



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 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 nine months ended 30 September 2005 increased by 45% to HK\$25.8 million from the first three quarters of 2004.
- The gross profit of the Group for the nine months ended 30 September 2005 increased by 43% to HK\$11.1 million from the first three quarters of 2004 while the gross profit margin remained about the same at 43%.
- The loss attributable to shareholders of the Group reduced to HK\$2.3 million for the nine months ended 30 September 2005 from HK\$5.1 million in the first three quarters of 2004.
- The cash and cash equivalents of the Group as at 30 September 2005 amounted to HK\$9.2 million (HK\$13.9 million as at 30 September 2004) and there was no borrowing.

UNAUDITED CONSOLIDATED RESULTS

The Board of Directors herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 30 September 2005 together with the comparative unaudited figures for the corresponding periods in 2004, as follows:

		Three months ended 30 September		Nine months ended 30 September	
	Note	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	8,045	5,942	25,826	17,836
Cost of sales		(4,291)	(3,686)	(14,751)	(10,090)
		<u>3,754</u>	<u>2,256</u>	<u>11,075</u>	<u>7,746</u>
Other revenue		53	41	660	90
Other net loss		(37)	(10)	(65)	(24)
Operating expenses					
Staff costs		(2,772)	(2,302)	(7,742)	(6,545)
Depreciation		(226)	(190)	(623)	(496)
Amortisation of development costs		(271)	(583)	(936)	(1,554)
Other operating expenses		(1,434)	(1,315)	(4,581)	(4,238)
Loss from operations		<u>(933)</u>	<u>(2,103)</u>	<u>(2,212)</u>	<u>(5,021)</u>
Finance costs		<u>(38)</u>	<u>(32)</u>	<u>(115)</u>	<u>(96)</u>
Loss from ordinary activities before taxation		<u>(971)</u>	<u>(2,135)</u>	<u>(2,327)</u>	<u>(5,117)</u>
Income tax	3	—	—	—	—
Loss from ordinary activities after taxation and attributable to shareholders		<u>(971)</u>	<u>(2,135)</u>	<u>(2,327)</u>	<u>(5,117)</u>
Loss per share					
- Basic	5	<u>(0.345)cents</u>	<u>(0.758)cents</u>	<u>(0.826)cents</u>	<u>(1.822)cents</u>

Notes:

1 BASIS OF PREPARATION

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

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

The financial statements have been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in these financial statements.

(a) *Employee share option scheme (HKFRS 2, Share-based Payment)*

In prior years, no amounts were recognized when employees were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option’s exercise price receivable.

With effect from 1 January 2005, the fair value of such share options is recognized as an expense in the profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group’s accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to revenue reserves.

The adoption of this new HKFRS had no significant impact on the Group’s results of operations and financial position.

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	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	7,458	5,905	25,183	16,436
Smart card related services	587	37	643	1,400
	<u>8,045</u>	<u>5,942</u>	<u>25,826</u>	<u>17,836</u>

3 INCOME TAX

No provision for Hong Kong Profits Tax has been made as the Group sustained losses for taxation purposes during the three months and nine months ended 30 September 2005.

4 DIVIDENDS

The Company had not declared or paid any dividends during the three months and nine months ended 30 September 2005 (2004: HK\$Nil).

5 LOSS PER SHARE

The calculation of basic loss per share for the three months and nine months ended 30 September 2005 is based on the respective unaudited loss attributable to shareholders of HK\$971,000 and HK\$2,327,000 (2004: HK\$2,135,000 and HK\$5,117,000) and the weighted average of 281,800,255 and 281,800,255 (2004: 281,800,255 and 280,900,128) ordinary shares in issue during the periods.

No diluted loss per share is presented for the three months and nine months ended 30 September 2005 and 30 September 2004 as there were no dilutive potential ordinary shares during these periods.

6 RESERVES

	Share premium HK\$'000	Merger reserves HK\$'000	Revenue reserves HK\$'000	Total HK\$'000
At 1 January 2004	24,351	4,496	(12,859)	15,988
Shares issued upon conversion of share options	(18)	—	—	(18)
Loss for the period	—	—	(5,117)	(5,117)
	<u>24,333</u>	<u>4,496</u>	<u>(17,976)</u>	<u>10,853</u>
At 30 September 2004	<u>24,333</u>	<u>4,496</u>	<u>(17,976)</u>	<u>10,853</u>
At 1 January 2005	24,333	4,496	(26,853)	1,976
Loss for the period	—	—	(2,327)	(2,327)
	<u>24,333</u>	<u>4,496</u>	<u>(29,180)</u>	<u>(351)</u>
At 30 September 2005	<u>24,333</u>	<u>4,496</u>	<u>(29,180)</u>	<u>(351)</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 deficit of HK\$351,000 at 30 September 2005 (30 September 2004: net reserves of HK\$10,853,000) analysed as follows:

	Nine months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
Company	20,932	22,685
Subsidiaries	(25,779)	(16,328)
Merger reserves	4,496	4,496
	<u>(351)</u>	<u>10,853</u>
Group	<u>(351)</u>	<u>10,853</u>

MANAGEMENT DISCUSSION AND ANALYSIS

In the nine months ended 30 September 2005, the Group increased its sales and kept its gross profit margin the same in comparison with the figures recorded in the corresponding period in 2004. The gross profit amount increased more than that of the operating expenses, resulting in a net loss that narrowed to HK\$2.3 million in these nine months from the loss of HK\$5.1 million in the corresponding period in 2004.

Financial Review

In these nine months, the Group increased its sales by 45% to HK\$25.8 million from the figure of HK\$17.8 million in the corresponding period in 2004. The sales of both smart cards and PC linked readers increased, at 87% and 79% respectively, and accounted for the bulk of the increase. The sales of other products including mainly smart card balance readers, smart card / finger print readers and smart card readers with pin-pad remained to be about the same in value.

	Nine months ended		Change
	30 September		
	2005	2004	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Smart cards	4,399	2,356	+87%
PC linked readers	14,972	8,347	+79%
Other products	5,812	5,733	+1%
	<u>25,183</u>	<u>16,436</u>	
Smart card related services	643	1,400	-54%
	<u>25,826</u>	<u>17,836</u>	+45%

The region that accounted for the highest increase rate in sales was Asia Pacific, by 90%. The sales in the Americas increased by 66% while the lowest growth was recorded in Europe, Middle East and Africa ("EMEA"). The sales in Asia Pacific were generated mainly outside China.

	Nine months ended		Change
	30 September		
	2005	2004	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Europe, Middle East and Africa	11,542	10,090	+14%
Asia Pacific	11,224	5,906	+90%
The Americas	3,060	1,840	+66%
	<u>25,826</u>	<u>17,836</u>	

Business Review

China office

The sales office established in Shenzhen, China in January 2005 has not generated substantial sales yet. However, through the proactive sales and marketing activities in China including the distribution of literature in Chinese, making press releases and participating in trade shows, the Group has extended its business relationships with a substantial number of Chinese companies.

Product development

The engineering team continued to work busily on a major product of the Group in the pin-pad reader category. It is named *ACR88* which differs from the previous model of smart card reader with pin-pad *ACR80* in which *ACR88* integrates a finger print scanner and a contactless smart card reader as well as accepting contact smart cards as *ACR80* does. This model of readers will be launched in the first quarter of 2006.

The Group continued to invest a considerable amount of its engineering resources to develop a physical access control device using a 32-bit microprocessor for a global company. The device is to be installed at a door, which permits the entry of people through authentication by a contactless card or a finger print. Ten prototypes were submitted and are being evaluated by the customer.

Customers

Based on our historical sales record, the third quarter of the calendar year (i.e. July to September) is a low quarter in sales in our sales region EMEA as the summer is considered to be a big holiday season in Europe. The Group focused more on the Asian market. Relatively sizable orders were secured in Asia Pacific including orders in Taiwan, in Macao for Macao Post Office for the local identity cards and in Australia for a government project. Active business discussions were being made with Chinese customers mainly through our Shenzhen office.

Management Information System

The Group has been using outsourced accounting and Material Replenishment Program ("MRP") for its office automation endeavours. There are certain programs for monitoring product development and managing customers which are developed in the Group. The Group increased its speed and scope of development in these areas especially in programs for managing customers as the Group has now more sales people and has an expanded customer base.

Prospects

The Group has been recovering from its low sales levels in 2004 but the present sales level is still not sufficient to bring profitability to the Group. It is the objective of the Group to grow the sales of its flag-ship line of PC linked readers on one hand and to push the business of new products to be launched in the coming one to two quarters on the other, and such new products include the smart card reader with pin-pad, model *ACR88* and the PKI cards. To develop and perfect a number of new products will involve engineering efforts and to sell them will require recruitment of additional sales and marketing personnel. The Group more than doubled its headcount since its Placing in November 2003 (from 29 at Placing to 71 at 30 September 2005). To control the overall costs, the increase in headcount was mostly in Manila and Shenzhen. The Group is anticipating more results from the people hired in the last two years especially those from the two relatively new overseas offices, Manila and Shenzhen.

The overall smart card market is growing and the Group will continue to make the best use of the expanded and stronger team of people to serve this growing market with the aim to bring profitability in the near future.

Liquidity and Financial Resources

As at 30 September 2005, the Group's cash and cash equivalents amounted to HK\$9.2 million (30 September 2004: 13.9 million). The Group continued to operate under a debt-free status with no outstanding net debt as at 30 September 2005.

The current ratio, being the ratio of current assets to current liabilities, was maintained at a level of 3.2 (30 September 2004: 8.1). Net asset value as at the end of the review period was HK\$27.8 million (30 September 2004: HK\$39.0 million). As at 30 September 2005, the Group did not have any borrowing and, accordingly, the gearing ratio was zero (30 September 2004: zero).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Company's new business line is in direct competition with that of Mr. Wan Wah Tong, Thomas's private company in terms of product features and target customers.

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 period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

COMPLIANCE ADVISOR'S INTERESTS

Neither the Company's Compliance Advisor, Anglo Chinese Corporate Finance, Limited (the "Compliance Advisor"), nor its directors, employees or associates had any interests in any class of securities of the Company or any other company in the Group (including options or the right to subscribe for such securities) as at 30 September 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than 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 nine months ended 30 September 2005.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Cheong Chung Chin and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the nine months ended 30 September 2005.

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

Hong Kong, 10 November 2005

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

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