



## **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)**

### **RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004**

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*\* For identification only*

## **HIGHLIGHTS**

- Turnover of the Group for the year ended 31 December 2004 decreased by approximately 37% to approximately HK\$24.4 million from the year ended 31 December 2003.
- Gross profit of the Group for the year ended 31 December 2004 decreased by approximately 51% to approximately HK\$10.1 million from the year ended 31 December 2003.
- The Group recorded a loss attributable to shareholders of approximately HK\$14.0 million for the year ended 31 December 2004 as compared to a profit attributable to shareholders of approximately HK\$11.8 million for the previous year.
- The cash and cash equivalents as at 31 December 2004 amounted to approximately HK\$13.1 million and there was no borrowing.

## AUDITED CONSOLIDATED RESULTS

The Board of Directors of the Company herein announces the audited consolidated results of the Company and its subsidiaries (the “Group” or “ACS”) for the year ended 31 December 2004 together with the comparative figures for the year ended 31 December 2003 as follows:

	<i>Note</i>	<b>2004</b> <b><i>HK\$'000</i></b>	<b>2003</b> <b><i>HK\$'000</i></b>
<b>Turnover</b>	3	<b>24,369</b>	38,646
<b>Cost of sales</b>		<u><b>(14,243)</b></u>	<u>(17,950)</u>
		<b>10,126</b>	20,696
<b>Other revenue</b>	4(a)	<b>145</b>	504
<b>Other net loss</b>	4(b)	<b>(39)</b>	(68)
<b>Operating expenses</b>			
Staff costs		<b>(8,910)</b>	(5,827)
Depreciation		<b>(711)</b>	(600)
Amortisation of development costs		<b>(2,157)</b>	(1,498)
Impairment loss on development costs		<b>(4,950)</b>	—
Other operating expenses		<u><b>(7,371)</b></u>	<u>(2,965)</u>
<b>(Loss)/profit from operations</b>		<b>(13,867)</b>	10,242
<b>Finance costs</b>		<u><b>(127)</b></u>	<u>(103)</u>
<b>(Loss)/profit from ordinary activities before taxation</b>		<b>(13,994)</b>	10,139
<b>Income tax</b>	5(a)	<u>—</u>	<u>1,614</u>
<b>(Loss)/profit from ordinary activities after taxation and attributable to shareholders</b>		<u><b>(13,994)</b></u>	<u>11,753</u>
<b>(Loss)/earnings per share</b>			
— Basic	7(a)	<u><b>(4.98 cents)</b></u>	<u>5.51 cents</u>
— Diluted	7(b)	<u><b>(4.98 cents)</b></u>	<u>5.50 cents</u>

Notes:

## **1 GROUP REORGANISATION AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

### **(a) The Company**

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.

### **(b) Group Reorganisation and listing on the Growth Enterprise Market**

The Company became the holding company of the Group (which comprised the Company and its subsidiary) on 28 April 2000 through a reorganisation (“the Reorganisation”). Pursuant to the Reorganisation, the Company issued and allotted a total of 17,999,998 shares of US\$0.10 each credited as fully paid to the then shareholders of its subsidiary in consideration for their sale to the Company of all the then issued shares of its subsidiary.

The Company obtained a listing on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 10 November 2003 (“the Listing”).

### **(c) Basis of presentation and preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is historical cost.

The Company and its subsidiary resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the financial statements have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice No. 2.127 “Accounting for group reconstructions” (“SSAP 27”) issued by the Hong Kong Institute of Certified Public Accountants.

### **(d) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the rules governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

## 2 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

### (a) Business segments

During the year, the Group was principally engaged in the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to customers.

*Year ended 31 December 2004*

	<b>Development, sale and distribution of smart card products, software and hardware HK\$'000</b>	<b>Provision of smart card related services HK\$'000</b>	<b>Total HK\$'000</b>
Turnover	22,877	1,492	24,369
Other revenue			
— unallocated	—	—	145
	<u>22,877</u>	<u>1,492</u>	<u>24,514</u>
Segment result and (loss)/profit from operations	(15,359)	1,492	(13,867)
Finance costs	(119)	(8)	(127)
(Loss)/profit from ordinary activities before taxation	(15,478)	1,484	(13,994)
Income tax	—	—	—
(Loss)/profit from ordinary activities after taxation	<u>(15,478)</u>	<u>1,484</u>	<u>(13,994)</u>
Depreciation and amortisation	<u>2,868</u>	<u>—</u>	<u>2,868</u>
Impairment loss on development costs	<u>4,950</u>	<u>—</u>	<u>4,950</u>

Year ended 31 December 2003

	<b>Development, sale and distribution of smart card products, software and hardware</b> <i>HK\$'000</i>	<b>Provision of smart card related services</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Turnover	34,893	3,753	38,646
Other revenue — unallocated	<u>—</u>	<u>—</u>	<u>504</u>
	<u>34,893</u>	<u>3,753</u>	<u>39,150</u>
Segment result and profit from operations	6,489	3,753	10,242
Finance costs	<u>(93)</u>	<u>(10)</u>	<u>(103)</u>
Profit from ordinary activities before taxation	6,396	3,743	10,139
Income tax	<u>1,023</u>	<u>591</u>	<u>1,614</u>
Profit from ordinary activities after taxation	<u>7,419</u>	<u>4,334</u>	<u>11,753</u>
Depreciation and amortisation	<u>2,098</u>	<u>—</u>	<u>2,098</u>

All 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, liabilities and capital expenditure is presented.

**(b) Geographical segments**

The Group’s operations are located in Hong Kong. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of its customers who are principally located in the Americas, Asia, Europe, Africa and the Middle East. Segment information relating to these geographical markets is presented below:

	<b>Turnover</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
The Americas	<b>2,453</b>	3,208
Asia	<b>8,340</b>	22,297
Europe, Africa and the Middle East	<b>13,576</b>	13,141
	<u><b>24,369</b></u>	<u>38,646</u>

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.

### 3 TURNOVER

The principal activities of the Group are the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to customers.

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

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Sale of smart card products, software and hardware	22,877	34,893
Smart card related services	<u>1,492</u>	<u>3,753</u>
	<u><b>24,369</b></u>	<u><b>38,646</b></u>

### 4 OTHER REVENUE AND OTHER NET LOSS

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>(a) Other revenue</b>		
Interest income	95	2
Forfeiture of deposit	—	429
Sundry income	<u>50</u>	<u>73</u>
	<u><b>145</b></u>	<u><b>504</b></u>
<b>(b) Other net loss</b>		
Exchange loss	(7)	(70)
(Loss)/gain from disposal of fixed assets	<u>(32)</u>	<u>2</u>
	<u><b>(39)</b></u>	<u><b>(68)</b></u>

### 5 INCOME TAX

#### (a) Current tax

No provision for Hong Kong Profits Tax has been made by the Company as it sustained a loss for taxation purpose for the year ended 31 December 2004.

No provision for Hong Kong Profits Tax has been made by the subsidiaries as the subsidiaries sustained losses for taxation purposes for the year ended 31 December 2004.

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	—	(109)
Benefit of previously unrecognised net deferred tax assets now recognised	<u>—</u>	<u>1,723</u>
Income tax credit in the consolidated profit and loss account	<u><b>—</b></u>	<u><b>1,614</b></u>

(b) **Reconciliation between tax credit and accounting (loss)/profit at applicable tax rates**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
(Loss)/profit from ordinary activities before taxation	<u>(13,994)</u>	<u>10,139</u>
Notional tax on (loss)/profit before tax, calculated at the rates applicable to profits in the countries concerned	(2,492)	1,774
Tax effect of non-deductible expenses	1,412	79
Tax effect of non-taxable revenue	(35)	(1)
Tax effect of tax losses utilised in the current year	—	(1,865)
Tax effect of tax losses now recognised	—	(1,723)
Tax effect of unused tax losses not recognised	1,115	—
Tax effect of deferred tax liabilities now recognised	<u>—</u>	<u>122</u>
Actual tax credit	<u>—</u>	<u>(1,614)</u>

**6 DIVIDENDS**

The Company had not declared or paid any dividends during the year ended 31 December 2004.

**7 BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE**

(a) **Basic (loss)/earnings per share**

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$13,994,000 (2003: profit of HK\$11,753,000) and the weighted average of 281,126,389 ordinary shares (2003: 213,112,329 ordinary shares) outstanding after the issuance of shares prior to the Listing as if those shares had been outstanding for each year presented.

(b) **Diluted (loss)/earnings per share**

The calculation of diluted (loss)/earnings per share is based on loss for the year of HK\$13,994,000 (2003: profit of HK\$11,753,000) and the weighted average of 281,126,389 ordinary shares (2003: 213,502,329 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares as shown below:

	<b>No. of shares</b> <b>2004</b>	<b>2003</b>
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	<b>281,126,389</b>	213,112,329
Deemed issue of ordinary shares for no consideration	<u>—</u>	<u>390,000</u>
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	<u><b>281,126,389</b></u>	<u>213,502,329</u>



## 8 RESERVES

	Share premium <i>HK\$'000</i>	Merger reserves <i>HK\$'000</i>	Revenue reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	15,863	4,496	(24,612)	(4,253)
Shares issued upon exercise of the share options prior to the Listing	177	—	—	177
Price adjustment upon conversion of preference shares	(794)	—	—	(794)
Shares issued upon exercise of warrants	305	—	—	305
Capitalisation issue	(522)	—	—	(522)
Shares issued upon placing	17,160	—	—	17,160
Share issue expenses	(7,838)	—	—	(7,838)
Profit for the year	<u>—</u>	<u>—</u>	<u>11,753</u>	<u>11,753</u>
At 31 December 2003 and 1 January 2004	24,351	4,496	(12,859)	15,988
Shares issued upon conversion of share options	(18)	—	—	(18)
Loss for the year	<u>—</u>	<u>—</u>	<u>(13,994)</u>	<u>(13,994)</u>
At 31 December 2004	<u>24,333</u>	<u>4,496</u>	<u>(26,853)</u>	<u>1,976</u>

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

Included in the reserves of the Company available for the distribution is share premium arising from the issuance of Series A preference shares in June and October 2000.

Under the Companies Law (revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2004 and 2003, reserves of the Company available for distribution to shareholders amounted to HK\$22,141,000 and HK\$23,775,000 respectively.

The Group had a net reserves of HK\$1,976,000 at 31 December 2004 (2003: HK\$15,988,000) analysed as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Company	22,141	23,775
Subsidiaries	(24,661)	(12,283)
Merger reserves	<u>4,496</u>	<u>4,496</u>
Group	<u>1,976</u>	<u>15,988</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The total turnover of the Group decreased by approximately 37% from approximately HK\$38.6 million in the year ended 31 December 2003 to approximately HK\$24.4 million in the year ended 31 December 2004. The turnover of PC linked readers which accounted for over three-quarters of the total sales in 2003 dropped by approximately 63%. The turnover of the other products increased by approximately 114%, not enough to offset the decrease in turnover of the PC linked readers.

	<b>For the year ended 31 December</b>		
	<b>2004</b>	<b>2003</b>	<i>Percentage</i>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>Change</i>
Turnover of PC linked readers	10.7	29.2	— 63%
Turnover of other products	<u>12.2</u>	<u>5.7</u>	+114%
	22.9	34.9	
Smart card related services	<u>1.5</u>	<u>3.7</u>	— 60%
Total	<u><u>24.4</u></u>	<u><u>38.6</u></u>	— 37%

The major applications of PC linked readers are for secure access to the PC and to the Internet. In the year ended 31 December 2003, the Group sold PC linked readers in the amount of approximately HK\$5.6 million to a telephone operator in Hong Kong for editing the content (telephone numbers and short messages) of the SIM cards in mobile phone. Sales of PC linked readers for such an application or to that scale did not recur in the year ended 31 December 2004. Also in the year 2004, most of the projects for which the Group provided PC linked readers were not so large as those secured in the year 2003. Thus the sales of PC linked readers dropped significantly.

About the turnover breakdown by region, the Group recorded a small increase in turnover of approximately 4% in the region of Europe, Africa and the Middle East while the biggest drop occurred in Asia Pacific (approximately 63%) and then the Americas (approximately 22 %).

The Group's drop in sales in Asia Pacific is not considered as a result of the change of demand in the Asia Pacific region. It just happened that the Group was not able to secure orders of PC linked readers from this region in the year 2004 as it did in the previous year.

	<b>For the year ended 31 December</b>		
	<b>2004</b>	<b>2003</b>	<i>Percentage</i>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>Change</i>
The Americas	2.5	3.2	— 22%
Asia	8.3	22.3	— 63%
Europe, Africa and the Middle East	<u>13.6</u>	<u>13.1</u>	<u>+4%</u>
	<u>24.4</u>	<u>38.6</u>	

Based on the experience in the year 2004, the Group realized that the sales of a product line could fluctuate as a result of the success or failure to secure business from the bigger projects. Thus it is advantageous for the Group to expand its range of products while still focusing on its smart card and reader business. Venturing into new product areas may mean taking risks in the investments as not all new products developed will generate sufficient profits in the future to recoup the investment in them. However, the innovation in products to a certain degree is considered vital to the long-term viability of a technology company.

The operating expenses and finance costs increased from approximately HK\$11.0 million in the year ended 31 December 2003 to approximately HK\$24.2 million in the year ended 31 December 2004. The net loss/profit before taxation changed from a profit figure of approximately HK\$10.1 million in the year 2003 to a loss figure of approximately HK\$14.0 million in the year 2004.

	<b>For the year ended 31 December</b>		
	<b>2004</b>	<b>2003</b>	<i>Percentage</i>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>Change</i>
Turnover	<u>24.4</u>	<u>38.6</u>	— 37%
Gross profit	10.1	20.7	— 51%
Other revenue and other net loss	0.1	0.4	— 75%
Operating expenses and finance costs	<u>(24.2)</u>	<u>(11.0)</u>	+120%
Net (loss)/profit before taxation	<u>(14.0)</u>	<u>10.1</u>	

Of the operating expenses and finance costs of approximately HK\$24.2 million, approximately HK\$8.9 million (2003: approximately HK\$5.8 million) represents the staff costs due to the increase in headcount to approximately 60 at 31 December 2004 from approximately 30 as at 31 December 2003. The Group made a provision of approximately HK\$5.0 million as the impairment loss on development costs. While the Group increased its sales of the other products in the year 2004 by approximately 114% from approximately HK\$5.7 million to approximately HK\$12.2 million as mentioned above, some new products developed or in the process of development were considered at the end of the year 2004 not to be able to turn out enough profits to cover the development costs in the future. Thus, the Group made such a provision to the development costs spent in these products.

## **DIVIDEND**

The board of directors (the “Board”) does not recommend the payment of a final dividend in respect of the year ended 31 December 2004. The declaration, payment and amount of future dividends will be at the discretion of the Board and will depend upon, among other things, the Group’s results of operations, capital requirements, cash flows, general financial condition and such other factors as the Board may deem relevant.

## **BUSINESS REVIEW**

While some products developed are considered not successful, other products that were introduced into the market were proved to generate sales and profit to the Group. The smart cards and the smart card/finger print readers represent the growth areas. The sales of the smart cards increased from approximately HK\$1.0 million in the year 2003 to approximately HK\$3.5 million in 2004. The sales of the smart card/finger print readers increased from approximately HK\$0.5 million in the year ended 31 December 2003 to approximately HK\$3.4 million in the year ended 31 December 2004.

As more products are developed, more engineering resources will be required. While the Group continues to develop the core technologies in Hong Kong, it has been strengthening its engineering resources at places at lower costs, i.e. Manila and Shenzhen. At the same time, some sales and marketing work are assigned to these offices.

The Group secured business from various projects in the world. Those projects that are worth mentioning include:

### *e-Cert programme in Hong Kong*

As the Hong Kong citizens are getting their new smart card based identity cards, the Group continued to provide two models of its PC linked readers for the e-Cert programme which facilitates on-line services for the government, banks, other commercial firms and individuals. In addition to providing the readers, the Group offers answers to any technical questions associated with the use of the readers to all types of users. The Group is pleased to see its PC linked readers being deployed in its domestic market. The Group is supplying more of such readers in the year 2005.

### *Integrated smart card/finger print readers used in UAE*

The Group provided over 1,300 pieces of AET63 (smart card/finger print readers) to a customer in UAE. They are providing IT and security solutions for Healthcard, e-government, e-purse, Passports, e-insurance and Banking to the UAE government. In particular, the UAE government requires some government departments and companies to keep a record of working immigrants. Every immigrant will be given an ID card and they need to register again with the government every three years. The customer launched its program to allow the immigrants to register online inside government departments or in the companies which the immigrants work for. The Group’s product AET63 met exactly their requirements. The Group has continued its supply of such readers in 2005.

### *Smart cards, and integrated smart card/finger print readers used in Indonesia*

One major bank in Indonesia bought from the Group through a solution house in Jakarta ACOS cards and the integrated smart card/finger print readers, AET63. The bank uses the cards to hold the personal particulars of customers and their finger print image and uses the AET63 to authenticate their broad base customers in this developing and populated country. The Group supplied approximately 200,000 units of ACOS cards and over 1,000 units of AET63 to them in the year 2004 and is continuing to supply such devices in the year 2005.

### *Smart card readers used for the Belgium government*

In 2004, the Group continued to supply PC linked readers to a company in Belgium for use in Belgium National Identity Card project. The government provides the readers to the citizens free of charge. The reader is used together with their e-cert embedded in the national ID card for all their government online services. The Group supplied close to 20,000 units of PC linked readers ACR30/38 to them. The demand of such readers has continued in the year 2005.

### *Supply of smart card readers with pin-pad for use in the Serbia identity card project*

In the year 2004, the Group supplied over 4,000 smart card readers with pin-pad, ACR80, to a company in Serbia. The readers were used as desk-top devices in government departments for access to the identity documents of the country's citizens stored in the government's servers. The reader has two slots accepting two smart cards. When both an operator for a government department and a citizen have their smart cards inserted, the access to the identity documents of the citizen will be authorized.

### **Smart card trade shows**

In the year 2004, the Group participated in various smart card and security trade shows in the world including "Card-tech and Secu-tech" in the United States, "CeBIT" in Germany and "Cartes" in France. These shows the Group attended in each of the last several years. In addition, the Group attended in the year 2004 three smart card trade shows in Asia, including "CardTech Korea" in Seoul, "Smart Card China" in Beijing, and "The 6th International Smart Card Technology, Application Conference and Products Exhibitions" in Shenzhen, China. Some potential customers were identified in these trade shows in Asia even though substantial sales to them have yet to be realized.

### **Product launch**

In the year 2004, the Group launched five new products: one smart card operating system, two smart card readers and two integrated smart card/finger print readers. These new products were bought by various customers in the world with examples mentioned below.

The smart card product, ACOS2 was used in the bank project in Indonesia as mentioned above.

One of the readers, *ACR38T*, was bought by a global card company based in France. The other reader, *ACR80*, was used in the national identity card project in Serbia as mentioned above.

The integrated smart card/finger print reader, *AET60*, was used for a bank in Malaysia. The other integrated smart card/finger print reader, *AET63*, was used for the bank in Indonesia as mentioned above. The major function of such a biometric and smart card reader device is to verify the identity of the card holders. The finger print image of the card holder is stored in the smart card. In the verification process, the card holder will place one of his fingers on the finger print scanner. The scanned finger print image will be compared with that image stored in the smart card. If the two images match, the card holder will be authenticated. The major difference between *AET60* and *AET63* is that when *AET60* is used, the finger print verification is done in the PC to which *AET60* is connected, but when *AET63* is used, the finger print verification is done in the *AET63* device itself for higher security.

### **People and offices**

The Group is pleased to see that three persons with successful management experience in the technology fields accepted the Group's invitations and joined the Group in the year 2004. Dr. Lui Ho Chung joined in the first quarter of 2004 as Vice President, Advanced Technology Development. His prime responsibility in the Group is to help the Group with its advancement of its new technologies. Mr. Damais Mak joined the Group in the second quarter of 2004 and currently he is Vice President, Product Development & Marketing of the Group. Mr. John Lee joined in the third quarter of 2004 to head the China office as its General Manager.

The Group continued to deploy its Manila office to develop Software Development Kits ("SDK") to help users understand the Group's products. Usually when a new product is launched, the corresponding SDK will be launched at the same time. In the year 2004, the Group launched the SDK for the following products: *ACR38T*, *AET60*, and *AET63*.

In the fourth quarter of the year 2004, the Group was actively preparing to establish the office in Shenzhen. The main purpose of the Shenzhen office is to do the sales and marketing work particularly for the Chinese market. Also some development work especially electronic hardware work will be done in this office.

The Group decided to delay the opening of the Europe office in order to conserve the limited resources.

### **Management Information System**

The Group improved its management information system ("MIS") by upgrading its server and enhancing its business process software which was either bought outside or developed internally. The Group will continue to improve its MIS and to enhance its business process.

## **PROSPECTS**

The Group has now a more balanced product mix, a stronger team of people and more cost effective organizations. Furthermore the overall smart card industry is still growing. In particular, the contactless smart cards are increasingly being used in transportation and physical access control. The Group introduced its first contactless card reader, *ACR120*, to the market early in the year 2005 and has received positive responses from customers. Biometric devices particularly finger print scanning devices are in more popular use to authenticate users of banking services and government services, and to verify the identity of the holder of a passport or an identity card. The integrated smart card/finger print readers launched by the Group have found applications in banks and in governments and the Group is expecting wider deployment of such devices.

The Group has now spread its products to over eighty countries in the world. The management of the Group believes that customers are satisfied with the Group for various reasons. For example, a large majority of customers choose to buy from the Group once they are successful with their projects after the usual long cycle from qualifying one of the Group's products to the stage of making a purchase in a commercial scale. Messages of satisfaction on the Group's short delivery lead time and the fine quality of products are often heard from customers in trade shows. In fact when a new product from the Group is promoted to its existing customers, the customers tend to be receptive. As at 31 December 2004, orders on hand amounted to approximately HK\$4.5 million.

On account of the Group's reputation built over the years among its customers, the management believes that the Group has an advantage of good image over a majority of emerging and existing suppliers of similar products in different countries in the world.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2004, the Group's cash and cash equivalents amounted to approximately HK\$13.1 million (2003: approximately HK\$21.5 million). The Group continues to operate under a debt-free status with no outstanding net debt as at the year end date.

The current ratio, being the ratio of current assets to current liabilities, was maintained at a strong level of 5.0 (2003: 5.0). Net asset value as at the year end date was approximately HK\$30.2 million (2003: approximately HK\$44.0 million). As at 31 December 2004, the Group did not have any borrowings and, accordingly, the gearing ratio was zero (2003: zero).

## **CAPITAL STRUCTURE**

The Group relies on internal resources and the net proceeds from the Placing as a source of funding. The Group keeps most of its cash in Hong Kong dollars and United States dollars in bank accounts as working capital for the Group.

## **INVESTMENTS**

During the year, the Group did not hold 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 2004.

## **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 2004, the Group did not pledge any of its assets.

## **CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 31 December 2004.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2004, the Group had approximately 60 full time employees. Staff costs amounted to approximately HK\$8.9 million (2003: approximately HK\$5.8 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**

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 year, 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 December 2004 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.

## **CORPORATE GOVERNANCE**

The Company has complied with the Board Practices and Procedures requirements as set out in Rules 5.34 to 5.45 of the GEM Listing Rules (before the amendments effective on 1 January 2005) throughout the year.

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") pursuant to the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules ("required standard of dealings"). 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 year ended 31 December 2004.

The Company has received an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules from each of the independent non-executive director. The Company considers that all of its independent non-executive directors are independent.

## **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 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 2004.

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

Hong Kong, 23 March 2005

*As at the date of this announcement, the Board comprises 4 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon, Mr. Mak Chi Him 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.*