



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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

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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 year ended 31 December 2005 increased by 59% to HK\$38.9 million from the year ended 31 December 2004.
- The gross profit of the Group for the year ended 31 December 2005 increased to HK\$17.0 million from HK\$10.1 million in 2004 and the gross profit margin increased to 44% from 42%.
- The Group recorded profit for the year of HK\$0.2 million in 2005, a notable and significant improvement over the previous year when the Group experienced loss for the year of HK\$14.0 million in 2004.
- The cash and cash equivalents of the Group as at 31 December 2005 amounted to HK\$6.4 million (HK\$13.1 million as at 31 December 2004) and there was no borrowing.

CONSOLIDATED RESULTS

The Board of Directors of the Company herein announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 together with the comparative figures for the year ended 31 December 2004 as follows:

CONSOLIDATED INCOME STATEMENT For the year ended 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Revenue	4	38,853	24,369
Cost of sales		<u>(21,808)</u>	<u>(14,243)</u>
Gross profit		17,045	10,126
Other operating income	4	1,163	145
Other net loss	5	(153)	(39)
Staff costs		(10,852)	(8,910)
Depreciation		(869)	(711)
Amortisation of development costs		(1,189)	(2,157)
Impairment loss on development costs		(409)	(4,950)
Other operating expenses		<u>(6,729)</u>	<u>(7,371)</u>
Operating loss		(1,993)	(13,867)
Finance costs		<u>(149)</u>	<u>(127)</u>
Loss before income tax		(2,142)	(13,994)
Income tax credit	7	<u>2,338</u>	<u>—</u>
Profit/(Loss) for the year		<u><u>196</u></u>	<u><u>(13,994)</u></u>
Earnings/(Loss) per share	8		
— Basic		<u><u>HK0.07cent</u></u>	<u><u>HK(4.98cent)</u></u>
— Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED BALANCE SHEET
As at 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment		2,151	1,625
Development costs		8,148	6,220
Deferred tax assets	9	3,952	1,614
		<u>14,251</u>	<u>9,459</u>
Current assets			
Inventories		9,047	7,341
Trade and other receivables, deposits paid and prepayments	10	6,103	5,398
Pledged bank deposits		691	—
Cash and cash equivalents		6,390	13,103
		<u>22,231</u>	<u>25,842</u>
Current liabilities			
Trade and other payables, deposits received and accruals	11	6,130	5,145
Net current assets		<u>16,101</u>	<u>20,697</u>
Total assets less current liabilities		<u>30,352</u>	<u>30,156</u>
EQUITY			
Share capital		28,180	28,180
Reserves		2,172	1,976
Total equity		<u>30,352</u>	<u>30,156</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2005

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2004	28,000	24,351	4,496	(12,859)	43,988
Loss for the year	—	—	—	(13,994)	(13,994)
Total recognised income and expense for the year	—	—	—	(13,994)	(13,994)
Shares issued upon conversion of share options	180	(18)	—	—	162
At 31 December 2004 and at 1 January 2005	28,180	24,333	4,496	(26,853)	30,156
Profit for the year	—	—	—	196	196
Total recognised income and expense for the year	—	—	—	196	196
At 31 December 2005	28,180	24,333	4,496	(26,657)	30,352

NOTES

1. GENERAL INFORMATION

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. The Company's shares are listed on GEM.

2. NATURE OF OPERATIONS

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

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 23 March 2006.

3. ADOPTION OF NEW OR REVISED HKFRS

From 1 January 2005, the Group has adopted the new or revised standards and interpretations of HKFRS which are effective for accounting periods beginning on or after 1 January 2005 for the preparation of these financial statements. The following HKFRS which are relevant to the Group's operations:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment.

3.1 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, equity-settled share-based payment transactions were treated as changes in the entity's equity only upon execution. HKFRS 2 requires all goods and services received in the course of share-based payment transactions to be measured at fair value and recognised in the financial statements with a corresponding credit to equity, unless the transaction is settled in cash. When applied to employee share-based compensation, this leads to the recognition of share options which have been granted and are expected to vest as an expense in the income statement.

According to the transitional provisions of HKFRS 2, all equity-settled share-based payments granted after 7 November 2002 that had not vested at 1 January 2005 are required to be recognised retrospectively in the Group's financial statements.

The adoption of this HKFRS 2 had no significant impact on the Group's financial results for the years ended 31 December 2004 and 2005.

3.2 Other standards adopted

The adoption of the other HKFRS did not result in any significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements and the 2004 financial statements.

3.3 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 & HKFRS 4 (Amendment)	Financial Instrument's : Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts ²
HKFRS 6	Exploration for and Evaluation of Mineral Resources ²
HKFRS 7	Financial Instruments : Disclosures ¹
HK(IFRIC) - Int 4	Determining whether an Arrangement contains A Lease ²
HK(IFRIC) - Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
HK(IFRIC) - Int 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment ³
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

1 Effective for annual periods beginning on or after 1 January 2007

2 Effective for annual periods beginning on or after 1 January 2006

3 Effective for annual periods beginning on or after 1 December 2005

4 Effective for annual periods beginning on or after 1 March 2006

4. REVENUE AND OTHER OPERATING INCOME

Revenue represents turnover which comprises total invoiced value of goods supplied and services rendered. Revenue and other operating income recognised during the year are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Revenue/Turnover		
Sale of smart card products, software and hardware	38,125	22,877
Smart card related services	728	1,492
	<u>38,853</u>	<u>24,369</u>
Other operating income		
Interest income	231	95
Forfeiture of deposit	211	—
Government grants received	707	—
Sundry income	14	50
	<u>1,163</u>	<u>145</u>

5. OTHER NET LOSS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net foreign exchange loss	120	7
Loss on disposal of plant and equipment	33	32
	<u>153</u>	<u>39</u>

6. SEGMENT INFORMATION

Primary reporting format - 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 2005

	Development, sale and distribution of smart card products, software and hardware <i>HK\$'000</i>	Provision of smart card related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	38,125	728	38,853
Segment result and operating (loss)/profit	(2,721)	728	(1,993)
Finance costs			(149)
Segment result and loss before income tax			(2,142)
Income tax credit			2,338
Profit for the year			196
Capital expenditure	4,977	—	4,977
Depreciation and amortisation	2,058	—	2,058
Impairment loss on development costs	409	—	409
Non-cash expenses other than depreciation and amortisation	488	—	488

Year ended 31 December 2004

	Development, sale and distribution of smart card products, software and hardware <i>HK\$'000</i>	Provision of smart card related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>22,877</u>	<u>1,492</u>	<u>24,369</u>
Segment result and operating (loss)/profit	(15,359)	1,492	(13,867)
Finance costs			<u>(127)</u>
Segment result and loss before income tax			(13,994)
Income tax credit			<u>—</u>
Loss for the year			<u>(13,994)</u>
Capital expenditure	5,765	—	5,765
Depreciation and amortisation	2,868	—	2,868
Impairment loss on development costs	4,950	—	4,950
Non-cash expenses other than depreciation and amortisation	<u>1,600</u>	<u>—</u>	<u>1,600</u>

Over 90% of the 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.

Secondary reporting format - 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, Middle East and Africa.

Sales revenue by geographical markets:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The Americas	4,433	2,453
Asia Pacific	15,424	8,340
Europe, Middle East and Africa	<u>18,996</u>	<u>13,576</u>
	<u>38,853</u>	<u>24,369</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. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made in the financial statements as a subsidiary of the Group has losses brought forward from previous years to offset against its current year's assessable profits and the Company and other subsidiaries sustained losses for taxation purposes for the year ended 31 December 2005. No provision for Hong Kong profits tax has been made by the Group as it sustained a loss for taxation purpose for the year ended 31 December 2004.

No provision for overseas taxation has been made as no assessable profits arose from the operations in the PRC and Philippines during the year ended 31 December 2005 (2004: Nil).

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax		
Current year	<u>2,338</u>	<u>—</u>
Income tax credit	<u><u>2,338</u></u>	<u><u>—</u></u>

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share (2004: loss per share) is based on the profit for the year of approximately HK\$196,000 (2004: loss of approximately HK\$13,994,000) and the weighted average of 281,800,255 (2004: 281,126,389) ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31 December 2005 was not presented because the exercise prices of the outstanding options exceeded the average market price of ordinary shares during the year. Diluted loss per share for the year ended 31 December 2004 was not presented because the impact of the exercise of the share options were anti-dilutive.

9. DEFERRED TAXATION

Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004 and 31 December 2004	<u>(109)</u>	<u>1,723</u>	<u>1,614</u>
At 1 January 2005	(109)	1,723	1,614
(Charged)/Credited to the income statement	<u>(102)</u>	<u>2,440</u>	<u>2,338</u>
At 31 December 2005	<u>(211)</u>	<u>4,163</u>	<u>3,952</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax assets	4,163	1,723
Deferred tax liabilities	<u>(211)</u>	<u>(109)</u>
Deferred tax assets recognised in the consolidated balance sheet	<u>3,952</u>	<u>1,614</u>

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2005, the Group recognised deferred tax assets arising from the future benefit of tax losses in the amount of HK\$4,163,000.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised.

Deferred tax assets and liabilities unrecognised

Unrecognised deferred tax assets, representing the future benefit of tax losses to the extent that the directors do not consider it probable that sufficient taxable profits will be available in the foreseeable future, amounted to HK\$505,000 (2004: HK\$2,449,000). The tax losses do not expire under current tax legislation. There were no unrecognised deferred tax liabilities.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade receivables	6,239	5,607
Less: Impairment of receivables	<u>(1,197)</u>	<u>(1,315)</u>
Trade receivables — net	5,042	4,292
Other receivables	120	43
Deposits paid	467	631
Prepayments	<u>474</u>	<u>432</u>
	<u><u>6,103</u></u>	<u><u>5,398</u></u>

As at 31 December 2005, the amount of other receivables, deposits paid and prepayments expected to be recovered after more than one year was HK\$383,000 (2004: HK\$527,000).

Customers are generally granted credit terms of 30 to 60 days. At 31 December 2005, the ageing analysis of the net trade receivables was as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0-30 days	4,577	2,644
31-60 days	143	371
61-90 days	37	72
Over 90 days	<u>285</u>	<u>1,205</u>
	<u><u>5,042</u></u>	<u><u>4,292</u></u>

The Group has recognised a loss of HK\$46,000 (2004: HK\$1,315,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in other operating expenses in the income statement.

11. TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade payables	3,449	3,079
Deposits received	1,413	896
Accruals	1,268	1,170
	<u>6,130</u>	<u>5,145</u>

All of the deposits received and accruals are expected to be settled within one year of the balance sheet date.

At 31 December 2005, the ageing analysis of the trade payables was as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0-30 days	2,856	2,741
31-60 days	393	44
61-90 days	114	—
Over 90 days	86	294
	<u>3,449</u>	<u>3,079</u>

SCOPE OF WORK OF GRANT THORNTON

The figures in respect of the Annual Results Announcement (“Announcement”) of the Company for the year ended 31 December 2005 have been agreed by the Company’s auditors, Grant Thornton, to the amounts set out in the Company’s consolidated financial statements for the year. The work performed by Grant Thornton in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Grant Thornton on the Announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read along side with the Group's audited financial statements for the year ended 31 December 2005.

FINANCIAL REVIEW

The total turnover of the Group increased by 59% to HK\$38.9 million in the year ended 31 December 2005 from HK\$24.4 million in the previous year. The biggest growth was recorded in PC linked readers (+136%) in 2005 when several big customers in Europe and in Asia increased their purchase orders with the Group. Also the customer base was expanded. The smart card business saw a growth of 54% with a big portion of the growth coming from orders from a big bank in Indonesia which bought our smart cards and finger print sensor integrated with smart card readers, to authenticate bank customers in lieu of their signature. The sales of "Other products" dropped 15% when the Group focused in 2005 on developing the portable PIN-pad readers with display, called *ACR88* which will be introduced in second quarter of 2006.

	For the year ended		Change
	31 December		
	2005	2004	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Smart cards	5.4	3.5	+54%
PC linked readers	25.3	10.7	+136%
Other products	7.4	8.7	-15%
	<u>38.1</u>	<u>22.9</u>	
Smart card related services	0.8	1.5	-47%
	<u>38.9</u>	<u>24.4</u>	+59%

The turnover increased in all the three regions of EMEA (Europe, Middle East and Africa), Asia Pacific, and the Americas with the increase rate of 40%, 86%, and 80% respectively. The new office in China has identified a big number of potential customers but significant sales are to be expected only in 2006 and afterwards.

	For the year ended		Change
	31 December		
	2005	2004	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Europe, Middle East and Africa	19.0	13.6	+40%
Asia Pacific	15.4	8.3	+86%
The Americas	4.5	2.5	+80%
	<u>38.9</u>	<u>24.4</u>	

The gross profit margin of the Group increased to 44% in the year ending 31 December 2005 from 42% in the previous year. This moderate increase does not indicate a trend but it is the Group's target to keep its gross profit margin to be above 40%.

	For the year ended		Change
	31 December		
	2005	2004	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Revenue	<u>38.9</u>	<u>24.4</u>	+59%
Gross profit	17.0	10.1	+68%
Other operating income and other net loss	1.0	0.1	+900%
Operating expenses and finance costs	<u>(20.1)</u>	<u>(24.2)</u>	-17%
Loss before income tax	(2.1)	(14.0)	
Income tax credit	<u>2.3</u>	<u>—</u>	
Profit/(Loss) for the year	<u>0.2</u>	<u>(14.0)</u>	

The total operating expenses and finance costs were reduced to HK\$20.1 million in 2005 from HK\$24.2 million in 2004. Of the HK\$24.2 million such costs incurred in 2004, HK\$5.0 million was for impairment loss on development costs. As the Group acquired more experience in determining what products to develop, such impairment cost was reduced in Year 2005 to HK\$0.4 million.

	For the year ended	
	31 December	
	2005	2004
	<i>HK\$'million</i>	<i>HK\$'million</i>
Operating expenses and finance costs breakdown		
Staff costs	10.8	8.9
Depreciation and amortisation	2.0	2.8
Impairment loss on development costs	0.4	5.0
Other operating expenses and finance costs	<u>6.9</u>	<u>7.5</u>
Operating expenses and finance costs	<u>20.1</u>	<u>24.2</u>

DIVIDEND

The board of directors (the "Board") does not recommend the payment of a final dividend in respect of the year ended 31 December 2005. 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 deem relevant.

BUSINESS REVIEW

The Group continued to exert its best efforts to use its available financial resources to keep itself abreast of the technology of smart card readers and closely related products and to build its reputation as a supplier of reliable products to the world (over eighty countries). In Year 2005, the Group made substantial achievements in different areas.

New Product development

After getting listed in November 2003, the Group applied its secured funds to develop a number of products. The typical time to develop a brand new product (from defining the product to commercialization of the product) ranges from half a year to two years. Quite a few products which the Group started to work on after the listing have not been launched yet. These products are expected to bring the Group respectable sales in 2006 and beyond.

At the end of 2005, the Group has three important products which are ready to be launched in the first quarter and second quarter of 2006. They are:

- (1) *ACR88*: the portable PIN-pad smart card reader with display and with optional finger print scanner and optional contactless reader. There is a wide range of applications of this device, notably for national health card schemes and ID card schemes. The Hong Kong Immigration is the first customer of this product and they use the device to read the Hong Kong Identity Cards.
- (2) *ACR100*: a flash drive integrated with a PC linked reader. The device has the full functions of the popular flash drive and additionally provides security function and payment function because of the SIM-sized smart card inserted in it. Before the product was launched, a mobile phone operator in Asia ordered ten thousand units for their pilot project to enable subscribers to use their special VoIP services.
- (3) *ACOS5* card: a PKI (Public Key Infrastructure) smart card. Such cards are used in high security applications, e.g. for access to the Internet for home banking, on-line transactions, e-government services, etc.

In January 2005, the Group started the development of a device using a 32-bit microprocessor which has PIN-pads and display and which accepts contactless card and finger prints. It uses Linux as its operating system. This is the first 32-bit device developed by the Group in its history. This product can be considered as a smart card reader product but is a more powerful and technically more sophisticated device. This product is not yet launched.

Smart card and security projects in the world using the Group's products

While being busily engaged in new product development, the Group continued in 2005 to secure business with the existing products, especially the PC linked readers.

The Group's products are used in various smart card and security projects in the world. A lot of the projects are government driven projects. This demonstrates the Group's capability to meet the usually demanding requirements of governments in suppliers' product quality, reliability, and services. The projects that generated business to the Group in 2005 included:

ACR38 Smart card readers used for the Belgian government

The Group continued to supply its PC linked readers *ACR38* to ZETES SA, the prime contractor for the Belgian National Identity Cards using smart cards. The government implements revolutionary applications benefited from the smart card technology, e.g. safe chatting on-line, reaching secured sites and obtaining secured files on line, taxation information on web, etc. By 31 December 2004, the Group had supplied close to 20,000 readers for the project. In 2005, the Group supplied more than 100,000 units of readers. The momentum has been carried to year 2006.

Taxation project in Egypt using PIN-pad readers ACR80

The Egyptian Government is issuing new smart taxation cards for its taxpayers for higher security and efficiency in the administration of tax collections. The government needs a device to input, check and back-up transaction information to improve the security around their taxpayer records and financial data without compromising its staff's ability to access the data conveniently and efficiently. The LCD and PIN-pad on *ACR80* are used for entering the PIN numbers of both the tax officers and the taxpayers thus ascertaining the authentication by both parties. The function keys are adapted for reading different portions of the information on the card. The project is one of the most complex applications in the field of e-government. The pilot stage of the project began in November 2005 and the project is expected to be implemented in the second quarter of Year 2006. The first implementation will involve 300,000 taxpayers, whereas the overall scope of the project is targeting 6 million taxpayers all over Egypt. The Group supplied hundreds of *ACR80* for the pilot run and expects to get bigger orders once the project is in its full implementation.

Hong Kong Government access control project using contactless readers ACR120

One department of the Hong Kong Government is adopting ACS' contactless reader *ACR120* for its physical and logical access control applications. The government department has installed *ACR120* to their computer systems and building entries. The staff members need to authenticate themselves before they can enter the building or before they access the confidential information. To gain access to physical premises, they simply flash their contactless ID badges on the *ACR120* contactless readers at the door. Similarly, staff members tap their cards on the reader attached to the PC for every logon to access the sensitive and confidential information therein.

VoIP application for a GSM operator using the Group's flash drive inbuilt with a reader, ACR100

A GSM operator in a Southeast Asian country ordered, for their pilot run, 10,000 units of *ACR100* to be provided to their subscribers for their VoIP applications. The VoIP application program is stored in a write-protected area of the flash drive and is accessible only by the insertion of the SIM-sized smart card. The public zone is a free area for reading and writing and is for storage just as an ordinary flash drive is. Mobile phone operators, especially those offering 3G services, are concerned that their business will be eroded because of the proliferations of VoIP use and WIFI hot spots. In the future, people will be able to use their portable PC or palm PC for VoIP applications not only at home but also in public areas with WIFI access. The operators want to find ways to encourage the subscribers to use their paid but better VoIP services. *ACR100* represents one of the tools for mobile phone operators or WIFI service providers to establish payment systems by which subscribers can pay fees conveniently.

Customer loyalty program in Japan using balance readers ABR10RS

An international department store headquartered in Tokyo uses ACS' balance readers, *ABR10RS*, to read the smart cards for its loyalty program to attract more visiting customers as well as to stimulate their purchasing desire. The balance reader reads the transaction records, the balance, and the bonus points stored in the loyalty smart card and displays the information. In 2005, 10,000 units of balance readers were supplied to the department store which distributed them to their valued customers. More such balance readers will be supplied in 2006.

Malaysian bank biometric authentication system using finger print scanner and reader BioTRUSTKey AET63

A Malaysian Bank has implemented a PC-based Fingerprint Biometric Authorization System using ACS' *AET63*, a smart card and fingerprint reader. The project was rolled out across the country and involved about 800 units of *BioTRUSTKey* biometric readers to start with. An *AET63 BioTRUSTKey* reader is connected to every teller machine. For large amount transactions (defined by the Bank) such as deposit or withdrawal exceeding a certain amount, fingerprint authentication is required, replacing the less secure authorization by PIN (Personal Identification Number).

Some of the above projects have not brought substantial sales to the Group yet, as they are still in their initial phase of implementation. When they are implemented in full scale and when similar projects are spread out to the world, the sales of our products for such applications will take off.

Smart card trade shows

In Year 2005, the Group continued to participate in various smart card and security trade shows in the world as it had done in the previous years. These shows included “CeBIT” in March in Germany, “CardTech/SecureTech” in April in the USA, and “Cartes & IT Security” in November in France. The Group also participated in various trade shows in Asia, including “Int’l ICT Expo” in April in Hong Kong, “CardExAsia” in May in Malaysia, “The 8th International Fair of Smart Cards, China SCC” in May in Beijing, China, “China International Exhibition On Financial Banking Technology & Equipment” in September in Beijing, China, and “Smart Card Expo” in September in India. The Group will continue its practice of attending international trade shows. The Group’s customers are spread all over the world and these shows present to the Group the opportunities to attract new customers and to meet its existing customers.

Product Innovation Award for Readers

In May 2005, the Group won the “*D’ucoty Awards Product Innovation Award for Readers*”. The awards were established by Frost and Sullivan and CardsNow!Asia to select and recognize individuals and companies who have demonstrated outstanding performance within the smart card industry throughout the Asia Pacific region. Directly involved in the selection process, Ms. Jafizwaty Haju Ishahak, Frost & Sullivan’s smart card and auto ID program leader responsible for the Asia Pacific region stated, “ Looking at their history and product portfolio, ACS has a strong and stable foundation in the reader market. Also, ACS has always been at the forefront in terms of innovation; particularly in the PC-reader arena.” Frost and Sullivan is a global business development consulting company and has a team of specialized smart card analysts within the Asia Pacific region. CardsNow!Asia is the Asia Pacific region’s only bilingual (English and Chinese) trade magazine focusing on card technologies and applications.

Offices and headcount

After the listing in November 2003, the Group started to implement the strategy to build a bigger team of people to serve the world while keeping the operating expenses in control. Thus two offices, one in Manila and one in Shenzhen, were established. As of 31 December 2005, the Group had 20 employees in Manila and 13 in Shenzhen compared to 38 in Hong Kong.

	2003	31 December 2004	2005
Hong Kong	30	38	38
Manila	—	14	20
Shenzhen	—	8	13
Total	<u>30</u>	<u>60</u>	<u>71</u>

These offices are seen to be providing good support to Hong Kong both in engineering and in sales and marketing work, with China focusing on electronic hardware development and production support, and Manila focusing on software development and technical support. Hong Kong focuses on management, building customer relationships, formulating strategy and developing IP-intensive software. The combination of the headquarters work in Hong Kong and the support from staff members from the two neighbouring cities are empowering the Group to serve the world market more efficiently and cost-effectively.

PROSPECTS

According to the latest report by Frost and Sullivan published in 2006, ACS is the world's Number 4 and Asia's Number 1 supplier of smart card readers used with the PC. The market of PC linked reader is forecast by Frost and Sullivan to continue to grow. In fact more governments in the world will adopt the smart card technology for their national identity cards in order to increase the country's efficiency through the execution of on-line commercial and government activities. Taking the advantage of its reputation as a top Asian supplier of smart card readers and utilizing the respective skills of staff members in Hong Kong, Shenzhen and Manila in a most cost effective manner, the Group is becoming powerful as a world player in its industry.

The Group was able not only to achieve competitiveness in price but was able to maintain its gross profit margin at over 40%. The management's expertise in sourcing components and managing contractor manufacturers play a vital role in maintaining a respectable gross profit margin.

The Group is using the funds generated by the business of selling PC linked readers to develop brand new products such as *ACR88*, *ACR100* and *ACOS5* mentioned above. Once these products are launched, the Group will get into market segments which are much bigger than the market of its existing products mainly owing to the higher unit prices of these new products. These new innovative products will create many new applications to benefit a big number of consumers.

At the date of this *announcement*, *ACR88* has been demonstrated to the satisfaction of the government authority of Germany for a nation-wide health card project. The total demand of readers for the project is expected to be substantial. Also the Group is actively working with the world's leading IT system solution company to use the Group's readers *ACR38* to provide to banks in The United Kingdom ("UK") for their home banking projects. With various other projects brewing in UK, the Group is expecting to increase its business in the country in 2006 significantly. In the Group's domestic area, Asia Pacific, the Group maintains its strategy of promoting its image as a supplier of quality products at very competitive prices. The Group has an advantage over the non-Asian brands in serving this market. In particular, the Group's China office with now trained sales people are expected to generate respectable revenue for the Group.

Two years after its listing in November 2003, the Group has substantially strengthened itself and is poised for a much faster growth in sales and in net profits in Year 2006 and in the years to come.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group's cash and cash equivalents amounted to HK\$6.4 million (2004: HK\$13.1 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 level of 3.6 (2004: 5.0). Net asset value as at the year end date was HK\$30.4 million (2004: HK\$30.2 million). As at 31 December 2005, the Group did not have any borrowings and, accordingly, the gearing ratio was zero (2004: 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 2005.

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 2005, the Group pledged a deposit of US\$88,000 to a bank for the bank to issue a performance bond to a customer. This customer paid the Group US\$88,000 as partial advanced payment when they placed the Group an order of 10,000 units of *ACR100* (the flash drive integrated with a smart card reader) before the product was developed. Save as disclosed herein, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group had 71 full time employees. Staff costs amounted to HK\$10.8 million (2004: HK\$8.9 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

The Company's new business line is in direct competition with that of Mr. Wan Wah Tong, Thomas' private company in terms of product features and target customers. Mr. Wan Wah Tong, Thomas was a non-executive director of the Company who resigned in 24 October 2005.

Save as disclosed above, 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 year.

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 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.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company has applied the principles of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code"). The Company has complied with the requirements of the Code except for the provision A.2 of the Code. A.2 of the Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the three months ended 31 March 2005, the roles of chairman and chief executive officer were not separated because the Company has yet to find an appropriate individual for the post of chief executive officer. Mr. Mak Chi Him was appointed as the chief executive officer on 1 April 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 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 2005.

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

Hong Kong, 23 March 2006

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; 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.