



Advanced Card Systems Holdings Limited
龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)



* For identification only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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.



CONTENTS

Corporate Information	2
Chair man’s Statement	3
Management Discussion and Analysis	5
Review of Business Objectives	9
Dir ectors and Senior Management	11
Repor t of the Dir ectors	14
Auditors’ Report	26
Consolidated Pr ofit and Loss Account	27
Consolidated Balance Sheet	28
Balance Sheet	29
Consolidated Statement of Changes in Equity	30
Consolidated Cash Flow Statement	31
Notes on the Financial Statements	33
Financial Summary	71
Notice of Annual General Meeting	72



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wong Yiu Chu, Denny (*Chairman*)
Mr. Pang Wang Kee, Lawrence
Mr. Tan Keng Boon

Non-executive Director

Mr. Wan Wah Tong, Thomas

Independent Non-executive Directors

Dr. Yip Chak Lam, Peter
Mr. Cheong Chung Chin

AUTHORISED REPRESENTATIVES

Mr. Wong Yiu Chu, Denny
Mr. Pang Wang Kee, Lawrence

COMPANY SECRETARY

Mr. Lee Yip Wah, Peter, *B.A., solicitor*

QUALIFIED ACCOUNTANT

Ms. Wong Mei Ki, Maggie, *ACCA, AHKSA*

COMPLIANCE OFFICER

Mr. Wong Yiu Chu, Denny

AUDIT COMMITTEE

Dr. Yip Chak Lam, Peter (*Chairman*)
Mr. Cheong Chung Chin
Mr. Wong Yiu Chu, Denny

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Charter Road
Central, Hong Kong

SPONSOR

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong

REGISTERED OFFICE

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2910-2913, 29/F
The Center
99 Queen's Road Central
Hong Kong

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited
189-191 King's Road
North Point, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.acs.com.hk

STOCK CODE

8210

CHAIRMAN'S STATEMENT



I am delighted to present our first annual results after successful listing on the GEM of The Stock Exchange of Hong Kong Limited in November 2003. The Group achieved a net profit of HK\$11.8 million for the year ended 31 December 2003, 18% more than the profit forecast as set out in the prospectus and almost four times the net profit level of HK\$3.0 million reported for the previous year.

Since our establishment in 1995, the Group has been engaged in the development and supply of smart card technologies and products with an initial focus on readers to be used for access control to the PC and to the Internet. As the PC linked reader was our flagship product, we endeavored to get this product internationally recognised; and we have received a number of accreditations from international organisations. With our reputation gradually built as a world leader of PC linked readers, the Group attracted customers and extended its product base by developing products for them. Alternatively, the Group may build a strategic alliance with them to develop products jointly. Now the Group is supplying products to over sixty countries around the world including countries in the Americas, Asia, Europe, Africa and the Middle East.

In 2003 the Group received the "Growth Strategy Leadership" Award from Frost & Sullivan, for our exceptional growth strategies within the industry. We were also named as the world's fourth leading industry participant for smart card readers linked to personal computers in 2002. The recognition by this renowned independent USA-based market research firm has further enhanced our reputation.

By now we have established our foundations for future growth. The Group is now a publicly listed company with a healthy financial position, with new cash injected from the listing on top of a positive cash flow and no bank borrowings. We have also developed a set of smart card technologies and built a solid customer base. Most importantly, the Group has brought together a number of talented people in Hong Kong.

Furthermore, in the particular industry in which we are engaged, we are in a unique position in the world of being able to develop and build, at a relatively rapid rate, electronic products containing the Group's technology "building blocks" catering to the specific requirements of individual customers. These building blocks include our contact card readers, contactless card readers, pin-pads for password entry, finger print scanners, etc. They can be selected and integrated not only to make a more sophisticated smart card product, such as a Point of Sales ("POS") terminal but also to create brand new products such as safes opened by the touch of a finger or door-locks for hotels opened by a contactless card.

Since our listing to the date of this report, the Group has employed several more people who bring with them enviable technical know-how and marketing expertise which supplement our existing skills. We are now getting closer to economies of scale in Hong Kong for better operational efficiencies and enabling us to offer systematic training to employees especially new ones.

Notwithstanding the impact of the expansion of the Group, the induction of new staff members, and the dynamics of the market and the technologies, one thing that remains unchanged in the Group is our emphasis on quality and customer satisfaction. The Group has been able to retain basically all its key customers as a result of the strenuous efforts, the creativity and the drive of our people to serve them. Our customers bring us new product ideas, new technologies, new sales channels and, in short, business opportunities today and tomorrow.



CHAIRMAN'S STATEMENT

Finally, the resilience, talent and dedication of those who work for the Group have been the engine driving our success. The Board would like to take this opportunity to recognise the efforts of all our staff and to express our sincere appreciation. With the commitment of our staff and the support from our customers, vendors and shareholders, I am confident that we are well on the road to attain greater achievements in the future.

WONG Yu Chu, Denny

Chairman & CEO

Hong Kong, 15 March 2004

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 HK\$27.8 million in 2002 to 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 reduced 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 in 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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 AN 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, which 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, Advanced Card Systems ("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.

MANAGEMENT DISCUSSION AND ANALYSIS



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 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 the United States with over 400 institutes, including hospitals, regional medical centers and health management organisations, targeted for this medical ID system solution in coming year, each institute requiring potentially from 1,000 to 10,000 plus smart card ID users. The project will bring new opportunities for the Group to promote its smart card readers to other institutes 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 getting larger business 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 the 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, and *contactless PC linked reader*. 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 or license third party smart card related 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' profile and helping ACS to achieve its business objectives.



MANAGEMENT DISCUSSION AND ANALYSIS

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 status 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 for 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.

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 10 November 2003 (the listing date) to 31 December 2003.

Business objectives as stated in the prospectus dated 31 October 2003

Actual business progress for the period from 10 November 2003 to 31 December 2003

Enhancing the PC linked readers and developing new products

The Group started the development of the following products:

- 1) *Chip Card Interface Device ("CCID")* reader which will work with the Microsoft class driver for Windows 2000, XP and 2003. The CCID driver will be installed automatically and the CCID reader can work immediately.
- 2) *Card viewer*, a type of smart card balance reader with a bigger LCD display (as compared to the existing smart card balance reader) with up to 8 lines of 16 characters. It also has 16 key pads to achieve user-friendly man-machine interface so that the user can select the items to be viewed.

Strengthening and developing industry alliances

The Group and a system integrator in Serbia and Montenegro worked closely and got the Group's smart card readers with pin-pad *ACR80* qualified for the National Identity card project.

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

The Group incorporated GPRS capability in devices supplied to a customer in South Africa. Also it integrated a contactless reader module into smart card readers with pin-pad so that it can be used as an interface to banking POS terminal in order to accept contactless cards in addition to magnetic striped cards.

Expansion of the Group's sales network

In November 2003, the Group participated in *Cartes* which is an international trade show held in France. The Group exhibited its latest products like *BioTrustKey* and *AC-Mifare Terminal*. Also, the Group started the process of employing additional experienced sales and marketing people for future business growth.

Enhancing research and development capability

The Group recruited new members to join the product design and development team.



REVIEW OF BUSINESS OBJECTIVES

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 10 November 2003 to 31 December 2003

The Group explored the possibility of integrating PC linked readers, smart card readers with pin-pad and smart card/finger print readers in physical access control such as access to safes by the touch of a finger.

The Group looked into the opportunities for selling contact smart cards and smart card operating systems and PC linked readers in cyber cafe in the Mainland of China.

The Group was preparing other software development kits ("SDK") including the one for *AC-Mifare Terminal* so that customers can learn how to use the Group's devices without a lot of support from the Group.

USE OF PROCEEDS

The Group raised approximately HK\$25.0 million through the placing of shares upon the listing of the Company. After deducting related expenses, net proceeds were approximately HK\$17.0 million.

For the period from the 10 November 2003 (the listing date) to 31 December 2003:

	Budgeted <i>HK\$ million</i>	Actual <i>HK\$ million</i>
Product development (<i>Note 1</i>)	0.3	0.1
Sales and marketing	0.2	0.1
Patent copyright and trademark registration	0.1	—
Human resources	0.1	0.1
Relocation of Hong Kong office (<i>Note 2</i>)	0.2	—
General working capital	0.2	0.2
	<u>1.1</u>	<u>0.5</u>

Notes:

- 1 The Group has spent less than planned in developing products as a result of the cost savings in new casing design and moulding.
- 2 The relocation of Hong Kong office was delayed to January 2004.

DIRECTORS AND SENIOR MANAGEMENT



EXECUTIVE DIRECTORS

Mr. WONG Yiu Chu, Denny

Mr. Denny Wong, aged 56, is the chairman and chief executive officer of the Company. Mr. Wong founded ACS in December 1995. In 1985, Mr. Wong founded his previous company, Advanced Electronics Limited, which distributed semiconductor components of Motorola Semiconductors (Hong Kong) Ltd., and provided design and application engineering services to manufacturers of consumer, industrial and telecommunication products. Later in 1997, Mr. Wong disposed of his entire shareholding interest in Advanced Electronics Limited to Future Electronics Holdings Inc., an electronic component distributor based in Canada and was appointed as its general manager for its distribution business in China during the period from July 1997 to April 2000. In March 1999, D&A Holdings Limited, in which Mr. Wong has a controlling interest and of which he is a director, was appointed as a director of ACS. In June 2000, he became the chief executive officer of ACS. Mr. Wong obtained a bachelor of science degree in physics in 1972 and a masters degree in business administration in 1975 from The Chinese University of Hong Kong.

Mr. PANG Wang Kee, Lawrence

Mr. Lawrence Pang, aged 53, joined the Group as a director of ACS in July 2001. Mr. Pang is mainly responsible for developing sales and marketing activities. Mr. Pang has extensive experience in the sales and marketing of various products and services and is a founding member of the Hong Kong Institute of Marketing. Mr. Pang was the Sales Manager of René Friedlin Far East Ltd., a Swiss based trading company in 1980 and 1981, and later the Marketing and Sales Manager of Longman Group (Far East) Limited until 1988. In the subsequent two years, Mr. Pang was the Product Manager of Self Service Banking Limited at Canadian Imperial Bank of Commerce in Canada. From 1990 to 1999, Mr. Pang was the Deputy Managing Director of Laser Computer Limited, which was engaged in the distribution of computer peripherals and accessories. During the period from 1999 to 2001, Mr. Pang was the chief executive officer of Digital Vision Technologies Ltd. and Digital Heritage Publishing Ltd., both of which were engaged in publishing and the provision of web content related services. Mr. Pang obtained a bachelor of science degree from the University of Hong Kong in 1973, a masters degree of business administration from The Chinese University of Hong Kong in 1975 and a Diploma in Marketing from the Institute of Marketing, the United Kingdom (subsequently renamed as the Chartered Institute of Marketing) in 1977.

Mr. TAN Keng Boon

Mr. Tan Keng Boon, aged 45, joined the Group in October 1999 as a full-time consultant of ACS and has become a full-time employee and the chief technical officer of ACS since May 2003 and an executive director since 25 October 2003. Mr. Tan's responsibility has not changed as a result of changes in his position from a consultant to an employee of the Group. Mr. Tan is responsible for the implementation of a technical sales and marketing programme for existing and prospective customers of ACS. He has been involved actively in defining the product development road map of ACS and leading the engineering team in the development of new products. Previously, Mr. Tan worked for Gemplus Technologies Asia Pte Ltd. and De La Rue Systems Asia Pte Ltd., both of which are subsidiaries of established companies in the smart card industry. This past working experience of Mr. Tan has allowed him to develop a network of contacts with system solution providers as well as smart card and terminal vendors which are potential customers of the Group. Mr. Tan obtained a bachelor of engineering degree from the National University of Singapore in 1983.



DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. WAN Wah Tong, Thomas

Mr. Thomas Wan, aged 43, joined the Group as a non-executive director of ACS in March 1999 and a director of the Company in April 2000. Mr. Wan is the chairman and chief executive officer of Hectrix Limited which is an information solution house that develops and sells security devices using smart card technology. Hectrix Limited is not in competition with the Group as it manufactures an entirely different line of smart card related finished products like authentication devices catering for wholesalers or end users. From 1998 to 2000, Mr. Wan served as a director and vice president of the NASDAQ-listed SRS Labs, Inc., a technology solution provider specialising in electronic appliances. During the same period, Mr. Wan was also a director and chief executive officer of Valence Technology Limited, a distributor of semiconductor products in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. YIP Chak Lam, Peter

Dr. Peter Yip, aged 53, was appointed as an independent non-executive director on 25 October 2003. He was awarded a bachelor of science degree, a master of philosophy degree and a doctor of philosophy degree, all in electronic engineering. He worked for Cable & Wireless in Hong Kong before he entered into teaching at Nanyang Technological Institute in Singapore in 1981. He joined and further pursued his academic career at City Polytechnic of Hong Kong (which later became City University of Hong Kong) from 1985 to 1994. During this period he started to engage in many telecommunications network and product design consultancy projects until he joined Hutchison in January 1995. In Hutchison, he was first put in charge of the engineering development and operations of its paging network, then stayed with the "Fixed Network" through the era of Hutchison Telecommunications (HK) Limited to Hutchison Global Crossing Limited ("HGC") until he retired in August 2002. He has been involved in all aspects in the building up and in the running of the "Fixed Network". He is widely acknowledged by peers as the main driving force of HGC. Dr. Yip is a Chartered Engineer and a fellow of the Institution of Electrical Engineers (IEE) of the United Kingdom. He has had one book and over 40 technical papers published.

Mr. CHEONG Chung Chin

Mr. Cheong Chung Chin, aged 44, was appointed as an independent non-executive director on 25 October 2003. He has over eight years of experience in the smart card and electronics industry in Asia. Mr. Cheong joined Singapore Electronic and Engineering Pte Ltd., a solution house based in Singapore and a subsidiary of Singapore Technologies Pte Ltd., as a sales engineer in July 1985. Mr. Cheong was a marketing manager from 1994 to 1995 at Siemens Components Pte Ltd. which offered smart card based solutions. Mr. Cheong joined De La Rue Systems Asia Pacific Pte Limited as a general manager in 1997 and he was its President, Asia from January 1998 to October 1999. De La Rue Systems Asia Pacific Pte Limited is engaged in the printing of, among other things, bank notes, cheques, and confidential documents for governments and financial institutions and the provision of solutions for card systems. In October 1999, Mr. Cheong joined Oberthur Smart Cards (Asia) Pte Limited which acquired the card system division of De la Rue Systems Asia Pacific Pte Limited, a supplier of smart cards used in GSM mobile telephones. Mr. Cheong is now working for Oberthur Smart Cards (Asia) Pte Limited. Mr. Cheong was awarded a bachelor of science degree from the National University of Singapore in 1983.

DIRECTORS AND SENIOR MANAGEMENT



SENIOR MANAGEMENT

Ms. WONG TSUI Kam Ling, Alice

Ms. Alice Wong, aged 51, joined the Group in September 1998 as a vice president, operations of ACS and is mainly responsible for supervising the sourcing of raw materials, product production by independent manufacturers, product quality control and logistics of the delivery of finished products to customers. Prior to joining the Group, Ms. Alice Wong was a director of Advanced Electronics Limited until 1997 which distributed semiconductor components. She was later appointed as the administration manager of Future Advanced Electronics (Hong Kong) Limited from July 1997 to September 1998. Ms. Alice Wong took up a teaching career at Tak Oi Secondary School from 1975 to 1983. Ms. Alice Wong graduated from The Chinese University of Hong Kong with a bachelor of arts degree in 1975. She is the spouse of Mr. Denny Wong.

Mr. Joachim GOEBEL

Mr. Joachim Goebel, aged 45, joined the Group in November 2001 as a project manager in product development. Mr. Goebel had over fourteen years of experience in the electronic equipment industry. From 1988 to 1990, he was employed by Cubit Informationsysteme GmbH Duisburg in Germany to develop devices and machines for encoding and manipulating magnetic strip and chip cards. From 1998 to 2000, he specialised in developing an electronic control for Helbako GmbH & Co., an automobile supplier company in Germany. Mr. Goebel received a degree in general electrotechnics from the University of Wuppertal in June 1986. Mr. Goebel resigned from the Group in January 2004 for personal reasons.



REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2003.

GROUP REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET

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. 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 shares of the Company have been listed on the GEM since 10 November 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiary are set out in note 16 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiary during the year are set out in note 12 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	14%	—
Five largest customers in aggregate	42%	—
The largest supplier	—	41%
Five largest suppliers in aggregate	—	62%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.



REPORT OF THE DIRECTORS

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2003 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 27 to 70.

The directors do not recommend the payment of a dividend for the year ended 31 December 2003.

RESERVES

Profit attributable to shareholders of HK\$11,753,000 (2002: HK\$3,016,000) has been transferred to reserves. Details of the movements in the reserves of the Group and the Company during the year are set out in note 24 on the financial statements.

CHANGE OF COMPANY'S NAME

By a special resolution dated 22 May 2003, the name of the Company was changed from Advanced Card Systems (Cayman) Limited to Advanced Card Systems Holdings Limited.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 14 on the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 22 and 23 on the financial statements respectively. Shares were issued during the year to broaden the capital base of the Company.

DIRECTORS

The directors who held the office during the year and up to the date of this report were:

Executive Directors

Mr. Wong Yiu Chu, Denny (appointed as Chairman on 27 October 2003)

Mr. Pang Wang Kee, Lawrence

Mr. Tan Keng Boon (appointed on 25 October 2003)

Non-executive Director

Mr. Wan Wah Tong, Thomas

Mr. Yuen Chi Kwan, Thomas (resigned on 29 May 2003)

Mr. Lai Tze Chuen, Gary (resigned on 10 March 2003)

Independent Non-executive Directors

Dr. Yip Chak Lam, Peter (appointed on 25 October 2003)

Mr. Cheong Chung Chin (appointed on 25 October 2003)

In accordance with Article 115 of the Company's Articles of Association, all the existing directors of the Company will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.



REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years commencing on 27 October 2003 and shall continue thereafter unless and until terminated in accordance with the terms of the agreement. Under the agreement, either party may terminate the agreement at any time by giving to the other not less than six months' prior written notice.

The non-executive director and independent non-executive directors were appointed by the board of directors on 25 October 2003 for a term of two years commencing on 25 October 2003.

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

At 31 December 2003, 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 Rule 5.40 to 5.58 of the Rules Governing the Listing of Securities on GEM 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 31 December 2003
	Personal interests	Family interests	Corporate interests	Other interests			
Mr. Wong Yiu Chu, Denny (Note 1)	6,773,831	2,882,481	105,706,210	—	115,362,522	41.20%	
Mr. Pang Wang Kee, Lawrence (Note 2)	6,863,052	—	—	—	6,863,052	2.45%	
Mr. Tan Keng Boon	6,845,893	—	—	—	6,845,893	2.44%	
Mr. Wan Wah Tong, Thomas (Note 3)	2,402,068	—	17,615,162	—	20,017,230	7.15%	

REPORT OF THE DIRECTORS



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

(i) Interests in issued shares (continued)

Notes:

- 1 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. Wong Tsui Kam Ling, Alice) and 2,882,481 shares are held by Ms. Alice Wong personally. Mr. Denny Wong is taken to be interested in these shares under the SFO.
- 2 The interest disclosed herein does not include the 1,601,378 shares subject to the options granted to him pursuant to the Pre-IPO Share Option Plan.
- 3 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.

SHARE OPTION SCHEMES

(i) Terminated share option scheme

Pursuant to the share option scheme of the Company adopted on 25 July 2000 ("terminated share option scheme"), the board of directors of the Company may grant options to any directors, full time employees, consultants and advisors of the Company or its subsidiary to subscribe for ordinary shares in the Company. The maximum number of shares in respect of which options may be granted shall not exceed 15% of the entire issued share capital of the Company from time to time. Details of the share options held by the directors as at 31 December 2003 were as follows:

Grantees	Name of directors	Date granted	No. of share options				Balance as at 31 December 2003	Period during which options exercisable	Exercise price per share
			Balance as at 1 January 2003	Granted during the year	Exercised during the year	Cancelled or lapsed during the year			
Directors	Mr. Wong Yiu Chu, Denny	25 July 2000	300,000	—	300,000	—	—	25 July 2000 to 24 July 2010	US\$0.10
	Mr. Pang Wang Kee, Lawrence	3 December 2001	200,000	—	—	200,000 (Note 1)	—	3 December 2001 to 2 December 2011	US\$0.264 (HK\$2.00)
	Mr. Wan Wah Tong, Thomas	25 July 2000	300,000	—	300,000	—	—	25 July 2000 to 24 July 2010	US\$0.10
	Mr. Tan Keng Boon	25 July 2000	150,000	—	150,000	—	—	25 July 2000 to 24 July 2010	US\$0.10
		21 January 2003	—	25,000	25,000	—	—	21 January 2003 to 20 January 2013	HK\$2.00
Employees, consultants and advisors in aggregate	Mr. Yuen Chi Kwan, Thomas	25 July 2000	150,000	—	150,000	—	—	25 July 2000 to 24 July 2010	US\$0.10
		25 July 2000	800,000	—	200,000	600,000 (Note 1 and 2)	—	25 July 2000 to 24 July 2010	US\$0.10
		28 December 2000	65,000	—	—	65,000 (Note 1)	—	28 December 2000 to 27 December 2010	US\$0.10
		21 January 2003	—	321,250	120,000	201,250 (Note 1)	—	21 January 2003 to 20 January 2013	HK\$2.00
			1,965,000			—			



REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

(i) Terminated share option scheme *(continued)*

Note:

- 1 The share option scheme adopted on 25 July 2000 was terminated and replaced by the Pre-IPO Share Option Plan on 27 October 2003.
- 2 Included in options granted on 25 July 2000 were 250,000 options held by certain former employees lapsed during the year ended 31 December 2003 upon their resignation from the Group in accordance with the terms of the terminated share option scheme.
- 3 Mr. Yuen Chi Kwan, Thomas resigned as a director of the Company on 29 May 2003.

(ii) Pre-IPO Share Option Plan

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Pre-IPO Share Option Plan (the "Plan").

(a) *Purpose of the Plan*

The purpose of the Plan is to recognise the contribution of certain existing and past employees, directors of the Company and consultants of the Group to the growth of the Group and/or to the listing of the shares on GEM and for the purpose of cancellation of the terminated share option scheme.

(b) *Participants of the Plan*

All options granted under the Plan were granted to those directors, employees and consultants which held options granted to them under the terminated share option scheme and which were outstanding immediately prior to the cancellation of such scheme as consideration for their agreement to cancel these outstanding options.

(c) *Total number of shares available for issue under the Plan*

The maximum number of shares in respect of which options may be granted under the Plan shall be 6,535,631 shares, which represents approximately 2.33% of the issued share capital as at 15 March 2004.

(d) *Period within which the shares must be taken up under an option*

Any option may be exercised in accordance with its terms at any time during a period to be notified by the Board to each grantee provided that the period within which the option must be exercised shall be not more than 10 years from the date of grant of the option.

(e) *Payment on acceptance of the option offer*

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant from the Offer Date to such date as the Board determined and specified in the Offer Letter, both days inclusive.

(f) *Basis of determining the exercise price*

The exercise price per share is HK\$0.09 or HK\$0.24.

REPORT OF THE DIRECTORS



SHARE OPTION SCHEMES (continued)

(ii) Pre-IPO Share Option Plan (continued)

(g) Remaining life of the Plan

The Plan was valid and effective for a period commencing on the 27 October 2003 and ending on the day immediately prior to the Listing Date (both dates inclusive), after which period no further options may be granted but in respect of all options which have been granted prior to the end of such period, the provisions of the Plan shall remain in full force and effect.

At 31 December 2003, the directors, consultants and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2003 was HK\$0.184) with an exercise price of HK\$0.09 or HK\$0.24 per share under 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 December 2003	Period during which options exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 December 2003
		Balance as at 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year				
1 director	27 October 2003	—	1,601,378 (Note 1)	—	—	1,601,378	10 November 2004 to 2 December 2011	HK\$0.24	0.57%
15 employees and 2 consultants	27 October 2003	—	2,802,413	—	—	2,802,413	10 May 2004 to 24 July 2010	HK\$0.09	1.00%
	27 October 2003	—	520,449	—	—	520,449	10 May 2004 to 27 December 2010	HK\$0.09	0.19%
	27 October 2003	—	1,411,218 (Note 4)	—	—	1,411,218	10 May 2004 to 20 January 2013	HK\$0.24	0.50%
	27 October 2003	—	200,173 (Note 5)	—	—	200,173	31 December 2004 to 20 January 2013	HK\$0.24	0.07%
			<u>6,535,631</u>			<u>6,535,631</u>			

Notes:

- The 1,601,378 share options were granted to a director, Mr. Pang Wang Kee, Lawrence. All other options were granted to employees and consultants of the Group.
- The market value per share at the date of grant of the options was HK\$0.32 which was the issue price of the Company's placing shares on the listing on GEM.
- None of the share options has been exercised during the year ended 31 December 2003.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

(ii) Pre-IPO Share Option Plan *(continued)*

- 4 The options will vest and be exercisable in three tranches as follows:
- (i) one-third of the options will vest and be exercisable on 10 May 2004;
 - (ii) a further one-third of the options will vest and be exercisable on 31 December 2004; and
 - (iii) the remaining one-third of the options will vest and be exercisable on 31 December 2005.
- 5 The options will vest and be exercisable in two tranches as follows:
- (i) 50% of the options will vest and be exercisable on 31 December 2004; and
 - (ii) the remaining 50% of the options will vest and be exercisable on 31 December 2005.

(iii) 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 to the directors under the Scheme.

(a) *Purpose of the Scheme*

The purpose of the Scheme is to provide the people and the parties working for the interest of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with incentives to work better for the interest of the Group.

(b) *Participants of the Scheme*

Pursuant to the Scheme, the Company may grant options to any directors, employees, suppliers, advisors or consultants engaged by or working for any member of the Group, who have in accordance with paragraph (a) above, contributed to the Group.

(c) *Total number of shares available for issue under the Scheme*

- (1) At the time of adoption of the Scheme, the Company may seek approval of its shareholders in a general meeting to authorise the directors of the Company to grant options under the Scheme and any other share option schemes of the Company in issue entitling the Grantees to exercise up to an aggregate of 10% (the "Scheme Mandate Limit") of the total number of shares in issue immediately following completion of the Placing (excluding (i) any shares issued pursuant to the Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further shares issued in respect of those shares mentioned in (i)) unless the Company obtains a fresh approval from its shareholders pursuant to sub-paragraph (2) below. Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

REPORT OF THE DIRECTORS



SHARE OPTION SCHEMES *(continued)*

(iii) Share Option Scheme *(continued)*

(c) *Total number of shares available for issue under the Scheme (continued)*

- (2) The Company may seek approval of its shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of shares in respect of which options may be granted by the directors of the Company under the Scheme and any other share option schemes of the Company in issue shall not exceed 10% (the "Refreshed Limit") of the issued share capital of the Company at the date of approval to refresh such limit (excluding (i) any shares issued pursuant to the Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further shares issued in respect of those shares mentioned in (i)). Options previously granted under the Scheme (including those outstanding, cancelled, lapsed in accordance with the Scheme or exercised options) shall not be counted for the purpose of calculating the Refreshed Limit.
- (3) The Company may seek separate approval by its shareholders in general meeting for granting options beyond the Scheme Mandate Limit or, if applicable, the Refreshed Limit provided the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

(d) *Maximum entitlement of each Participant*

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Scheme and any other share option schemes of the Company to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of shares in issue. Any further grant of options which will result in such limit being exceeded shall be subject to the separate approval of the shareholders of the Company in general meeting, at which such Participant and his associates shall abstain from voting.

(e) *Time of exercise of options*

An option may be exercised in accordance with the terms of the Scheme at any time during a period of not more than 10 years to be notified by the Board to each Grantee, which period shall commence on the date on which an offer of the grant of an option is accepted or deemed to be accepted in accordance with the terms of the Scheme and expire on the last day of such period as determined by the Board.

(f) *Payment on acceptance of the option offer*

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant from the Offer Date to a date being the fourteenth day after the Offer Date (or such other date as may be specified in the Offer Letter), both days inclusive.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(continued)*

(iii) Share Option Scheme *(continued)*

(g) Basis of determining the exercise price

The subscription price in respect of each share issued pursuant to the exercise of options granted hereunder shall be a price determined by the Board and notified to a Participant and shall be no less than the highest of :- (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the Offer Date; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five consecutive Trading Days immediately preceding the Offer Date (provided that the new issued price for the listing of the shares shall be used as the closing price for any Trading Day falling within the period before listing of the shares if the shares have been listed for less than 5 Trading Days before the Offer Date); and (iii) the nominal value of a share.

(h) Remaining life of the Scheme

The Scheme will remain valid for a period of 10 years commencing 27 October 2003, after which period no further options will be granted but in respect of all options which remain exercisable at the end of such period, the provisions of the Scheme shall remain in full force and effect.

(iv) Valuation of share options

The share options granted are not recognised in the financial statements until they are exercised. The directors consider that it is not appropriate to state the value of the share options granted during the year on the ground that a number of variables which are crucial to the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2003, 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 Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS



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 year 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 December 2003 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 31 December 2003
D & A Holdings Limited	Beneficial owner	105,706,210 shares (L)	37.75%
Ms. Alice Wong (Note 2)	Personal	2,882,481 shares (L)	41.20%
	Family	112,480,041 shares (L)	
Proway Investment Limited (Note 3)	Beneficial Owner	31,740,305 shares (L)	11.34%
Morningside CyberVentures Holdings Limited (Note 3)	Other	31,740,305 shares (L)	11.34%
Verrall Limited (Note 3)	Other	31,740,305 shares (L)	11.34%
Madam Chan Tan Ching Fen (Note 3)	Other	31,740,305 shares (L)	11.34%
Thomrose Holdings (BVI) Limited	Beneficial owner	17,615,162 shares (L)	6.29%

Notes:

- 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.
- 105,706,210 shares are held by D&A Holdings Limited, 2,882,481 shares are held by Ms. Alice Wong personally and 6,773,831 shares are held by her husband, Mr. Denny Wong personally. Ms. Alice Wong is taken to be interested in the shares held by Mr. Denny Wong and D&A Holdings Limited under the SFO.
- 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 will be 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 31 December 2003 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.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

The subsidiary paid rental of HK\$48,000 to United Animal Exchange Limited ("UAEL") for the period from 1 January to 28 February 2003. Mr. Wong Yiu Chu, Denny is interested in the agreement as a director of the Company and a director and shareholder of UAEL.

Save as disclosed above, no contracts of significance in relation to the Group's business to which the Company, its subsidiary, its fellow subsidiaries or its holding Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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.

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.

BANK LOANS AND OTHER BORROWINGS

The Company and its subsidiary had no bank loans and other borrowings during the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 71 of the annual report.

RETIREMENT SCHEMES

With effect from 1 December 2000, the Group has participated in the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% of their monthly relevant income, up to HK\$1,000 per month. Contributions of the Group to the MPF Scheme are charged to the profit and loss account as incurred. During the year, the retirement scheme contributions borne by the Group amounted to HK\$254,000 (2002: HK\$222,000).



REPORT OF THE DIRECTORS

SPONSOR'S INTERESTS

Neither the Company's sponsor, Anglo Chinese Corporate Finance, Limited (the "Sponsor"), 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 31 December 2003 pursuant to Rule 6.35 of the GEM Listing Rules.

Pursuant to the sponsor agreement dated 30 October 2003 entered into between the Company and the Sponsor, the Sponsor receives a fee for acting as the Company's retained sponsor for the period from 10 November 2003 to 31 December 2005.

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.

AUDIT COMMITTEE

The Company established an audit committee on 27 October 2003 with written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors namely, Dr. Yip Chak Lam, Peter and Mr. Cheong Chung Chin and one executive director, Mr. Wong Yiu Chu, Denny and reports to the board of directors. The audit committee met once with the external auditors to review the effectiveness of the internal control systems and the Group's audited results for the year ended 31 December 2003.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

WONG Yiu Chu, Denny
Chairman

Hong Kong, 15 March 2004



AUDITORS' REPORT

**Auditors' report to the shareholders of
Advanced Card Systems Holdings Limited**
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
Hong Kong, 15 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 HK\$'000	2002 HK\$'000
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	9 & 24(a)	<u>11,753</u>	<u>3,016</u>
Earnings per share			
– Basic	11(a)	<u>5.51 cents</u>	<u>1.49 cents</u>
– Diluted	11(b)	<u>5.50 cents</u>	<u>1.49 cents</u>

The notes on pages 33 to 70 form part of these financial statements.



CONSOLIDATED BALANCE SHEET

At 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Fixed assets	14	832	872
Development costs	15	9,098	6,962
Deferred tax assets	21	1,614	—
		<u>11,544</u>	<u>7,834</u>
Current assets			
Inventories	17	5,738	3,570
Accounts receivable	18	12,071	3,298
Other receivables, deposits and prepayments	18	1,290	356
Cash and cash equivalents	19	21,456	2,119
		<u>40,555</u>	<u>9,343</u>
Current liabilities			
Accounts payable	20	5,665	1,328
Other payables, deposits and accruals	20	2,446	2,427
		<u>8,111</u>	<u>3,755</u>
Net current assets		<u>32,444</u>	<u>5,588</u>
NET ASSETS		<u>43,988</u>	<u>13,422</u>
CAPITAL AND RESERVES			
Share capital	22	28,000	17,675
Reserves	24(a)	15,988	(4,253)
		<u>43,988</u>	<u>13,422</u>

Approved and authorised for issue by the board of directors on 15 March 2004

WONG Yiu Chu, Denny
Director

PANG Wang Kee, Lawrence
Director

The notes on pages 33 to 70 form part of these financial statements.



BALANCE SHEET

At 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investment in a subsidiary	16	<u>33,648</u>	<u>33,443</u>
Current assets			
Other receivables, deposits and prepayments	18	799	—
Cash and cash equivalents	19	<u>17,609</u>	<u>—</u>
Total current assets		<u>18,408</u>	<u>—</u>
Current liabilities			
Other payables, deposits and accruals	20	<u>281</u>	<u>50</u>
Net current assets/(liabilities)		<u>18,127</u>	<u>(50)</u>
NET ASSETS		<u>51,775</u>	<u>33,393</u>
CAPITAL AND RESERVES			
Share capital	22	28,000	17,675
Reserves	24(b)	<u>23,775</u>	<u>15,718</u>
		<u>51,775</u>	<u>33,393</u>

Approved and authorised for issue by the board of directors on 15 March 2004

WONG Yiu Chu, Denny
Director

PANG Wang Kee, Lawrence
Director

The notes on pages 33 to 70 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 HK\$'000	2002 HK\$'000
Shareholders' equity at 1 January		<u>13,422</u>	<u>5,073</u>
Profit for the year	24(a)	<u>11,753</u>	<u>3,016</u>
Movements in share capital:			
Shares issued to full time employees, consultants and advisors of the Company and its subsidiary	22	—	914
Shares issued upon conversion of convertible debentures	22	—	667
Shares issued upon conversion of share options prior to GEM listing	22(e) & 22(f)	971	—
Subscription for new shares of \$0.10 each	22(g)	16,586	—
Repurchase of shares of US\$0.10 each	22(g)	(16,556)	—
Redemption of Series A preference shares	22(h)	(2,090)	—
Shares issued upon conversion of preference shares and warrants and re-denomination of 10,000 ordinary shares at US\$0.10 each to \$0.10 each	22(h)	3,092	—
Capitalisation issue credited as fully paid	22(i)	522	—
Net issue and placing of shares	22(j)	7,800	—
Net share premium received	24(a)	<u>8,488</u>	<u>3,752</u>
Net increase in shareholders' equity arising from capital transactions with shareholders		<u><u>18,813</u></u>	<u><u>5,333</u></u>
Shareholders' equity at 31 December		<u><u>43,988</u></u>	<u><u>13,422</u></u>

The notes on pages 33 to 70 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

Note	2003 HK\$'000	2002 HK\$'000
Operating activities		
Profit from ordinary activities before taxation	10,139	3,016
Adjustments for:		
– Depreciation	600	581
– Amortisation of development costs	1,498	825
– Finance costs	103	88
– Interest income	(2)	(4)
– Gain from disposal of fixed assets	(2)	—
– Foreign exchange loss	43	—
	<hr/>	<hr/>
Operating profit before changes in working capital	12,379	4,506
(Increase)/decrease in inventories	(2,168)	634
Increase in accounts receivable	(8,773)	(1,635)
(Increase)/decrease in other receivables, deposits and prepayments	(934)	401
Increase/(decrease) in accounts payable	4,337	(1,341)
Increase in other payables, deposits and accruals	19	1,674
	<hr/>	<hr/>
Cash generated from operations	4,860	4,239
Tax paid	—	—
	<hr/>	<hr/>
Net cash generated from operating activities	4,860	4,239
	<hr/>	<hr/>
Investing activities		
Payments for the purchase of fixed assets	(560)	(402)
Proceeds from disposal of fixed assets	2	—
Development costs capitalised	(3,634)	(3,801)
Interest received	2	4
	<hr/>	<hr/>
Net cash used in investing activities	(4,190)	(4,199)
	<hr/>	<hr/>



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 HK\$'000	2002 HK\$'000
Financing activities			
Other borrowing costs paid		(103)	(88)
Proceeds on issue of shares upon exercise of share options	22(e) & 22(f)	1,148	—
Proceeds on issue of shares upon conversion of warrants	22(h)	500	—
Proceeds on issue of placing shares		24,960	—
Share issue expenses	24(a)	(7,838)	(11)
		<u> </u>	<u> </u>
Net cash generated from/(used in) financing activities		<u>18,667</u>	<u>(99)</u>
Net increase/(decrease) in cash and cash equivalents		19,337	(59)
Cash and cash equivalents at 1 January		<u>2,119</u>	<u>2,178</u>
Cash and cash equivalents at 31 December	19	<u>21,456</u>	<u>2,119</u>

The notes on pages 33 to 70 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



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.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES

(a) 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. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to 31 December each year. All material intra-group transactions and balances are eliminated on consolidation.

(c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(e)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses (note 2(e)).

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their anticipated useful lives as follows:

Leasehold improvements	over the remaining term of the lease
Computer and office equipment	4 years
Furniture and fixtures	4 years
Moulds	4 years

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing assets, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(e) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- development costs; and
- investment in a subsidiary.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in-first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value is recognised as an expense in the profit and loss account in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the profit and loss account in the period in which the reversal occurs.

(g) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Income tax

- (i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Recognition of income

Provided it is probable that the economic benefits will flow to the Group and the revenue and cost, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is after deduction of any trade discounts.

(ii) *Smart card related services fee income*

Fees for the provision of smart card related services are recognised as revenue when the services are rendered.

(iii) *Interest income*

Interest income arising on bank deposits is accrued on a time apportioned basis on the principal outstanding and at the rate applicable.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads which are directly attributable to development activities. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(e)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation is calculated to write off development costs on a straight-line basis over their estimated useful lives, commencing from the date when the products are put into commercial production.

(l) Translation of foreign currencies

The financial statements are prepared in Hong Kong dollars.

Foreign currency transactions are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

(m) Operating leases

Where the Company or the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

When the Group grants to employees options to acquire shares in the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When such options are exercised, shareholders' equity is increased by the amount of the proceeds received.

(o) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the relevant period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



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	3,753	2,140
	<u>38,646</u>	<u>27,794</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	73	15
	<u>504</u>	<u>19</u>
(b) Other net (loss)/income		
Exchange (loss)/gain	(70)	6
Gain from disposal of fixed assets	2	—
	<u>(68)</u>	<u>6</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 HK\$'000	2002 HK\$'000
(a) Finance costs:		
Other borrowing costs:		
– bank charges	103	88
	<u> </u>	<u> </u>
(b) Other items:		
Cost of inventories	16,781	14,888
Reversal of write-down of inventories (<i>note 17</i>)	(59)	(45)
Provision for bad debts	72	206
Auditors' remuneration	312	90
	<u> </u>	<u> </u>
Salaries and benefits	7,890	7,074
Retirement scheme contributions	254	222
	<u> </u>	<u> </u>
Total staff costs	8,144	7,296
	<u> </u>	<u> </u>
Staff costs included in research and development costs	2,599	2,520
Less: Amounts capitalised in development costs	(2,317)	(2,223)
	<u> </u>	<u> </u>
	282	297
	<u> </u>	<u> </u>
Staff costs (after amounts capitalised)	5,827	5,073
	<u> </u>	<u> </u>
Consultancy fees	758	1,345
Less: Amount included in research and development costs	(611)	(1,107)
	<u> </u>	<u> </u>
	147	238
	<u> </u>	<u> </u>
Operating lease charges for properties	456	733
Less: Amount included in research and development costs	(90)	(90)
	<u> </u>	<u> </u>
	366	643
	<u> </u>	<u> </u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(continued)*

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

	2003 HK\$'000	2002 HK\$'000
(c) Research and development costs:		
Staff costs	2,599	2,520
Consultancy fees	611	1,107
Rental expenses	90	90
Direct overheads	656	542
	<u>3,956</u>	<u>4,259</u>
Less: Costs capitalised <i>(note 15)</i>	<u>(3,634)</u>	<u>(3,801)</u>
	<u>322</u>	<u>458</u>

Research and development costs amounted to \$3,956,000 and \$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 \$3,956,000 and \$4,259,000 were amounts of \$3,634,000 and \$3,801,000 capitalised during the years ended 31 December 2003 and 2002 respectively (note 15).

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



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 was increased from 16% to 17.5%.

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

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

	2003 HK\$'000	2002 HK\$'000
Profit from ordinary activities before taxation	10,139	3,016
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	122	—
Actual tax credit	(1,614)	—

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



7 DIRECTORS' REMUNERATION

Three of the six directors of the Company were also directors or employees of the subsidiary during the year. Details of the fees and emoluments paid and payable to these directors in their capacity as executive and non-executive directors of the Company and its subsidiary for the year are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	100	—
Basic salaries, housing and other allowances and benefits in kind	2,304	1,928
Retirement scheme contributions	32	25
	<u>2,436</u>	<u>1,953</u>

Of the six directors of the Company as noted below, three directors received emoluments of approximately \$1,260,000, \$492,000 and \$584,000 for the year ended 31 December 2003, and approximately \$1,260,000, \$693,000 and \$Nil for the year ended 31 December 2002.

In the year ended 31 December 2003, the three non-executive directors received fees of approximately \$100,000 (2002: \$Nil).

An analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2003 <i>Number</i>	2002 <i>Number</i>
Not more than \$1,000,000	5	1
\$1,000,001 - \$1,500,000	1	1
	<u>6</u>	<u>2</u>

There were no emoluments paid during the year to former directors in connection with their retirement from employment with the Group. There were no amounts paid during the year to directors as an inducement to join or upon joining the Group and no director waived any emoluments during the year.

Details of the share options granted to directors of the Company are set out in note 23.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 SENIOR MANAGEMENT REMUNERATION

Set out below is an analysis of the emoluments of two (2002: three) employees of the Group who, not being directors of the Company or its subsidiary, were among the top five earning individuals (including directors and other employees of the Group) employed by the Group:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries, housing and other allowances and benefits in kind	900	1,462
Retirement scheme contributions	12	12
	<u>912</u>	<u>1,474</u>

An analysis of senior management's emoluments by number of employees and emolument ranges is as follows:

	2003 <i>Number</i>	2002 <i>Number</i>
Not more than \$1,000,000	<u>2</u>	<u>3</u>

No emoluments were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the year.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of \$431,000 (2002: \$32,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

The Company had not declared or paid any dividend during the year ended 31 December 2003.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



11 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 \$11,753,000 (2002: \$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 earnings per share is based on earnings for the year of \$11,753,000 (2002: \$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>



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 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 – unallocated			504
			<u>39,150</u>
Segment result and profit from operations			10,242
Finance costs			(103)
Profit from ordinary activities before taxation			10,139
Taxation			1,614
Profit from ordinary activities after taxation			<u>11,753</u>
Depreciation and amortisation	<u>2,098</u>	<u>—</u>	<u>2,098</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



12 SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2002

	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	25,654	2,140	27,794
Other revenue – unallocated			19
			<u>27,813</u>
Segment result and profit from operations			3,104
Finance costs			(88)
Profit from ordinary activities before taxation			3,016
Taxation			—
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.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT INFORMATION *(continued)*

(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:

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

13 RETIREMENT BENEFITS

The Group participates in the Mandatory Provident Fund ("MPF"), managed by an independent approved MPF trustee, which provides retirement benefits to all of the Group's employees in Hong Kong. All eligible staff and the employer make mandatory contributions which comply with the minimum requirements of the Mandatory Provident Fund Schemes Ordinance.

	2003 HK\$'000	2002 HK\$'000
Retirement contributions payable to retirement schemes	<u>254</u>	<u>222</u>

At 31 December 2003, there were no forfeited contributions, which arose upon employees leaving the retirement scheme up to 31 December 2003 available to reduce the contributions payable by the Group in future periods.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



14 FIXED ASSETS

The Group

	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 2003	98	1,798	209	544	2,649
Additions	—	186	128	246	560
Disposals	—	(26)	—	—	(26)
At 31 December 2003	<u>98</u>	<u>1,958</u>	<u>337</u>	<u>790</u>	<u>3,183</u>
<i>Accumulated depreciation:</i>					
At 1 January 2003	49	1,265	173	290	1,777
Charge for the year	25	394	35	146	600
Written back on disposals	—	(26)	—	—	(26)
At 31 December 2003	<u>74</u>	<u>1,633</u>	<u>208</u>	<u>436</u>	<u>2,351</u>
<i>Net book value:</i>					
At 31 December 2003	<u>24</u>	<u>325</u>	<u>129</u>	<u>354</u>	<u>832</u>
At 31 December 2002	<u>49</u>	<u>533</u>	<u>36</u>	<u>254</u>	<u>872</u>



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 DEVELOPMENT COSTS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
<i>Cost:</i>		
At 1 January	8,128	4,327
Additions through internal development during the year	3,634	3,801
At 31 December	<u>11,762</u>	<u>8,128</u>
<i>Accumulated amortisation:</i>		
At 1 January	1,166	341
Charge for the year	1,498	825
At 31 December	<u>2,664</u>	<u>1,166</u>
<i>Net book value:</i>		
At 31 December	<u>9,098</u>	<u>6,962</u>

Development costs of \$3,634,000 and \$3,801,000 capitalised during the years ended 31 December 2003 and 2002 respectively are being amortised to the consolidated profit and loss account on a straight-line basis over their estimated useful lives of four years commencing from the date on which the related products are put into commercial production.

16 INVESTMENT IN A SUBSIDIARY

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	14,004	14,004
Amount due from a subsidiary	19,644	19,439
	<u>33,648</u>	<u>33,443</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



16 INVESTMENT IN A SUBSIDIARY (continued)

Details of the subsidiary are as follows:

Name of company	Place and date of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activity
Advanced Card Systems Limited	Hong Kong (incorporated on 31 October 1995)	18,000,000 shares of \$1 each	100%	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services

No provision has been made for diminution in value of the investment in a subsidiary as the directors did not consider that there was any permanent diminution in value at 31 December 2003.

The amount due from a subsidiary is unsecured, interest-free and repayable on demand but is not likely to be settled within twelve months of the balance sheet date.

17 INVENTORIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	4,674	2,827
Work in progress	12	38
Finished goods	1,052	705
	<u>5,738</u>	<u>3,570</u>

Included in raw materials, work in progress and finished goods are inventories stated net of a specific provision of \$314,000 and \$373,000 at 31 December 2003 and 31 December 2002 respectively, made in order to state these inventories at the lower of their cost and estimated net realisable value.

The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated profit and loss account during the years ended 31 December 2003 and 2002 is \$59,000 and \$45,000, respectively. The reversal during the year ended 31 December 2003 arose due to an increase in the estimated net realisable value of certain smart card products as a result of a change in consumer preferences.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts receivable	12,071	3,298	—	—
Other receivables	36	—	4	—
Utility and other deposits	701	140	508	—
Prepayments	553	216	287	—
	1,290	356	799	—
	13,361	3,654	799	—

The amount of other receivables, deposits and prepayments expected to be recovered after more than one year is \$483,000 at 31 December 2003 (2002: \$89,000).

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:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Current	7,308	2,162
Aged over 1 month but less than 2 months	1,293	204
Aged over 2 months but less than 3 months	1,377	302
Aged over 3 months	2,093	630
	12,071	3,298

19 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	21,456	2,119	17,609	—

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



20 ACCOUNTS PAYABLE, OTHER PAYABLES, DEPOSITS AND ACCRUALS

	The Group		The Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accounts payable	5,665	1,328	—	—
Other payables	1	—	—	—
Deposits received	1,268	1,621	—	—
Accruals	1,177	806	281	50
	<u>2,446</u>	<u>2,427</u>	<u>281</u>	<u>50</u>
	<u>8,111</u>	<u>3,755</u>	<u>281</u>	<u>50</u>

All of the other payables, deposits and accruals are expected to be settled within one year of the balance sheet date.

The following is an ageing analysis of accounts payable:

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current	3,903	865
Aged over 1 month but less than 2 months	1,381	356
Aged over 2 months but less than 3 months	152	72
Aged over 3 months	229	35
	<u>5,665</u>	<u>1,328</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 DEFERRED TAXATION

(i) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation <i>HK\$'000</i>	Future benefit of tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Deferred tax arising from:</i>			
At 1 January 2002 and 31 December 2002	—	—	—
At 1 January 2003 (Charged)/credited to the profit and loss account	(109)	1,723	1,614
At 31 December 2003	(109)	1,723	1,614
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Deferred tax assets		1,723	—
Deferred tax liabilities		(109)	—
Deferred tax assets recognised in the balance sheet		1,614	—

At 31 December 2003, the Group recognised deferred tax assets arising from the future benefit of tax losses in the amount of \$1,723,000 (2002: \$Nil). The deferred tax assets are recognised to the extent that the directors consider that it is probable that the subsidiary of the Company will generate future taxable profits in the next twelve months from the balance sheet date against which the deferred tax asset can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



21 DEFERRED TAXATION (continued)

(ii) Deferred tax assets and liabilities unrecognised

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	2003 HK\$'000	2002 HK\$'000
Depreciation allowances in excess of the related depreciation	—	(95)
Future benefit of tax losses	761	3,977
	<u>761</u>	<u>3,882</u>

At 31 December 2002, the Group had not recognised the net deferred tax assets as the generation of future taxable profits against which the assets would be utilised was uncertain.

The deductible temporary differences and tax losses do not expire under current tax legislation.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 SHARE CAPITAL

The following is a summary of movements in the authorised and issued share capital of the Company.

	<i>Note</i>	Number of shares '000	Amount HK\$'000	Amount US\$'000
Authorised:				
(a) Ordinary shares				
At 1 January 2002 and 31 December 2002, shares of US\$0.10 each		43,283	—	4,328
Increase in authorised share capital	(a)	1,000,000	100,000	—
Decrease in authorised share capital	(b)	(43,283)	—	(4,328)
At 31 December 2003		<u>1,000,000</u>	<u>100,000</u>	<u>—</u>
(b) Series A preference shares				
At 1 January 2002 and 31 December 2002 shares of US\$0.10 each		6,717	—	672
Decrease in authorised share capital	(b)	(6,717)	—	(672)
At 31 December 2003		<u>—</u>	<u>—</u>	<u>—</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



22 SHARE CAPITAL (continued)

	Note	Number of shares '000	Amount HK\$'000	Amount US\$'000
Issued and fully paid:				
(a) Ordinary shares				
At 1 January 2002, shares of US\$0.10 each		18,000		1,800
Shares issued to full time employees, consultants and advisors of the Company and its subsidiary	(c)	1,172		117
Shares issued upon conversion of convertible debentures	(d)	857		86
At 31 December 2002		20,029		2,003
At 1 January 2003		20,029		2,003
Shares issued upon conversion of share options	(e)	157		16
Shares issued upon conversion of share options	(f)	1,088		109
Re-denomination of ordinary shares of the Company from US\$0.10 each to \$0.10 each by way of				
(i) Shares issued to existing shareholders	(g)	165,860	16,586	
(ii) Shares repurchased by the Company	(g)	(21,264)		(2,127)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 SHARE CAPITAL (continued)

	Note	Number of shares '000	Amount HK\$'000	Amount US\$'000
Issued and fully paid: (continued)				
(a) Ordinary shares (continued)				
Shares issued upon conversion of preference shares and warrants and re-denomination of 10,000 ordinary shares at US\$0.10 each to \$0.10 each				
(i) Subscription for ordinary shares of US\$0.10 each upon conversion of preference shares and warrants by a shareholder (h) 3,954 395				
(ii) Subscription for ordinary shares of \$0.10 each by the existing shareholder (h) 30,920 3,092				
(iii) Repurchase of ordinary shares of US\$0.10 each (h) (3,964) (396)				
Capitalisation issue credited as fully paid (i) 5,220 522				
New issue and placing of shares (j) 78,000 7,800				
At 31 December 2003 280,000 28,000 —				
(b) Series A preference shares, shares of US\$0.10 each				
At 1 January 2002 and 31 December 2002 2,687 269				
At 1 January 2003 2,687 269				
Conversion of preference shares into ordinary shares (h) (2,687) (269)				
At 31 December 2003 — —				

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



22 SHARE CAPITAL (continued)

Notes:

- (a) On 27 October 2003, the authorised ordinary share capital of the Company was increased by \$100,000,000 by the creation of an additional 1,000,000,000 ordinary shares of \$0.10 par value each ranking pari passu with the then existing shares in all respects.
- (b) Pursuant to resolution of the shareholders passed on 27 October 2003, the authorised share capital was reduced by the cancellation of all of the authorised 6,717,000 Series A Preference Shares and 43,283,000 ordinary shares of US\$0.10 each.
- (c) During the year ended 31 December 2001, an offer to subscribe for a total of 1,250,000 ordinary shares of US\$0.10 each of the Company at \$2.00 per ordinary share was granted to certain full time employees and consultants of the subsidiary of the Company. At 31 December 2001, such persons had accepted offers to subscribe for a total of 1,172,000 ordinary shares of the Company at a subscription price of \$2.00 each. The legal process in respect of subscribing for these shares had not been completed at 31 December 2001. On 14 May 2002, the Company issued 1,172,000 ordinary shares to certain employees and consultants of the subsidiary of the Company pursuant to the arrangements described above. The shares so issued ranked pari passu with the then existing ordinary shares of the Company in all respects.
- (d) In June 2001, the Company entered into an agreement with a director of the subsidiary of the Company, to issue convertible debentures with a principal amount of \$3,000,000 (US\$385,714). The convertible debentures were non-interest bearing.
- On 5 July 2002, the Company issued 857,143 ordinary shares of US\$0.10 each upon conversion of the convertible debentures in the principal amount of \$3,000,000 (US\$385,714) upon the exercise of the conversion rights by the holder. The shares so issued ranked pari passu with the then existing ordinary shares of the Company in all respects.
- (e) On 25 July 2003, the Company issued 157,500 ordinary shares of US\$0.10 each as a result of the exercise by the holders of (1) share options issued on 25 July 2000 to subscribe for 150,000 shares of US\$0.10 each at US\$0.10 per share and (2) share options issued on 21 January 2003 to subscribe for 7,500 shares of US\$0.10 each at \$2.00 each.
- (f) On 23 October 2003, the Company issued a total of 1,087,500 ordinary shares which comprised (1) 950,000 ordinary shares of US\$0.10 each as a result of the exercise of share options issued on 25 July 2000 to subscribe for shares at US\$0.10 per share and (2) 137,500 ordinary shares of US\$0.10 each as a result of the exercise of options issued on 21 January 2003 to subscribe for shares at \$2.00 per share.
- (g) On 27 October 2003, 165,860,317 ordinary shares of \$0.10 each were issued for cash at par to the existing shareholders and 21,264,143 ordinary shares of US\$0.10 each then held by those existing shareholders were repurchased by the Company at a total consideration equivalent to the subscription price for 165,860,317 shares of \$0.10 each.
- (h) Pursuant to a resolution of the shareholders passed on 27 October 2003, the Company (1) issued 250,000 shares of US\$0.10 each to a shareholder at a subscription price of US\$0.2564 per share upon the exercise of the conversion right attached to the warrants issued by the Company; (2) redeemed 2,686,728 Series A preference shares of US\$0.10 each; and (3) issued 3,704,123 shares of US\$0.10 each to a shareholder.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 SHARE CAPITAL (continued)

The Company issued an aggregate of 30,920,160 ordinary shares at a total consideration of \$3,092,016 to repurchase and cancel all the 3,954,123 shares of US\$0.10 each pursuant to note (h) items (1) and (3) and 10,000 shares of US\$0.10 each.

- (i) Pursuant to resolutions of the shareholders passed on 27 October 2003, the directors were authorised to capitalise an amount of \$521,952 from the amount standing to the credit of the share premium account of the Company and to appropriate such amount as a capital issue of 5,219,523 ordinary shares at par to the persons whose names appeared on the register of members of the Company as at the close of business on 27 October 2003, pro-rata to its/their then existing shareholdings in the Company.
- (j) Pursuant to the listing of the shares of the Company on GEM on 10 November 2003, 78,000,000 ordinary shares of the Company were issued by way of a Placing for cash of \$0.32 per share. The excess of the issued price over the par value of the shares issued has been credited to the share premium account of the Company.
- (k) All shares both issued and unissued rank pari passu in all respects at 31 December 2003.

Warrants

On 18 May 2001, the Company issued warrants to the registered holder of the Series A preference shares to subscribe for ordinary shares of US\$0.10 each in the Company at an initial subscription price of US\$0.2564 per share. Such exercise price was to be adjusted upon issuance of additional ordinary shares in certain circumstances as described in the purchase warrant agreement dated 18 May 2001. The issuance of ordinary shares during the year ended 31 December 2002 did not result in any adjustments to the initial exercise price of US\$0.2564 per share.

The movements of the warrants issued by the Company during the years ended 31 December 2003 and 2002 were as follows:

Date warrants granted	Periods during which the warrants were exercisable	Exercise price	Number of shares to be issued upon exercise of warrants	
			At 31 December 2003	At 31 December 2002
18 May 2001	* 18 May 2001 to the earlier of 18 May 2004 or Qualified IPO	US\$0.2564	Nil	250,000

- * Qualified IPO means, subject to compliance with certain other criteria, an initial public offering of the Company's shares on a reputable stock exchange in Hong Kong, Singapore, the United States of America or any other jurisdiction as the shareholders shall agree.

The warrants were exercised on 7 November 2003.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



23 SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 25 July 2000 (“the Scheme”), the board of directors of the Company may grant options to any directors, full time employees, consultants and advisors of the Company or its subsidiary to subscribe for ordinary shares in the Company.

The subscription price of the option shall be \$20 or such other amount as determined by the directors of the Company.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 15% of the entire issued share capital of the Company from time to time.

The movements in share options granted by the Company to the directors, full time employees, consultants and advisors of the Company and its subsidiary during the years ended 31 December 2003 and 2002 were as follows:

Persons	Date option granted	Period during which the options are exercisable (Note)	Exercise price	Number of options granted	Number of options exercised during the year ended 31 December 2003	Number of options cancelled or lapsed	Number of options outstanding	
							At 31 December 2003	At 31 December 2002
Directors	25 July 2000	* 10 years from 25 July 2000 to 24 July 2010	US\$0.10	—	(750,000)	—	—	750,000
	3 December 2001	** 10 years from 3 December 2001 to 2 December 2011	US\$0.264	—	—	(200,000)	—	200,000
Full time employees, consultants, and advisors	25 July 2000	* 10 years from 25 July 2000 to 24 July 2010	US\$0.10	—	(350,000)	(600,000)	—	## 950,000
	28 December 2000	# 10 years from 28 December 2000 to 27 December 2010	US\$0.10	—	—	(65,000)	—	65,000
	21 January 2003	10 years from 21 January 2003 to 20 January 2013	\$2	346,250	(145,000)	(201,250)	—	—



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23 SHARE OPTION SCHEME *(continued)*

Notes:

- * The options so granted vested in three approximately equal tranches on 31 December 2000, 2001 and 2002.
- # The options so granted vested in three approximately equal tranches on 31 December 2001, 2002 and 2003.
- ** The options so granted vested in three equal tranches on 3 December 2002, 2003 and 2004.
- ## Included in options granted to full time employees, consultants and advisors were 150,000 options granted to Mr Bernhard Markus Laschinsky who resigned as a director of the Company in July 2001.

The outstanding options held by one of the directors of the Company were revised from 300,000 to 200,000 during the year ended 31 December 2002 pursuant to a revision of the terms of the director's contract. A resolution of the directors was passed on 24 June 2003 to cancel the 100,000 options.

Pursuant to resolutions of the shareholders passed on 27 October 2003, the above share option scheme was terminated and a new share option scheme was adopted. Options were granted under the new share option scheme to those employees and directors of the Group and consultants engaged by or who worked for the Group who held options granted to them under the Company's terminated share option scheme. Accordingly, the Company cancelled the options to subscribe for an aggregate of 816,250 ordinary shares of US\$0.10 each under the terminated share option scheme and issued options under the new share option scheme to subscribe for an aggregate of 6,535,631 shares of \$0.10 each at an exercise price of \$0.09 or \$0.24 per share.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



23 SHARE OPTION SCHEME (continued)

	No. of options outstanding at the beginning of the year	No. of options outstanding at the end of the year	Date granted	Period during which the options are exercisable	No. of shares acquired on exercise of options during the year	Exercise price per share	Market value per share at the date of grant of the options*
Director	—	1,601,378	27 October 2003	10 November 2004 to 2 December 2011	Nil	\$0.24	\$0.32
Employees and consultants	—	2,802,413	27 October 2003	10 May 2004 to 24 July 2010	Nil	\$0.09	\$0.32
	—	520,449	27 October 2003	10 May 2004 to 27 December 2010	Nil	\$0.09	\$0.32
	—	1,411,218	27 October 2003	# 10 May 2004 to 20 January 2013	Nil	\$0.24	\$0.32
	—	200,173	27 October 2003	## 31 December 2004 to 20 January 2013	Nil	\$0.24	\$0.32
		6,535,631					

* Being the issue price of the Company's placing shares on GEM.

The options so granted vested in three approximately equal tranches on 10 May 2004, 31 December 2004 and 31 December 2005.

The options so granted vested in two approximately equal tranches on 31 December 2004 and 31 December 2005.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 RESERVES

(a) The Group

	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 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	—	—	3,016	3,016
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 (<i>Note 22 (e)</i> <i>and (f)</i>)	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	—	—	11,753	11,753
At 31 December 2003	24,351	4,496	(12,859)	15,988

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



24 RESERVES (continued)

(b) The Company

	Share premium <i>HK\$'000</i>	Revenue reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	12,111	(113)	11,998
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
Loss for the year	—	(32)	(32)
At 31 December 2002 and 1 January 2003	15,863	(145)	15,718
Shares issued upon exercise of the share options prior to the Listing (Note 22 (e) and (f))	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)
Loss for the year	—	(431)	(431)
At 31 December 2003	<u>24,351</u>	<u>(576)</u>	<u>23,775</u>

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

Included in the reserves of the Company available for the distribution is share premium arising from the issuance of Series A preference shares in June and October 2000.

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 \$23,775,000 and \$15,718,000 respectively.



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 RESERVES (continued)

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

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

25 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Contracted for	266	—	—	—
Authorised but not contracted for	—	—	—	—
	<u>266</u>	<u>—</u>	<u>—</u>	<u>—</u>

(b) Operating lease commitments

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases for property rental were payable as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within 1 year	1,124	337	1,070	—
After 1 year but within 5 years	1,156	—	1,156	—
	<u>2,280</u>	<u>337</u>	<u>2,226</u>	<u>—</u>

The Group and the Company lease 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 includes contingent rentals.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)



26 MATERIAL RELATED PARTY TRANSACTIONS

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

	2003 HK\$'000	2002 HK\$'000
Consultancy fees payable (<i>note i</i>)	384	837
Rentals payable (<i>note ii</i>)	48	288
Salaries payable to a related party (<i>note iii</i>)	480	480
	<u> </u>	<u> </u>
Sales of smart card products (<i>note iv</i>)	327	328
	<u> </u>	<u> </u>

Notes:

- (i) The subsidiary has entered into agreements with Mr Tan Keng Boon and 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 Tan Keng Boon (who was a full time consultant of the subsidiary for the period from October 1999 to April 2003) and Mr Tong Kam Hung (who has been a part-time consultant of the subsidiary since April 1998) were interested in the agreements as shareholders of the Company.

- (ii) On 1 January 2002, the subsidiary of the Company renewed a rental agreement with United Animal Exchange Limited ("UAEL"), whereby the subsidiary paid a monthly rental of \$24,000 to UAEL which approximated the market rate for a term of one year commencing from 1 January 2002 which was extended for a further two months for the period from 1 January 2003 to 28 February 2003 on the same terms.

Mr Wong Yiu Chu, Denny was interested in the agreement as a director of the Company and a director and shareholder of UAEL.

- (iii) The subsidiary paid salaries to Ms Tsui Kam Ling, for her role as vice president, operations of the subsidiary. Ms Tsui Kam Ling 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 is one of the top five earning individuals of the Group and salaries payable to her during the year are included in the senior management remuneration set out in note 8 on the financial statements.

- (iv) The subsidiary sold smart card products to external customers where T & C Technologies (Pte) Limited acted as a sales agent on behalf of the subsidiary.

Mr Tan Keng Boon was interested in these transactions as a major shareholder of T & C Technologies (Pte) Limited and a full time consultant of the subsidiary during the period from October 1999 to April 2003. Mr Tan Keng Boon ceased to be a consultant of the subsidiary in May 2003 and was appointed as a chief technical officer of the Group in May 2003. Mr Tan Keng Boon ceased to be a shareholder of T & C Technologies (Pte) Limited in May 2003.

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



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*


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.

27 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2003 to be D & A Holdings Limited, which is incorporated in the British Virgin Islands.

FINANCIAL SUMMARY

31 December



	2003	2002	2001	2000*
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RESULTS				
Turnover	38,646	27,794	12,863	4,695
Cost of sales	17,950	15,338	7,517	2,718
Gross profit	20,696	12,456	5,346	1,977
Gross profit margin	54%	45%	42%	42%
Profit/(loss) from ordinary activities after taxation	11,753	3,016	(4,189)	(6,617)
Net profit margin	30%	11%	—	—
ASSETS AND LIABILITIES				
Total assets	52,099	17,177	13,839	10,843
Total liabilities	8,111	3,755	8,766	2,181
Shareholders' equity	43,988	13,422	5,073	8,662

* For the period from 13 April 2000 (Date of incorporation) to 31 December 2000



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("Meeting") of Advanced Card Systems Holdings Limited (the "Company") will be held at Unit 1, Ground Floor, The Center, 99 Queen's Road Central, Hong Kong on 23 April 2004 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 December 2003.
2. To re-elect retiring directors and to authorise the board of directors to fix the remuneration of directors.
3. To re-appoint the auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

"THAT:-

- (a) subject to paragraph (c) below, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with any unissued shares in the capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period (as hereinafter defined);
- (c) the aggregate nominal value of the share capital allotted or issued or conditionally or unconditionally agreed to be allotted or issued (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares upon the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time; or (iii) an issue of shares upon the exercise of options which may be granted under any option scheme or similar arrangement for the time being adopted or to adopt for the grant or issue to officers, employees and/or directors of the Company and/or any of its subsidiaries of shares or rights to acquire shares; or (iv) any scrip dividend scheme or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company; or (v) a specific authority granted by the shareholders of the Company in general meeting, shall not exceed 20% of the aggregate of the total nominal value of share capital of the Company in issue as at the date of passing of this Resolution, and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING



(d) for the purpose of this Resolution:-

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:-

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
- (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this Resolution; and

“Rights Issue” means an offer of shares or issue of options, warrants or other securities giving the right to subscribe for shares, open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares (or, where appropriate, such other securities), subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company.”

5. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“THAT:-

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase securities of the Company on the Growth Enterprise Market of the Stock Exchange or on any other stock exchange of which the securities of the Company may be listed and is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in accordance with all applicable laws and/or the requirements of the GEM Listing Rules (as defined in ordinary resolution no. 4 above) or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal value of securities of the Company repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period (as hereinafter defined) shall not exceed 10% of the aggregate of the total nominal value of share capital of the Company in issue as at the date of passing of this Resolution, and the authority granted pursuant to paragraph (a) above shall be limited accordingly; and
- (c) for the purposes of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:-
 - (i) the conclusion of the next annual general meeting of the Company; or
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
 - (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this Resolution.”



NOTICE OF ANNUAL GENERAL MEETING

6. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“**THAT** subject to the passing of the Resolutions nos. 4 and 5 set out in the notice convening this meeting, the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with any unissued shares pursuant to Resolution no. 4 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution no. 5 set out in the notice convening this meeting, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of share capital of the Company in issue as at the date of passing of the said Resolution.”

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

Hong Kong, 26 March 2004

Principal place of business in Hong Kong:

Unit 2910-2913, 29/F
The Center
99 Queen's Road Central
Hong Kong

Registered Office:

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the Meeting or any adjourned meeting.
3. Completion and delivery of the form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting if the member of the Company so desires.
4. An explanatory statement containing further details regarding ordinary resolution no.5 as required by the GEM Listing Rules of the Stock Exchange will be dispatched to the shareholders of the Company together with the 2003 annual report of the Company for the year ended 31 December 2003.