowing.
- The board of directors has recommended the payment of a dividend of HK0.8 cents (2007: HK0.4 cents) per share for the year ended 31 December 2008.

## CONSOLIDATED RESULTS

The board of directors of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 together with the comparative figures for the corresponding period in 2007 as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
<b>Revenue</b>	3	<b>96,094</b>	59,326
Cost of sales		(51,625)	(29,678)
<b>Gross profit</b>		<b>44,469</b>	29,648
Other income	3	500	475
Administrative expenses		(14,435)	(13,029)
Research and development expenses	5.2	(10,419)	(6,772)
Selling and distribution costs		(7,198)	(3,714)
<b>Operating profit</b>		<b>12,917</b>	6,608
Finance costs	5.1	(387)	(320)
<b>Profit before income tax</b>		<b>12,530</b>	6,288
Income tax expense	6	(2,826)	(1,982)
<b>Profit for the year</b>		<b>9,704</b>	4,306
<b>Dividends</b>	7	<b>2,254</b>	1,127
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>	8		
Basic		<b>HK3.44 cents</b>	HK1.53 cents
Diluted		<b>HK3.43 cents</b>	HK1.52 cents

## CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Plant and equipment		3,540	2,580
Development costs		9,238	9,215
Deferred tax assets		—	780
		<b>12,778</b>	<b>12,575</b>
<b>Current assets</b>			
Inventories		12,129	10,179
Trade and other receivables, deposits paid and prepayments	9	9,607	9,072
Held-to-maturity financial assets		19	21
Pledged bank deposits		897	2,005
Cash and cash equivalents		22,724	11,771
		<b>45,376</b>	<b>33,048</b>
<b>Current liabilities</b>			
Trade payables, deposits received and accruals	10	10,927	8,351
Provision for taxation		1,157	—
		<b>12,084</b>	<b>8,351</b>
<b>Net current assets</b>		<b>33,292</b>	<b>24,697</b>
<b>Total assets less current liabilities</b>		<b>46,070</b>	<b>37,272</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		258	—
<b>Net assets</b>		<b>45,812</b>	<b>37,272</b>
<b>EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS</b>			
Share capital		28,180	28,180
Reserves		17,632	9,092
<b>Total equity</b>		<b>45,812</b>	<b>37,272</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 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
Total recognised income and expense for the year	—	—	—	50	4,306	—	4,356
Proposed dividend (note 7)	—	(1,127)	—	—	—	1,127	—
At 31 December 2007 and 1 January 2008	28,180	23,206	4,496	50	(19,787)	1,127	37,272
Profit for the year	—	—	—	—	9,704	—	9,704
Translation differences recognised directly in equity	—	—	—	(37)	—	—	(37)
Total recognised income and expense for the year	—	—	—	(37)	9,704	—	9,667
2007 Dividend paid	—	—	—	—	—	(1,127)	(1,127)
Proposed dividend (note 7)	—	(2,254)	—	—	—	2,254	—
<b>At 31 December 2008</b>	<b>28,180</b>	<b>20,952*</b>	<b>4,496*</b>	<b>13*</b>	<b>(10,083)*</b>	<b>2,254*</b>	<b>45,812</b>

\* The aggregated amount of the above balances of HK\$17,632,000 (2007: HK\$9,092,000) 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 Uglan 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 (collectively referred to as the "Group" hereinafter) 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 are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

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 ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also 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 2008 were approved for issue by the board of directors on 20 March 2009.

### 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 (the "new HKFRSs") issued by the HKICPA, which are relevant and effective for the Group's financial statements for the annual period beginning on 1 January 2008.

HKAS 39 (Amendment)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>2</sup>
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards <sup>2</sup>
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate <sup>1</sup>
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC) – Int 18	Transfers of Assets from Customers <sup>5</sup>
Various – Annual Improvements to HKFRSs 2008 <sup>6</sup>	

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

<sup>5</sup> Effective for transfers of assets from customers received on or after 1 July 2009

<sup>6</sup> Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

### 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:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>Revenue</b>		
Sale of smart card products, software and hardware	93,998	58,188
Smart card related services	2,096	1,138
	<hr/> 96,094	<hr/> 59,326
	<hr/> <hr/>	<hr/> <hr/>
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>Other income</b>		
Forfeiture of deposits	37	115
Interest income on financial assets stated at amortised cost	188	351
Sundry income	275	9
	<hr/> 500	<hr/> 475
	<hr/> <hr/>	<hr/> <hr/>



#### 4. SEGMENT INFORMATION

##### Primary reporting format – business segments

During the year, the Group was principally engaged into two main business segments:

- development, sale and distribution of smart card products, software and hardware;
- provision of smart card related services.

##### 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	93,998	2,096	96,094
Segment results and operating profit	11,367	1,550	12,917
Finance costs			(387)
Profit before income tax			12,530
Income tax expense			(2,826)
Profit for the year			9,704
Capital expenditure	4,781	—	4,781
Depreciation and amortisation	3,741	—	3,741
Non-cash expenses other than depreciation and amortisation	19	—	19

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	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

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 mainly located in Hong Kong. The following table provides an analysis of the Group’s revenue by location of customers irrespective of the origin of the goods and services.

Segment revenue by geographical markets:

	<b>2008</b> <i>HK\$'000</i>	2007 <i>HK\$'000</i>
The Americas	7,433	5,551
Middle East and Africa	7,466	8,691
Asia Pacific	23,667	14,867
Europe	57,528	30,217
	<b>96,094</b>	59,326

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.

5. PROFIT BEFORE INCOME TAX

	2008 HK\$'000	2007 HK\$'000
Profit before income tax is arrived at after charging/ (crediting):		
<b>5.1 Finance costs:</b>		
Interest on bank borrowings wholly repayable within five years	117	81
Bank charges	270	239
	<u>387</u>	<u>320</u>
<b>5.2 Other items:</b>		
Amortisation of development costs	2,272	2,317
Auditors' remuneration	280	270
Cost of inventories recognised as expense – including (write-back) / provision for inventories	50,827 (83)	29,084 49
Depreciation	1,469	1,164
Loss on disposals of plant and equipment	56	7
Impairment of trade receivables	49	35
Write-back of impairment of trade receivables	—	(10)
Bad debts written off	53	84
Net foreign exchange loss	144	85
	<u>10,442</u>	<u>6,594</u>
Total research and development expenses	10,442	6,594
Less: Amount capitalised as development costs	(2,295)	(2,139)
Add: Amortisation of development costs	2,272	2,317
	<u>10,419</u>	<u>6,772</u>
Research and development expenses charged to income statement	10,419	6,772
	<u>1,927</u>	<u>1,569</u>
Operating lease charges on land and buildings	1,927	1,569
Less: Amount included in research and development costs	(86)	(138)
	<u>1,841</u>	<u>1,431</u>

## 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. No provision for Hong Kong profits tax was made during the year ended 31 December 2007 as a subsidiary of the Group had losses brought forward from previous years to offset against its 2007 assessable profits and the Company and other subsidiaries had sustained losses for taxation purposes.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% on gross income incurred in the Philippines during the year (2007: Nil). No provision for overseas tax in other locations including PRC, Canada and Germany has been made as no assessable profits arose from the operations in these locations (2007: Nil).

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>Current tax – tax for the year</b>		
– Hong Kong	1,715	—
– Overseas	73	—
	<hr/> 1,788	<hr/> —
<b>Deferred tax</b>		
Current year	1,038	1,982
Total income tax expense	<hr/> 2,826	<hr/> 1,982

The Hong Kong SAR Government enacted a reduction in the profits tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current and deferred tax liabilities have been calculated using the new tax rate of 16.5%.

## 7. DIVIDENDS

Dividends attributable to the year:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Dividend of HK0.8 cents (2007: HK0.4 cents) per share	2,254	1,127

The dividend proposed after the balance sheet date 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 2008.

Dividends attributable to the previous financial year, approved and paid during the year.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Dividend in respect of the previous financial year, of HK0.4 cents per share (2007: Nil)	1,127	—

8. EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE YEAR

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Profit for the year for the purposes of calculating basic and diluted earnings per share	9,704	4,306
	2008 <i>'000</i>	2007 <i>'000</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	281,800	281,800
Effect of dilutive potential ordinary shares relating to outstanding share options	1,170	990
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	282,970	282,790

9. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade receivables	7,970	7,539
Less: Impairment of receivables	—	(477)
Trade receivables – net	7,970	7,062
Other receivables	332	256
Deposits paid	675	657
Prepayments	630	1,097
	9,607	9,072

Customers are generally granted credit terms of 30 to 60 days. As at 31 December 2008, ageing analysis of net trade receivables, based on invoice dates, was as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 - 30 days	3,821	4,829
31 - 60 days	3,357	2,010
61 - 90 days	569	19
Over 90 days	223	204
	7,970	7,062

## 10. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade payables	6,429	5,075
Deposits received	729	600
Accruals	3,769	2,676
	<b>10,927</b>	<b>8,351</b>

The Group is generally granted by its suppliers credit periods for 30 days. As at 31 December 2008, ageing analysis of trade payables, based on invoice dates, was as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 - 30 days	3,506	2,635
31 - 60 days	2,663	2,436
61 - 90 days	—	4
Over 90 days	260	—
	<b>6,429</b>	<b>5,075</b>

## 11. COMPARATIVES

The Group previously disclosed net foreign exchange loss and loss on disposals of plant and equipment within other net losses. Depending on their nature, these amounts were now included in relevant expenses on the consolidated income statement as a fairer presentation of the results of the year.

## **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 2008 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.

## **DIVIDEND**

The board of directors (the “Board”) has recommended the payment of a dividend of HK0.8 cents (2007: HK0.4 cents) per share for the year ended 31 December 2008. Subject to the approval by the shareholders at the forthcoming annual general meeting on 8 May 2009, the dividend will be paid on 18 May 2009 to shareholders whose names appear on the register of members of the Company on 8 May 2009.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Monday, 4 May 2009 to Friday, 8 May 2009, 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 Thursday, 30 April 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group increased its sales revenue by 62% to HK\$96.1 million in the year 2008 from HK\$59.3 million in 2007. Gross profit increased by 50% only, owing to a lower gross profit margin of 46% in 2008 versus 50% in 2007 as the gross profit margin of PC-linked readers which saw the greatest growth rate in 2008 was less than most of the other products.

The Group increased its sales in smart cards, smart card readers and service income as shown in the following chart.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	Change
Smart cards	17,526	13,668	+28%
Smart card readers	76,472	44,520	+72%
Smart card related services	2,096	1,138	+84%
	<b>96,094</b>	<b>59,326</b>	<b>+62%</b>

The Group succeeded to secure business from several government led smart card projects in Europe in 2008 and thus its sales in this region expanded the most.

In Asia, the Group has attained only a small market share in the two important markets of China and Japan. The Group had some successes in expanding its influence in these two areas in 2008. Accelerated growths are expected to happen there in 2009.

The business in the Middle East and Africa was fluctuating over the years. There may be a smaller number of projects in this region comparing with the other regions but the project sizes are usually not smaller. The Group is expecting to win some interesting business deals in the region in 2009.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	Change
Europe	57,528	30,217	+90%
Asia Pacific	23,667	14,867	+59%
Middle East and Africa	7,466	8,691	-14%
The Americas	7,433	5,551	+34%
	<b>96,094</b>	<b>59,326</b>	<b>+62%</b>

The operating expenses increased by 36% mainly owing to the increase of headcount. The Group operates mainly in Hong Kong SAR, China and the Philippines and the headcount increase was made mainly in the latter two regions. Attending more trade shows and increased advertising and other promotional activities added to the increases.



The Group continued to gain economies of scale. As the increase in gross profit exceeded the increase in expenses, the Group increased its net profit from HK\$4.3 million in 2007 to HK\$9.7 million in 2008.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	Change
Revenue	96,094	59,326	+62%
Cost of sales	<b>(51,625)</b>	(29,678)	+74%
Gross profit	<b>44,469</b>	29,648	+50%
Gross profit margin	<b>46%</b>	50%	
Other income	500	475	+5%
Administrative expenses	<b>(14,435)</b>	(13,029)	+11%
Research and development expenses	<b>(10,419)</b>	(6,772)	+54%
Selling and distribution costs	<b>(7,198)</b>	(3,714)	+94%
Total operating expenses	<b>(32,052)</b>	(23,515)	+36%
Operating profit	<b>12,917</b>	6,608	+95%
Finance costs	<b>(387)</b>	(320)	+21%
Profit before income tax	<b>12,530</b>	6,288	+99%
Income tax expense	<b>(2,826)</b>	(1,982)	+43%
Profit for the year	<b>9,704</b>	4,306	+125%

The cash amounted to HK\$23.6 million at 31 December 2008 comparing with HK\$13.8 million at 31 December 2007. The trade and other receivables, deposits paid and prepayments amounted to HK\$9.6 million representing 6% increase from the corresponding figure of HK\$9.1 million a year ago. The inventories increased by 19% to HK\$12.1 million from HK\$10.2 million. These increase rates were much lower than the rate of increase in sales revenue indicating faster turnover of these current assets.

Trade payables, deposits received and accruals increased by 31% to HK\$10.9 million from HK\$8.4 million a year ago. At 31 December 2008, there was no bank borrowing.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	Change
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Plant and equipment	3,540	2,580	+37%
Development costs	9,238	9,215	+0%
Deferred tax assets	—	780	-100%
	<b>12,778</b>	<b>12,575</b>	<b>+2%</b>
<b>Current assets</b>			
Inventories	12,129	10,179	+19%
Trade and other receivables, deposits paid and prepayments	9,607	9,072	+6%
Held-to-maturity financial assets	19	21	-10%
Cash at banks and on hand	23,621	13,776	+71%
	<b>45,376</b>	<b>33,048</b>	<b>+37%</b>
<b>Current liabilities</b>			
Trade payables, deposits received and accruals	10,927	8,351	+31%
Provision for taxation	1,157	—	N/A
	<b>12,084</b>	<b>8,351</b>	<b>+45%</b>
<b>Net current assets</b>	<b>33,292</b>	<b>24,697</b>	<b>+35%</b>
<b>Total assets less current liabilities</b>	<b>46,070</b>	<b>37,272</b>	<b>+24%</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	258	—	N/A
<b>Net assets</b>	<b>45,812</b>	<b>37,272</b>	<b>+23%</b>
<b>EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS</b>			
Share capital	28,180	28,180	—
Reserves	17,632	9,092	+94%
<b>Total equity</b>	<b>45,812</b>	<b>37,272</b>	<b>+23%</b>

## **BUSINESS REVIEW**

The Group has the mission to become a leading provider of smart card and smart card reader technologies in the world market. It is gradually extending its business to the provision of enterprise management software initially using smart cards and readers as tools to empower the software. The Group's products are made in contract manufacturers located mainly in Guangdong, China based on the technical information provided and quality standard set by the Group.

The Group supplies smart cards and smart card readers to over one hundred countries in the world. It was ranked by Frost & Sullivan, an independent market research institution based in USA, as the world's fourth and Asia Pacific's top supplier of PC-linked smart card readers. These readers are used with smart cards to enhance the security of use of various on-line services by governments, by banks and by other organizations.

The Group has been implementing several key strategies in order to expand its business and profitability.

Firstly, the Group combines the strengths of the staff members working in three regions, Hong Kong SAR, China and the Philippines. The functions of hardware development, embedded software development, PC software development and other intellectual property development, technical support, finance, logistics and management are divided and allocated to different offices based on their specialty, expertise and competitive advantages.

Secondly, the Group is expanding its headcount in China and the Philippines in order to achieve better economies of scales. The Group had 127 full-time employees at 31 December 2008 versus 83 at 31 December 2007. The Group has sales representatives working in Tokyo, Japan and Toronto, Canada.

Thirdly, the Group has been developing a web-based enterprise management program for internal use. The Group has a plan to launch the program to the commercial market and has established a fully owned subsidiary called Teczo.com, Limited in 2008 to focus on this emerging business of offering on-line business solutions.

In line with the Group's mission and strategies, there were various activities carried out in 2008 as described in the following paragraphs.

## Successes in securing business deals

In 2008, the Group succeeded in winning some business deals over the world. Three successful cases are mentioned below as examples.

### **(1) Winning a tender to supply smart card readers for the health card project in Italy**

The Group secured an order of 600,000 PC-linked readers from a long-time customer in Italy as the result of the success of a bid for a government tender. The readers are for reading and writing on the health cards for the Lombardia region of Italy and are used by the citizens, pharmacies, doctors, hospitals, etc. for medical services such as by a patient to make on-line an appointment with a doctor or by a person to get a certificate from a doctor before doing a special sport. These health cards are also used as a kind of identity cards for on-line government services. The capital being Milan, Lombardia is one of the 20 regions of Italy. One-sixth of Italy's population (of 58 million) live in Lombardia and about one fourth of Italy's GDP is accounted for by this region. The order of 600,000 readers was fulfilled by the end of 2008. This project was a high-profile project with most of the world's leading suppliers of PC-linked readers making a bid. A combination of product quality, cutting edge technology and competitive prices enabled the Group to win this business.

### **(2) Smart card readers in an East Asian country to be used in a home ATM project**

The Group supplied 100,000 smart card readers to a customer in East Asia for a project in which smart cards and readers are used together with a VoIP phone provided by a bank.

The bank introduced a new way of bank account management instead of traditional PC Internet Banking, ATM Banking and Phone Banking. This new way makes use of the VoIP phone at home. The Group's ACR38U-BMC smart card reader is used to do authentication, balance/transaction enquires, micro-payment and other bank services with the reader connected to particular VoIP phones. No PC is required. The bank not only acts as a service provider but also lined up some parties to accomplish this project. The VoIP phone operator is the no.1 wired phone operator locally, with more than 30 million clients. Thus, the potential demand of ACR38 is big. The bank wants to make use of the phone operator's big client base to promote its banking services, and so it is offering the reader free of charge for connecting to the VoIP phone. This project benefits home users of banking services, especially those with no access to a PC.

### **(3) Contactless card readers and contactless tags supplied to Europe**

Thousands of readers of contactless cards and NFC tags, model ACR122, and 100,000 customized RFID tags were supplied to a global communications solution provider in Europe. The ACR122 readers and tags are used in a "consumer RFID + Web2.0" project in Europe for the provision of on-line entertainment. People who buy the readers and RFID tags can add "actions" to the tags by getting access to a community website with the "templates" of actions. An example of a template is that one can open a particular website by putting the associated tag on the reader. The tags can be placed on various objects as gifts, such as post cards or teddy bears. When recipients placed them on the readers, respective websites like the website of photo album will be opened automatically.

With the advantage to be the pioneer launching the world's first CCID-compliant NFC reader (a reader compliant to Microsoft's Integrated Circuit(s) Cards Interface Devices Standard) ahead of other competitors, the Group provided readers to various pilot projects in the world in this emerging new application of PC-linked contactless smart card readers.

### **Main products introduced to the market in 2008**

The Group continued its product development work in order to ensure that its product portfolio contains products that account for a good percentage of the annual sales.

The Group launched in 2008 the smart card reader (ACR128) accepting both contact smart card and contactless smart card. With this new reader, users no longer need to use two readers to read two types of cards. It also launched a hand-held smart card reader which generates one-time use password (APG82). The device is meant mainly for banks for on-line banking tasks and for corporations that demand high security to access the Internet network for accessing confidential information, sending encrypted emails or carrying out transactions. The Group also launched in the year new versions of USB-token type of smart card readers inbuilt with flash memory (ACR100). The device acts as a smart reader and at the same time stores programs and confidential information. The industry and commercial department of Italy uses this device as "Business Keys" for their members for safe use of the Internet.

### **Main products being developed**

In 2008, the Group was engaged in the development of three products using 32-bit micro-processors. The first product (eH880) is a reader developed based on the specification provided by the German government for the nation-wide German health card project. The second product is a reader to be mounted near gates and walls for physical access control. This reader is being developed for a global company based in USA. This reader entered into the final stage of preparation of prototypes in 2008 for tests within the USA-based company. The first pilot production is expected in the first quarter of 2009. The third reader (ACR880) is a portable reader for ID cards and other uses. It is entering into pilot production in 2009. The Group expects that all these products will be launched commercially in 2009.

## **Attending trade shows and giving speeches**

In 2008, the Group participated in a total of ten smart card and security trade shows in Europe, Middle East, the Americas and Asia by setting up an exhibition booth there.

The Group's delegates gave speeches in some of these shows and the Group's engineering staff members gave trainings and lectures to customers and organizations in the world including trainings provided to The Chinese University of Hong Kong and a course on smart card technology in De La Salle University in the Philippines.

## **Awards in 2008**

Advanced Card Systems Limited ("ACS"), the main operating subsidiary of the Group, stood out in the competition for the SMART prize, the highest accolade in the Chinese smart card industry. The event was sponsored jointly by China Information Industry Chamber of Commerce and China Software Industry Association and supervised by the State Leading Group Office of Golden Cards Projects Coordination. ACS was honored with "The Top Smart Card Reader Provider 2007". The award was presented to the Group in Shenzhen, China in the 10th International Smart Card and RFID Technology Exhibition and Purchase in May 2008.

The Group was honoured by the Committee for the Recognition of Patriotic Chinese Leaders to be a Patriotic Model Company. The Group's long term vision statement was carved on the stone of the Patriotic Wall built near the Great Wall in Beijing, China. The Government expressed intention to preserve and renovate the carving for the next seventy years.

## **Product certifications**

Every year, the Group submits its products to different laboratories in the world in order to get them certified to be in compliance with global and national industry standards. In 2008, many certificates were obtained. For the first time in the Group's history, it had its PC-linked reader (ACR38) qualified for FIPS (Federal Information Processing Standards) compliance.

FIPS are publicly announced standards developed by the United States Federal Government for use by all non-military government agencies and by government contractors. These standards specify PIV (Personal Identity Verification) requirements for federal employees and contractors. With this approval, the ACR38 readers can be used in the US government sectors for the deployment in secure identification and authentication solutions.

## **Providing security solution for the Beijing Olympic Games**

In 2008, the Beijing Olympic was a big event in the world. The Group had the honour to be invited to participate in the event. The Group provided smart cards, smart card readers and accompanying software to the World Olympians Association ("WOA") to secure its events in 2008 Beijing Olympics.

In a press release the President of WOA Dick Fosbury said, "This is the very first time that we used smart cards for security authentication in all our events. I am completely satisfied that the ID system that we used at the 2008 Olympians Reunion Center ensured the integrity of our venue and enhanced the safety and security of our on-site guests."

## **Enterprise management system empowered by smart cards and readers**

The Group has been developing in the last years a web-based enterprise management system for internal use. Since the program uses the Internet extensively, the security of data will be a concern. The Group's knowledge in encryption and in using smart cards and related security products, such as finger print scanners, can be applied to enhance digital security. Also, the Group realizes that there is a market of Time and Attendance solutions for commercial firms and organizations. The Group's contactless readers and finger print readers will be appropriate to capture clock-in and clock-out records. The Group has a plan to launch the program to the commercial market in 2009.

## **PROSPECTS**

The overall world market of smart cards and related security products which the Group develops and supplies is growing. Within the industry, the demands in different market segments change rapidly. For example, contactless cards are getting more popular comparing with contact cards. The Group is constantly introducing new products and adapting its marketing strategy to cope with the change of the market.

The present financial crisis and economic downturn will affect many types of business in the world. The Group has yet to determine how much the unprecedented economic situation will affect the Group. How big the impact will be is hard to forecast. However, the management believe that there will be new challenges.

A lot of the business done by the Group is generated by government initiated projects. If most of the governments of the various countries do not cancel or curtail their projects, the Group should be less affected. The Group will continue to monitor closely the progress of individual projects it is taking part in.

At 31 December 2008, the Group had no bank debt outstanding and the liquidity was good. The cash of HK\$23.6 million at 31 December 2008 was by no means a big amount but the higher cash position compared with the figure of HK\$13.8 at 31 December 2007 would give the Group a bigger cushion to cope with a potential decline in business. It is too early to tell how the otherwise anticipated growing business would be affected in 2009. Two advantages the Group is envisioning will be the reduced raw material cost and the reduced tightness in the human resources market. The Group will take the opportunity to enroll talents to help the company grow. Owing to improved liquidity, better cash position, an expanded network of customers, better economies of scale and by better control of expenses, the management believe that the Group will be able to cope with the current and upcoming recession.

## **LIQUIDITY AND FINANCIAL RESOURCES**

At all times the Group maintains an adequate liquidity position. As at 31 December 2008, the Group's cash at banks and on hand amounted to HK\$23.6 million (2007: HK\$13.8 million) which included the pledged bank deposits of HK\$0.9 million (2007: HK\$2.0 million). The HK\$0.9 million pledged bank deposits were to secure bank credit lines. At 31 December 2008, the credit lines offered by the banks were not utilized (2007: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 3.8 (2007: 4.0). Net asset value as at the year end date was HK\$45.8 million (2007: HK\$37.3 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 31 December 2008, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (2007: 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 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 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 2008, the Group had pledged deposits of US\$115,000 with a bank for getting banking facilities. Save as disclosed herein, the Group did not pledge any of its assets.

## **CONTINGENT LIABILITIES**

As at 31 December 2008, the Company had outstanding corporate guarantee of HK\$7 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 2008, the Group had 127 full time employees. Staff costs amounted to HK\$18.9 million (2007: HK\$13.4 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 (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited. 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 2008.

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

Hong Kong, 20 March 2009

*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.*