



## **Advanced Card Systems Holdings Limited**

**龍傑智能卡控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8210)

### **RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2004**

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\* For identification purpose only

## HIGHLIGHTS

- Turnover and gross profit for the quarter ended 31 March 2004 increased by 61% to approximately HK\$7.3 million and 36% to approximately HK\$3.4 million respectively from the first quarter of 2003.
- The Group recorded loss attributable to shareholders of approximately HK\$478,000 as a result of increased operating costs mainly due to the expansion of manpower to strengthen the Group.
- Financial position remains strong, with cash and cash equivalents of approximately HK\$19.9 million and no borrowings.

## UNAUDITED CONSOLIDATED RESULTS

The Board of Directors herein announces the unaudited consolidated results of the Company and its subsidiary (the “Group” or “ACS”) for the three months ended 31 March 2004 together with the comparative unaudited figures for the corresponding period in 2003, as follows:

		<b>Three months ended 31 March</b>	
	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Turnover</b>	2	7,323	4,551
<b>Cost of sales</b>		<u>(3,909)</u>	<u>(2,049)</u>
		3,414	2,502
<b>Other revenue</b>		26	8
<b>Other net (loss) / income</b>		(19)	8
<b>Operating expenses</b>			
Staff costs		(1,952)	(1,225)
Depreciation		(139)	(141)
Amortisation of development costs		(432)	(317)
Other operating expenses		<u>(1,341)</u>	<u>(710)</u>
<b>(Loss) / profit from operations</b>		(443)	125
<b>Finance costs</b>		<u>(35)</u>	<u>(22)</u>
<b>(Loss) / profit from ordinary activities before taxation</b>		(478)	103
<b>Income tax</b>	3	<u>—</u>	<u>—</u>
<b>(Loss) / profit from ordinary activities after taxation and attributable to shareholders</b>		<u>(478)</u>	<u>103</u>
<b>(Loss) / earnings per share</b>			
- Basic	4(a)	(0.171) cents	0.051 cents
- Diluted	4(b)	(0.170) cents	0.051 cents

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 includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the rules governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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

## 2 TURNOVER

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

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

	<b>Three months ended 31 March</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of smart card products, software and hardware	6,049	4,176
Smart card related services	<u>1,274</u>	<u>375</u>
	<u>7,323</u>	<u>4,551</u>

## 3 INCOME TAX

No provision for Hong Kong Profits Tax has been made by the Company as it did not earn any assessable income during the three months ended 31 March 2004.

No provision for Hong Kong Profits Tax has been made by the subsidiary as the subsidiary sustained a taxable loss during the three months ended 31 March 2004.

## 4 BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE

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

The calculation of basic (loss) / earnings per share for the three months ended 31 March 2004 is based on the loss attributable to shareholders of HK\$478,000 (2003: profit attributable to shareholders of HK\$103,000) and the weighted average of 280,000,000 ordinary shares (2003: 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.

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

The calculation of diluted (loss) / earnings per share is based on loss attributable to shareholders for the period of HK\$478,000 (2003: profit attributable to shareholders of HK\$103,000) and the weighted average of 281,999,000 ordinary shares (2003: 202,000,000 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares as shown below:

	<b>No. of shares</b>	
	<b>2004</b>	<b>2003</b>
Weighted average number of ordinary shares used in calculating basic (loss) / earnings per share	280,000,000	202,000,000
Deemed issue of ordinary shares for no consideration	<u>1,999,000</u>	<u>—</u>
Weighted average number of ordinary shares used in calculating diluted (loss) / earnings per share	<u>281,999,000</u>	<u>202,000,000</u>

**5 DIVIDENDS**

The Company had not declared or paid any dividend during the three months ended 31 March 2004 (2003: HK\$Nil).

**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)
Profit for the period	<u>—</u>	<u>—</u>	<u>103</u>	<u>103</u>
At 31 March 2003	<u>15,863</u>	<u>4,496</u>	<u>(24,509)</u>	<u>(4,150)</u>
At 1 January 2004	24,351	4,496	(12,859)	15,988
Loss for the period	<u>—</u>	<u>—</u>	<u>(478)</u>	<u>(478)</u>
At 31 March 2004	<u>24,351</u>	<u>4,496</u>	<u>(13,337)</u>	<u>15,510</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\$15,510,000 at 31 March 2004 (2003: deficit of HK\$4,150,000) analysed as follows:

	<b>Three months ended 31 March</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company	23,404	15,718
Subsidiary	(12,390)	(24,364)
Merger reserves	<u>4,496</u>	<u>4,496</u>
Group	<u>15,510</u>	<u>(4,150)</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is pleased to report an increase of 61% in turnover in the first quarter of 2004 comparing the corresponding period of 2003. During the period, the Group increased its headcount by nearly one-third in its endeavour to strengthen the Group to prepare for its future growth by fueling its product development work and by actively participating in diverse marketing activities to boost sales.

### FINANCIAL REVIEW

The Group achieved a 61% growth in turnover, reaching approximately HK\$7.3 million (2003: approximately HK\$4.6 million).

PC linked readers continued to be the Group's flagship product, generating approximately HK\$3.7 million revenue to the Group. With the successful strategy of product diversification and the introduction of new products, during the period under review the revenue portion contributed by the products other than PC linked readers in aggregate increased from 26% in the corresponding period last year to 33% this year.

The gross profit increased 36% to approximately HK\$3.4 million (2003: approximately HK\$2.5 million). However, mainly due to the increase in the costs of raw materials, the Group's gross profit margin decreased from 55% to 47%. Loss attributable to shareholders amounted to HK\$478,000 as a result of the 61% increase in operating costs arising mainly from the increase in human resources. Management strongly believes that the newly recruited engineering and marketing professionals can help the Group better grasp the opportunities ahead and accelerate the growth of ACS.

Looking at the geographical breakdown, Europe, Africa and the Middle East accounted for 62% (2003: 30%) of total turnover for the quarter ended 31 March 2004, Asia Pacific 32% and the Americas 6%.

### BUSINESS REVIEW

More and more governments around the world are turning to smart card based security solutions for information management and authentication of identity. This increasing popularity of the smart card, in fact, has generated immense business opportunities for ACS. In December 2003, the Group's smart card readers with pin-pad *ACR80* was selected for the national identity card project in Serbia & Montenegro, which will involve over 10 million smart cards. The first batch of order was delivered during the period under review. Closer to home, the continuous roll out of the Hong Kong smart card based electronic identity card generates steady demand for the Group's *ACR30* and *ACR30 Pro* PC linked readers.

In the first quarter, ACS planned its marketing activities in order to broaden its customer base. In March 2004, ACS participated in the CeBit show which is a well-known international show for information technology and telecommunication held in Germany.

During the period under review, the Group successfully secured a number of new customers, including the system solution provider for the National Identity Card project in Serbia & Montenegro, a government related organisation in Hong Kong and a system integrator in Germany for Point of Sales Terminal project.

## **PROSPECTS**

As more and more industries and public sectors are adopting smart card technology to handle electronic commerce, security and access control issues, ACS is committed to equipping itself in grasping the enormous growth potentials of today's smart card applications. The Group is now negotiating with a number of lock and safe manufacturers to integrate its smart card reader and finger print authentication technology into traditional security systems, furthering its penetration into different industries.

Turning to product development, the prototyping of smart card terminal *AC-Mifare Terminal* is at its final stage of completion. Besides, an upgraded version of the smart card operating system *ACOS3* and a new version of the PC linked readers *ACR38T* are expected to be launched in the second quarter.

To further widen its customer base, the Group intends to continue to actively participate in trade shows in the United States, France, China, Hong Kong and Korea. Other sales and marketing activities will also include advertisements in technology related magazines.

Talented individuals are the backbone of a technology company, and ACS is no exception. Therefore, to be well prepared for future growth and in view of the increasing demand, the Group will continue to recruit additional staff members including well-experienced engineering and marketing professionals in the second quarter of 2004. These new recruits will bring with them valuable technical know-how and marketing expertise which management strongly believes will accelerate the development of ACS's business.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2004, the Group's cash and cash equivalents amounted to approximately HK\$19.9 million (2003: approximately HK\$1.8 million). The current ratio, being the ratio of current assets to current liabilities, was maintained at a strong level of 7.1 (2003: 2.0). Net asset value as at the end of the review period was approximately HK\$43.5 million (2003: approximately HK\$13.5 million). As at 31 March 2004, the Group did not have any borrowing.

## **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.

### **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 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 three months ended 31 March 2004.

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

Hong Kong, 10 May 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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