



**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)*



**First Quarterly Report 2006**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This document, 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 document 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 document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, 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.*

## HIGHLIGHTS

- Turnover of the Group for the quarter ended 31 March 2006 increased by 38% to HK\$10.9 million from the first quarter of 2005.
- Gross profit of the Group for the quarter ended 31 March 2006 increased by 31% to HK\$4.7 million from the first quarter of 2005.
- The profit of the Group amounted to HK\$18,000 for the three months ended 31 March 2006 as compared to a loss of HK\$627,000 for the first quarter of 2005.

## UNAUDITED CONSOLIDATED RESULTS

The Board of Directors herein announces the unaudited consolidated results of the Company and its subsidiaries (the "Group" or "ACS") for the three months ended 31 March 2006 together with the comparative unaudited figures for the corresponding period in 2005, as follows:

	<i>Note</i>	<b>Three months ended</b>	
		<b>31 March</b>	
		<b>2006</b>	2005
		<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	2	10,863	7,863
Cost of sales		<u>(6,142)</u>	<u>(4,269)</u>
<b>Gross profit</b>		4,721	3,594
Other operating income		37	357
Other net loss		(65)	(12)
Staff costs		(3,083)	(2,505)
Depreciation		(226)	(198)
Amortisation of development costs		(258)	(355)
Other operating expenses		<u>(1,075)</u>	<u>(1,476)</u>
<b>Operating profit/(loss)</b>		51	(595)
Finance costs		<u>(33)</u>	<u>(32)</u>
<b>Profit/(Loss) before income tax</b>		18	(627)
Income tax	3	<u>—</u>	<u>—</u>
<b>Profit/(Loss) for the period</b>		<u>18</u>	<u>(627)</u>
<b>Earnings/(Loss) per share</b>	5		
– Basic		<u>HK0.006 cents</u>	<u>HK(0.222) cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

Notes:

## 1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards as issued by the Hong Kong Institute of Certified Public Accountants and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted in the 2005 annual financial statements have been consistently applied to these financial statements.

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

## 2 REVENUE

Revenue represents turnover which comprises total invoiced value of goods supplied and services rendered. Revenue recognised during the period is as follows:

	Three months ended	
	31 March	
	2006	2005
	HK\$'000	HK\$'000
Sales of smart card products, software and hardware	10,411	7,860
Smart card related services	452	3
	<u>10,863</u>	<u>7,863</u>

## 3 INCOME TAX

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 period's assessable profits and the Company and other subsidiaries sustained losses for taxation purposes for the three months ended 31 March 2006. No provision for Hong Kong profits tax has been made by the Group as it sustained a loss for taxation purposes for the three months ended 31 March 2005.

## 4 DIVIDENDS

The Company had not declared or paid any dividends during the three months ended 31 March 2006 (2005: Nil).

## 5 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share (2005: loss per share) is based on the profit for the period of approximately HK\$18,000 (2005: loss of approximately HK\$627,000) and the weighted average of 281,800,255 (2005: 281,800,255) ordinary shares in issue during the period.

Diluted earnings per share for the period ended 31 March 2006 was not presented because the exercise prices of the outstanding options exceeded the average market price of ordinary shares during the period. Diluted loss per share for the period ended 31 March 2005 was not presented because the impact of the exercise of the share options were anti-dilutive.

## 6 RESERVES

	<b>Share premium</b> <i>HK\$'000</i>	<b>Merger reserves</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2005	24,333	4,496	(26,853)	1,976
Loss for the period	—	—	(627)	(627)
	<u>24,333</u>	<u>4,496</u>	<u>(27,480)</u>	<u>1,349</u>
At 31 March 2005	<u>24,333</u>	<u>4,496</u>	<u>(27,480)</u>	<u>1,349</u>
At 1 January 2006	24,333	4,496	(26,657)	2,172
Profit for the period	—	—	18	18
	<u>24,333</u>	<u>4,496</u>	<u>(26,639)</u>	<u>2,190</u>
At 31 March 2006	<u>24,333</u>	<u>4,496</u>	<u>(26,639)</u>	<u>2,190</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

As stated in the Annual Report 2005, at 31 December 2005, the Group planned to launch three new products in the first half year of 2006, namely (1) *ACR88*, the portable PIN-pad smart card reader with display and with optional finger print scanner and optional contactless reader, (2) *ACR100*, a flash drive integrated with a smart card reader, and (3) *ACOS5* card, a PKI (Public Key Infrastructure) based high security smart card. As at 31 March 2006, the Group had provided samples of *ACR100* to customers and made a soft launch of *ACR88* by selling 100 units to the Hong Kong Immigration Department. Samples of *ACOS5* were to be delivered in Q2, 2006. Thus at the end of the first quarter, the Group had not delivered these products in commercial scale yet.

### Financial Review

The total turnover of the Group increased by 38% to HK\$10.9 million in the first quarter of 2006 from HK\$7.9 million in the corresponding period in 2005. The main growth was recorded in the PC linked readers, our flag-ship products. Other products included the existing model of pin-pad readers *ACR80* and the contactless card readers *ACR120*. The smart card related services amounting to HK\$452,000 represented the fee income for the customization of products and software for different customers.

		Three months ended 31 March		
		2006	2005	Change
		HK\$'000	HK\$'000	
4	Smart cards	1,720	1,669	+3%
	PC linked readers	6,746	4,266	+58%
	Other products	1,945	1,925	+1%
		<u>10,411</u>	<u>7,860</u>	
	Smart card related services	452	3	+14,967%
		<u>10,863</u>	<u>7,863</u>	+38%

The highest growth rate among the three sales regions was recorded in the Americas while a drop of sales was recorded in Asia Pacific. The data recorded for a short period of time, i.e. for a quarter, do not represent a trend in the sales growth in one region or another. Nevertheless, for the types of products sold by the Group, the biggest market in the world is believed to be Europe, Middle East and Africa.

		Three months ended 31 March		
		2006	2005	Change
		HK\$'000	HK\$'000	
	Europe, Middle East and Africa	5,303	2,175	+144%
	Asia Pacific	3,790	5,122	-26%
	The Americas	1,770	566	+213%
		<u>10,863</u>	<u>7,863</u>	+38%

## Business Review

The Group has three offices, namely, Hong Kong, Manila and Shenzhen offices with approximately 40, 20 and 10 employees. The Shenzhen office was officially established in the first quarter of 2005. It is now carrying two functions: (1) to provide engineering support to Hong Kong in product development, particularly in the hardware area, and (2) to serve the Chinese customers. In the engineering aspect, it has begun to function and is alleviating the tight engineering resources in Hong Kong. In the sales aspect, the office has widened its customer base. It was observed while interacting with a lot of customers in China that quite a few Chinese customers ask for the Group's products not for local consumption but for export. Having the reputation as a supplier of quality products, the Group is now building a customer base of exporters in China on top of a customer base of products for local consumption.

The Group's Manila office continued to perform its three main functions: (1) to develop SDK (software development kits) for our products, (2) to offer technical support to the customers in the world and (3) to serve the customers of emerging markets. The Philippines is a good source of software engineers. The Group's Hong Kong office is passing more of the development work of software for the business process of the Group. This internally developed IT system named WEQ (Web-based Enquiries) was started in 2002 has been in use in the Group and is being constantly expanded and enhanced. It is helping the Group to increase its efficiency.

## Prospects

The combination of the talents in three offices allows the Group to operate cost effectively. The Group has its uniqueness in the smart card reader industry. Its technologies are not inferior to those of any one of the other global players mainly located in the western world. Thus the Group was able to win smart card reader business from high-profiled nation-wide projects, such as the Belgium national ID card project and the Hong Kong Smart Identity Card project. It can compete with emerging China in costs by using the China office and Manila office (Manila employees have much higher English proficiency than Chinese employees) while building the core intellectual properties in Hong Kong and taking advantage of its reputation as a supplier of quality products. It constantly wins smart card reader business from Taiwan, the world's well-known place for price competitiveness for electronic products. The Group exports its products directly to over eighty countries in the world and thus it has probably a wider geographical coverage than any other industry participant in the smart card reader market.

The Group has just reached its break-even point in its bottom line. Once the Group is able to increase its sales in the coming quarters through launching its three new products, *ACR88*, *ACR100*, *ACOS5*, and other products in the pipeline, it will reach a better economy of scale and will win good reward in the form of healthy net profits. Furthermore, the company has accumulated an inventory of technologies and technical know-how which will enable the Group to enter into new and bigger market segments in the smart card industry once the Group has got more financial resources.

## Liquidity and Financial Resources

As at 31 March 2006, the Group's cash and cash equivalents amounted to HK\$4.9 million (31 March 2005: HK\$11.8 million) and pledged bank deposits amounted to HK\$1.8 million (31 March 2005: Nil). Out of the HK\$1.8 million pledged bank deposits, HK\$0.7 million was pledged in order to have a performance bond issued by a bank to a customer who gave the Group a prepayment for ordering the Group's products being developed. The balance of HK\$1.1 million was to secure a bank credit line which had not been used as at 31 March 2006. The current ratio, being the ratio of current assets to current liabilities, was maintained at a level of 3.3 (31 March 2005: 4.3). Net asset value as at the end of the review period was HK\$30.4 million (31 March 2005: HK\$29.5 million). As at 31 March 2006, the Group did not have any borrowing.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

### (i) *Interests in issued shares*

Name of director	Ordinary shares of HK\$0.10 each					Total number of shares held	Percentage of the Company's issued share capital as at 31 March 2006
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests			
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	37,714,522	—	—	118,482,522	42.04%	
Ms. Tsui Kam Ling, Alice (Note 3)	37,714,522	80,768,000	—	—	118,482,522	42.04%	
Mr. Tan Keng Boon	2,285,893	—	—	—	2,285,893	0.81%	

#### Notes:

- The shares are registered under the names of the directors who are the beneficial owners.
- 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 37,714,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.
- 37,714,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.



(ii) *Interests in underlying shares*

The directors and chief executive of the Company have been granted options under the share option schemes, details of which are set out in the section "Share option schemes" below.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 March 2006, none of the directors or their associates had any personal, family, corporate or other interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**SHARE OPTION SCHEMES**(i) *Pre-IPO Share Option Plan*

At 31 March 2006, the consultants and employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 March 2006 was HK\$0.081) with an exercise price of HK\$0.09 or HK\$0.24 per share under the Pre-IPO Share Option Plan (the "Plan") of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company.

Grantees	Date granted	Number of share options				Balance as at 31 March 2006	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 March 2006
		Balance as at 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period				
Consultant & Employees	27 October 2003	1,521,745	-	-	-	1,521,745 (Note 1, 2)	10 May 2004 to 24 July 2010	HK\$0.09	0.54%
Employees	27 October 2003	862	-	-	-	862 (Note 2)	10 May 2004 to 27 December 2010	HK\$0.09	0.01%
	27 October 2003	1,100,949	-	-	-	1,100,949 (Note 3)	10 May 2004 to 20 January 2013	HK\$0.24	0.39%
		<u>2,623,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,623,556</u>			

*Notes:*

- 1 1,201,034 share options were granted to a consultant of the Group. All other options were granted to employees of the Group.
- 2 The options vested and were exercisable on 10 May 2004, which was 6 months after the listing date of the Company.

- 3 The options vested and were exercisable in three tranches as follows:
- (a) one-third of the options vested and were exercisable on 10 May 2004;
  - (b) a further one-third of the options vested and were exercisable on 31 December 2004; and
  - (c) the remaining one-third of the options vested and were exercisable on 31 December 2005.
- 4 No option was granted, exercised, cancelled or lapsed during the period.

(ii) *Share Option Scheme*

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Share Option Scheme (the "Scheme"). As at the date of this report, no options had been granted under the Scheme.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed under the paragraphs headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option schemes" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares at 31 March 2006 which as recorded in the register of the Company required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 31 March 2006
Proway Investment Limited ( <i>Note 2</i> )	Beneficial owner	31,740,305 shares (L)	11.26%
Morningside CyberVentures Holdings Limited ( <i>Note 2</i> )	Other	31,740,305 shares (L)	11.26%
Biswick Holdings Limited ( <i>Note 2</i> )	Other	31,740,305 shares (L)	11.26%
Verrall Enterprises Holdings Limited ( <i>Note 2</i> )	Other	31,740,305 shares (L)	11.26%
Verrall Limited ( <i>Note 2</i> )	Other	31,740,305 shares (L)	11.26%
Madam Chan Tan Ching Fen ( <i>Note 2</i> )	Other	31,740,305 shares (L)	11.26%
Mr. Wan Wah Tong, Thomas ( <i>Note 3</i> )	Other	16,815,162 shares (L)	5.97%
Thomrose Holdings (BVI) Limited ( <i>Note 3</i> )	Beneficial owner	16,815,162 shares (L)	5.97%

*Notes:*

- 1 The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the SFO) in shares.
- 2 Proway Investment Limited is wholly owned by Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly owned by Biswick Holdings Limited in its capacity as trustee of a unit trust the units of which are owned by Verrall Enterprises Holdings Limited and Verrall Limited in their capacities as trustees of family trusts established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).
- 3 16,815,162 shares are held by Thomrose Holdings (BVI) Limited (a company which is wholly-owned by Mr. Thomas Wan). Mr. Thomas Wan is taken to be interested in the shares held by Thomrose Holdings (BVI) Limited under the SFO.

Save as disclosed above, as at 31 March 2006 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

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.

## **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 as the code of conduct regarding securities transactions by directors. 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 three months ended 31 March 2006.

## **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 three months ended 31 March 2006.

By order of the Board  
**WONG Yiu Chu, Denny**  
*Chairman*

Hong Kong, 11 May 2006