



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8210)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2005

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 turnover of the Group for the quarter ended 31 March 2005 increased by approximately 7% to approximately HK\$7.9 million from the first quarter of 2004.
- The gross profit of the Group for the quarter increased by approximately 5% to approximately HK\$3.6 million from the first quarter of 2004.
- The Group recorded loss attributable to shareholders of approximately HK\$627,000 for the quarter as compared with loss attributable to shareholders of approximately HK\$478,000 for the quarter of 2004.
- The cash and cash equivalents of the Group as at 31 March 2005 amounted to approximately HK\$11.8 million and there was no borrowing.

UNAUDITED CONSOLIDATED RESULTS

The Board of Directors herein announces the unaudited consolidated results of the Company and its subsidiaries (the “Group” or “ACS”) for the three months ended 31 March 2005 together with the comparative unaudited figures for the corresponding period in 2004, as follows:

		Three months ended	
		31 March	
	<i>Note</i>	2005	2004
		HK\$'000	HK\$'000
Turnover	2	7,863	7,323
Cost of sales		<u>(4,269)</u>	<u>(3,909)</u>
		3,594	3,414
Other revenue		357	26
Other net loss		(12)	(19)
Operating expenses			
Staff costs		(2,505)	(1,952)
Depreciation		(198)	(139)
Amortisation of development costs		(355)	(432)
Other operating expenses		<u>(1,476)</u>	<u>(1,341)</u>
Loss from operations		(595)	(443)
Finance costs		<u>(32)</u>	<u>(35)</u>
Loss from ordinary activities before taxation		(627)	(478)
Income tax	3	<u>—</u>	<u>—</u>
Loss from ordinary activities after taxation and attributable to shareholders		<u><u>(627)</u></u>	<u><u>(478)</u></u>
Loss per share			
- Basic	5	<u><u>(0.222) cents</u></u>	<u><u>(0.171) cents</u></u>

Notes:

1 Basis of Preparation of the Financial Statements

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) (which includes all applicable HKFRS, Hong Kong Accounting Standards, Statements of Standard Accounting Practice, and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The HKICPA has issued a number of new or revised HKFRSs which were effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs had no significant impact on the Group’s results of operations and financial position.

The accounting policies adopted in the 2004 annual financial statements have been consistently applied to the financial statements. The measurement basis used in the preparation of the financial statements is historical cost.

The financial statements are unaudited but have been reviewed by the audit committee of the Company.

2 Turnover

Turnover represents the invoiced value of sales to customers less discounts and returns during the period.

	Three months ended 31 March	
	2005	2004
	HK\$’000	HK\$’000
Sales of smart card products, software and hardware	7,860	6,049
Smart card related services	<u>3</u>	<u>1,274</u>
	<u>7,863</u>	<u>7,323</u>

3 Income Tax

No provision for Hong Kong Profits Tax has been made as the Group sustained losses for taxation purposes during the three months ended 31 March 2005.

4 Dividends

The Company had not declared or paid any dividends during the three months ended 31 March 2005 (2004: HK\$Nil).

5 Loss Per Share

The calculation of basic loss per share for the three months ended 31 March 2005 is based on the unaudited loss attributable to shareholders of HK\$627,000 (2004: HK\$478,000) and the weighted average of 281,800,255 (2004: 202,000,000) ordinary shares in issue during the period.

No diluted loss per share is presented for the three months ended 31 March 2005 and 31 March 2004 as there were no dilutive potential ordinary shares during these periods.

6 Reserves

	Share premium HK\$'000	Merger reserves HK\$'000	Revenue reserves HK\$'000	Total HK\$'000
At 1 January 2004	24,351	4,496	(12,859)	15,988
Loss for the period	<u>—</u>	<u>—</u>	<u>(478)</u>	<u>(478)</u>
At 31 March 2004	<u>24,351</u>	<u>4,496</u>	<u>(13,337)</u>	<u>15,510</u>
At 1 January 2005	24,333	4,496	(26,853)	1,976
Loss for the period	<u>—</u>	<u>—</u>	<u>(627)</u>	<u>(627)</u>
At 31 March 2005	<u>24,333</u>	<u>4,496</u>	<u>(27,480)</u>	<u>1,349</u>

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

The Group had a net reserves of HK\$1,349,000 at 31 March 2005 (2004: HK\$15,510,000) analysed as follows:

	Three months ended 31 March	
	2005 HK\$'000	2004 HK\$'000
Company	21,699	23,404
Subsidiaries	(24,846)	(12,390)
Merger reserves	<u>4,496</u>	<u>4,496</u>
Group	<u>1,349</u>	<u>15,510</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported an increase of 7% in turnover in the quarter ended 31 March 2005 (hereafter called the “first quarter”) to HK\$7.9 million compared with the turnover in the quarter ended 31 March 2004. The gross profit in the first quarter increased by 5% to HK\$3.6 million from the figure of HK\$3.4 million in the first quarter of 2004. The gross profit margin dropped slightly to 45.7% in the first quarter compared with the margin of 46.6% in the quarter of 2004. The Group recorded a loss attributable to shareholders of HK\$627,000 in the first quarter compared with the figure of HK\$478,000 in the first quarter of 2004.

Financial Review

The total turnover of the Group increased by 7% to HK\$7.9 million in the first quarter as compared with the first quarter in 2004. The PC linked readers still accounted for a big portion (54% in 2005 and 50% in 2004) of the total turnover of the Group. The reduction in turnover of “Smart card related services” in the first quarter was owing to less income derived from the provision of design services as compared with the first quarter of 2004.

	Three months ended		
	31 March		
	2005	2004	Change
	HK\$'000	HK\$'000	
Smart cards	1,669	541	+209%
PC linked readers	4,266	3,658	+17%
Other products	<u>1,925</u>	<u>1,850</u>	+4%
	7,860	6,049	
Smart card related services	<u>3</u>	<u>1,274</u>	-100%
Total	<u>7,863</u>	<u>7,323</u>	+7%

The biggest sales growth was recorded in the smart cards. Turnover in smart cards tripled in the first quarter compared with the first quarter 2004.

The Group’s products are supplied mainly for use in projects, e.g. for authentication of identity of customers of banks, for secure e-commerce, and for identity cards. Once a relatively big project is put into full implementation, sales will rise sharply. Thus the sales may fluctuate over the quarters depending on the time of the full fetched implementation of the main projects. Thus any big increase in turnover in a quarter or two of a product line may not indicate a trend of increase of the demand for that product line. Nor does a decrease in quarter or two indicates a trend of reduction of demand. Results in a longer period of time should be observed.

Gross profit increased 5% to HK\$3.6 million in the first quarter compared with the first quarter of 2004 while the gross profit margin dropped in the first quarter to 45.7% from 46.6% in the first quarter of 2004.

The operating expenses increased by 17% to HK\$4.5 million in the first quarter compared with the figure of HK\$3.9 million in the first quarter last year. The bulk of the increase was due to the rise of staff costs by 28% to HK\$2.5 million as a result of increased headcount (58 at 31 March 2005 compared with 39 at 31 March 2004).

In the first quarter, turnover in Asia Pacific increased by 120% to HK\$5.1 million from the quarter a year ago with a customer in Indonesia accounting for HK\$1.9 million of the turnover in the first quarter (HK\$0.3 million in the first quarter of 2004). This region accounted for 65% of the total turnover in the first quarter versus 32% in the quarter a year ago. The EMEA (Europe, The Middle East and Africa) region reported a drop in turnover by 52%. It happened that sales deliveries in this region were smaller in magnitude in the first quarter than those in the first quarter of 2004. Again turnover fluctuations by region in a short period of time may not be used to predict a trend.

	Three months ended		Change
	31 March		
	2005	2004	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Americas	566	417	+36%
Asia Pacific	5,122	2,330	+120%
Europe, The Middle East and Africa	<u>2,175</u>	<u>4,576</u>	<u>-52%</u>
Total	<u>7,863</u>	<u>7,323</u>	<u>+7%</u>

Business Review

To address the increasing demand of the Group's products in the Chinese market, ACS opened a China office situated at the Southern Gateway of China, namely, the city of Shenzhen, in order to serve the Chinese customers closer and better. Another objective of this office is to carry out the development work of the Group's products especially development associated with hardware, such as Printed Circuit Board ("PCB") layout, making product prototypes and testing.

The Group is increasing its activities associated with contactless smart cards which function by virtue of the radio frequency ("RF") signals between the card and the reader. The first contactless card reader or called RF reader, named, *ACR120* operated at 13.56 MHz frequency was introduced to the market in the first quarter. On 14 January 2005, the Group together with IBM and SGL (Technology) Limited, hosted a seminar "New Challenge and Solution to Garment Manufacturing — RFID Systems". Methods of using RFID technology to raise the productivity and competitiveness of the garment industry were explored, garnering interests and inquiries from a full-house audience. The functions of the newly launched *ACR120* reader were demonstrated in the seminar.

In the first quarter, the Group launched an evaluation kit, namely *EVK-ACM133*, to show how a person's finger can be used as the key to open the door of a house or the door of a safe. The kit is a box with a door and with the electronics and a finger print sensor. To

demonstrate its function, the touch of a finger (pre-registered as the finger of the authorized person) opens the door. The purpose of the kit is to promote the Group's finger print modules (finger print sensor plus the electronics) for incorporation into door locks, safes and time and attendance devices.

The Group continued to supply smart cards, *ACOS* cards, and integrated smart card / finger print readers, *AET63*, to a solution house in Indonesia for use by a bank in the country. The bank uses a card to store the personal particulars and the finger print image of a customer. To be authenticated, the customer will put a finger on the device *AET63* which captures the finger print image. The captured image and the image stored in the smart card are compared. The customer's identity is authenticated in lieu of his signature if the two finger print images match each other and he can use the bank services such as drawing money, collecting bank statements, etc.

In March 2005, the Group sent four people to participate the CeBIT show with a booth for displaying the Group's products and for meeting customers and potential customers all over the world. CeBIT is a well-known international show for information technology and telecommunication held in Hannover, Germany.

Prospects

In the first quarter, the turnover of PC linked readers increased by 17% from the turnover a year ago. The Group is expecting continual recovery of the demand for PC linked readers as some customers which gave us little orders in 2004 are coming back to us in 2005. Owing to the competition, the gross margin of this product line is eroding. Emerging products such as contactless smart card readers and more sophisticated smart card readers with pin-pad and display command much higher gross profit margins. However, owing to limited financial resources, the Group has to be very selective in choosing what new products to develop and what products to focus its marketing resources on.

Despite the fluctuations of the turnover in different product lines or by geographical region over time, one thing that is constant is the Group's emphasis on building its reputation as a reliable supplier of quality smart card products. After giving no orders to the Group for a period of time, customers usually come back to the Group once they have succeeded in their projects. Also they are often receptive to the Group's promotion of new products. The Group is now carefully managing its available resources to aim for the long-termed viability of the business based on building its reputation as a supplier of quality products which the Group chooses to focus on.

Liquidity and Financial Resources

As at 31 March 2005, the Group's cash and cash equivalents amounted to HK\$11.8 million (31 March 2004: HK\$19.9 million). The current ratio, being the ratio of current assets to current liabilities, was maintained at a strong level of 4.3 (31 March 2004: 7.1). Net asset value as at the end of the review period was HK\$29.5 million (31 March 2004: HK\$43.5 million). As at 31 March 2005, the Group did not have any borrowing.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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.

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.

COMPLIANCE ADVISOR'S INTERESTS

Neither the Company's Compliance Advisor, Anglo Chinese Corporate Finance, Limited (the "Compliance Advisor"), nor its directors, employees or associates had any interests in any class of securities of the Company or any other company in the Group (including options or the right to subscribe for such securities) as at 31 March 2005 pursuant to Rule 6.35 of the GEM Listing Rules.

Pursuant to the agreement dated 30 October 2003 entered into between the Company and the Compliance Advisor, the Compliance Advisor receives a fee for acting as the Company's retained Compliance Advisor for the period from 10 November 2003 to 31 December 2005.

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. Cheong Chung Chin and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the three months ended 31 March 2005.

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

Hong Kong, 12 May 2005

As at the date of this announcement, the Board comprises 4 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Mak Chi Him, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; 1 non-executive director, Mr. Wan Wah Tong, Thomas; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Cheong Chung Chin and Mr. Yu Man Woon.

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.