



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

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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 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

- Successfully listed on GEM on 10 November 2003, raising net proceeds of approximately HK\$17.0 million
- Achieved a substantial growth in turnover which increased by 39% to approximately HK\$38.6 million in 2003
- Profit attributable to shareholders grew by 290% to approximately HK\$11.8 million
- Healthy financial position with cash and cash equivalents of approximately HK\$21.5 million and no borrowings

AUDITED CONSOLIDATED RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Company and its subsidiary (the “Group”) for the year ended 31 December 2003 together with the comparative figures for the year ended 31 December 2002 as follows:

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	3	38,646	27,794
Cost of sales		<u>(17,950)</u>	<u>(15,338)</u>
		20,696	12,456
Other revenue	4(a)	504	19
Other net (loss)/income	4(b)	(68)	6
Operating expenses			
Staff costs		(5,827)	(5,073)
Depreciation		(600)	(581)
Amortisation of development costs		(1,498)	(825)
Other operating expenses		<u>(2,965)</u>	<u>(2,898)</u>
Profit from operations		10,242	3,104
Finance costs	5(a)	<u>(103)</u>	<u>(88)</u>
Profit from ordinary activities before taxation	5	10,139	3,016
Income tax	6(a)	<u>1,614</u>	<u>—</u>
Profit from ordinary activities after taxation and attributable to shareholders		<u>11,753</u>	<u>3,016</u>
Earnings per share			
— Basic	7(a)	<u>5.51 cents</u>	<u>1.49 cents</u>
— Diluted	7(b)	<u>5.50 cents</u>	<u>1.49 cents</u>

Notes:

1 GROUP REORGANISATION AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) The Company

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.

(b) Group Reorganisation and listing on the Growth Enterprise Market

The Company became the holding company of the Group (which comprises the Company and its subsidiary) on 28 April 2000 through a reorganisation (“the Reorganisation”). Pursuant to the Reorganisation, the Company issued and allotted a total of 17,999,998 shares of US\$0.10 each credited as fully paid to the then shareholders of its subsidiary in consideration for their sale to the Company of all the then issued shares of its subsidiary.

The Company has not carried on any business since the date of its incorporation save for the Reorganisation and the incurring of certain administrative expenses.

The Company obtained a listing on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 10 November 2003 (“the Listing”).

(c) Basis of presentation and preparation of the financial statements

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

The Company and its subsidiary resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the financial statements have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice No. 2.127 “Accounting for group reconstructions” (“SSAP 27”) issued by the Hong Kong Society of Accountants.

(d) Statement of compliance

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 GEM of The Stock Exchange of Hong Kong Limited.

2 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 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 2003

	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>
Turnover	34,893	3,753	38,646
Other revenue			504
— unallocated			<u>39,150</u>
Segment result and profit from operations			10,242
Finance costs			<u>(103)</u>
Profit from ordinary activities before taxation			10,139
Taxation			<u>1,614</u>
Profit from ordinary activities after taxation			<u>11,753</u>
Depreciation and amortisation	<u>2,098</u>	<u>—</u>	<u>2,098</u>

Year ended 31 December 2002

	Development, sale and distribution of smart card products, software and hardware	Provision of smart card related services	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	25,654	2,140	27,794
Other revenue			
— unallocated			<u>19</u>
			<u>27,813</u>
Segment result and profit from operations			3,104
Finance costs			<u>(88)</u>
Profit from ordinary activities before taxation			3,016
Taxation			<u>—</u>
Profit from ordinary activities after taxation			<u>3,016</u>
Depreciation and amortisation	<u>1,406</u>	<u>—</u>	<u>1,406</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:

	2003	Turnover
	<i>HK\$'000</i>	2002
		<i>HK\$'000</i>
The Americas	3,208	11,119
Asia	22,297	9,064
Europe, Africa and the Middle East	<u>13,141</u>	<u>7,611</u>
	<u>38,646</u>	<u>27,794</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.

3. 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 year.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Sale of smart card products, software and hardware	34,893	25,654
Smart card related services	<u>3,753</u>	<u>2,140</u>
	<u><u>38,646</u></u>	<u><u>27,794</u></u>

4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(a) Other revenue		
Interest income	2	4
Forfeiture of deposit	429	—
Sundry income	<u>73</u>	<u>15</u>
	<u><u>504</u></u>	<u><u>19</u></u>
(b) Other net (loss)/income		
Exchange (loss)/gain	(70)	6
Gain from disposal of fixed assets	<u>2</u>	<u>—</u>
	<u><u>(68)</u></u>	<u><u>6</u></u>

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting)

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(a) Finance costs:		
Other borrowing costs:		
— bank charges	<u>103</u>	<u>88</u>
(b) Other items:		
Cost of inventories	16,781	14,888
Reversal of write-down of inventories	(59)	(45)
Provision for bad debts	72	206
Auditors' remuneration	<u>312</u>	<u>90</u>
Salaries and benefits	7,890	7,074
Retirement scheme contributions	<u>254</u>	<u>222</u>
Total staff costs	<u>8,144</u>	<u>7,296</u>
Staff costs included in research and development costs	2,599	2,520
Less: Amounts capitalised in development costs	<u>(2,317)</u>	<u>(2,223)</u>
	<u>282</u>	<u>297</u>
Staff costs (after amounts capitalised)	<u>5,827</u>	<u>5,073</u>
Consultancy fees	758	1,345
Less: Amount included in research and development costs	<u>(611)</u>	<u>(1,107)</u>
	<u>147</u>	<u>238</u>
Operating lease charges for properties	456	733
Less: Amount included in research and development costs	<u>(90)</u>	<u>(90)</u>
	<u>366</u>	<u>643</u>

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(c) Research and development costs:		
Staff costs	2,599	2,520
Consultancy fees	611	1,107
Rental expenses	90	90
Direct overheads	<u>656</u>	<u>542</u>
	3,956	4,259
Less: Costs capitalised	<u>(3,634)</u>	<u>(3,801)</u>
	<u>322</u>	<u>458</u>

Research and development costs amounted to HK\$3,956,000 and HK\$4,259,000 for the years ended 31 December 2003 and 2002 respectively, and have been calculated to the extent that staff costs and direct overheads can be allocated by management on a reasonable basis to research and development activities. Included in the total costs of HK\$3,956,000 and HK\$4,259,000 were amounts of HK\$3,634,000 and HK\$3,801,000 capitalised during the years ended 31 December 2003 and 2002 respectively.

Other costs such as depreciation of fixed assets and indirect overheads have not been included within research and development costs.

6 INCOME TAX

(a) Current tax

No provision for Hong Kong Profits Tax has been made by the Company as it did not earn any assessable income during the year ended 31 December 2003.

No provision for Hong Kong Profits Tax has been made by the subsidiary as the tax losses brought forward from previous years exceed the estimated assessable profits for the year ended 31 December 2003.

In March 2003, the Hong Kong Profits Tax rate has been increased from 16% to 17.5%.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(109)	—
Benefit of previously unrecognised net deferred tax assets now recognised	<u>1,723</u>	<u>—</u>
Income tax credit	<u>1,614</u>	<u>—</u>

(b) **Reconciliation between tax credit and accounting profit at applicable tax rates**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit from ordinary activities before taxation	<u>10,139</u>	<u>3,016</u>
Notional tax on profit before tax, calculated at 17.5% (2002: 16%)	1,774	483
Tax effect of non-deductible expenses	79	5
Tax effect of non-taxable revenue	(1)	(1)
Tax effect of tax losses utilised in the current year	(1,865)	(512)
Tax effect of tax losses now recognised	(1,723)	—
Tax effect of deferred tax liabilities not recognised	—	25
Tax effect of deferred tax liabilities now recognised	<u>122</u>	<u>—</u>
Actual tax credit	<u>(1,614)</u>	<u>—</u>

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$11,753,000 (2002: HK\$3,016,000) and the weighted average of 213,112,329 ordinary shares (2002: 202,000,000 ordinary shares) outstanding after the issuance of shares prior to the Listing as if those shares had been outstanding for each year presented.

(b) **Diluted earnings per share**

The calculation of diluted earning per share is based on earnings for the year of HK\$11,753,000 (2002: HK\$3,016,000) and the weighted average of 213,502,329 ordinary shares (2002: 202,000,000 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares as shown below:

	No. of shares	
	2003	2002
Weighted average number of ordinary shares used in calculating basic earnings per share	213,112,329	202,000,000
Deemed issue of ordinary shares for no consideration	<u>390,000</u>	<u>—</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>213,502,329</u>	<u>202,000,000</u>

8 DIVIDENDS

The Company had not declared or paid any dividend during the year ended 31 December 2003 (2002: HK\$Nil).

9 RESERVES

	Share premium HK\$'000	Merger reserves HK\$'000	Revenue reserves HK\$'000	Total HK\$'000
At 1 January 2002	12,111	4,496	(27,628)	(11,021)
Shares issued to full time employees, consultants and advisors of the Company and its subsidiary	1,430	—	—	1,430
Share issue expenses	(11)	—	—	(11)
Shares issued upon conversion of convertible debentures	2,333	—	—	2,333
Profit for the year	<u>—</u>	<u>—</u>	<u>3,016</u>	<u>3,016</u>
At 31 December 2002 and 1 January 2003	15,863	4,496	(24,612)	(4,253)
Shares issued upon exercise of the share options prior to the Listing	177	—	—	177
Price adjustment upon conversion of preference shares	(794)	—	—	(794)
Shares issued upon exercise of warrants	305	—	—	305
Capitalisation issue	(522)	—	—	(522)
Shares issued upon placing	17,160	—	—	17,160
Share issue expenses	(7,838)	—	—	(7,838)
Profit for the year	<u>—</u>	<u>—</u>	<u>11,753</u>	<u>11,753</u>
At 31 December 2003	<u>24,351</u>	<u>4,496</u>	<u>(12,859)</u>	<u>15,988</u>

Merger reserves of the Group represent reserves of the subsidiary that have been capitalised as a result of a share-for-share exchange.

Under the Companies Law (revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2003 and 2002, reserves of the Company available for distribution to shareholders amounted to HK\$23,775,000 and HK\$15,718,000 respectively.

The Group had a net reserves of HK\$15,988,000 at 31 December 2003 (2002: deficit of HK\$4,253,000) analysed as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Company	23,775	15,718
Subsidiary	(12,283)	(24,467)
Merger reserves	<u>4,496</u>	<u>4,496</u>
Group	<u><u>15,988</u></u>	<u><u>(4,253)</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Despite the sluggish global economy in the first half of the financial year ended 31 December 2003, the Group achieved satisfactory results with turnover increasing 39% from approximately HK\$27.8 million in 2002 to approximately HK\$38.6 million in 2003. Profit attributable to shareholders grew to approximately HK\$11.8 million, up 290% from approximately HK\$3.0 million reported in 2002, representing an increase of 18% over the profit forecast of not less than HK\$10.0 million as stated in the prospectus dated 31 October 2003. The return on shareholders' funds was 27% for the year ended 31 December 2003 (2002: 22%).

The Group's overall gross profit margin increased from 45% in 2002 to 54% in 2003, primarily due to increased popularity of the Group's products while costs had been benefited from economies of scale.

During the year, inventory turnover slightly increased from 92 days as at 31 December 2002 to 95 days as at 31 December 2003. Debtors turnover increased from 33 days as at 31 December 2002 to 73 days as at 31 December 2003, while creditors turnover increased from 48 days as at 31 December 2002 to 71 days as at 31 December 2003. These figures resulted from the substantial growth in turnover in the fourth quarter of 2003.

Total operating expenses of the Group for the year ended 31 December 2003 were approximately HK\$10.9 million (2002: approximately HK\$9.4 million). The increase was mainly attributable to business expansion during the year which led to an increase in headcount of the Group to 30 employees (2002: 22). These operating expenses represented 28% of the Group's turnover for the year ended 31 December 2003 (2002: 34%).

A tax credit representing the recognition of deferred tax assets, amounted to approximately HK\$1.6 million for the year ended 31 December 2003 (2002: HK\$Nil).

DIVIDEND

The board of directors (the “Board”) does not recommend the payment of a final dividend in respect of the year ended 31 December 2003. The declaration, payment and amount of future dividends will be at the discretion of 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

In the first half of the financial year 2003, the overall economy was hampered by the outbreak of the SARS and the Iraqi war. These conditions created a challenging business environment for the Group. Despite these unfavourable conditions, the Group was able to further expand and improve its business, and achieve other major milestones under such an economic hard time.

SMART CARD READERS’ BUSINESS

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. Sales of PC linked readers recorded a 37% increase to reach approximately HK\$29.2 million for the year ended 31 December 2003, accounting for approximately 76% of the Group’s total turnover (2002: 76%). Sales of smart card readers with pin-pad recorded a 162% increase to approximately HK\$2.0 million, representing approximately 5% of the Group’s total turnover (2002: 3%).

The increase in sales of the above products was mainly driven by the wider applications of smart cards. To name a few, smart card applications are found in mobile phones, banking, identity cards, internet security, payment systems, access control and public transport. As a result, there was a substantial increase in the demand for smart card readers. Leveraging the Group’s research and development capability, the Group is able to customise and tailor-make different products for its customers. Currently, the Group’s major customers include some of the world’s largest smart card manufacturers and solutions houses, including one of the world’s largest PC manufacturers and one of the leading telecommunication companies in Hong Kong.

Four new products were launched during the year and the turnover generated from these products amounted to approximately HK\$3.3 million. The Group’s

products received official accreditation, both in the domestic market and the overseas market. In Hong Kong, two of the Group's PC linked readers - *ACR30* and *ACR30 Pro* have been named by the Hongkong Post for use in the e-Cert programme in Hong Kong since July 2003. In December 2003, the Group's smart card readers with pin-pad *ACR80* was selected by a system solution provider for the National Identity card project in Serbia & Montenegro. This project involves ten million smart cards. The Group expects thousands of *ACR80* readers will be shipped in the first half year of 2004.

INDUSTRIAL STANDARDS

Many of the Group's products already met international and national standards prescribed by smart card issuers and various private users of smart cards relating to the quality of smart card readers. During the year, some of the Group's products attained several crucial standards such as the FCC standards, CE standards, VCCI standards and EMV standard, all of which prescribe stringent requirements.

SIGNIFICANT RECOGNITION BY INDEPENDENT THIRD PARTY

On 16 October 2003, the Group received the "Growth Strategy Leadership" Award from Frost & Sullivan, the renowned independent market consulting and research organisation, for its exceptional growth strategy within the industry. The "Growth Strategy Leadership" Award is selected based on rigorous methodology and specific criteria. The award is given to companies, who have bolstered their position and whose strategies have a lasting impact on the market. Though the Group is smaller in terms of employees in comparison to several main competitors, its success lies in its technology leadership, cost advantages and ability to customise products compared with other industry players, who primarily come from Europe and the United States.

In addition to the above-mentioned accreditation, in the research report titled "Strategic Analysis of the PC Link Smart Card Reader Market" issued by Frost & Sullivan in the second quarter of 2003, ACS was named as the world's fourth leading industry participant for smart card readers linked to personal computers in 2002. The top three companies are either based in the United States or Europe. These two achievements demonstrate the Group's leading position in the smart card reader industry.

PROSPECTS

The world economy has been showing recovery signs recently and smart card applications are becoming more prevalent in people's daily lives. This trend, especially with regard to the identification and security controls relating to the

access of personal data, is set to boom in the years to come. Therefore, the smart card and smart card reader industry are expected to experience tremendous growth, creating strong demand for the Group's smart card readers. In view of this promising market potential, the Group is expecting a positive outlook for year 2004 and has identified several areas as major potential sources for increased income in the medium and longer term. The Group will devote greater efforts to developing and promoting them in the forthcoming years. As at 31 December 2003, orders on hand amounted to approximately HK\$5.0 million.

The Group expects the organic growth of the smart card industry to continue, stimulating steady growth for the Group. This has been proved by the winning of new customers in the first quarter of 2004. In February 2004, the Group was selected as a prime source for a high profile medical ID programme in the United States. eMedical ID, a pioneering United States company engaged in the use of smart card technology to speed up the retrieval of data either from the smart card or from the web in order to provide faster treatment to hospital patients, selected ACS as the primary supplier for all of its smart card terminals and underlying technology. The eMedical ID system is currently in pilot testing at several hospitals in United States with over 400 hospitals, including regional medical centers and health management organisations, targeted for this medical ID system solution in coming year, each requiring potentially from 1,000 to 10,000 plus smart card ID users. This project will bring new opportunities for the Group to promote its smart card readers to other members in the medical society.

Apart from broadening its customer base in the overseas market, the Group participated in the smart card based electronic identity card project promulgated by the Hong Kong SAR Government in August 2003. The management regards this as another medium growth driver for the Group. Since the execution of the Hong Kong smart identity card replacement exercise is still in an early stage, the potential demand for smart card readers in association with the smart identity card applications is not fully reflected at this point. Since two of the Group's PC linked readers are already named by the Hongkong Post for use in the e-Cert programme in Hong Kong, the Group is confident of capturing a larger market share when more Hong Kong people complete replacing their identity cards with new smart identity cards.

As for new product development, the management plans to launch five new products in 2004 in order to cater for the strong demand for new smart card readers. These products include upgraded versions of existing models and new models such as the Chip Card Interface Device ("*CCID*") reader, a PC linked reader to be used with the new Windows system and the reader driver

developed by Microsoft Corporation. The management will evaluate every possible business opportunity in the dynamic smart card reader market and implement strategic measures that can tackle the rapid changes in technologies and customer preferences.

To further enhance its research and development capability, the Group will recruit more experienced engineers and continue to cooperate with reputable technology partners for the joint development of new products. In the longer term, the Group will seek opportunities to acquire third party smart card reader technologies to complement the Group's research capabilities.

The management always believes in a proactive approach in broadening its customer base and its range of products in order to expand the revenue base for the Group. As the integration of functions is a key element for new product development, the Group intends to further establish alliances with other smart card related technology providers and to participate in joint marketing campaigns for the Group's products. These strategies aim at raising ACS's profile and helping ACS to achieve its business objectives.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's cash and cash equivalents amounted to approximately HK\$21.5 million (2002: approximately HK\$2.1 million). The Group continues to operate under a debt-free model 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 strong level of 5.0 (2002: 2.5). Net asset value as at the year end date was approximately HK\$44.0 million (2002: approximately HK\$13.4 million). As at 31 December 2003, the Group did not have any borrowings and, accordingly, the gearing ratio was zero (2002: 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 and United States dollars in bank accounts as working capital of 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 2003.

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 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 2003, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2003.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group had approximately 30 full time employees. Staff costs amounted to approximately HK\$5.8 million (2002: approximately HK\$5.1 million). Remuneration policies and packages for the Group's employees are based on individual qualification, 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.

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

During the year, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed shares during the year.

COMPLIANCE WITH THE BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures requirements as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 15 March 2004

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.