



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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008

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

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 nine months ended 30 September 2008 increased by 81% to HK\$69.3 million from the corresponding nine months of 2007.
- The gross profit of the Group for the nine months ended 30 September 2008 increased by 64% to HK\$32.1 million from the corresponding nine months of 2007.
- The net profit after income tax of the Group amounted to HK\$7.3 million for the nine months ended 30 September 2008, which was more than double the net profit in the corresponding nine months of 2007.
- As at 30 September 2008, the cash at banks and on hand of the Group amounted to HK\$19.7 million (30 September 2007: 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 2008 together with the comparative unaudited figures for the corresponding periods in 2007, as follows:

	<i>Notes</i>	Three months ended		Nine months ended	
		30 September		30 September	
		2008	2007	2008	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2	28,847	16,353	69,298	38,191
Cost of sales		(16,596)	(8,570)	(37,174)	(18,580)
<hr/>					
Gross profit		12,251	7,783	32,124	19,611
Other income		356	94	450	253
Other net (loss)/income		(121)	12	(97)	1
Administrative and other					
operating expenses		(3,493)	(3,041)	(10,091)	(9,067)
Research and development expenses		(2,691)	(1,762)	(7,627)	(4,576)
Selling and distribution costs		(1,607)	(816)	(4,896)	(2,463)
<hr/>					
Operating profit		4,695	2,270	9,863	3,759
Finance costs		(136)	(88)	(289)	(205)
<hr/>					
Profit before income tax		4,559	2,182	9,574	3,554
Income tax expense	3	(2,273)	—	(2,273)	—
<hr/>					
Profit for the period		2,286	2,182	7,301	3,554
<hr/>					
Earnings per share attributable					
to equity holders of the Company					
Basic	5	HK0.811 cents	HK0.774 cents	HK2.591 cents	HK1.261 cents
<hr/>					
Diluted		HK0.808 cents	HK0.771 cents	HK2.580 cents	HK1.257 cents
<hr/>					

Notes:

1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The accounting policies adopted in the 2007 annual financial statements have been consistently applied to these financial statements.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. These financial statements were approved by the board of directors on 31 October 2008.

2 REVENUE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sale of smart card products,				
software and hardware	28,503	16,171	68,450	37,422
Smart card related services	344	182	848	769
	28,847	16,353	69,298	38,191

3 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits of a subsidiary of the Group for the nine months ended 30 September 2008. No provision for Hong Kong profits tax has been made in the financial statements of the Company and other subsidiaries as these companies sustained losses for taxation purposes during the period.

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

4 DIVIDENDS

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

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

5 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period for the purpose of calculating basic and diluted earnings per share	2,286	2,182	7,301	3,554

	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	281,800	281,800	281,800	281,800
Effect of dilutive potential ordinary shares relating to outstanding share options	1,289	1,174	1,238	877
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	283,089	282,974	283,038	282,677

6 RESERVES

	Share premium	Merger reserve	Translation reserve	Accumulated losses	Proposed dividend	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
At 1 January 2008	23,206	4,496	50	(19,787)	1,127	9,092
Profit for the period	—	—	—	7,301	—	7,301
Translation differences recognised directly in equity	—	—	24	—	—	24
Dividend paid	—	—	—	—	(1,127)	(1,127)
At 30 September 2008	23,206	4,496	74	(12,486)	—	15,290

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group increased its sales revenue by 81% to HK\$69.3 million in the first nine months ended 30 September 2008 compared with the corresponding nine months of 2007. The net profit before income tax in the period amounted to HK\$9.6 million, representing a 169% increase.

Financial Review

The sales revenue increased by 81% to HK\$69.3 million in the first nine months ended 30 September 2008 from HK\$38.2 million in the same period a year ago. The gross profit increased at a lower rate of 64% to HK\$32.1 million owing to the lower gross profit margin at 46% compared with the margin of 51% in the nine months of 2007.

The operating expenses amounted to HK\$22.6 million in the first nine months, representing a 40% increase over the operating expenses of HK\$16.1 million in the same period in 2007. One major reason for the higher expenses was the growth of staff members. In particular, the Group increased its research and development capability by employing more engineers and buying new equipment. It was also more active in sales and marketing endeavour including the participation of new trade shows and more oversea visiting of customers. The net profits before tax in the first nine months of 2008 amounted to HK\$9.6 million, 2.7 times the amount of HK\$3.6 million in the same period last year.

The Group made net losses in the past but these accumulated losses were first eliminated in the accounting period of the first nine months of 2008. Thus a profit tax of HK\$2,273,000 was provided in the current accounting period. The profit after tax for the nine months ended 30 September 2008 thus shrank to HK\$7.3 million. Nevertheless this bottom figure is still more than double the figure of HK\$3.6 million in the corresponding nine months of 2007.

The sales of smart cards and of smart card readers increased by 18% and 106% respectively in the first nine months of 2008 from the same nine months in 2007. The smart card related services mainly represent the fees that the Group charges its customers for designing products or modifying products to fit their specific requirements. This portion of the revenue increased by 10%. This type of design work usually accounts for a small percentage of the total revenues but from time to time leads to good business opportunities, especially from new customers.

	Three months ended			Nine months ended		
	30 September			30 September		
	2008	2007	Change	2008	2007	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	
Smart cards	4,243	4,772	-11%	11,435	9,696	+18%
Smart card readers	24,260	11,399	+113%	57,015	27,726	+106%
Smart card related services	344	182	+89%	848	769	+10%
	28,847	16,353	+76%	69,298	38,191	+81%

The sales revenues increased by 138% in the first nine months of 2008 in Europe. The greatest contributor of the growth was the delivery to Italy of contact-based smart card readers for the government-driven health card project. A growth of 72% was recorded in the sales revenue of Asia Pacific in the first nine months. Relatively bigger growths in Asia Pacific were recorded in South Korea and in China.

	Three months ended			Nine months ended		
	30 September			30 September		
	2008	2007	Change	2008	2007	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	
Europe	19,757	10,023	+97%	43,932	18,479	+138%
Asia Pacific	6,253	3,162	+98%	15,670	9,113	+72%
The Americas	1,219	560	+118%	4,860	4,614	+5%
Middle East and Africa	1,618	2,608	-38%	4,836	5,985	-19%
	28,847	16,353	+76%	69,298	38,191	+81%

Dividend

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

Business Review

The Group continues its strategy to increase the ratio of junior to senior staff members and to combine the strengths of the three main offices, namely, the Hong Kong headquarters, Shenzhen office and Manila office.

In the third quarter of 2008, the Group started to deliver PC-linked smart card readers to Italy for the government-driven health card application. Citizens using their cards and the readers can be authenticated before getting access to on-line medical services. Additionally, PC-linked readers were sent to an Asian country to be used to authenticate users of VOIP (voice over Internet protocol) phones for home banking and other on-line services. In the same quarter, the Group sent flash drives integrated with smart card readers to Italy for the use by the commercial and industrial associations for protecting the data and the programs of their members.

In the third quarter, interesting orders were received for the Group's micro-controller smart cards with 3-DES encryption, named as ACOS3 cards, which were used in various occasions. An Indonesian bank uses such cards to hold the finger print template of the banking customers. Reaching the bank's counter, a customer inserts his card into the Group's AET63 integrated smart card reader with finger print scanner, and presses a finger on the device. If the scanned finger print matches the finger print stored in the card as read by the AET63 reader, the banking customer is authenticated. His signature can be omitted. The ACOS3 cards were also used as customer loyalty cards in casinos in France. The Group continues to enhance the features of its smart card operating systems to meet emerging demands.

The Group started to develop a card operating system, namely ACOS7, for a Combi card, i.e. a card that is both a contact card (as seen by gold-plated contact card module on the surface of the card) and a contactless card (with an antenna embedded in the plastic of the card). The target use of ACOS7 is as a payment card for automatic fare collection and other retail transactions.

The Group continued to develop actively a range of smart card readers including the smart card reader using a 32-bit micro-processor and supporting both contact and contactless cards and furthermore containing a finger print scanner. The reader has both a desk top version and a portable version. In the third quarter, the Group started to supply samples to customers and discovered new uses for such readers. Potential uses mentioned by customers included those in electronic health card systems, university campuses, time and attendance control and authentication of holders of national identity cards.

Prospects

It has always been the goal of the Group to build a smart card business with sustainable growth in sales and profits, by keeping itself abreast of the related technology development, by satisfying customers and by combining the strengths of the staff members in different geographical locations. It has now created a range of products and technologies envied by some of its competitors. It has satisfied customers as evidenced by high scores of the annual customer satisfaction survey, a survey required by the ISO9001 certification authority. Its sales and net profits have been growing in the last years. The liquidity is also improving. The Group is well geared for further growth in sales and profitability in the coming years.

One main concern of the Group is the world's financial problem which recently surfaced first in USA and then in various countries around the globe. How significantly the shrinking of the balance sheets of the world's financial institutes will impact the Group's business has yet to be evaluated. Since the Group is presently not relying on bank loans, the general tightening of the bank's lending has not directly affected the Group. However, if the customers of the Group fall into liquidity problems, the Group could not expect expanded business from these customers. The wide fluctuations of foreign exchange rates, particularly the sharp devaluations of Euro and the Korea won versus the US dollar already hit the profitability of some of the Group's customers in Italy and in South Korea. Governments could delay the smart card projects driven by them, especially those projects which are not indispensable.

One potential benefit of the economic downturn to the Group is the reduction of the costs of raw materials used in production, including the plastic in product casing and electrical cables, and the copper and gold used in printed circuit boards. The Group is observing the movement of the costs of the related commodities and will expect a benefit owing to any price drop.

On an operations level, the expense budget will be reviewed more frequently in parallel with the sales results. The Group will be more cautious with its headcount expansion and will endeavour to optimize the use of available resources. Since the Group has only a small share of the market of smart cards and readers, with the correct goals and strategies, the Group can not only survive but also prosper even if the market shrinks.

Liquidity and Financial Resources

At all times the Group maintains an adequate liquidity position. As at 30 September 2008, the Group's cash at banks and on hand amounted to HK\$19.7 million (30 September 2007: HK\$11.7 million) which included the pledged bank deposits of HK\$0.9 million (30 September 2007: HK\$2.0 million). The pledged bank deposits were to secure bank credit lines. As at 30 September 2008, the credit lines offered by the banks were not utilised (30 September 2007: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 2.6 (30 September 2007: 3.8). Net asset value as at 30 September 2008 was HK\$43.5 million (30 September 2007: HK\$36.5 million). As at 30 September 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 (30 September 2007: zero).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the nine months ended 30 September 2008.

AUDIT COMMITTEE

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

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

Hong Kong, 31 October 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.