



# 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 2004

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\* For identification only

## **HIGHLIGHTS**

- Turnover and gross profit of the Group for the nine months ended 30 September 2004 decreased by approximately 31% to approximately HK\$17.8 million and approximately 46% to approximately HK\$7.7 million respectively from the nine months ended 30 September 2003.
- The Group recorded loss attributable to shareholders of approximately HK\$5.1 million for the nine months ended 30 September 2004 as compared to profit attributable to shareholders of approximately HK\$6.9 million for the nine months ended 30 September 2003.
- The Group's turnover and gross profit for the quarter ended 30 September 2004 increased by approximately 30% to approximately HK\$5.9 million and approximately 9% to approximately HK\$2.3 million while net loss narrowed down by approximately 15% to approximately HK\$2.1 million in the quarter ended 30 September 2004 compared to the quarter ended 30 June 2004. There is no seasonality pattern observed in the industry.
- Financial position of the Group remained healthy, with cash and cash equivalents of approximately HK\$13.9 million and no borrowings.

## 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 and nine months ended 30 September 2004 together with the comparative unaudited figures for the corresponding periods in 2003, as follows:

		Three months ended 30 September		Nine months ended 30 September	
		2004	2003	2004	2003
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	5,942	11,497	17,836	25,687
Cost of sales		(3,686)	(5,028)	(10,090)	(11,460)
		<u>2,256</u>	<u>6,469</u>	<u>7,746</u>	<u>14,227</u>
Other revenue		41	12	90	40
Other net loss		(10)	(12)	(24)	(2)
<b>Operating expenses</b>					
Staff costs		(2,302)	(1,532)	(6,545)	(4,158)
Depreciation		(190)	(151)	(496)	(437)
Amortisation of development costs		(583)	(399)	(1,554)	(1,055)
Other operating expenses		(1,315)	(551)	(4,238)	(1,675)
		<u>(2,103)</u>	<u>3,836</u>	<u>(5,021)</u>	<u>6,940</u>
<b>(Loss) / profit from operations</b>		<b>(2,103)</b>	<b>3,836</b>	<b>(5,021)</b>	<b>6,940</b>
Finance costs		(32)	(27)	(96)	(75)
		<u>(2,135)</u>	<u>3,809</u>	<u>(5,117)</u>	<u>6,865</u>
<b>(Loss) / profit from ordinary activities before taxation</b>		<b>(2,135)</b>	<b>3,809</b>	<b>(5,117)</b>	<b>6,865</b>
Income tax	3	—	—	—	—
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>(Loss) / profit from ordinary activities after taxation and attributable to shareholders</b>		<b>(2,135)</b>	<b>3,809</b>	<b>(5,117)</b>	<b>6,865</b>
		<u>(2,135)</u>	<u>3,809</u>	<u>(5,117)</u>	<u>6,865</u>
<b>(Loss) / earnings per share</b>					
- Basic	5	<u>(0.758) cents</u>	<u>1.886 cents</u>	<u>(1.822) cents</u>	<u>3.399 cents</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 (which include 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 applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The same accounting policies adopted in the 2003 annual financial statements have been applied to these financial statements.

These 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		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of smart card products, software and hardware	5,905	10,470	16,436	23,692
Smart card related services	37	1,027	1,400	1,995
	<u>5,942</u>	<u>11,497</u>	<u>17,836</u>	<u>25,687</u>

## 3 Income Tax

No provision for Hong Kong Profits Tax has been made as there were no assessable profits during the three months and nine months ended 30 September 2004 (2003: Nil).

## 4 Dividends

The Company had not declared or paid any dividend during the three months and nine months ended 30 September 2004 (2003: Nil).

## 5 (Loss) / Earnings Per Share

The calculation of basic (loss) / earnings per share for the three months and nine months ended 30 September 2004 is based on the respective unaudited loss attributable to shareholders of HK\$2,135,000 and HK\$5,117,000 (2003: unaudited profit attributable to shareholders of HK\$3,809,000 and HK\$6,865,000) and the weighted average of 281,800,255 and 280,900,128 (2003: 202,000,000 and 202,000,000) ordinary shares outstanding as if those shares had been outstanding from 1 January 2003.

No diluted (loss) / earnings per share is presented for the three months and nine months ended 30 September 2004 and 30 September 2003 as there were no dilutive potential ordinary shares during these periods.

## 6 Reserves

	<b>Share premium HK\$'000</b>	<b>Merger reserves HK\$'000</b>	<b>Revenue reserves HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2003	15,863	4,496	(24,612)	(4,253)
Shares issued upon exercise of the share options	8	—	—	8
Profit for the period	—	—	6,865	6,865
At 30 September 2003	<u>15,871</u>	<u>4,496</u>	<u>(17,747)</u>	<u>2,620</u>
At 1 January 2004	24,351	4,496	(12,859)	15,988
Shares issued upon exercise of the share options	(18)	—	—	(18)
Loss for the period	—	—	(5,117)	(5,117)
At 30 September 2004	<u>24,333</u>	<u>4,496</u>	<u>(17,976)</u>	<u>10,853</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\$10,853,000 at 30 September 2004 (2003: HK\$2,620,000) analysed as follows:

	<b>Nine months ended 30 September</b>	
	<b>2004 HK\$'000</b>	<b>2003 HK\$'000</b>
Company	22,685	15,717
Subsidiaries	(16,328)	(17,593)
Merger reserves	<u>4,496</u>	<u>4,496</u>
Group	<u>10,853</u>	<u>2,620</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

In the first six months of the year, the Group enlarged its work force including several persons in management level and in the third quarter, the new people were basically in place and active training and orientation programs were provided to them. In our industry, it often takes more than several months for new employees to make a substantial impact to the sales owing to the required lead time for a smart card based project to move from a pilot run to a full scale implementation. Nevertheless, the new employees working with the existing ones have been seen to make contributions in strengthening the Group particularly in sales and marketing, and engineering power. We are expanding our customer base and have diversified our product portfolio to lessen the reliance on the PC linked readers.

### **Financial Review**

Turnover of the Group for the nine months ended 30 September 2004 was approximately HK\$17.8 million, representing a decrease of approximately 31% over the same period last year. The decline of the sales of the PC linked readers accounted for the overall decrease in sales as this product line represented the bulk of the total sales. Several projects particularly those in Italy and in Malaysia requiring such readers were delayed. The sales of products other than PC linked readers increased but not to the extent of adequately compensating the sales loss of PC linked readers.

Gross profit of the Group for the nine months ended 30 September 2004 amounted to approximately HK\$7.7 million (2003: approximately HK\$14.2 million), and gross profit margin decreased from approximately 55% to approximately 43% mainly due to the increase in the costs of raw materials and the change of product mix. To capture emerging opportunities, the Group strengthened its sales force and product design and development teams. Total headcount of the Group nearly doubled from 29 at 30 September 2003 to 56 at 30 September 2004 leading to an approximately 57% increase in staff cost in the nine months ended 30 September 2004 as compared to the corresponding period in 2003. Loss attributable to shareholders thus amounted to approximately HK\$5.1 million. However, management believes that the strengthened workforce will make significant contribution to the Group's business growth.

PC linked readers remained to be the Group's major income source, generating revenue of approximately HK\$8.3 million for the Group. During the period under review, the Group actively diversified its product scope. Sales of the other products increased by approximately 72%. As a result, the percentage of revenue contribution of PC linked readers gradually decreased from approximately 74% in the corresponding period last year to approximately 47% this year.

	<b>Nine months ended</b>		Percentage change
	<b>30 September</b>		
	<b>2004</b>	2003	
	<b><i>HK\$'million</i></b>	<i>HK\$'million</i>	
Turnover of PC linked readers	<b>8.3</b>	19.0	-56%
Turnover of other products	<b>8.1</b>	4.7	+72%
	<b>16.4</b>	23.7	
Smart card related services	<b>1.4</b>	2.0	-30%
	<b>17.8</b>	25.7	

Looking at the geographical breakdown, the Europe, Africa and the Middle East region was the Group's major market and accounted for approximately 57% (2003: approximately 26%) of the total turnover in the first three quarter of 2004 while Asia and the Americas accounted for approximately 33% (2003: approximately 64%) and approximately 10% (2003: approximately 10%) respectively, as shown below:

	<b>Nine months ended</b>		Nine months ended	
	<b>30 September 2004</b>		30 September 2003	
	<i>HK\$'million</i>	<i>Percentage to total</i>	<i>HK\$'million</i>	<i>Percentage to total</i>
Europe, Africa and the Middle East	<b>10.1</b>	<b>57%</b>	6.6	26%
Asia	<b>5.9</b>	<b>33%</b>	16.4	64%
The Americas	<b>1.8</b>	<b>10%</b>	2.7	10%
	<b>17.8</b>	<b>100%</b>	25.7	100%

The change in mix of distribution around the world does not indicate a trend. The Europe, Africa and the Middle East region leads the other two regions in accepting the types of technology the Group is providing. As the Group provides new products to the market, the Europe, Africa and the Middle East region is normally the first market to take up sales.

## **Business Review**

Having a stronger sales force, the Group has been making more aggressive role in seeking business opportunities with existing customers and cultivating new customers. By 30 September 2004, the Group has spread its products to over seventy countries in the world to hundreds of customers which are IT solution providers, equipment makers, software development houses, and distributors and resellers. We are mining the business potential from the broad customer base. Customers of PC linked readers could be customers of other products in our existing product portfolio and could be customers of our extended lines of products. The Group's sales force has been deployed to build customer profiles, one for each company. Over two hundreds of such profiles were built that include information regarding their business nature, their projects, their requirements on smart card and biometric products, competitors targeting the same customer, etc.

To compensate the decrease in PC linked readers, the Group attempted to boost the sales of other products. 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 template and uses the *AET63* to authenticate their broad base customers in this developing and populated country. By September 30 2004, they have bought over 100,000 pieces of *ACOS* cards and over 600 units of *AET63*.

Another project with good sales potential is from the Middle East. We provided *AET63* to a company in the United Arab Emirates for an e-government project in which citizens can make transactions and get access to government services through the Internet. Finger prints are used for high security authentication of users of the services.

Among the "other products" mentioned above are contact and contactless readers. The contactless card technology is getting popular in the world. We launched to the market the first reader in this category, *ACR120*. To help customers use this new device, we provide to them software development kits ("SDK") which include the needed software and hardware that solution houses need to learn to use the products. We have already spread these kits to over twenty countries in the world.

In addition, during July 2004, we attended the trade show in Seoul, the 4th CardTech Korea. It was a good platform for ACS to market the products to Korean participants as well as those from other countries and to attract potential customers.



## **Prospects**

It has been always the objective of the Group to build and maintain a good image as a reliable supplier and business partner. In fact, the Group is now capitalising its broad base of delighted customers by introducing to them new products launched along the pipeline. While we are endeavouring to recover the sales momentum of the PC linked readers, we began to launch other products. We came across warm responses from our customers on our finger print devices and the contactless readers mentioned above. The Group expects sales growth in the near future of these products.

The legal formality to set up an office in Manila were completed. With a lower cost structure in Manila, the Group is expanding the headcount of this office faster than that in Hong Kong. The Manila office has now sixteen employees including engineers and sales people. They provide technical support, develop software and serving customers in countries such as India, Indonesia and the Philippines itself with emerging demand of the Group's products.

Stepping into the quarter beginning October 2004, the Group is establishing a new office in China. Shenzhen was chosen as the location for the office owing to its proximity to Hong Kong. We have leased an office and have started recruiting staff. The main purposes of the office are to develop and expand business in China and to assist Hong Kong in the developing hardware and testing of the Group's products. While the core technologies are still being developed in Hong Kong by the more experienced engineering team in Hong Kong, the China engineers are expected to complement and strengthen the Hong Kong engineering work force. The Group is pleased to have Mr. John Lee join us recently to head the China office as its General Manager. John had years of management experience including the experience as the Managing Director of DataCard Toppan Moore Limited which is a supplier of plastic card and card printing machines. John is lining up his previous connections in the industry in China and we are now broadening our customer base in China.

## **Liquidity and Financial Resources**

As at 30 September 2004, the Group's cash and cash equivalents amounted to approximately HK\$13.9 million (30 September 2003: approximately HK\$1.2 million). The current ratio, being the ratio of current assets to current liabilities, was maintained at a strong level of 8.1 (30 September 2003: 2.6). Net asset value as at the end of the review period was approximately HK\$39.0 million (30 September 2003: approximately HK\$20.4 million). As at 30 September 2004, 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 subsidiary purchased, sold or redeemed any of the Company's listed shares.

## **SPONSOR'S INTERESTS**

Neither the Company's sponsor, Anglo Chinese Corporate Finance, Limited (the "Sponsor"), 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 30 September 2004 pursuant to Rule 6.35 of the GEM Listing Rules.

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

## **COMPLIANCE WITH THE BOARD PRACTICES AND PROCEDURES**

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 throughout the period.

## **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 nine months ended 30 September 2004.

By order of the Board  
**WONG YIU CHU, Denny**  
*Chairman*

Hong Kong, 12 November 2004

*As at the date of this announcement, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Pang Wang Kee, Lawrence and Mr. Tan Keng Boon; 1 non-executive director, Mr. Wan Wab Tong, Thomas; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Cheong Chung Chin and Mr. Yu Man Woon.*

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