



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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

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** For identification only*

HIGHLIGHTS

- Turnover and gross profit of the Group for the six months ended 30 June 2004 decreased by approximately 16% to approximately HK\$11.9 million and approximately 29% to approximately HK\$5.5 million respectively from the six months ended 30 June 2003.
- The Group recorded loss attributable to shareholders of approximately HK\$2.9 million for the six months ended 30 June 2004 as compared to profit attributable to shareholders of approximately HK\$3.1 million for the six months ended 30 June 2003.
- Financial position of the Group remained strong, with cash and cash equivalents of approximately HK\$17.6 million and no borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group” or “ACS”) for the six months ended 30 June 2004 (the “Review Period”).

The first half of the financial year 2004 was a time to plant seeds for ACS. The Group worked on strengthening its workforce and recruited high caliber professionals, and at the same time actively participated in international trade shows to explore new business opportunities for its latest products. The effective marketing efforts had led the Group to discuss a number of new projects with potential customers and some of which were close to conclusion and were expected to generate revenue for the Group in the near future.

Financial Review

Turnover of the Group for the six months ended 30 June 2004 was approximately HK\$11.9 million, representing a decrease of approximately 16% over the same period last year. During the period under review, a number of projects had been delayed. Of all the projects on hand, a few were wrapped up while the details of a few others were still being ironed out. Since not all the returns from the projects were realized, the Group had recorded a decline in turnover in the period.

Gross profit of the Group amounted to approximately HK\$5.5 million (2003: approximately HK\$7.8 million), and gross profit margin decreased from approximately 55% to approximately 46% mainly due to the increase in the costs of raw materials. To capture emerging opportunities, the Group had beefed up its sales and marketing, and product design and development teams. Total headcount of the Group increased by approximately two-third from 25 at 30 June 2003 to 42 at 30 June 2004 leading to 62% increase in staff cost in the first half of 2004 as compared to the corresponding period in 2003. Loss attributable to shareholders thus amounted to approximately HK\$2.9 million. However, management believes the strengthened workforce will make significant contribution to the Group’s business growth by boosting its core competitiveness.

PC linked readers remained as the Group's major income source, generating revenue of approximately HK\$5.8 million for the Group. During the period under review, the Group actively diversified its product scope and as a result, the percentage of revenue contribution of PC linked readers gradually decreased from 68% in the corresponding period last year to 49% this year.

Looking at the geographical breakdown, Europe, Africa and the Middle East was the Group's major market and accounted for approximately 66% (2003: approximately 32%) of the total turnover in the first half of 2004 while Asia and the Americas accounted for approximately 26% (2003: approximately 52%) and approximately 8% (2003: approximately 16%) respectively.

Dividend

To retain more resources for business development, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004.

Business Review

During the period under review, the Group proactively carried out more marketing activities. The Group participated in certain trade shows including CeBIT 2004 in Germany, the International ICT Expo in Hong Kong, and other shows in the US and China. These trade shows provided the avenue for the Group to meet with existing and potential customers, and to launch its latest products. The Group's *ACR38T*, an upgraded version of its PC linked readers, was launched and the first shipment of this new product to customers was made during the period under review.

ACS' PC linked readers were qualified for various government projects around the world even though it might take longer for a big project to reach its full implementation stage. The Group continued to supply PC linked readers to government or public entities in the US, Serbia and Montenegro, Taiwan and Hong Kong. In addition to PC linked readers, the Group started the development of contactless smart card reader *ACR120* and smart card/finger print reader *BioTrustKey* and diversified the Group's product portfolio during the period under review.

The additional talents recruited during the period under review significantly strengthened the Group, with its sales and marketing team having the strongest personnel boost. The Group also allocated resources in building a more cost effective sales and marketing team in Hong Kong, allowing the Group to respond promptly to customers' requirement. During the period under review, the Group started to assign sales professionals to focus on specific geographical regions, identifying key customers in each region. The new service model added flexibility to the Group operations and allowed it to offer more comprehensive solutions to customers and capture more businesses.

Prospects

Leveraging its global exposure, ACS will adopt a more proactive approach in identifying key customers. The national identity card projects in Serbia and Montenegro and the project with

eMedical ID are in progress, and the launch of the smart card based electronic identity card in Hong Kong is generating a steady demand for the Group's PC linked readers. With more governments adopting smart card based security solutions for information management and authentication of identity, ACS will be able to accumulate more experience in the provision of those solutions and in turn gain strength and flexibility in customizing solutions for potential customers including governments and public entities around the world.

Apart from PC linked readers, the Group is expanding the range of its products. It has successfully integrated its finger print authentication technology with smart card reader technology. Its latest finger print reader is receiving positive response from the market. The Group expects this new product will account for a bigger share of the Group's total turnover.

The Group sees opportunities in emerging countries like India, Indonesia and the Philippines. Therefore, in addition to the sales and marketing team in Hong Kong, it is completing the necessary legal procedures to set up an office in Manila. This move allows the Group to remain competitive in terms of price and services, and has contributed to its securing of more businesses these emerging countries.

A few existing projects will be completed in the second half of the financial year 2004 and directly contribute to the Group's top line. The contribution from new customers will be reflected in the second half of the financial year.

Liquidity and Financial Resources

As at 30 June 2004, the Group's cash and cash equivalents amounted to approximately HK\$17.6 million (30 June 2003: approximately HK\$0.9 million). The Group continued to operate under a debt-free status with no outstanding net debt as at 30 June 2004.

The current ratio, being the ratio of current assets to current liabilities, was maintained at a strong level of 6.6 (30 June 2003: 2.3). Net asset value as at the end of the review period was approximately HK\$41.2 million (30 June 2003: approximately HK\$16.5 million). As at 30 June 2004, the Group did not have any borrowing and, accordingly, the gearing ratio was zero (30 June 2003: zero).

Capital Structure

The Group relies on internal resources and the net proceeds from the placing referred to in its prospectus dated 31 October 2003 as its sources of funding. Most of its cash for use as working capital is kept in bank accounts in Hong Kong and United States dollars.

Investments

During the first six months, the Group did not hold any significant investments.

Acquisitions and disposals of subsidiaries and affiliated companies

The Group did not make any material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2004.

Exposure to exchange rate fluctuations

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong or United States dollars and the exchange rates of the currencies have been stable during the review period. Hence, there was no significant exposure to foreign exchange rate fluctuations. No hedging or other alternatives were implemented during the year.

Pledge of assets

As at 30 June 2004, the Group did not pledge any of its assets.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2004.

Employees and remuneration policies

As at 30 June 2004, the Group had 42 full-time employees compared to headcount of 25 as at 30 June 2003. Staff costs charged to the consolidated profit and loss account amounted to approximately HK\$4.2 million (2003: approximately HK\$2.6 million). Remuneration policies and packages for the Group's employees are based on individual qualification, performance, experience and prevalent practice in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

The Group also adopts share option schemes under which employees with contributions to the Group may be granted share options.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 June 2004

	<i>Note</i>	Three months ended		Six months ended	
		30 June		30 June	
		2004	2003	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	4,571	9,639	11,894	14,190
Cost of sales		(2,495)	(4,383)	(6,404)	(6,432)
		2,076	5,256	5,490	7,758
Other revenue		23	20	49	28
Other net income / (loss)		5	2	(14)	10
Operating expenses					
Staff costs		(2,291)	(1,401)	(4,243)	(2,626)
Depreciation		(167)	(145)	(306)	(286)
Amortisation of development costs		(539)	(339)	(971)	(656)
Other operating expenses		(1,582)	(414)	(2,923)	(1,124)
(Loss) / profit from operations		(2,475)	2,979	(2,918)	3,104
Finance costs		(29)	(26)	(64)	(48)
(Loss) / profit from ordinary activities before taxation		(2,504)	2,953	(2,982)	3,056
Income tax	3	—	—	—	—
(Loss) / profit from ordinary activities after taxation and attributable to shareholders		(2,504)	2,953	(2,982)	3,056
(Loss) / earnings per share					
— Basic	5	(0.891) cents	1.462 cents	(1.063) cents	1.513 cents
— Diluted	5	N/A	N/A	N/A	N/A

Notes:

1 Basis of Preparation of the Condensed Interim Financial Statements

The unaudited condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The condensed interim financial statements should be read in conjunction with the 2003 annual financial statements.

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

The condensed interim 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		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of smart card products, software and hardware	4,482	9,046	10,531	13,222
Smart card related services	89	593	1,363	968
	<u>4,571</u>	<u>9,639</u>	<u>11,894</u>	<u>14,190</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 six months ended 30 June 2004.

4 Dividends

The Company had not declared or paid any dividend during the three months and six months ended 30 June 2004 (2003: HK\$Nil).

5 (Loss) / Earnings Per Share

The calculation of basic (loss) / earnings per share for the three months and six months ended 30 June 2004 is based on the respective unaudited loss attributable to shareholders of HK\$2,504,000 and HK\$2,982,000 (2003: unaudited profit attributable to shareholders of HK\$2,953,000 and HK\$3,056,000) and the weighted average of 280,890,236 and 280,445,118 (2003: 202,000,000 and 202,000,000) ordinary shares outstanding after the issuance of shares prior to the Listing as if those shares had been outstanding from 1 January 2003.

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

6 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 period, 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.

Six months ended 30 June 2004

	Development, sale and distribution of smart card products, software and hardware HK\$'000	Provision of smart card related services HK\$'000	Total HK\$'000
Turnover	10,531	1,363	11,894
Other revenue			49
- unallocated			<u>11,943</u>
Segment results and loss from operations			(2,918)
Finance costs			<u>(64)</u>
Loss from ordinary activities before taxation			(2,982)
Taxation			<u>—</u>
Loss from ordinary activities after taxation			<u>(2,982)</u>
Depreciation and amortisation	<u>1,277</u>	<u>—</u>	<u>1,277</u>

Six months ended 30 June 2003

	Development, sale and distribution of smart card products, software and hardware HK\$'000	Provision of smart card related services HK\$'000	Total HK\$'000
Turnover	13,222	968	14,190
Other revenue			
- unallocated			<u>28</u>
			<u>14,218</u>
Segment results and profit from operations			3,104
Finance costs			<u>(48)</u>
Profit from ordinary activities before taxation			3,056
Taxation			<u>—</u>
Profit from ordinary activities after taxation			<u>3,056</u>
Depreciation and amortisation	<u>942</u>	<u>—</u>	<u>942</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:

	Turnover Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
The Americas	934	2,230
Asia	3,153	7,446
Europe, Africa and the Middle East	<u>7,807</u>	<u>4,514</u>
	<u>11,894</u>	<u>14,190</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.

7 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)
Profit for the period	<u>—</u>	<u>—</u>	<u>3,056</u>	<u>3,056</u>
At 30 June 2003	<u>15,863</u>	<u>4,496</u>	<u>(21,556)</u>	<u>(1,197)</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	<u>—</u>	<u>—</u>	<u>(2,982)</u>	<u>(2,982)</u>
At 30 June 2004	<u>24,333</u>	<u>4,496</u>	<u>(15,841)</u>	<u>12,988</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\$12,988,000 at 30 June 2004 (2003: deficit of HK\$1,197,000) analysed as follows:

	Six months ended 30 June	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Company	23,037	15,717
Subsidiaries	(14,545)	(21,410)
Merger reserves	<u>4,496</u>	<u>4,496</u>
Group	<u>12,988</u>	<u>(1,197)</u>

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 June 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. The audit committee comprises two Independent Non-executive Directors namely, Dr. Yip Chak Lam, Peter (being the chairman of the audit committee) and Mr. Cheong Chung Chin and one Executive Director, Mr. Wong Yiu Chu, Denny 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 six months ended 30 June 2004.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 2 August 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 Wah Tong, Thomas; and 2 Independent Non-executive Directors, Dr. Yip Chak Lam, Peter and Mr. Cheong Chung Chin.

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