



Interim Report 2005



Advanced Card Systems Holdings Limited
龍傑智能卡控股有限公司*
(incorporated in the Cayman Islands with limited liability)

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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 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 4 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Mak Chi Him, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; 1 non-executive director, Mr. Wan Wab Tong, Thomas; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Cheong Chung Chin and Mr. Yu Man Woon.

HIGHLIGHTS

- The turnover of the Group for the six months ended 30 June 2005 increased by approximately 49% to approximately HK\$17.8 million from the first half year of 2004.
- The gross profit of the Group for the six months ended 30 June 2005 increased by approximately 33% to approximately HK\$7.3 million from the first half year of 2004 while the gross profit margin dropped by approximately 5 percentage points to approximately 41% for the first half year of 2005.
- The loss attributable to shareholders of the Group reduced to approximately HK\$1.4 million for the first half year of 2005 from approximately HK\$3.0 million in the first half year of 2004.
- The cash and cash equivalents of the Group as at 30 June 2005 amounted to approximately HK\$11.2 million (approximately HK\$17.6 million as at 30 June 2004) and there was no borrowing.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group” or “ACS”) for the six months ended 30 June 2005.

In the half year ended 30 June 2005, the Group achieved an increase of turnover by 49% to HK\$17.8 million from the corresponding figure in the same period last year mainly by securing more orders for PC linked readers and expanding the sales in smart cards. However, because of the reduction in gross profit margin by 5 percentage points and the increase of operating expenses by 9% in this half year compared to the same period a year ago, the Group recorded a net loss of HK\$1.4 million in the first half year.

FINANCIAL REVIEW

The turnover of the Group for the first six months ended 30 June 2005 was HK\$17.8 million, representing an increase of 49% over the same period last year. The Group won more orders of PC linked readers, our flag-ship products, raising the sales by 80%. The Group increased its turnover of smart cards to three times of the figure a year ago from a smaller base. The turnover of other products such as smart card balance readers, smart card/finger print readers, smart card readers with pin-pad, increased by a much lower figure of 16%. No significant order of the Group’s service was recorded in the first half of 2005, hence the drop in the Group’s turnover in “Smart card related services”. Since a significant sale of the Group is normally generated as a result of the successful implementation of a smart card based system using the Group’s products, the Group may record ups and downs of the sales especially of individual product lines. The sales performance should be viewed from a longer perspective.

	Six months ended 30 June		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	Change
Smart cards	2,818	871	+224%
PC linked readers	10,485	5,837	+80%
Other products	4,422	3,823	+16%
	17,725	10,531	
Smart card related services	56	1,363	-96%
	17,781	11,894	

Looking at the geographical breakdown, the Americas region accounted for around 10% of the total turnover despite some increases in the turnover in this region in the first half year. The relatively higher rate of increase in Asia Pacific resulted from the sales mainly in South-east Asia. The opening of an office in Shenzhen, China in January 2005 did not bring significant new sales to the Group yet. The Europe, The Middle East and Africa region has always been an important region for the Group. Every effort is being made to penetrate into the market of each of the main countries in Europe.

	Six months ended		Change
	30 June		
	2005	2004	
	HK\$'000	HK\$'000	
Americas	1,741	934	+86%
Asia Pacific	7,627	3,153	+142%
Europe, The Middle East and Africa	8,413	7,807	+8%
	<u>17,781</u>	<u>11,894</u>	

DIVIDEND

To retain more resources for business development, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005.

BUSINESS REVIEW

China office

In January 2005, the Group opened an office in Shenzhen, China to carry out sales and marketing work targeting China and to assist Hong Kong in product development especially in the hardware development and testing. In the first half year ended 30 June 2005, the Group exerted efforts in enrolling people and by providing them training. By 30 June 2005, the Group had assembled a team of twelve people to serve the Chinese market proactively.

Product development

In the first half year, the Group continued its development of contactless card readers in order to strengthen itself to serve the emerging and rapidly growing market for contactless cards and their readers. After introducing the contactless card reader, *ACR120S*, the Group introduced a new product named *ACR38ET*. It is a USB plug-in smart card reader just like the Group's *ACR38T*, the plug-in USB smart card reader for the PC. However, *ACR38ET* has a contactless smart card chip embedded inside. Thus *ACR38ET* can be used as a smart card reader and at the same time acts as a contactless card. The device can be used in a physical access control system in which it is used as a key and can be used in a logical access control system in which it is used as a smart card reader to accept smart cards, e.g. for getting access to a PC network.

The Group invested a considerable amount of its engineering resources to develop a physical access control device using a 32-bit microprocessor. The device is to be installed on the entry of a door to accept people authenticated by a contactless card or a finger print. A prototype was completed by 30 June 2005.

The Group continued its development of *ACR88*, a smart card reader with pin-pad, accepting smart card and/or finger prints. This is the first portable reader and writer of smart cards that the Group develops and supplies. The Group expects to launch the product in the second half of 2005.

The Group continued to develop a more advanced smart card operating system named *ACOS5* which is a PKI (Public Key Infrastructure) card to target the market of using smart cards to authenticate users to get access to the Internet for secure on-line transactions and services.

Award

Owing to the Group's continuous launching of innovative products to the market, ACS won the *D'ucoty Product Innovation Award* initialized by two independent institutes, namely, the reputable market research institute, Frost and Sullivan and the magazine, CardsNow!Asia.

Customers

In the first half year, the Group secured quite a few orders which are associated with national-wide projects. Examples of these orders are PC linked readers bought by Hong Kong Post, *ACOS2* cards bought by a Middle East country for health card use, balance readers ordered to read the Malaysia national identity cards, and PC linked readers for the Belgium national identity cards. There were several other orders which are worth mentioning as they were from countries from which the Group had not got sizable orders previously. The Group received orders from Brazil for smart card readers, Canada for finger print devices and The Philippines for smart cards.

Trade shows

The Group participated into international trade shows in the world in the first half year of 2005 including the "CeBIT" trade show in March 2005 in Hannover, the "CardTech/SecureTech" exhibition in April 2005 in Las Vegas and "International ICT Expo" in April 2005 in Hong Kong. In May 2005, the Group attended the "CardExAsia 2005 Conference and Exhibition" held in Kuala Lumpur. With the Shenzhen office set up, the Group took a more aggressive approach in promotion. On top of using a diversified approach to reach more customers and potential customers in China, the Group attended "The 8th International Fair of Smart Cards, China SCC 2005" held in Beijing in May 2005.

Environment protection measures

In the second quarter of 2005, the Group formed a work force to deal with the regulations associated with the protection of the environment. The two regulations imposed by the European countries deal with (1) the disposal of waste electrical and electronic equipment, hence called the WEEE regulation and (2) the restriction of hazardous materials, hence called RoHS regulation. Such a compliance to the new regulations entails the increase of the cost of developing, producing and selling the products but the intensity of the impact would not be known until the regulations will take their full effects.

PROSPECTS

The Group recovered moderately from its low sales levels in Year 2004 but the recovery has not significant enough to allow the Group to return to profitability. The prime objective of the Group is to control its existing operating expenses while raising the gross profit amount either by increasing its turnover or increasing its gross profit margin or both. The recovery of the sales of PC linked readers reversed the downward movement experienced a year ago. The benefits resulting from the sales growth of PC linked readers were partially nullified by the drop in gross profit margins. The Group is focusing its resources in developing and promoting new products with anticipated high growth rate in demand. While introducing new products to the market, the Group wants to keep and increase its share of the PC linked reader market. This market probably will last for quite a period of time as a big portion of the world's smart card based national identity cards use the contact rather than the contactless technology. These identity cards usually carry a digital certificate which requires a PC linked reader to handle.

The Group's smart card readers are getting more and more accepted for large scaled projects including nation-wide projects. Even though the orders have yet to grow to large values, the acceptance indicates that the Group can compete for business in high-profiled projects targeted by a number of global players.

Presently the orders placed by customers tend to be not so predictable as their business is often done on project basis, i.e. they would need the Group's products only after the smart card system they are targeting for is put into implementation in commercial scale. The Group is making an endeavour to grow its business to a scale that while the success or failure of individual projects is not considerably predictable, the size of the total business tends to be more predictable. If a substantial number of smart card projects of a considerably size are active, in average in a given period of time there will be a number of successful projects that will generate sales.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Group's cash and cash equivalents amounted to HK\$11.2 million (30 June 2004: HK\$17.6 million). The Group continued to operate under a debt-free status with no outstanding net debt as at 30 June 2005.

The current ratio, being the ratio of current assets to current liabilities, was maintained at a strong level of 3.3 (30 June 2004: 6.6). Net asset value as at the end of the review period was HK\$28.8 million (30 June 2004: HK\$41.2 million). As at 30 June 2005, the Group did not have any borrowing and, accordingly, the gearing ratio was zero (30 June 2004: zero).

CAPITAL STRUCTURE

The Group relies on internal resources and the net proceeds from the Placing as its sources of funding. Most of its cash for use as working capital is kept in bank accounts in Hong Kong dollars and United States dollars.

INVESTMENTS

During the first six months, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have any future plans for material investments or capital assets.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 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 six months ended 30 June 2005. There is no significant exposure to foreign exchange rate fluctuations. No hedging or other alternatives have been implemented during the period.

PLEDGE OF ASSETS

As at 30 June 2005, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group had 61 full-time employees compared to headcount of 42 as at 30 June 2004. The increase in the headcount mainly represented the newly recruited employees in Manila office and Shenzhen office owing to the opening of the offices in the third quarter of 2004 and January 2005 respectively. Staff costs charged to the consolidated profit and loss account amounted to approximately HK\$5.0 million (corresponding period in 2004: approximately HK\$4.2 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.

REVIEW OF BUSINESS OBJECTIVES

BUSINESS PROGRESS

The following is a comparison of the business objectives as set out in the prospectus dated 31 October 2003 and the actual business progress for the period from 1 January 2005 to 30 June 2005.

Business objectives as stated in the prospectus dated 31 October 2003

Enhancing the PC linked readers and developing new products

Strengthening and developing industry alliances

Enhancing the design of customised products with a view to developing more generic products

Expansion of the Group's sales network

Enhancing research and development capacity

Actual business progress for the period from 1 January 2005 to 30 June 2005

The product *ACR38ET* was launched to the market. It is a PC linked reader with built-in electronics to make it also work like a contactless smart card.

Jointly with an IT security solution house, the Group developed a PC linked device with a finger print sensor for PC network security control. The Group developed a balance reader to read the national identity card of Malaysia based on the specification provided by a Malaysian company.

The Group has been engaged busily in the developing and perfection of the smart card reader with pin-pad, *ACR88*. It differs from the existing model of smart card reader with pin-pad, *ACR80*, in that *ACR88* is portable and is programmable in the field. It accepts not only contact smart cards but also contactless smart cards and finger print to cater for a wider scope of applications.

The Group participated in five trade shows in the first half of 2005. The Shenzhen office was established in January 2005 and it had a headcount of 12 people at 30 June 2005 with six people engaged in sales and marketing.

Out of the headcount of 12 people in the Shenzhen office as at 30 June 2005, five of them are engaged in research and development. The *ACR88* device was being built based on a programmable 8-bit platform. With that platform the development work to come up with customized products can be achieved more effectively.

**Business objectives
as stated in the prospectus
dated 31 October 2003**

Exploring additional commercial applications

Building on new market opportunities

Catering to the needs of small and medium-sized customers

**Actual business progress
for the period from
1 January 2005 to 30 June 2005**

The Group supplied smart card balance readers to read the content of the national identity card of Malaysia which is based on smart card. The Group supplied 5,000 ACOS2 smart cards to meet the initial requirement for a health card project in the Middle East.

The Group succeeded in selling to several countries in considerably bigger volume than it had done previously. The Group received orders from Brazil for smart card readers, Canada for finger print devices and The Philippines for smart cards.

Presently the sales through distributors represent a small percentage of the total sales of the Group. The Group started to put more emphasis on the sales channel through distributors to serve the smaller customers.

USE OF PROCEEDS

The net proceeds from the placing of shares upon the listing of the Company which remains unutilized as at 30 June 2005 amounted to HK\$9.0 million.

For the period from 1 January 2005 to 30 June 2005:

	Budgeted <i>HK\$'million</i>	Actual <i>HK\$'million</i>
Product development (<i>Note 1</i>)	1.4	1.0
Sales and marketing	0.7	0.7
Patent copyright and trademark registration	0.2	0.1
Human resources	0.3	0.1
General working capital	0.4	0.4
	<u>3.0</u>	<u>2.3</u>

Note:

- The reduction in development cost is owing to the better utilization of the existing engineering resources than initially budgeted and the delay of the development of *Cbina Tax Terminal* and *Smart Card Balance Reader in compliance with CEPS (Common Electronic Purse System)*.

There are emerging suppliers of China Tax Terminals in China and the Group would be required to get the approval by the Chinese authority before it can supply the product. Less certain of the ability to sell, the Group decided to delay to develop the product.

The Group delayed in developing the *Smart Card Balance Reader in compliance with CEPS*, as the demand of electronic purses was not to the level as anticipated at the time of planning to develop the product. The Group placed more emphasis on developing balance readers for identity cards. In fact, the Group developed and supplied balance readers to a Malaysian company to read the national identity card of Malaysia.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the three months and six months ended 30 June 2005

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	9,918	4,571	17,781	11,894
Cost of sales		(6,191)	(2,495)	(10,460)	(6,404)
		<u>3,727</u>	<u>2,076</u>	<u>7,321</u>	<u>5,490</u>
Other revenue		250	23	607	49
Other net (loss)/income		(16)	5	(28)	(14)
Operating expenses					
Staff costs		(2,465)	(2,291)	(4,970)	(4,243)
Depreciation		(199)	(167)	(397)	(306)
Amortisation of development costs		(310)	(539)	(665)	(971)
Other operating expenses		(1,671)	(1,582)	(3,147)	(2,923)
		<u>(684)</u>	<u>(2,475)</u>	<u>(1,279)</u>	<u>(2,918)</u>
Loss from operations					
Finance costs		(45)	(29)	(77)	(64)
		<u>(729)</u>	<u>(2,504)</u>	<u>(1,356)</u>	<u>(2,982)</u>
Loss from ordinary activities before taxation					
Income tax	3	—	—	—	—
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loss from ordinary activities after taxation and attributable to shareholders		<u>(729)</u>	<u>(2,504)</u>	<u>(1,356)</u>	<u>(2,982)</u>
Loss per share					
— Basic	5	<u>(0.259) cents</u>	<u>(0.891) cents</u>	<u>(0.481) cents</u>	<u>(1.063) cents</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2005

		Unaudited 30 June 2005 <i>HK\$'000</i>	Audited 31 December 2004 <i>HK\$'000</i>
		<i>Note</i>	
Non-current assets			
	Fixed assets	7	1,582
	Development costs	8	7,255
	Deferred tax assets		1,614
			<u>10,451</u>
			<u>9,459</u>
Current assets			
	Inventories		8,666
	Accounts receivable	9	5,574
	Other receivables, deposits and prepayments		924
	Cash and cash equivalents		11,207
	Total current assets		<u>26,371</u>
			<u>25,842</u>
Current liabilities			
	Accounts payable	10	5,447
	Other payables, deposits and accruals		2,575
	Total current liabilities		<u>8,022</u>
			<u>5,145</u>
	Net current assets		<u>18,349</u>
			<u>20,697</u>
	NET ASSETS		<u>28,800</u>
			<u>30,156</u>
CAPITAL AND RESERVES			
	Share capital	11	28,180
	Reserves	12	620
			<u>28,800</u>
			<u>30,156</u>

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Shareholders' equity at 1 January		30,156	43,988
Loss for the period	12	(1,356)	(2,982)
Shares issued upon conversion of share options:			
Shares capital		—	180
Share premium	12	—	(18)
Net increase in shareholders' equity arising from conversion of share options		—	162
Shareholders' equity at 30 June		28,800	41,168

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2005

	Unaudited	
	Six months ended 30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	131	(928)
Net cash used in investing activities	(1,950)	(3,045)
Net cash (used in)/generated from financing activities	(77)	98
Net decrease in cash and cash equivalents	(1,896)	(3,875)
Cash and cash equivalents at 1 January	13,103	21,456
Cash and cash equivalents at 30 June	11,207	17,581

NOTES ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

This condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and 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 preparation of the condensed interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

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

The condensed interim 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 Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations) 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 this interim 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		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	9,865	4,482	17,725	10,531
Smart card related services	53	89	56	1,363
	<u>9,918</u>	<u>4,571</u>	<u>17,781</u>	<u>11,894</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 six months ended 30 June 2005.

4 DIVIDENDS

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

5 LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 30 June 2005 is based on the respective unaudited loss attributable to shareholders of HK\$729,000 and HK\$1,356,000 (2004: HK\$2,504,000 and HK\$2,982,000) and the weighted average of 281,800,255 and 281,800,255 (2004: 280,890,236 and 280,445,118) ordinary shares in issue during the periods.

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

6 **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 period, 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.

Six months ended 30 June 2005

	Development, sale and distribution of smart card products, software and hardware HK\$'000	Provision of smart card related services HK\$'000	Total HK\$'000
Turnover	17,725	56	17,781
Other revenue - unallocated			607
			<u>18,388</u>
Segment results and loss from operations			(1,279)
Finance costs			(77)
Loss from ordinary activities before taxation			(1,356)
Taxation			—
Loss from ordinary activities after taxation			<u>(1,356)</u>
Depreciation and amortisation	<u>1,062</u>	<u>—</u>	<u>1,062</u>

Six months ended 30 June 2004

	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	10,531	1,363	11,894
Other revenue			49
- unallocated			49
			<u>11,943</u>
Segment results and loss from operations			(2,918)
Finance costs			(64)
Loss from ordinary activities before taxation			(2,982)
Taxation			—
Loss from ordinary activities after taxation			<u>(2,982)</u>
Depreciation and amortisation	<u>1,277</u>	<u>—</u>	<u>1,277</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 Pacific, Europe, Africa and the Middle East. Segment information relating to these geographical markets is presented below:

	Turnover	
	Six months ended 30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Americas	1,741	934
Asia Pacific	7,627	3,153
Europe, Africa and the Middle East	8,413	7,807
	<u>17,781</u>	<u>11,894</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 **FIXED ASSETS**

	Leasehold improvements <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Cost:</i>					
At 1 January 2005	378	2,386	242	1,017	4,023
Additions	23	258	48	45	374
Disposals	—	(27)	—	—	(27)
At 30 June 2005	<u>401</u>	<u>2,617</u>	<u>290</u>	<u>1,062</u>	<u>4,370</u>
<i>Accumulated depreciation:</i>					
At 1 January 2005	189	1,500	102	607	2,398
Charge for the period	103	176	29	89	397
Written back on disposals	—	(7)	—	—	(7)
At 30 June 2005	<u>292</u>	<u>1,669</u>	<u>131</u>	<u>696</u>	<u>2,788</u>
<i>Net book value:</i>					
At 30 June 2005	<u>109</u>	<u>948</u>	<u>159</u>	<u>366</u>	<u>1,582</u>
At 31 December 2004	<u>189</u>	<u>886</u>	<u>140</u>	<u>410</u>	<u>1,625</u>

8 **DEVELOPMENT COSTS**

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<i>Cost:</i>		
At beginning of the period/year	15,991	11,762
Additions through internal development during the period/year	<u>1,700</u>	<u>4,229</u>
At the end of the period/year	<u>17,691</u>	<u>15,991</u>
<i>Accumulated amortisation:</i>		
At beginning of the period/year	9,771	2,664
Charge for the period/year	665	2,157
Impairment loss	—	4,950
At the end of the period/year	<u>10,436</u>	<u>9,771</u>
<i>Net book value:</i>		
At the end of the period/year	<u>7,255</u>	<u>6,220</u>

9 **ACCOUNTS RECEIVABLE**

Customers are generally granted credit terms of 30 to 60 days. An ageing analysis of accounts receivable (net of provisions for bad and doubtful debtors) is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current	4,278	2,644
Aged over 1 month but less than 2 months	206	371
Aged over 2 months but less than 3 months	1	72
Aged over 3 months	1,089	1,205
	<u>5,574</u>	<u>4,292</u>

10 **ACCOUNTS PAYABLE**

An ageing analysis of accounts payable is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current	4,097	2,741
Aged over 1 month but less than 2 months	828	44
Aged over 2 months but less than 3 months	236	—
Aged over 3 months	286	294
	<u>5,447</u>	<u>3,079</u>

11 **SHARE CAPITAL**

	Number of shares	Amount HK\$'000
Authorised:		
At 31 December 2004 and 30 June 2005, ordinary shares of HK\$0.10 each	1,000,000,000	100,000
Issued and fully paid:		
At 31 December 2004 and 30 June 2005, ordinary shares of HK\$0.10 each	281,800,255	28,180

12 RESERVES

	Share premium <i>HK\$'000</i>	Merger reserves <i>HK\$'000</i>	Revenue reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	—	—	(2,982)	(2,982)
At 30 June 2004	<u>24,333</u>	<u>4,496</u>	<u>(15,841)</u>	<u>12,988</u>
At 1 January 2005	24,333	4,496	(26,853)	1,976
Loss for the period	—	—	(1,356)	(1,356)
At 30 June 2005	<u>24,333</u>	<u>4,496</u>	<u>(28,209)</u>	<u>620</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\$620,000 at 30 June 2005 (30 June 2004: HK\$12,988,000) analysed as follows:

	Six months ended 30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company	21,331	23,037
Subsidiaries	(25,207)	(14,545)
Merger reserves	<u>4,496</u>	<u>4,496</u>
Group	<u>620</u>	<u>12,988</u>

13 OPERATING LEASE COMMITMENTS

At 30 June 2005, the total future minimum lease payments under non-cancellable operating leases for property rental are payable as follows:

	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i>
Within 1 year	779	1,372
After 1 year but within 5 years	<u>76</u>	<u>153</u>
	<u>855</u>	<u>1,525</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases include contingent rentals.

14 MATERIAL RELATED PARTY TRANSACTIONS

The following represents a summary of material and significant related party transactions during the period between the Group and related parties identified by the directors:

	<i>Note</i>	Six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
Consultancy fees payable	(i)	90	90
Salaries payable	(ii)	135	300

Notes:

- (i) A subsidiary has entered into agreement with Mr. Tong Kam Hung for the provision of consultancy services. The terms of the consultancy fees are determined based on services provided with reference to market rates.

Mr. Tong Kam Hung was interested in the agreement as consultant and shareholder of the Company.

- (ii) A subsidiary paid salaries to Ms. Tsui Kam Ling, Alice for her role as Vice President, Operations of the subsidiary. Ms. Tsui Kam Ling, Alice is a shareholder of the ultimate holding company and the spouse of Mr. Wong Yiu Chu, Denny, a director of the Company. Ms. Tsui Kam Ling, Alice has also been appointed as an executive director of the Company on 23 March 2005.

The salaries payable of HK\$135,000 above represented the salaries paid to Ms. Tsui Kam Ling, Alice during the period from 1 January 2005 to 22 March 2005.

The terms of the above transactions are mutually agreed between the respective related parties and the subsidiary.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary course of business.

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

At 30 June 2005, 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (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 30 June 2005
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests		
Mr. Wong Yiu Chu, Denny (Note 2)	6,773,831	2,882,481	105,706,210	—	115,362,522	40.94%
Ms. Tsui Kam Ling, Alice (Note 3)	2,882,481	112,480,041	—	—	115,362,522	40.94%
Mr. Tan Keng Boon	6,845,893	—	—	—	6,845,893	2.43%
Mr. Wan Wah Tong, Thomas (Note 4)	2,402,068	—	17,615,162	—	20,017,230	7.10%

Notes:

- The shares are registered under the names of the directors who are the beneficial owners.
- Of these shares, 105,706,210 shares are held by D&A Holdings Limited (a company which is owned as to 70% by Mr. Denny Wong and as to 30% by his wife, Ms. Tsui Kam Ling, Alice) and 2,882,481 shares are held by Ms. Tsui Kam Ling, Alice personally. Mr. Denny Wong is taken to be interested in these shares under the SFO.
- Of these shares, 105,706,210 shares are held by D&A Holdings Limited and 6,773,831 shares are held by her husband, Mr. Denny Wong personally. Ms. Tsui Kam Ling, Alice is taken to be interested in these shares under the SFO.
- Of these shares, 17,615,162 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 these shares 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 30 June 2005, 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 30 June 2005, the consultants and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2005 was HK\$0.105) 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 30 June 2005	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 June 2005
		Balance as at 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period				
Consultants & Employees	27 October 2003	1,521,745	–	–	–	1,521,745 (Note 1)	10 May 2004 to 24 July 2010	HK\$0.09	0.54%
Employees	27 October 2003	862	–	–	–	862	10 May 2004 to 27 December 2010	HK\$0.09	0.01%
	27 October 2003	1,291,114	–	–	190,165 (Note 3)	1,100,949 (Note 2)	10 May 2004 to 20 January 2013	HK\$0.24	0.39%
		<u>2,813,721</u>	<u>–</u>	<u>–</u>	<u>190,165</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 will vest and be exercisable in three tranches as follows:
 - (a) one-third of the options have vested and be exercisable on 10 May 2004;
 - (b) a further one-third of the options have vested and be exercisable on 31 December 2004; and
 - (c) the remaining one-third of the options will vest and be exercisable on 31 December 2005.
- 3 The options lapsed upon the resignation of 4 participants from the Group.
- 4 No option was granted or cancelled 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 30 June 2005 which as recorded in the register of interests 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 30 June 2005
D & A Holdings Limited	Beneficial owner	105,706,210 shares (L)	37.51%
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%
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%
Thomrose Holdings (BVI) Limited	Beneficial owner	17,615,162 shares (L)	6.25%

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 Verrall Limited in its capacity as trustee of a family trust 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).

Save as disclosed above, as at 30 June 2005 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.

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 June 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 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. Save as disclosed above, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2005.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 3 August 2005