



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

(incorporated in the Cayman Islands with limited liability)



Placing

Sponsor

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

Bookrunner



JAPAN ASIA SECURITIES LIMITED

Joint Lead Managers



JAPAN ASIA SECURITIES LIMITED

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

* For identification only

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



Advanced Card Systems Holdings Limited

(龍傑智能卡控股有限公司)*

(incorporated in the Cayman Islands with limited liability)

**Listing on
The Growth Enterprise Market of
The Stock Exchange of Hong Kong Limited**

Placing

Number of placing shares	:	78,000,000 Shares (subject to offer size adjustment option)
Issue price	:	HK\$0.32 per placing share
Nominal value	:	HK\$0.10 per Share
Stock code	:	8210

Sponsor

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

Bookrunner



JAPAN ASIA SECURITIES LIMITED

Joint Lead Managers



JAPAN ASIA SECURITIES LIMITED

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

Underwriters

ICEA Capital Limited
CSC Securities (HK) Limited

JS Cresvale Capital Limited
Wintech Securities Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prospective investors in Advanced Card Systems Holdings Limited should note that Japan Asia Securities Limited in consultation with Anglo Chinese Corporate Finance, Limited, (for itself and on behalf of Anglo Chinese Corporate Finance, Limited and the underwriters) is entitled to terminate the obligations of the underwriters under the underwriting agreement by notice in writing to Advanced Card Systems Holdings Limited upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 9:00 a.m. on the business day immediately prior to the listing date, currently expected to be 7 November, 2003. The said events include those of a financial, political, industrial, economic, military, legal, fiscal and/or other nature (whether or not sui generis with any of the foregoing), which in the opinion of Japan Asia Securities Limited (in consultation with Anglo Chinese Corporate Finance, Limited, for itself and on behalf of Anglo Chinese Corporate Finance, Limited and the underwriters) shall have occurred, happened or come into effect.

* For identification purpose only

CHARACTERISTICS OF GEM

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 of the Stock Exchange 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 GEM website operated by the Stock Exchange. Companies listed on GEM are generally not 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.

EXPECTED TIMETABLE

2003
(Note 1)

Announcement of the level of indication of interest in the placing to be published on the GEM website on or before	6 November
Allotment of placing shares to placees on or before.	7 November
Despatch of share certificates via CCASS on or before (Note 2).	7 November
Dealings in the Shares on GEM expected to commence on	10 November

Notes:

1. All references to time are to Hong Kong local time. In the event of any change to the expected timetable as set out in this prospectus, an announcement will be made accordingly.
2. Share certificates for the placing shares to be distributed via CCASS are expected to be issued in the name of HKSCC Nominees Limited and are expected to be deposited into CCASS on or before 7 November, 2003 for credit to the relevant CCASS participants' stock accounts of the underwriters, the placees or their respective agents (as the case may be) but will only become valid certificates of title provided that (i) the placing has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting" in this prospectus has not been exercised by Japan Asia, in consultation with Anglo Chinese, (for itself and on behalf of Anglo Chinese and the underwriters), which is expected to be at 9:00 a.m. on 7 November, 2003. If the underwriting agreement does not become unconditional or is terminated in accordance with the terms therein, the Company will make an announcement as soon as practicable. No temporary document of title will be issued in connection with the placing.
3. Details of the structure of the placing, including the conditions of the placing, are set out in the section headed "Structure of the placing" in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information which is different from that contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the sponsor, the underwriters, the Directors or agents of any one of them or any other person or party involved in the placing.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the placing shares.

There are risks associated with any investment. Some of the particular risks in investing in the placing shares are set out in the section headed “Risks factors” in this prospectus. You should read that section carefully before you decide to invest in the placing shares.

NATURE OF BUSINESS

ACS, the major operating subsidiary of the group, was established in December 1995. Today, the group specialises in the design, manufacture and sale of smart card products, including mainly smart card readers as well as smart cards and smart card operating systems (collectively “ACS products”). ACS products can be classified as (i) “off-the-shelf” products (including those requiring minor customisation work such as modifications to casings, addition of logos and minor alterations); and (ii) customised products.

When supplying ACS products, the group may also provide related services including product packaging and applying on behalf of its customers for industry standard certification (in respect of some of the customised ACS products provided on an “OEM” basis).

ACS carries out product design through its in-house product design and development team as well as by way of cooperation with technology partners and engaging an external consultancy firm. ACS manufactures its products by way of outsourcing to independent manufacturers in China and Taiwan. In particular, the group relies on one independent manufacturer in Guangdong, China for manufacturing its smart card reader products. The Directors believe that there are other manufacturers in China capable of replacing the role of the independent manufacturer in the manufacturing of the group’s smart card reader products. In the event that the group terminates the engagement of this manufacturer, the group will seek to engage other local manufacturers in China. As part of the production process, the group sources major raw materials, formulates technical specifications, design layouts, assembly methods and quality testing procedures to closely monitor and maintain the standard of the ACS products. The group does not own any manufacturing facilities. (Please refer to the subsection headed “Production process” in the section headed “Business” in this prospectus for further details.)

SUMMARY

ACS products are sold to customers including smart card manufacturers, smart card solution providers, financial institutions, original equipment manufacturers and distributors in over fifty countries.

STRENGTHS OF ACS

ACS was named in a research report titled “Strategic Analysis of the PC Link Smart Card Reader Market” issued by Frost & Sullivan in the second quarter of 2003 as the world’s fourth leading industry participant of smart card readers linked to personal computers in 2002. (Note: The rankings given by Frost & Sullivan were based on estimated unit shipment in the year under review and/or its assessment of other factors such as estimated percentage growth in revenue and unit shipment, market coverage, alliances with overseas partners, distribution network and product innovation. The rankings were not based on sales value. The Company selects to use the research reports issued by Frost & Sullivan because it is a major market research company and its reports cover the smart card industry. According to the report, the three companies ranked above ACS together accounted for more than 85% of the world’s market for smart card readers used with personal computers. Of the three companies, one is based in the United States and two are based in Europe.) The Directors believe that the group has the following strengths:

- **Products which meet various internationally recognised standards** Most of the smart card readers developed by ACS meet significant international standards. ACS’s PC linked readers (marketed as *ACR30U-EMV*) and smart card readers with pin-pad (marketed as *ACR50* and *ACR80*) comply with the EMV standard and are able to support all smart cards which conform with the ISO 7816 standards. ACS is also a smart card readers supplier accredited with the PC/SC standard, USB standard and NETS standard. The accreditation of these standards demonstrates that ACS has the ability to design smart card applications meeting internationally recognised standards. (Please refer to the table headed “Industry standards” in the section headed “Business” in this prospectus for further details.)
- **Wide applications of ACS products** The PC linked readers (marketed as *ACR30U*) can also operate with various applications. These readers can usually be tailored to customers’ specific requirements for use in applications including Internet security, national healthcare programme and identity cards. Recently, two of the group’s PC linked readers (marketed as the *ACR30* series) were qualified as smart card readers suitable for access to the e-Cert programme promulgated by the Hongkong Post.

SUMMARY

- **Personnel with knowledge of and experience in the smart card industry** The group’s management team comprises personnel who have experience in the smart card and electronics industries. Further, ACS has developed a global customer base, including smart card manufacturers and smart card solutions providers located in different parts of the world.

- **Respectable standing in the smart card reader industry within the region** In 1999, ACS was awarded the “HKITCC Certificate of Merit in Technological Achievement” by the Hong Kong Industrial Technology Centre Corporation for achieving a high level of technological innovation, commercialisation and fostering of technology culture. The Directors consider such an achievement an important milestone in ACS’s expansion. In the research reports issued by Frost & Sullivan in the third quarter in 2002 and in the second quarter in 2003, ACS was named as a leader in the smart card reader market in Asia and ranked as the world’s fourth leading industry participant of smart card readers linked to personal computers in 2002. In October, 2003, Frost & Sullivan presented the “Growth Strategy Leadership in the World PC Link Reader Market” award to the group for the outstanding growth of its market share in terms of unit shipment in the smart card reader industry in 2002.

- **A profitable business in 2002** The group’s business has turned profitable since 2002. This has generated net positive cash flows which enable the group to fund its operations. The group presently has no bank borrowings.

Note: Frost & Sullivan, founded in 1961, is an independent market consulting and research organisation. It employs over 500 consultants, market analysts, corporate trainers, account managers and customer support staff globally with offices in the United States, Canada, England, France, Germany, India, Australia, Singapore, Japan, Malaysia and China. It offers nine research methodology types covering nine industry sectors namely, aerospace & defense, chemicals, materials & foods, communication & IT, consumer products, electronics & semiconductors, environment & energy, healthcare, industrial and transportation. In the process of compiling research reports and ratings of smart card companies, Frost & Sullivan interviewed key market participants such as manufacturers, suppliers, distributors and importers of smart card products and carried out research and analysis on, amongst other things, the dynamics of the smart card industry, growth potential, market trends and competition in the smart card market. The research undertaken involved gathering data from various sources including internal and online databases, trade journals, government statistics and other publications. The Company selects to use the research reports issued by Frost & Sullivan because it is a major market research company and its reports cover the smart card industry.

SUMMARY

TRADING RECORD

A summary of the audited consolidated results of the group during the track record period, which is extracted from the accountants' report in appendix I to this prospectus, is set out below:

	Year ended		Four months
	31 December,	2002	ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2003</i>
	<i>(except per Share data)</i>		
Turnover (Note 1)	12,863	27,794	7,307
Cost of sales	(7,517)	(15,338)	(3,109)
	5,346	12,456	4,198
Other revenue	328	19	28
Other net income	15	6	11
Operating expenses			
Staff costs	(5,092)	(5,073)	(1,674)
Depreciation	(514)	(581)	(189)
Amortisation of development costs	(341)	(825)	(430)
Other operating expenses	(3,870)	(2,898)	(770)
(Loss)/profit from operations	(4,128)	3,104	1,174
Finance costs	(61)	(88)	(31)
(Loss)/profit from ordinary activities before taxation	(4,189)	3,016	1,143
Taxation	–	–	–
(Loss)/profit from ordinary activities after taxation	(4,189)	3,016	1,143
Accumulated losses brought forward	(23,439)	(27,628)	(24,612)
Accumulated losses carried forward	(27,628)	(24,612)	(23,469)
(Loss)/earnings per Share (HK cents)			
Basic (Note 2)	(2.07)	1.49	0.57

SUMMARY

Notes:

1. Turnover represents the invoiced value of sales to customers less discounts and returns during the period under review.
2. The calculation of the basic earnings/(loss) per Share for each year/period is based on the group's consolidated profit/(loss) attributable to shareholders for each respective year/period and on 202,000,000 Shares outstanding after the proposed repurchase of 3,964,123 Shares of US\$0.10 each and issuance of 30,920,160 Shares of HK\$0.10 each and the capitalisation issue as if those Shares had been outstanding for each year/period presented as described in the section headed "Further information about the company" in appendix V to this prospectus.

There were no potential dilutive ordinary Shares in issue during the track record period.

The calculation of basic and diluted earnings/(loss) per share has not taken into account the Shares which will or may be issued pursuant to the placing or subsequent to the placing.

3. For each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, the group had around 240, 300 and 180 customers with an average order size per customer of some HK\$54,000, HK\$61,000 and HK\$39,000, respectively. Calculation of the average order size per customer excludes a large-sized order of approximately HK\$9 million received from a customer for the year ended 31 December, 2002.

In accordance with paragraphs 27 and 31 of the Third Schedule of the Companies Ordinance, the Company is required to include its financial results for each of the three financial years immediately preceding the issue of this prospectus. Pursuant to the exemption under section 5 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, financial results for each of the immediately preceding two financial years have been included in the accountants' report in appendix I to this prospectus instead of three financial years as required under the Third Schedule of the Companies Ordinance.

SUMMARY

SHAREHOLDING STRUCTURE AND RESTRICTIONS ON DISPOSAL OF SHARES AND INITIAL INVESTMENT COSTS

Shareholders	Notes	Date on which shareholding interest in the Group commenced	Number of Shares held on the listing date	Approximate shareholding percentage on the listing date	Moratorium period commencing from the listing date (Months)	Approximate average cost per Share (HK\$)	Approximate total investment costs (HK\$)
<i>Initial management shareholders</i>							
D&A Holdings	1	15 April, 1999	105,706,210	37.752%	12	0.015	1,540,303.56
Thomrose Holdings	2	1 December, 1998	17,615,162	6.291%	12	0.125	2,200,000.00
Mr. Denny Wong	1	15 December, 1995	6,773,831	2.419%	12	1.401	9,489,140.60
Ms. Alice Wong	1	15 December, 1995	2,882,481	1.029%	12	1.421	4,096,520.40
Mr. Lawrence Pang	3	5 July, 2002	6,863,052	2.451%	12	0.437	3,000,000.00
Mr. Tan Keng Boon	3	30 September, 1999	6,845,893	2.445%	12	0.223	1,527,040.00
Mr. Thomas Wan	2	23 October, 2003	2,402,068	0.858%	12	0.097	234,020.00
Mr. Joachim Goebel	3	23 October, 2003	100,086	0.036%	6	0.250	25,020.00
<i>Substantial shareholders</i>							
Proway Investment/ Morningside CyberVentures Holdings Limited/ Verrall Limited	4, 5	16 June, 2000	31,740,305	11.336%	12	0.508	16,119,980.00
<i>Public shareholders</i>							
Mr. Thomas Yuen	6	1 December, 1998	10,865,352	3.881%	Not applicable	0.122	1,324,020.00
Mr. Laschinsky	7	1 December, 1998	5,395,821	1.927%	Not applicable	0.125	673,897.00
Mr. Jorge Locsin	8	14 May, 2002	40,034	0.014%	Not applicable	0.250	10,000.00
Mr. Tong Kam Hung	9	1 December, 1998	2,603,841	0.930%	Not applicable	0.166	433,200.00
Mr. Wong Chi Ho	10	25 July, 2003	60,052	0.021%	Not applicable	0.250	15,020.00
<i>Employees</i>							
Mr. Tse Kam Cheung	11	14 May, 2002	144,124	0.052%	Not applicable	0.250	36,000.00
Mr. Tse Wai Sing	11	14 May, 2002	24,021	0.009%	Not applicable	0.250	6,000.00
Mr. Ruffy Francis Nicolo Punzalan	11	14 May, 2002	48,041	0.017%	Not applicable	0.250	12,000.00
Ms. Sian Kwan Yuk, Janet	11	14 May, 2002	160,138	0.057%	Not applicable	0.250	40,000.00
Ms. Lai Yuen Yee	11	14 May, 2002	480,413	0.172%	Not applicable	0.250	120,000.00
Mr. Cheung Yuk Ngai, Edward	11	14 May, 2002	48,041	0.017%	Not applicable	0.250	12,000.00
Ms. Lau Kam Fun, Canna	12	23 October, 2003	1,201,034	0.429%	Not applicable	0.148	178,040.00
<i>Other public shareholders</i>	13	Not applicable	78,000,000	27.857%			
Total			<u>280,000,000</u>	<u>100.000%</u>			

Notes:

- D&A Holdings is held as to 70% by Mr. Denny Wong and 30% by Ms. Alice Wong. Each of D&A Holdings, Mr. Denny Wong and Ms. Alice Wong has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of its direct or indirect interest in the Shares held by it on the listing date (otherwise than pursuant to any transactions under the stock borrowing agreement and save as permitted under rule 13.18 of the GEM listing rules) within the first twelve months following the listing date. Mr. Denny Wong and Ms. Alice Wong have further undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of, his or her direct or indirect interest in the shares in D&A Holdings within the first twelve months following the listing date. The investment cost includes the consideration paid for the purchase of 2 Shares from the subscribers at the nominal value of the shares of US\$0.10 each.

SUMMARY

The following tables set out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by D&A Holdings, Mr. Denny Wong and Ms. Alice Wong:

D&A Holdings

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
15 April, 1999	acquisition of ACS shares from Mr. Denny Wong and Ms. Alice Wong <i>(Note a)</i>	1.00	5,830,802	ACS shares	nominal
15 April, 1999	acquisition of ACS shares from Mr. Denny Wong <i>(Note b)</i>	1.00	5,830,801	ACS shares	nominal
1 July, 1999	subscription for new ACS shares	1,440,300.00	1,440,300	ACS shares	1.00
30 November, 1999	acquisition of ACS shares from Mr. Lin Wai Hung	100,000.00	100,000	ACS shares	1.00
13 April, 2000	acquisition of Shares of US\$0.10 each from the subscribers of the Company	1.56	2	Shares of US\$0.10 each	0.78
28 April, 2000	disposal of ACS shares to the Company under an earlier corporate reorganisation <i>(Note c)</i>	N.A.	(13,201,903)	ACS shares	N.A.
28 April, 2000	subscription for new Shares of US\$0.10 each under an earlier corporate reorganisation	N.A.	13,201,901	Shares of US\$0.10 each	N.A.
27 October, 2003	subscription for new Shares of HK\$0.10 each	10,297,484.40	102,974,844	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(10,297,484.40)	(13,201,903)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	2,731,366	Shares of HK\$0.10 each	nil
		<u>1,540,303.56</u>	<u>105,706,210</u>	Shares of HK\$0.10 each	0.015

SUMMARY

Notes:

- a. D&A Holdings acquired the 5,830,802 ACS shares from the registered owner, Ms. Lau Kam Wai, who held 2,332,321 ACS shares in trust for Mr. Denny Wong and 3,498,481 ACS shares in trust for Ms. Alice Wong.
- b. D&A Holdings acquired the 5,830,801 ACS shares from the registered owner, Ms. Chan So Kuen, Gloria who held the same in trust for Mr. Denny Wong.
- c. After the disposal, 1 ACS share was registered in the name of D&A Holdings who held the same in trust for the Company.

N.A. – Not applicable

Mr. Denny Wong

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
15 December, 1995	subscription for new ACS shares	6,998.00	6,998	ACS shares	1.00
21 December, 1995	acquisition of ACS shares from the subscribers of the Company	2.00	2	ACS shares	1.00
1 December, 1998	subscription for new ACS shares <i>(Note d)</i>	2,330,321.00	2,330,321	ACS shares	1.00
1 December, 1998	subscription for new ACS shares <i>(Note e)</i>	5,825,801.00	5,825,801	ACS shares	1.00
15 April, 1999	disposal of ACS shares to D&A Holdings <i>(Note f)</i>	(0.40)	(2,332,321)	ACS shares	nominal
15 April, 1999	disposal of ACS shares to D&A Holdings <i>(Note g)</i>	(1.00)	(5,830,801)	ACS shares	nominal
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 <i>(Note h)</i>	1,092,000.00	546,000	Shares of US\$0.10 each	2.00
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 25 July, 2000	234,020.00	300,000	Shares of US\$0.10 each	0.78
27 October, 2003	subscription for new Shares of HK\$0.10 each	659,880.00	6,598,800	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(659,880.00)	(846,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	175,031	Shares of HK\$0.10 each	nil
		<u>9,489,140.60</u>	<u>6,773,831</u>	Shares of HK\$0.10 each	1.401

SUMMARY

Notes:

- d. On 10 July, 1997, Mr. Denny Wong transferred 2,000 ACS shares to Ms. Lau Kam Wai who held the same in trust for Mr. Denny Wong. On 1 December, 1998, Mr. Denny Wong subscribed for the 2,330,321 ACS shares through his nominee, Ms. Lau Kam Wai who held the same in trust for Mr. Denny Wong.
- e. On 10 July, 1997, Mr. Denny Wong transferred 5,000 ACS shares to Ms. Chan So Kuen, Gloria who held the same in trust for Mr. Denny Wong. On 1 December, 1998, Mr. Denny Wong subscribed for the 5,825,801 ACS shares through his nominee, Ms. Chan So Kuen, Gloria who held the same in trust for Mr. Denny Wong.
- f. Mr. Denny Wong disposed of 2,332,321 ACS shares (registered under the name of Ms. Lau Kam Wai who held the same in trust for Mr. Denny Wong) to D&A Holdings.
- g. Mr. Denny Wong disposed of 5,830,801 ACS shares (registered under the name of Ms. Chan So Kuen, Gloria who held the same in trust for Mr. Denny Wong) to D&A Holdings.
- h. The subscription was made pursuant to an arrangement with ACS entered into on 19 January, 2001 whereby the total subscription consideration would be advanced by ACS and repaid by deducting the amount from the monthly salary of the relevant employee or the consultancy fee payable in respect of the services of the relevant consultant from January to December 2001.

Ms. Alice Wong

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
15 December, 1995	subscription for new ACS shares	3,000.00	3,000	ACS shares	1.00
1 December, 1998	subscription for new ACS shares <i>(Note i)</i>	3,495,481.00	3,495,481	ACS shares	1.00
15 April, 1999	disposal of ACS shares to D&A Holdings <i>(Note j)</i>	(0.60)	(3,498,481)	ACS shares	nominal
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid on 31 December, 2001 <i>(Note k)</i>	420,000.00	210,000	Shares of US\$0.10 each	2.00
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 25 July, 2000	78,020.00	100,000	Shares of US\$0.10 each	0.78
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 21 January, 2003	100,020.00	50,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	280,800.00	2,808,000	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(280,800.00)	(360,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	74,481	Shares of HK\$0.10 each	nil
		<u>4,096,520.40</u>	<u>2,882,481</u>	Shares of HK\$0.10 each	1.421

SUMMARY

Notes:

- i. On 10 July, 1997, Ms. Alice Wong transferred 3,000 ACS shares to Ms. Lau Kam Wai who held the same in trust for Ms. Alice Wong. On 1 December, 1998, Ms. Alice Wong subscribed for the 3,495,481 ACS shares through her nominee, Ms. Lau Kam Wai who held the same in trust for Ms. Alice Wong.
 - j. Ms. Alice Wong disposed of 3,498,481 ACS shares (registered under the name of Ms. Lau Kam Wai who held the same in trust for Ms. Alice Wong) to D&A Holdings.
 - k. The subscription was made pursuant to an arrangement with ACS made on 19 January, 2001 whereby the total subscription consideration would be advanced by ACS and repaid by deducting the amount from the monthly salary of the relevant employee or the consultancy fee payable in respect of the services of the relevant consultant from January to December 2001.
2. Each of Thomrose Holdings, which is an investment holding company wholly-owned by Mr. Thomas Wan, and Mr. Thomas Wan has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of its direct or indirect interest in the Shares held on the listing date (save as permitted under rule 13.18 of the GEM listing rules) within the first twelve months following the listing date. Mr. Thomas Wan has further undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of, his direct or indirect interest in the shares in Thomrose Holdings within the first twelve months following the listing date.

The following tables set out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Thomrose Holdings and Mr. Thomas Wan:

Thomrose Holdings

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
1 December, 1998	subscription for new ACS shares	1,000,000.00	1,000,000	ACS shares	1.00
1 July, 1999	subscription for new ACS shares	1,200,000.00	1,200,000	ACS shares	1.00
28 April, 2000	disposal of ACS shares to the Company under an earlier corporate reorganisation	N.A.	(2,200,000)	ACS shares	N.A.
28 April, 2000	subscription for new Shares of US\$0.10 each under an earlier corporate reorganisation	N.A.	2,200,000	Shares of US\$0.10 each	N.A.
27 October, 2003	subscription for new Shares of HK\$0.10 each	1,716,000.00	17,160,000	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(1,716,000.00)	(2,200,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	455,162	Shares of HK\$0.10 each	nil
		<u>2,200,000.00</u>	<u>17,615,162</u>	Shares of HK\$0.10 each	0.125

N.A. – Not applicable

SUMMARY

Mr. Thomas Wan

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 25 July, 2000	234,020.00	300,000	Shares of US\$0.10 each	0.78
27 October, 2003	subscription for new Shares of HK\$0.10 each	234,000.00	2,340,000	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(234,000.00)	(300,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	62,068	Shares of HK\$0.10 each	nil
		234,020.00	2,402,068	Shares of HK\$0.10 each	0.097

3. Each of Mr. Lawrence Pang, Mr. Tan Keng Boon and Mr. Joachim Goebel has undertaken to the Company, Anglo Chinese, Japan Asia and the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of, his direct or indirect interest in the Shares held by each of them on the listing date (save as permitted under rule 13.18 of the GEM listing rules) within the first twelve months for Mr. Lawrence Pang and Mr. Tan Keng Boon and six months for Mr. Joachim Goebel following the listing date.

The following tables set out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Mr. Lawrence Pang, Mr. Tan Keng Boon and Mr. Joachim Goebel:

Mr. Lawrence Pang

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
5 July, 2002	subscription for new Shares of US\$0.10 each upon exercise of conversion right attached to the convertible debenture	3,000,000 <i>(Note 1)</i>	857,143	Shares of US\$0.10 each	3.50
27 October, 2003	subscription for new Shares of HK\$0.10 each	668,571.60	6,685,716	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(668,571.60)	(857,143)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	177,336	Shares of HK\$0.10 each	nil
		3,000,000.00	6,863,052	Shares of HK\$0.10 each	0.437

Note:

1. On 5 July, 2002, Mr. Lawrence Pang subscribed for 857,143 new Shares at US\$0.45 (or approximately HK\$3.50) per Share as a result of the exercise of the convertible debentures. The total consideration was US\$385,714.35 (or approximately HK\$3 million).

SUMMARY

Mr. Tan Keng Boon

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
30 September, 1999	subscription for new ACS shares	1,000,000.00	500,000	ACS shares	2.00
28 April, 2000	disposal of ACS shares to the Company under an earlier corporate reorganisation	N.A.	(500,000)	ACS shares	N.A.
28 April, 2000	subscription for new Shares of US\$0.10 each under an earlier corporate reorganisation	N.A.	500,000	Shares of US\$0.10 each	N.A.
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid on 31 December, 2001 (Note m)	360,000.00	180,000	Shares of US\$0.10 each	2.00
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 25 July, 2000	117,020.00	150,000	Shares of US\$0.10 each	0.78
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 21 January, 2003	50,020.00	25,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	666,900.00	6,669,000	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(666,900.00)	(855,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	176,893	Shares of HK\$0.10 each	nil
		<u>1,527,040.00</u>	<u>6,845,893</u>	Shares of HK\$0.10 each	0.223

N.A. – Not applicable

Note:

- m. The subscription was made pursuant to an arrangement entered into with ACS made on 19 January, 2001 whereby the total subscription consideration would be advanced by ACS and repaid by deducting the amount from the monthly salary of the relevant employee or the consultancy fee payable in respect of the services of the relevant consultant from January to December 2001.

SUMMARY

Mr. Joachim Goebel

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 21 January, 2003	25,020.00	12,500	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	9,750.00	97,500	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(9,750.00)	(12,500)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	2,586	Shares of HK\$0.10 each	nil
		<u>25,020.00</u>	<u>100,086</u>	Shares of HK\$0.10 each	0.250

4. Each of Proway Investment, Morningside CyberVentures Holdings Limited and Verrall Limited has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of, its direct or indirect interest in the Shares held by each of them on the listing date (save as permitted under rule 13.18 of the GEM listing rules) within the first twelve months following the listing date.

Each of Verrall Limited and Morningside CyberVentures Holdings Limited has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of, its direct or indirect interest in Morningside CyberVentures Holdings Limited and Proway Investment (as the case may be) within the first twelve months following the listing date.

Verrall Limited has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange that the direct or indirect interest in the Shares held by Proway Investment and Morningside CyberVentures Holdings Limited and Verrall Limited as trustee of the family trust established by Madam Chan Tan Ching Fen will not be distributed to the discretionary objects of the trust within the first twelve months following the listing date.

Verrall Limited has further undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange that the undertakings given by Verrall Limited as trustee of the trust (as described in this note) will be binding upon its successors as trustees of the said trust within the first twelve months following the listing date.

SUMMARY

5. On 16 June, 2000, Proway Investment was allotted 1,343,364 series A preference shares at a total consideration of US\$1,000,000, representing approximately 6.94% of the nominal value of the then enlarged issued capital of the Company. On 18 October, 2000, Proway Investment was allotted 1,343,364 series A preference shares at a total consideration of US\$1,000,000, representing approximately 6.49% of the nominal value of the then enlarged issued capital of the Company. On 18 May, 2001, as consideration in part for the time and effort of Mr. Lai Tze Chuen, Gary, a non-executive director nominated by Proway Investment, to assist in the sales and marketing activities of the group, the Company issued a warrant to Proway Investment whereby Proway Investment is entitled to purchase from the Company 250,000 Shares of US\$0.10 each at a purchase price of US\$0.2564 per Share, representing approximately 1.19% of the nominal value of the then enlarged issued capital of the Company (including Shares which may be issued upon exercise of the warrant). On 20 May, 2003, Proway Investment purchased 10,000 Shares of US\$0.10 each from Mr. Sin Man Chiu at a total consideration of HK\$20,000, representing approximately 0.04% of the nominal value of the then issued capital of the Company. Upon redemption of all the series A preference shares and the subscription of shares of US\$0.10 by application of the proceeds of redemption, the exercise of the warrants held by Proway Investment, the repurchase of the Shares of US\$0.10, the subscription for the Shares of HK\$0.10 and the making of the capitalisation issue, Proway Investment will hold 31,740,305 Shares of HK\$0.10.

Proway Investment is an investment holding company and a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited which is in turn wholly-owned by Verrall Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. Madam Chan Tan Ching Fen is considered to be interested in the Shares owned by Proway Investment in her capacity as founder of the trust under the Securities and Futures Ordinance. Proway Investment is a passive investor in the group. During the period from 16 June, 2000 to 10 March, 2003, Proway Investment appointed Mr. Lai Tze Chuen, Gary as a non-executive Director. Save for the provision of assistance in sales and marketing activities for a period between 18 February, 2001 and 18 May, 2001 and advice relating to funding and controlling of expenses to the group, Mr. Lai had not been involved in the daily management of the operations during the period in which he was appointed as a non-executive Director. On 10 March, 2003, Mr. Lai Tze Chuen, Gary resigned from the board as Proway Investment wished to take a passive role in respect of its investment in the Company. Following the resignation of Mr. Lai Tze Chuen, Gary from the board, Proway Investment is not involved in the management of the group and has no representation on the board. Proway Investment, Morningside CyberVentures Holdings Limited, Verrall Limited in its capacity as trustee of the family trust established by Madam Chan Tan Ching Fen and Madam Chan Tan Ching Fen are independent third parties. Madam Chan Tan Ching Fen has no relationship with other shareholders of the Company as at the latest practicable date.

SUMMARY

The following table sets out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Proway Investment:

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
16 June, 2000	subscription for new series A preference shares (Note n)	7,800,000.00	1,343,364	series A preference shares	5.81
18 October, 2000	subscription for new series A preference shares (Note n)	7,800,000.00	1,343,364	series A preference shares	5.81
20 May, 2003	acquisition of Shares of US\$0.10 each from Sin Man Chiu	20,000.00	10,000	Shares of US\$0.10 each	2.00
7 November, 2003	redemption of the series A preference shares	(15,600,000.00)	(2,686,728)	series A preference shares	(5.81)
7 November, 2003	subscription for new Shares of US\$0.10 each	15,600,000.00	3,704,123	Shares of US\$0.10 each	4.21
7 November, 2003	subscription for new Shares of US\$0.10 each upon exercise of conversion right attached to the warrants	499,980.00	250,000	Shares of US\$0.10 each	2.00
7 November 2003	subscription for new Shares of HK\$0.10 each	3,092,016.00	30,920,160	Shares of HK\$0.10 each	0.10
7 November, 2003	repurchase of Shares of US\$0.10 each	(3,092,016.00)	(3,964,123)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	820,145	Shares of US\$0.10 each	nil
		<u>16,119,980.00</u>	<u>31,740,305</u>	Shares of HK\$0.10 each	0.508

Note:

n. All series A preference shares will cease to exist upon redemption from Proway Investment.

SUMMARY

6. Mr. Thomas Yuen was a non-executive Director from 28 April, 2000 to 29 May, 2003 and a director of ACS from 9 March, 1999 to 29 May, 2003. Save for the provision of funding related advices to the group, Mr. Thomas Yuen had not been involved in the daily management of the operations of the group in the periods in which he was appointed as a non-executive Director and a director of ACS. Mr. Thomas Yuen became a shareholder through the subscription for 1,207,000 Shares on 28 April, 2000. On 25 July 2003, he was allotted 150,000 Shares as a result of his exercise of the share options granted to him under the terminated share option scheme. Mr. Thomas Yuen will be interested in 10,865,352 Shares upon completion of the capitalisation issue and the placing. He has remained a passive investor in the group following his resignation from the board. Mr. Thomas Yuen is an independent third party and is considered to be a public shareholder.

The following table sets out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Mr. Thomas Yuen:

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
1 December, 1998	subscription for new ACS shares	1,000,000.00	1,000,000	ACS shares	1.00
1 July, 1999	subscription for new ACS shares	207,000.00	207,000	ACS shares	1.00
28 April, 2000	disposal of ACS shares to the Company under an earlier corporate reorganisation	N.A.	(1,207,000)	ACS shares	N.A.
28 April, 2000	subscription for new Shares of US\$0.10 each under an earlier corporate reorganisation	N.A.	1,207,000	Shares of US\$0.10 each	N.A.
25 July, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 25 July, 2000	117,020.00	150,000	Shares of US\$0.10 each	0.78
27 October, 2003	subscription for new Shares of HK\$0.10 each	1,058,460.00	10,584,600	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(1,058,460.00)	(1,357,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	280,752	Shares of HK\$0.10 each	nil
		<u>1,324,020.00</u>	<u>10,865,352</u>	Shares of HK\$0.10 each	0.122

N.A. – Not applicable

SUMMARY

7. Mr. Laschinsky was a non-executive Director from 28 April, 2000 to 5 July, 2001 and a director of ACS from 9 March, 1999 to 5 July, 2001. Mr. Laschinsky, in his capacity as a non-executive Director, provided advice in relation to smart card products and technology trends in the United States to the group. Mr. Laschinsky has remained a passive investor in the group following his resignation from the board. Mr. Laschinsky is an independent third party and is considered to be a public shareholder.

The following table sets out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Mr. Laschinsky:

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
1 December, 1998	subscription for new ACS shares	558,397.00	558,397	ACS shares	1.00
1 July, 1999	subscription for new ACS shares	115,500.00	115,500	ACS shares	1.00
28 April, 2000	disposal of ACS shares to the Company under an earlier corporate reorganisation	N.A.	(673,897)	ACS shares	N.A.
28 April, 2000	subscription for new Shares of US\$0.10 each under an earlier corporate reorganisation	N.A.	673,897	Shares of US\$0.10 each	N.A.
27 October, 2003	subscription for new Shares of HK\$0.10 each	525,639.70	5,256,397	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(525,639.70)	(673,897)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	139,424	Shares of HK\$0.10 each	nil
		<u>673,897.00</u>	<u>5,395,821</u>	Shares of HK\$0.10 each	0.125

N.A. – Not applicable

SUMMARY

8. Mr. Jorge Locsin is one of the engineers assigned by an independent consultancy firm in the Philippines that provides the group with design services relating to the development of smart card operating systems. Mr. Jorge Locsin is an independent third party and is considered to be a public shareholder.

The following table sets out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Mr. Jorge Locsin:

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 <i>(Note o)</i>	10,000.00	5,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	3,900.00	39,000	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(3,900.00)	(5,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	1,034	Shares of HK\$0.10 each	nil
		<u>10,000.00</u>	<u>40,034</u>	Shares of HK\$0.10 each	0.250

Note:

- o. The subscription was made pursuant to an arrangement with ACS entered into on 19 January, 2001 whereby the total subscription consideration would be advanced by ACS and repaid by deducting the amount from the monthly salary of the relevant employee or consultancy fee payable in respect of the services of the relevant consultant from January to December 2001.

SUMMARY

9. Mr. Tong Kam Hung has been a part-time consultant of the group since April 1998. He advises the group on areas covering product development and product specifications. Mr. Tong is considered to be a public shareholder.

The following table sets out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Mr. Tong Kam Hung:

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
1 December, 1998	subscription for new ACS shares	180,000.00	180,000	ACS shares	1.00
1 July, 1999	subscription for new ACS shares	37,200.00	37,200	ACS shares	1.00
28 April, 2000	disposal of ACS shares to the Company under an earlier corporate reorganisation	N.A.	(217,200)	ACS shares	N.A.
28 April, 2000	subscription for new Shares of US\$0.10 each under an earlier corporate reorganisation	N.A.	217,200	Shares of US\$0.10 each	N.A.
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 (Note p)	216,000.00	108,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	253,656.00	2,536,560	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(253,656.00)	(325,200)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	67,281	Shares of HK\$0.10 each	nil
		<u>433,200.00</u>	<u>2,603,841</u>	Shares of HK\$0.10 each	0.166

N.A. – Not applicable

Note:

- p. The subscription was made pursuant to an arrangement with ACS entered into on 19 January, 2001 whereby the total subscription consideration would be advanced by ACS and repaid by deducting the amount from the monthly salary of the relevant employee or the consultancy fee payable in respect of the services of the relevant consultant from January to December 2001.

SUMMARY

10. Mr. Wong Chi Ho resigned as an engineer of the group on 15 August, 2003 for personal reasons. Mr. Wong is considered to be a public shareholder.

The following table sets out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Mr. Wong Chi Ho:

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
25 July, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options	15,020	7,500	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	5,850.00	58,500	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(5,850.00)	(7,500)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	1,552	Shares of HK\$0.10 each	nil
		<u>15,020</u>	<u>60,052</u>	Shares of HK\$0.10 each	0.250

SUMMARY

11. The following tables set out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Mr. Tse Kam Cheung, Mr. Tse Wai Sing, Mr. Ruffy Francis Nicolo Punzalan, Ms. Sian Kwan Yuk, Janet, Ms. Lai Yuen Yee and Mr. Cheung Yuk Ngai, Edward:

Mr. Tse Kam Cheung

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 (Note q)	36,000.00	18,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	14,040.00	140,400	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(14,040.00)	(18,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	3,724	Shares of HK\$0.10 each	nil
		<u>36,000.00</u>	<u>144,124</u>	Shares of HK\$0.10 each	0.250

Mr. Tse Wai Sing

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 (note q)	6,000.00	3,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	2,340.00	23,400	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(2,340.00)	(3,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	621	Shares of HK\$0.10 each	nil
		<u>6,000</u>	<u>24,021</u>	Shares of HK\$0.10 each	0.250

SUMMARY

Mr. Ruffy Francis Nicolo Punzalan

Date/Expected date	Transaction	Approximate total consideration <i>(HK\$)</i>	Number of securities	Type of securities	Approximate cost per unit of securities <i>(HK\$)</i>
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 <i>(Note q)</i>	12,000.00	6,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	4,680.00	46,800	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(4,680.00)	(6,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	1,241	Shares of HK\$0.10 each	nil
		<u>12,000.00</u>	<u>48,041</u>	Shares of HK\$0.10 each	0.250

Ms. Sian Kwan Yuk, Janet

Date/Expected date	Transaction	Approximate total consideration <i>(HK\$)</i>	Number of securities	Type of securities	Approximate cost per unit of securities <i>(HK\$)</i>
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 <i>(Note q)</i>	40,000.00	20,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	15,600.00	156,000	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(15,600.00)	(20,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	4,138	Shares of HK\$0.10 each	nil
		<u>40,000.00</u>	<u>160,138</u>	Shares of HK\$0.10 each	0.250

SUMMARY

Ms. Lai Yuen Yee

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 (Note q)	120,000.00	60,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	46,800.00	468,000	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(46,800.00)	(60,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	12,413	Shares of HK\$0.10 each	nil
		<u>120,000.00</u>	<u>480,413</u>	Shares of HK\$0.10 each	0.250

Mr. Cheung Yuk Ngai, Edward

Date/Expected date	Transaction	Approximate total consideration (HK\$)	Number of securities	Type of securities	Approximate cost per unit of securities (HK\$)
14 May, 2002	subscription for new Shares of US\$0.10 each fully paid up on 31 December, 2001 (Note q)	12,000.00	6,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	4,680.00	46,800	Shares of HK\$0.10 each	0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(4,680.00)	(6,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	1,241	Shares of HK\$0.10 each	nil
		<u>12,000.00</u>	<u>48,041</u>	Shares of HK\$0.10 each	0.250

Note:

- q. The subscription was made pursuant to an arrangement with ACS entered into on 19 January, 2001 whereby the total subscription consideration would be advanced by ACS and repaid by deducting the amount from the monthly salary of the relevant employee or the consultancy fee payable in respect of the services of the relevant consultant from January to December 2001.

SUMMARY

12. The following table sets out particulars of the subscription, acquisition and disposal of shares in the share capital of members of the group by Ms. Lau Kam Fun, Canna:

Date/Expected date	Transaction	Approximate total consideration <i>(HK\$)</i>	Number of securities	Type of securities	Approximate cost per unit of securities <i>(HK\$)</i>
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 25 July, 2000	78,020.00	100,000	Shares of US\$0.10 each	0.78
23 October, 2003	subscription for new Shares of US\$0.10 each upon exercise of share options granted on 21 January, 2003	100,020.00	50,000	Shares of US\$0.10 each	2.00
27 October, 2003	subscription for new Shares of HK\$0.10 each	117,000.00	1,170,000	Shares of HK\$0.10 each	HK\$0.10
27 October, 2003	repurchase of Shares of US\$0.10 each	(117,000.00)	(150,000)	Shares of US\$0.10 each	(0.78)
7 November, 2003	capitalisation issue	nil	31,034	Shares of HK\$0.10 each	nil
		<u>178,040.00</u>	<u>1,201,034</u>	Shares of HK\$0.10 each	0.148

SUMMARY

13. The shareholding percentages referred to in the above tables do not take into account the dilutive effect of the offer size adjustment option. (Please refer to the paragraph headed “Outstanding options granted under the pre-IPO share option plan” in appendix V to this prospectus for details of the periods during which options granted under the pre-IPO share option plan will become exercisable.) Assuming that the offer size adjustment option is exercised in full but the options under the pre-IPO share option plan are not exercised, the approximate percentage interests of the shareholders immediately after the placing and the capitalisation issue will be as shown below:

	Approximate shareholding percentage
<i>Initial management shareholders</i>	
D&A Holdings	36.238%
Thomrose Holdings	6.039%
Mr. Denny Wong	2.322%
Ms. Alice Wong	0.988%
Mr. Lawrence Pang	2.353%
Mr. Tan Keng Boon	2.347%
Mr. Thomas Wan	0.823%
Mr. Joachim Goebel	0.034%
<i>Substantial shareholders</i>	
Proway Investment/Morningside CyberVentures Holdings Limited/Verrall Limited	10.881%
<i>Public shareholders</i>	
Mr. Thomas Yuen	3.725%
Mr. Laschinsky	1.850%
Mr. Jorge Locsin	0.014%
Mr. Tong Kam Hung	0.893%
Mr. Wong Chi Ho	0.021%
<i>Employees</i>	
Mr. Tse Kam Cheung	0.049%
Mr. Tse Wai Sing	0.008%
Mr. Ruffy Francis Nicolo Punzalan	0.016%
Ms. Sian Kwan Yuk, Janet	0.055%
Ms. Lai Yuen Yee	0.165%
Mr. Cheung Yuk Ngai, Edward	0.016%
Ms. Lau Kam Fun, Canna	0.412%
<i>Other public shareholders</i>	30.751%
	<u>100.000%</u>

14. Each of the initial management shareholders, namely D&A Holdings, Thomrose Holdings, Mr. Denny Wong, Mr. Thomas Wan, Ms. Alice Wong, Mr. Lawrence Pang, Mr. Tan Keng Boon and Mr. Joachim Goebel, have confirmed to the Stock Exchange that they and their respective associates have not entered into and, will not prior to the listing date, enter into any arrangements or agreements (other than those arrangements or agreements already disclosed in this prospectus) in relation to the Shares or shares of predecessor companies of the Company, including as to the price of the Shares to be placed pursuant to the placing.

SUMMARY

15. On the basis that all the options granted under the pre-IPO share option plan are exercised in full but the offer size adjustment option is not exercised, the approximate percentage interests of the shareholders immediately after the completion of the placing and the capitalisation issue will be as follows:

	Approximate shareholding percentage
<i>Initial management shareholders</i>	
D & A Holdings	36.891%
Thomrose Holdings	6.148%
Mr. Denny Wong	2.364%
Ms. Alice Wong	1.006%
Mr. Lawrence Pang	2.954%
Mr. Tan Keng Boon	2.389%
Mr. Thomas Wan	0.838%
Mr. Joachim Goebel	0.105%
<i>Substantial shareholders</i>	
Proway Investment/Morningside CyberVentures Holdings Limited/ Verrall Limited	11.077%
<i>Public shareholders</i>	
Mr. Thomas Yuen	3.792%
Mr. Laschinsky	1.883%
Mr. Jorge Locsin	0.070%
Mr. Tong Kam Hung	1.328%
Mr. Wong Chi Ho	0.021%
<i>Employees</i>	
Mr. Tse Kam Cheung	0.106%
Mr. Tse Wai Sing	0.176%
Mr. Ruffy Francis Nicolo Punzalan	0.087%
Ms. Sian Kwan Yuk, Janet	0.112%
Ms. Lai Yuen Yee	0.377%
Mr. Cheung Yuk Ngai, Edward	0.129%
Mr. Chu Chi Lok	0.349%
Ms. Lau Kam Fun, Canna	0.419%
Mr. Ip Wai Chung	0.021%
Mr. Chui Yiu Wing	0.021%
Mr. Leung Tin Chak	0.021%
Ms. Yuen Fung Tai	0.014%
Ms. Chan Sau Ling	0.028%
Ms. Pang Wai Yi	0.010%
Mr. Chung Wing Keung	0.042%
<i>Other public shareholders</i>	27.222%
	100.000%

SUMMARY

BUSINESS OBJECTIVES AND STRATEGIES

ACS was ranked as the world's fourth leading industry participant of smart card readers linked to personal computers (in terms of estimated unit shipment) in 2002, in a research report titled "Strategic Analysis of the PC Link Smart Card Reader Market" issued by Frost & Sullivan in the second quarter of 2003. According to the report, the top three participants accounted for more than 85% of the PC linked smart card reader market. The group's business objectives are to increase its market share in the smart card industry, and excel in the development of smart card readers. In Hong Kong, special focus will also be placed on participation in the upcoming smart card based electronic identity card project promulgated by the Hong Kong government in August 2003. According to announcements of the Hong Kong government, the new electronic identity card will in the future be used for a number of e-government applications like income tax submission, licence application and renewal and payment of fines.

The group expects to broaden its customer base and range of its products. The group intends to establish more alliances with other smart card related technology providers and to participate in joint marketing campaigns for the group's products. The Directors expect that such alliances will be effective in raising ACS's profile and in helping ACS to achieve its business objectives.

The Directors have devised the following strategies to achieve the group's business objectives:

- enhancing the PC linked reader to become the group's flagship product;
- strengthening and developing industry alliances with major players in relevant industry sectors to develop a wider range of products which are applicable in those industries;
- enhancing the design of customised products with a view to developing more generic products for future sales;
- expansion of ACS's sales network with the set up of a sales office in Europe. Sales and marketing personnel at this overseas office will maintain direct contact with existing and prospective customers so as to keep abreast of their business needs on a regular basis. At the same time, the group will continue to participate in trade shows in Europe, the United States and Asia to promote its products. Additional local distributors in Europe, Latin America and Africa will be appointed to market the group's products.

SUMMARY

- enhancing research and development capability by recruiting experienced engineers and cooperating with reputable technology partners in other industries for the joint development of products. In the longer term, the group will seek opportunities to acquire third party smart card reader technologies to complement the group's research capabilities.
- exploring additional commercial applications of its existing products. The Directors consider that once the use of smart cards reaches a critical mass worldwide, the application of smart card technologies will be used commonly in a wide range of commercial applications and daily life.
- building on new market opportunities by continuing to be actively involved in the development and application of new smart card technologies for the IT sector.
- catering to the needs of small and medium-sized customers by delivering quality products within a short delivery lead-time.

OFFER STATISTICS

Forecasts for the year ending 31 December, 2003

Forecast consolidated profit after taxation but before extraordinary items (<i>Note 1</i>)	not less than HK\$10.0 million
Forecast earnings per Share (<i>Note 2</i>)	3.57 HK cents

PLACING STATISTICS

Issue price	HK\$0.32
Number of placing shares	78,000,000 Shares (subject to the offer size adjustment option)
Prospective price/earning multiple (<i>Note 3</i>)	9.0 times
Market capitalisation (<i>Note 4</i>)	HK\$89.6 million
Market value of the Shares in public hands (<i>Note 5</i>)	HK\$31.0 million
Adjusted net tangible asset value per Share (<i>Note 6</i>)	10.65 HK cents

SUMMARY

Notes:

1. The bases and assumptions on which the above profit forecast for the year ending 31 December, 2003 has been prepared are set out in appendix II to this prospectus. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December, 2003.
2. The calculation of the forecast earnings per Share is based on the forecast consolidated net profit attributable to shareholders but before extraordinary items of the group for the year ending 31 December, 2003 and 280,000,000 Shares in issue and to be issued but takes no account of any Shares which may be issued upon the exercise of the offer size adjustment option or any Shares which may be issued upon the exercise of the options granted under the pre-IPO Share option plan or the share option scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandate or the share repurchase mandate referred to in the section headed "Further information about the Company" in appendix V to this prospectus.
3. The prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis of 3.57 HK cents per Share for the year ending 31 December, 2003 as set out in note 2 above and on the price of HK\$0.32 per placing share.
4. The calculation of market capitalisation is based on 280,000,000 Shares in issue immediately following completion of the capitalisation issue and the placing without taking into account (i) any Shares which may be issued upon the exercise of the offer size adjustment option; (ii) any Shares which may be issued upon the exercise of the options granted under the pre-IPO share option plan or the share option scheme; and (iii) any Shares which may be issued or repurchased by the Company pursuant to the general mandate or the share repurchase mandate referred to in the paragraph headed "Resolutions of the Shareholders passed on 27 October, 2003" in the section headed "Further information about the Company" in appendix V to this prospectus.
5. The market value of the Shares in public hands is the aggregate of the value (based on the issue price of HK\$0.32 per placing share) of 18,965,100 Shares held in aggregate by five existing shareholders namely, Mr. Thomas Yuen, Mr. Laschinsky, Mr. Jorge Locsin, Mr. Tong Kam Hung and Mr. Wong Chi Ho and 78,000,000 placing shares to be issued at HK\$0.32 per placing share.
6. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed "Adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of a total of 280,000,000 Shares in issue immediately following completion of the capitalisation issue and the placing and without taking into account (i) any Shares which may be issued upon the exercise of the offer size adjustment option; (ii) any Shares which may be issued upon the exercise of the options granted under the pre-IPO share option plan or the share option scheme; and (iii) any Shares which may be issued or repurchased by the Company pursuant to the general mandate or the share repurchase mandate referred to in the paragraph headed "Resolutions of the Shareholders passed on 27 October, 2003" in the section headed "Further information about the Company" in appendix V to this prospectus.

SUMMARY

USE OF PROCEEDS

The net proceeds from the placing (based on the issue price) are estimated to amount to approximately HK\$16.5 million after deduction of expenses payable by the Company in relation to the placing, assuming that the offer size adjustment option is not exercised. The Directors presently intend to apply such net proceeds from the placing as follows:

- approximately HK\$8.4 million for enhancing existing products and developing new products expected to be introduced to the market in the next two years;
- approximately HK\$3.0 million for sales and marketing activities and recruitment of sales and marketing personnel in Europe, China and Hong Kong including the establishment of a new sales office in Europe;
- approximately HK\$0.8 million for application for patent, copyright and trademark registration of the group's intellectual properties rights;
- approximately HK\$1.0 million for upgrading the group's own management information system to cater for the anticipated growth in its business;
- approximately HK\$1.0 million for recruiting additional personnel for its operations other than sales and marketing (including production, finance and administration) in Hong Kong and overseas;
- approximately HK\$0.6 million for relocation of the group's office premises in Hong Kong; and
- the balance of approximately HK\$1.7 million as general working capital of the group.

If the offer size adjustment option is exercised in full, the additional net proceeds of the placing are estimated to amount to approximately HK\$3.6 million. The Directors intend to use approximately HK\$1.5 million of such additional net proceeds for product development, approximately HK\$0.9 million for sales and marketing, and approximately HK\$1.2 million as additional working capital of the group. To the extent that the net proceeds of the placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term deposits with banks or other authorised financial institutions.

SUMMARY

In the event that the business plan of the group does not materialise or proceed as planned, the Directors will carefully evaluate the requirements of the group and other relevant factors and circumstances and may reallocate parts of the relevant portion(s) of the net proceeds to other business plans, new projects and, or investment opportunities and/or place the same on short-term deposits. Any material departure from the use of proceeds stated above will be announced accordingly.

The Directors consider that the net proceeds from the placing together with the group's internally generated funds of approximately HK\$4.0 million for the year ending 31 December, 2004 and approximately HK\$2.8 million for the year ending 31 December, 2005 will be sufficient to finance the future development of the group as described in the section headed "Statement of business objectives and strategies" in this prospectus.

RISK FACTORS

Risks relating to the group

- rapid changes in technology
- reliance on key executives and ability to attract and retain skilled employees
- infringement of intellectual property rights
- reliance on an external consultancy firm
- potential products and services liabilities
- reliance on a limited number of large customers during the track record period
- reliance on an independent manufacturer for manufacturing its smart card reader products
- dilution of shareholders' interests as a result of the exercise of the options granted under the pre-IPO share option plan
- the business plan of the group may be delayed or may not materialise
- limited history of profitable track record and reserves available for distribution to shareholders
- additional funding to finance the business objectives
- possible competition from a shareholder and non-executive Director

SUMMARY

Risks relating to the smart card industry

- competition
- uncertainties associated with market acceptance of smart card applications

Risks relating to Hong Kong

- political and economic risks in Hong Kong

Risks relating to the placing

- price fluctuations and liquidity of the Shares
- dilution of shareholders' interests as a result of additional equity fund raising

DEFINITIONS

In this prospectus, the following expressions have the following meanings, unless the context otherwise requires:

“ACS”	Advanced Card Systems Limited, a company incorporated in Hong Kong on 31 October, 1995 under the Companies Ordinance with limited liability and a wholly-owned subsidiary of the Company;
“ACS products”	“off the shelf” and customised smart card products including smart cards and smart card operating systems, smart card readers, as well as chips and modules embedded in smart card readers;
“ACS share(s)”	ordinary share(s) of HK\$1.00 each in the capital of ACS;
“active business pursuits period”	the period commencing from 1 January, 2001 and ending on the latest practicable date;
“Africa”	includes Egypt, South Africa, Sudan, Senegal and Botswana;
“Americas”	includes the United States, Canada and Mexico;
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, the sponsor and one of the joint lead managers, a deemed licensed corporation under the Securities and Futures Ordinance to carry on regulated activities of, among others, dealing in securities and advising on securities and corporate finance;
“Asia”	includes Hong Kong, Taiwan, Malaysia, Singapore, Japan, Australia, the PRC and fourteen other countries in Asia;
“associate(s)”	has the meaning ascribed thereto in the GEM listing rules;
“board”	the board of Directors;
“business day”	a day on which banks are generally open for business in Hong Kong (other than a Saturday);
“BVI”	the British Virgin Islands;

DEFINITIONS

“capitalisation issue”	the capitalisation issue referred to in sub-paragraph (4) of the paragraph headed “Resolutions of the Shareholders passed on 27 October, 2003” in the section headed “Further information about the Company” in appendix V to this prospectus;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong;
“Company”	Advanced Card Systems Holdings Limited, an exempted company incorporated in the Cayman Islands on 13 April, 2000 under the Companies Law with limited liability;
“connected person(s)”	has the meaning ascribed thereto under the GEM listing rules, and “connected with” shall be construed accordingly;
“convertible debentures”	convertible debentures in the Company of the principal amount of US\$385,714.35 issued to Mr. Lawrence Pang on 26 June, 2001;
“D&A Holdings”	D&A Holdings Limited, a company incorporated in the BVI on 23 February, 1999 and an initial management shareholder of the Company;
“Director(s)”	the director(s) of the Company;
“Europe”	includes France, Italy, Germany and twenty-five other countries in Europe;
“Frost & Sullivan”	Frost & Sullivan, an independent market consulting and research organisation based in the United States;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM listing committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM;

DEFINITIONS

“GEM listing rules”	the Rules Governing the Listing of Securities on GEM;
“GEM website”	the GEM website located at <i>www.hkgem.com</i> ;
“group”	the Company and its subsidiary (or the Company, or its subsidiary, as the context may require), and where the context so requires, in respect of the period before the Company became the holding company of its present subsidiary, the Company and/or the present subsidiary of the Company, where relevant;
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“independent third party/parties”	party or parties that is or are independent of and not connected with any Directors, chief executive, substantial shareholder or initial management shareholders of the Company or any of their respective associates;
“initial management shareholders”	has the meaning ascribed thereto under the GEM listing rules. In the case of the Company, this means D&A Holdings and its shareholders, namely, Mr. Denny Wong and Ms. Alice Wong, Thomrose Holdings and its sole shareholder, Mr. Thomas Wan, Mr. Lawrence Pang, Mr. Tan Keng Boon and Mr. Joachim Goebel;
“issue price”	the issue price of HK\$0.32 per placing share (exclusive of brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy) at which the placing shares are to be subscribed for, issued or sold pursuant to the placing;
“Japan Asia”	Japan Asia Securities Limited, one of the joint lead managers and the bookrunner, a deemed licensed corporation under the Securities and Futures Ordinance to carry on regulated activities of, among others, dealing in securities and advising on securities and corporate finance;

DEFINITIONS

“joint lead managers”	Anglo Chinese and Japan Asia;
“latest practicable date”	22 October, 2003, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein;
“listing date”	the date on which dealings in the Shares first commence on GEM;
“Middle East”	includes Iran, Israel, Saudi Arabia, Turkey, United Arab Emirates, Georgia, Jordan, Kuwait and Lebanon;
“Mr. Denny Wong”	Mr. Wong Yiu Chu, an executive Director, chairman of the board, chief executive officer of the group and an initial management shareholder;
“Mr. Laschinsky”	Mr. Laschinsky, Bernhard Markus, a shareholder of the Company and formerly a non-executive Director;
“Mr. Lawrence Pang”	Mr. Pang Wang Kee, Lawrence, an executive Director and an initial management shareholder;
“Mr. Thomas Wan”	Mr. Wan Wah Tong, Thomas, a non-executive Director and an initial management shareholder;
“Mr. Thomas Yuen”	Mr. Yuen Chi Kwan, Thomas, a shareholder of the Company and formerly a non-executive Director;
“Ms. Alice Wong”	Ms. Tsui Kam Ling, an initial management shareholder of the Company and wife of Mr. Denny Wong;
“NASDAQ”	National Association of Securities Dealers Automated Quotation System, a stock exchange in the United States;
“offer size adjustment option”	the option granted by the Company under the underwriting agreement, exercisable by Japan Asia (on behalf of Anglo Chinese and the underwriters) at any time before 5:30 p.m. on the business day immediately before the date of announcement of the level of indication of interest in the placing to allot and issue up to an aggregate of 11,700,000

DEFINITIONS

	<p>additional new Shares at the issue price, solely to cover and facilitate the settlement of over-allocations in the placing, if any. (Please refer to the paragraph headed “Offer size adjustment option” in the section headed “Structure of the placing” in this prospectus for details);</p>
“Paris Convention”	<p>the Paris Convention for the Protection of Industrial Property (1883) as subsequently amended, being an international convention which provides, among other things, that within 12 months of the initial filing of a patent application in a member country, if patent applications are filed in other member countries, they can claim priority based on the first application. China and Hong Kong are members of this convention;</p>
“placing”	<p>the conditional placing of the placing shares at the issue price (plus brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy) subject to the exercise of the offer size adjustment option granted to cover and facilitate the settlement of over-allocations in the placing (if any), details of which are described in the paragraphs headed “The placing” and “Offer size adjustment option” in the section headed “Structure of the placing” in this prospectus;</p>
“placing shares”	<p>78,000,000 new Shares, being initially offered by the Company for subscription under the placing, subject to the exercise of the offer size adjustment option;</p>
“PRC” or “China”	<p>the People’s Republic of China, which for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;</p>
“pre-IPO share option plan”	<p>the employee share option plan adopted by the Company on 27 October, 2003, the principal terms of which are summarised in the paragraph headed “Summary of the terms of the pre-IPO share option plan” in the section headed “Share option schemes” in appendix V to this prospectus;</p>

DEFINITIONS

“Proway Investment”	Proway Investment Limited, a substantial shareholder of the Company and a company incorporated in the BVI with limited liability on 16 December, 1999, a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited which is in turn wholly-owned by its ultimate holding company, Verrall Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects;
“RMB”	Renminbi, the lawful currency of the PRC;
“Securities and Futures Ordinance”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
“series A preference share(s)”	a total of 2,686,728 convertible series A preferred shares of US\$0.10 each in the capital of the Company issued to Proway Investment in June and October, 2000, and which will be redeemed in full immediately prior to the capitalisation issue;
“SFC”	the Securities and Futures Commission of Hong Kong;
“share option scheme”	the share option scheme approved and adopted by the Company on 27 October, 2003, the principal terms of which are summarised in the paragraph headed “Summary of the terms of the share option scheme” in the section headed “Share option schemes” in appendix V to this prospectus;
“Share(s)”	ordinary share(s) of US\$0.10 each in the capital of the Company or ordinary share(s) of HK\$0.10 each in the capital of the Company (as the case may be);
“Shareholder(s)”	holder(s) of the Shares;
“sponsor”	Anglo Chinese;
“Statcard”	Statcard Entertainment Inc., a provider of online entertainment. Statcard is an independent third party;

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“STM”	STMicroelectronics S.A., a subsidiary of STMicroelectronics N.V., whose securities are listed on the stock exchanges in New York, Euronext Paris and Milan and whose principal activities include the developing and the delivering of semiconductor solutions for various microelectronics applications and the production of semiconductors such as transistors and microprocessors. STM is an independent third party;
“stock borrowing agreement”	an agreement entered into between D&A Holdings and Japan Asia for the purpose of covering over-allocations in the placing, if any;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	Proway Investment, Morningside CyberVentures Holdings Limited and Verrall Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects;
“terminated share option scheme”	the share option scheme adopted by the Company on 25 July, 2000, which scheme was terminated by the Company by resolution passed by Shareholders on 27 October, 2003;
“Thomrose Holdings”	Thomrose Holdings (BVI) Limited, a company incorporated in the BVI on 31 March, 1995 and an initial management shareholder;
“track record period”	the two years ended 31 December, 2002 and four months ended 30 April, 2003;
“underwriters”	the joint lead managers, ICEA Capital Limited, JS Cresvale Capital Limited, CSC Securities (HK) Limited and Wintech Securities Limited;
“underwriting agreement”	the conditional underwriting agreement dated 30 October, 2003 relating to the placing entered into between, among others, the Company, Anglo Chinese, Japan Asia and the underwriters;
“U.S.” or “United States”	the United States of America; and

DEFINITIONS

“US\$”, “U.S. dollars” or “US cents” United States dollars and cents respectively, the lawful currency of the United States.

Unless otherwise specified in this prospectus, amounts denominated in RMB and US\$ have been converted, for the purpose of illustration only, into Hong Kong dollars at the following rates:

HK\$1.00 = RMB1.06

HK\$7.80 = US\$1.00

These exchange rates are for purposes of illustration only and do not constitute a representation that any amounts have been, could have been or may be converted at the above rates or at any other rates.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the group and its business. The explanations set out below may not correspond to standard industry meanings or usages of such terms.

“application”	a functional system made up of software or hardware, or a combination of both, that performs a specific task;
“CE standard”	an international standard set by the European Committee for standardisation relating to the safety and electro-magnetic compatibility of electronic equipment;
“CEPS”	Common Electronic Purse Specifications – specifications established by a number of payment organisations for smart cards and general purpose prepaid cards which are used for payments;
“chip”	subset of an integrated circuit and on which many miniature transistors and other circuit elements are located;
“contact smart card”	a smart card which functions by physical contact with a smart card reader;
“contactless smart card”	a plastic card embedded with a microprocessor containing a smart card operating system and memory chips for storing and communicating data by radio frequency signal transmitted through air. Smart cards can carry identification information for the individual, and they can be used for electronic payment systems;
“customisation”	the process of modifying or altering part of the group’s “off-the-shelf” products or the design by the group of any products according to the requirements specified by a customer;
“customised products”	products of the group which are subject to significant customisation work or research;
“customer loyalty programmes”	programmes offered by retailers to their customers under which bonus points or other benefits are awarded to customers for purchases made;

GLOSSARY OF TECHNICAL TERMS

“database”	an organised storage of computerised data;
“driver”	a software programme that extends the operating system in order to guide the smart card reader and the smart card accepting device, say, a personal computer, to operate together;
“e-Cert”	a digital certificate that complies with the provisions of the Electronic Transactions Ordinance (Cap. 553) which together with the digital signature enjoys the same legal status as a handwritten signature. The e-Cert is used to authenticate the online identity of subscribers and provides a secure and trusted environment for the conduct of online transactions. Use of e-Cert has recently been promoted by the Hongkong Post;
“e-commerce”	commerce that is transacted electronically over the Internet;
“EMV standard” or “EMV certification”	EMV standard is an industry standard developed by Europay International, Master Card International and Visa International which are three major issuers of credit cards in the world; a smart card reader in compliance with this standard means that (i) it is able to read and write on a majority of smart cards and (ii) the data stored in the smart card will not be corrupted during the reading and writing process; EMV certification is the certification of devices in compliance with EMV standard;
“encryption”	the process of converting information into a secret code so that one will be unable to read it. A secret key or password is required to decrypt or decode the information;
“e-Park card”	a smart card payment card used for payment of meter parking fees in Hong Kong;
“FCC standard or certification”	a standard used in North America and Canada developed by the Federal Communication Commission in the United States relating to the safety and electro-magnetic compatibility of electronic equipment;

GLOSSARY OF TECHNICAL TERMS

“firmware”	a software or computer programme stored in an integrated circuit or a micro-controller;
“Game”	an integrated online game comprising PC linked readers developed by the group and a software developed by Statcard;
“GSM”	global system for mobile communications which is a digital cellular system used in Europe and Asia;
“hardware”	includes boards, chip, disk drivers, display screens, keyboards etc;
“integrated circuit”	an electronic device consisting of many miniature transistors and other circuit elements like a single chip;
“Internet”	a decentralised global network of interconnected, separately administered public and private computer networks;
“introduction date”	in respect of any ACS products, the date on which that product is first marketed by the group, and “introduce” shall be interpreted accordingly;
“ISO”	International Organisation for Standardisation, an international organisation for standardisation, based in Geneva, Switzerland, that establishes voluntary standards and promotes global trade of 90 member countries;
“ISO 9001”	an international standard which covers various areas of management responsibility developed by ISO;
“IT”	information technology, the broad subject concerned with all aspects of managing and processing information, especially within a large organisation or company;
“launch date”	in respect of any of ACS products, the date on which that product is first sold by the group to a customer and “launch” shall be interpreted accordingly;

GLOSSARY OF TECHNICAL TERMS

“liquid crystal display”	an electronic information display device which requires an external source of illumination and displays the information in monochrome or colour images;
“magnetic strip card”	a small plastic card with a layer of ferromagnetic material bonded to a non-magnetic carrier which carries read-only information;
“microcode”	a firmware programme which can be installed and modified by the user by altering the programmable ROM (or read-only memory);
“micro-controller unit”	a unit that contains the central processing unit plus other common subsystems such as memory, input and output ports, timer functions and serial communication interfaces;
“microprocessor”	an integrated circuit containing the entire central processing unit on a single chip;
“module”	a part of a programme in software or a self-contained component in hardware;
“NETS standard”	a standard specified by the Network for Electronic Transfers (Singapore) Pte Ltd. for performance and integration of smart card readers and application software with E-wallet software;
“OEM”	original equipment manufacturing, under which products are manufactured in whole or in part in accordance with a customer’s specifications and are marked under the customer’s own brand name;
“off-the-shelf products”	ACS products which are not specifically designed and include those requiring minor customisation work such as modifications to casings, addition of logos and minor alterations, etc;
“PC/SC certification”	the certification of a device that complies with the PC/SC standard;

GLOSSARY OF TECHNICAL TERMS

“PC/SC standard”	a standard specified by a group of smart card users including Microsoft Corporation, Toshiba Corporation, Gemplus International SA, Intel Corporation, Schlumberger Limited to ensure that smart cards, smart card readers and computers made by different manufacturers will work together for facilitating computer based smart card applications;
“personal digital assistant”	a lightweight, hand-held computer designed for use as a personal organiser with communications capability and other common applications such as notepad and spreadsheets;
“POS”	point-of-sale;
“protocol”	a standard way of carrying out data transmission between two devices, like a smart card and a smart card reader;
“SIM” or “SIM card”	security identity module, or a small-sized card embedded with a security identity module commonly used as a data security component in mobile telephones;
“smart card”	a small plastic card that has a smart card operating system and a built-in microprocessor to store, process and record data;
“smart card reader”	a device for reading stored information and writing data on a smart card;
“smart card/ finger print reader”	an integrated smart card reader and a finger print scanner;
“smart card operating system”	a microcode embedded in the smart card ROM (or read-only memory) that manages information content stored in the smart card by communicating with the smart card and performing a security algorithm to encrypt data;
“software”	a system or utility or application programme expressed in a computer languages;

GLOSSARY OF TECHNICAL TERMS

“system integration”	a process by which different computers, devices and application software packages are integrated together to provide a solution;
“UL standard”	a safety standard used in North America developed by the Underwriters Laboratories Inc.; and
“USB standard” or “USB certification”	a Universal Serial Bus standard or certification relating to the mechanical design of a smart card reader. Smart card readers certified to be compliant with USB standard means that they can function with other USB certified devices in a variety of applications.

RISK FACTORS

Potential investors should carefully consider all the information set out in this prospectus and in particular should evaluate the following risks before deciding to invest in the Company.

RISKS RELATING TO THE GROUP

Rapid changes in technology

The group operates in a market which is characterised by rapid changes in technology, industry standards, customer preferences and frequent introductions and enhancements of products and services. Accordingly, the performance of the group will depend on its ability to improve the functions and reliability of its products and services and adapt to new industry standards and customer preferences. In the event that the group fails to adapt successfully to such changes, the performance of the group may be adversely affected. In addition, the introduction of new products and services in response to rapid changes in technology, industry standards and customer preferences may require substantial capital expenditure, which may have an adverse impact on the financial resources of the group.

Reliance on key executives and ability to attract and retain skilled employees

The performance of the group depends, to a significant extent, on the continued services and performance of its key executives and personnel. Competition for employees with the requisite skills, qualifications and experience in the industry is intense. If the group is unable to attract, retain and motivate key executives and personnel in the future, the operations of the group may be adversely affected.

Infringement of intellectual property rights

The future success of the group will depend to a certain extent on whether it is able to obtain and enforce patents and other intellectual property rights for its products and processes. The group had not applied for registration of patents until recently due to cost constraints.

No assurance can be given as to when, if at all, the patents or other intellectual property rights may be granted or that the patents granted will be sufficiently broad in their scope to provide protection and exclude competitors with similar products.

RISK FACTORS

The group relies upon confidentiality and non-disclosure agreements and other measures to establish and protect its proprietary rights to its technologies, products and services. Such protection may not be able to preclude competitors from infringing the group's intellectual property rights in its technologies, products and services. It may still be possible for a third party to copy or otherwise obtain and use such technology without the group's authorisation, or to develop similar technology independently. There can also be no assurance that other companies will not obtain patents similar to or challenge the patents obtained by the group. In addition, policing unauthorised use of the group's proprietary technology is difficult and there can be no assurance that the steps taken by the group will prevent misappropriation or infringement of its rights. In addition, legal proceedings may be necessary to enforce the group's intellectual property rights, to protect its trade secrets and confidential information or to determine the validity and scope of the proprietary rights of others. This could result in substantial costs and diversion of the group's resources and could have a material adverse effect on its business, financial condition and results of operations. If a significant portion of the group's intellectual property is copied, reproduced or used without the group's authorisation, the group's business may be adversely affected.

In developing the group's technologies, products and services, the group has used various technologies or know-how which it believes are in the public domain, licensed to the group or it otherwise has the right to use. There can be no assurance, however, that third parties will not institute patent or other intellectual property infringement claims against the group with respect to such technologies, products and services. The group has not conducted any patent search to ascertain whether its products and services may infringe any patents of third parties.

Further, the group could be subject to intellectual property infringement claims as the number of competitors grows, and the content and functionality of the group's products or services may overlap with those of its competitors. These claims could be costly and may divert the attention of the group's management from operating its business. If the group becomes liable to third parties for infringing their intellectual property rights, the group could be required to pay substantial damages and be forced to develop non-infringing technologies, obtain licences or cease selling the applications that contain the infringing technologies. The group may be unable to develop non-infringing technologies or obtain licences on terms acceptable to the group, and as a result, the business of the group may be adversely affected.

Reliance on an external consultancy firm

As at the latest practicable date, ACS has continued to engage an independent consultancy firm in the Philippines for designing and developing the firmware of ACS's smart card operating systems. In providing these services, the consultancy firm currently assigns a team of engineers to work exclusively for ACS in developing smart card operating systems.

RISK FACTORS

The revenue generated from the sale of smart card and smart card operating systems accounted for some 4%, 2% and 2% of the group's total turnover for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, respectively.

Termination of the consultancy arrangement or any change in the group's relationship with the consultancy firm could affect the group's research and development which may in turn adversely affect the group's business operations and performance. (Please refer to subsection headed "Product design and development" in the section headed "Business" in this prospectus for further details.)

Potential products and services liabilities

Many of the products developed by the group are critical to the operations of its customers' businesses. Any defects or errors in these products could result in loss of revenue being suffered by the group's customers, additional expenditure being incurred by the group's customers to rectify such defects or errors and the making of liability claims against the group. Although no such products or services claims or liabilities have been brought or asserted against the group as at the latest practicable date, there can be no assurance that no such liability claims would be brought or asserted against the group in the future. Liability claims could require the group to spend significant time and money in litigation or to pay significant damages. As a result, these claims may damage the group's reputation and operations irrespective of whether the group is able to defend these claims.

The group does not maintain any insurance in respect of its exposure to warranty and product liability claims, including any claim from the group's customers for consequential and incidental loss. There is no assurance that there will not be any claims against the group for such liability. The group remains primarily responsible to its customers for the products it delivers.

Reliance on a limited number of large customers during the track record period

Sales to the largest customer accounted for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, respectively for some 30%, 32% and 16% of the group's turnover. These customers were IPM Net S.p.A. (for the year ended 31 December, 2001), StatCard (for the year ended 31 December, 2002) and InCard S.p.A. (for the four months ended 30 April, 2003) are manufacturers of electronic products for Internet access and smart card applications and are based in the United States and, or Europe. There is no assurance that the demand for the ACS products from these customers may be maintained in the future. In the event that the demand from them decreases significantly and the group is unable to find replacement customers on terms acceptable to the group, the group's performance may be adversely affected.

RISK FACTORS

Reliance on an independent manufacturer for manufacturing its smart card reader products

The group does not own any production facilities. It subcontracts substantially all of its production activities mainly to an external manufacturer in Guangdong, China. For each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, around 95%, 97% and 99% respectively of the group's smart card reader products in terms of sales were contracted out to an independent manufacturer in Guangdong, China. The group has engaged this manufacturer since 1999.

For each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, the group paid fees of some HK\$724,000, HK\$1,216,000 and HK\$372,000 respectively to this manufacturer for the production of its smart card reader products.

Financial or other difficulties faced by this manufacturer or any change in the group's relationship with this manufacturer could affect the group's ability to meet scheduled product deliveries to its customers and may in turn adversely affect the group's business operations and performance. (Please refer to the subsection headed "Business operations" in the section headed "Business" in this prospectus for further details.)

Dilution of shareholders' interests as a result of the exercise of the options granted under the pre-IPO share option plan

The Company has adopted the pre-IPO share option plan under which options to subscribe for Shares have been granted to a Director, certain employees of, and certain consultants engaged by or worked for, the group in consideration of the cancellation of the outstanding options granted to them under the terminated share option scheme. The options were granted to certain employees and consultants of the group under the terminated share option scheme in recognition of their contributions to the group and taking into account the number of years of service with the group, their dedication towards improving the efficiency of the operation of the group and knowledge of smart card product research and development and the industry. The Company has granted options to a total of eighteen employees and consultants (including Mr. Lawrence Pang who is a Director and an initial management shareholder, Mr. Tong Kam Hung who is a consultant and Mr. Jorge Locsin who is assigned by an independent consultancy firm to work on ACS projects, and Mr. Joachim Goebel, a member of the senior management of the group and Mr. Tse Kam Cheung, Mr. Tse Wai Sing, Mr. Ruffy Francis Nicolo Punzalan, Ms. Sian Kwan Yuk, Janet, Ms. Lai Yuen Yee and Mr. Cheung Yuk Ngai, Edward, who are employees and shareholders of the group) under the pre-IPO share option plan to subscribe for an aggregate of 6,535,631 Shares, representing approximately 2.28% of the enlarged issued share capital of the Company immediately following completion of the placing and the capitalisation issue

RISK FACTORS

and assuming full exercise of all outstanding options under the pre-IPO share option plan (but without taking into account any exercise of the offer size adjustment option). The exercise price of these options is either HK\$0.09 or HK\$0.24 per Share, representing a discount of approximately 72% or 25% to the issue price of HK\$0.32 respectively. The periods during which the outstanding options under the pre-IPO share option plan are exercisable are set out in the paragraph headed “Outstanding options granted under the pre-IPO share option plan” in the section headed “Share option schemes” in appendix V to this prospectus. In the event that the options under the pre-IPO share option plan are exercised in full or in part, the earnings per Share and the shareholding interests of the then existing shareholders of the Company will be diluted. Assuming all the the options under the pre-IPO share option plan are exercised in full, the earnings per Share will decrease from 1.08 HK cents to 1.05 HK cents (note). The public float will decrease from approximately 34.630% to approximately 34.316%. There will be no dilutive effect on net tangible asset per Share.

Note: The calculation of earnings per Share is based on net profit of the group for the year ended 31 December, 2002 and 280,000,000 Shares issued and to be issued upon completion of placing assuming the offer size adjustment option is not exercised.

The business plan of the group may be delayed or may not materialise

The business plan of the group described in the section headed “Statement of business objectives and strategies” in this prospectus is based on assumptions of future events which by their nature are subject to uncertainty and there is no assurance that the plans of the group will proceed on time as planned or that such plans will materialise as planned. In the event that any part of the business plan of the group is delayed or does not materialise as planned, the Directors will carefully evaluate the situation and may re-allocate the relevant funding to other business plans and/or to new projects of the group and/or to hold or deposit the funds with financial institutions so long as the Directors consider it to be in the interests of the group and its shareholders taken as a whole. Any material departure from the proposed use of proceeds stated in the paragraph headed “Use of proceeds” in the section headed “Statement of business objectives and strategies” in this prospectus will be the subject of an announcement by the Company and, if required by the GEM listing rules, subject to shareholders’ approval.

Limited history of profitable track record and reserves available for distribution to shareholders

The group recorded an audited net loss of some HK\$4.2 million for the year ended 31 December, 2001, an audited net profit of some HK\$3.0 million for the subsequent year, an audited net profit amounting to some HK\$1.1 million for the four months ended 30 April, 2003 and an unaudited net profit of approximately HK\$5.7

RISK FACTORS

million for the five months ended 30 September, 2003. The group recorded accumulated losses of approximately HK\$23.5 million as at 30 April, 2003. There is no assurance that the group will continue to be profitable for the year ending 31 December, 2003 or in other future periods.

In view of the consolidated negative reserves sustained by the group as at 30 April, 2003, the Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the financial year ending 31 December, 2003 and in future if the consolidated reserves of the group remain negative. The declaration, payment and amount of future dividend will be at the discretion of the board and will depend upon, among other things, the group's results of operation, capital requirements, cash flows, general financial condition and such other factors as the board may deem relevant.

Additional funding to finance the business objectives

The Directors currently estimate that approximately HK\$23.3 million will be required to implement the business objectives as described in the "Statement of business objectives and strategies" section in this prospectus. The net proceeds of approximately HK\$16.5 million to be raised from the issue of the placing shares at an issue price of HK\$0.32 will not be sufficient to fully fund the implementation of the business objectives and will give a funding shortfall of approximately HK\$6.8 million. The Directors expect the funding shortfall will be provided for by the internal resources of the group. In the event that the group fails to obtain sufficient resources for its future funding requirements, the implementation of the business objectives and future plan of the group may be adversely affected.

Possible competition from a shareholder and non-executive Director

Hectrix Limited is wholly owned by Thomrose Holdings which, in turn, is wholly owned by Mr. Thomas Wan, a non-executive Director. Hectrix Limited is an information solution house principally engaged in the development and sale of security devices using smart card and finger print scanning technologies. Hectrix Limited uses the fingerprint scanning technology in some of its security device products that are equipped with the necessary application software. These products are used for monitoring physical access to buildings and are different from the group's smart card/finger print readers that, when connected with personal computers, can scan finger prints to control access to computers and authenticate identity of individuals before executing online payments. In general, the ACS products cannot be readily used as physical access control devices. Other security device products of Hectrix Limited contain the component contactless smart card readers similar to the smart card terminals of the group. Hectrix Limited provides its customers with application software in these products used for physical access control purposes. This is different from the applications of the group's smart card terminals that are used for payments in canteens of universities, factories and retail outlets or performing banking transactions.

RISK FACTORS

On 27 October, 2003, Thomrose Holdings, Hectrix Limited and Mr. Thomas Wan entered into a Deed of Undertaking with the Company under which each of Thomrose Holdings, Hectrix Limited and Mr. Thomas Wan has severally undertaken to the Company that while Mr. Thomas Wan is a Director, neither it/he nor any of its/his associates will engage directly or indirectly in any business which is or may be in competition with the business of the group. While Mr. Thomas Wan, Hectrix Limited and Thomrose Holdings are not currently in a business that competes with the group, it is possible that they may engage directly or indirectly in any business which is or may be in competition with the business of the group in future. If this happens and in the event of any breach of the non-competition undertakings described above, the group's performance may be adversely affected. (Please refer to the subsection headed "Competition" in the "Business" section in this prospectus for further details.)

RISKS RELATING TO THE SMART CARD INDUSTRY

Competition

The group competes with Hong Kong and international companies, which may have competitive advantages over the group in terms of, for example, resources, technical capability, customer base, brand name and distribution power. In view of these factors, the group's competitors may be more able to adapt to rapid changes in technology and customer preferences, to take advantage of business opportunities more readily and adopt more aggressive pricing policies than the group. According to the research report released in the second quarter of 2003 by Frost & Sullivan, ACS was ranked fourth, in terms of estimated unit shipment, amongst the industry participants of smart card readers linked to personal computers in 2002 in the world. It was estimated that the top three competitors accounted for more than 85% of the PC linked reader industry in 2002 while ACS and other competitors in the world accounted for the remaining portion of the industry.

Uncertainties associated with market acceptance of smart card applications

The use of smart cards in commercial applications like payment by electronic means and as a security device for monitoring access to email systems or other information content in computers is, to a varying extent, a relatively new concept in Asia, Africa and other parts of the world. The use of magnetic strip credit cards vis-à-vis smart card based credit cards is still generally the most popular payment medium in the United States and Asia. In the event smart card applications do not achieve market acceptance or there is substantial delay in the process, the performance of the group may be adversely affected.

RISK FACTORS

RISKS RELATING TO HONG KONG

Political and economic risks in Hong Kong

Most of the group's assets and operations are located in Hong Kong, which is a special administrative region of the PRC with its own government and legislature. There is no assurance that the present political and economic environment in Hong Kong will remain unchanged. Future developments in the political and economic environment in Hong Kong may have a material and adverse effect on the business, operating results and financial position of the group.

RISKS RELATING TO THE PLACING

Price fluctuations and liquidity of the Shares

Prior to the placing, there has been no public market for any of the Shares and there can be no guarantee that active trading activity will develop, or if it does develop, there can be no guarantee that such trading activity will sustain following the completion of the placing. The issue price may not be indicative of the price at which Shares will be traded following the completion of the placing and the trading price of the Shares may fluctuate. There is no guarantee that the market price of the Shares will not decline below the issue price.

Dilution of shareholders' interests as a result of additional equity fund raising

The group may need to raise additional funds in the future to finance the expansion of its existing businesses or the development of new businesses. If additional funds are raised through the issuance of new equity or equity-linked securities by the Company other than on a pro rata basis to the existing shareholders, the interests of the existing Shareholders may be diluted as a result of such equity fund raising.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the GEM listing rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material aspects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

UNDERWRITING

This prospectus is published solely in connection with the placing which is fully underwritten by the underwriters in accordance with the underwriting agreement. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus.

PLACING SHARES TO BE OFFERED IN CERTAIN JURISDICTIONS ONLY

No action has been taken to permit an offering of the placing shares or the distribution of this prospectus to the public in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the placing shares in certain jurisdictions may be restricted by law or securities regulations.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. This prospectus and any other document or materials in connection with the offer, sale or invitation for subscription or purchase of the placing shares may not be issued, circulated or distributed in Singapore nor may any of the placing shares be offered for subscription or sold, directly or indirectly, nor

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

may any invitation or offer to subscribe for or purchase any placing shares be made directly or indirectly to any member of the public in Singapore other than (a) to an institutional investor or other person specified in section 274 of the Securities and Futures Act (Chapter 289) of Singapore (“SFA”), (b) to a sophisticated investor, and in accordance with the conditions specified in section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Cayman Islands

No offer of the placing shares may be made to members of the public in Cayman Islands.

Each person acquiring the placing shares will be required to confirm, or be deemed by his or her or its acquisition for/or acceptance of the placing shares to have confirmed, that he or she or it is aware of the restrictions on offering of the placing shares applicable to the relevant jurisdiction and those as described in this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the GEM listing committee for listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the capitalisation issue and the placing (including any Shares which may be issued pursuant to the exercise of the offer size adjustment option), and any Shares which may be issued upon any exercise of options granted under the pre-IPO share option plan or the share option scheme.

No part of the Company’s share or loan capital is listed or dealt in on any other stock exchange and as at the date of this prospectus, no such listing or permission to deal is being or is proposed to be sought.

Pursuant to the GEM listing rules, the Company is required to maintain at least 25% of the issued share capital of the Company in the hands of the public.

STAMP DUTY

All placing shares will be registered on the Company’s branch register of members maintained in Hong Kong. Only Shares registered in the Company’s branch register of members maintained in Hong Kong may be traded on GEM. Dealings in Shares registered on the Company’s branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, or dealing in, the placing shares, or the exercise of any rights in relation to the placing shares, you should consult an expert. The Company, the Directors, the sponsor, the joint lead managers, the underwriters and their respective agents and advisers, or any other persons involved in the placing do not accept responsibility for any tax effects on, or liabilities of, any person resulting from any subscription for, purchase, holding or disposal of, or dealing in, the placing shares, or the exercise of any rights in relation to the placing shares.

STRUCTURE OF THE PLACING

Details of the structure of the placing, including its conditions, are set out under the section headed "Structure of the placing" in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of the dealings in the Shares on GEM or on such other date determined by HKSCC. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights, interests and liabilities.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after the date on which the relevant securities transactions are effected on the Stock Exchange.

All necessary arrangements have been made for the Shares to be admitted to CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 10 November, 2003.

The Shares will be traded in board lots of 8,000 Shares each.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Denny Wong	1B, Block 5 Julimount Garden Tai Wai, Shatin New Territories Hong Kong	Chinese
Mr. Lawrence Pang	House 23 Royal Castle 23 Pik Sha Road Sai Kung New Territories Hong Kong	Canadian
Mr. Tan Keng Boon	30 Sembawang Drive #06-06 Sun Plaza Singapore, 757713	Singaporean
<i>Non-executive Director</i>		
Mr. Thomas Wan	142 Pinaceae Drive Palm Springs Yuen Long New Territories Hong Kong	British
<i>Independent non-executive Directors</i>		
Mr. Yip Chak Lam, Peter	1st Floor 289A Prince Edward Road West Kowloon Hong Kong	British
Mr. Cheong Chung Chin	55, Tampines Ave 1 #14-01, The Tropica Singapore, 529773	Singaporean

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

**Auditors and reporting
accountants**

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

Property valuer

RHL Appraisal Limited
Room 1010, Star House
Tsimshatsui
Kowloon
Hong Kong

Sponsor

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

Joint lead managers

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

Japan Asia Securities Limited
11th Floor
No. 8 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Underwriters

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

Japan Asia Securities Limited
11th Floor
No. 8 Queen's Road Central
Hong Kong

ICEA Capital Limited
42th Floor, Jardine House
1 Connaught Place
Hong Kong

JS Cresvale Capital Limited
701-704A, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road
Hong Kong

CSC Securities (HK) Limited
Units 3204-7 Cosco Tower
183 Queen's Road Central
Hong Kong

Wintech Securities Limited
Room 1701, 17th Floor
Hang Seng Building
77 Des Voeux Road Central
Hong Kong

Legal adviser to the Company as to Hong Kong law

Woo, Kwan, Lee & Lo
27th Floor, Jardine House
1 Connaught Place
Hong Kong

Legal adviser to the Company as to Cayman Islands law

Maples and Calder Asia
1504 One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Legal adviser to the sponsor, joint lead managers and under- writers as to Hong Kong law

Lovells
23rd Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	Ugland House P.O. Box 309 George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business in Hong Kong	Room 302, 3rd Floor Shun Fat Industrial Building 17 Wang Hoi Road Kowloon Bay Kowloon Hong Kong
Company's website address <i>(Note)</i>	www.acs.com.hk
Company secretary	Mr. Lee Yip Wah, Peter, <i>B.A., solicitor</i>
Qualified accountant	Ms. Wong Mei Ki, Maggie, <i>ACCA, AHKSA</i>
Compliance officer	Mr. Denny Wong
Audit committee	Mr. Yip Chak Lam, Peter – <i>Chairman</i> Mr. Cheong Chung Chin Mr. Denny Wong
Authorised representatives	Mr. Denny Wong Mr. Lawrence Pang
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

Note: Information contained in www.acs.com.hk does not form part of this prospectus.

INDUSTRY OVERVIEW

The information provided in this section is derived from various, unofficial and private publications (including reports compiled by Frost & Sullivan which is an independent market research organisation) available to the Directors. Such information has not been prepared, updated or independently verified by the Company, the sponsor, the underwriters or any of their respective agents or advisers, or any other parties involved in the placing. Hence, the information contained in this section should not be unduly relied upon as inaccuracies may exist.

MARKET OPPORTUNITIES

Market overview

The smart card reader is an essential part of every smart card application. Smart card readers have the ability to read stored information and write data on smart cards. They come in a variety of forms with varying levels of mechanical sophistication and logical capabilities. Smart card readers are, in fact, being used in a wide range of daily activities. For example, there are smart card readers which can be linked to personal computers to enable e-commerce transactions or online banking transactions to take place. The readers can also be installed into a variety of devices such as vending machines, set top boxes, mobile phones, POS terminals and automatic teller machines.

Given the increasing usage of online banking and the need for online authentication, the application of smart cards in the financial markets has contributed to the development of smart card readers. The development of industry standards by Europay International, Master Card International and Visa International has also facilitated the development of smart card based POS terminals and, thus, the need for new types of smart card readers. Smart cards and smart card readers can now be used for authentication and identification purposes in a variety of circumstances, including commercial enterprises, government agencies, as well as healthcare and educational institutions.

Competition

According to a report issued by Frost & Sullivan in the second quarter of 2003, ACS was ranked the world's fourth leading industry participant of smart card readers linked to personal computers in 2002. Its principal competitors include (i) a NASDAQ-listed company based in France and the United States and which is known to the Company to be the world's largest supplier of smart cards and smart card readers, (ii) a US based NASDAQ-listed company that supplies smart card based security products involving personal authentication and digital pay television contents delivery; and (iii) a relatively smaller-sized smart card and readers supplier in Germany.

Major drivers for the development of smart card readers or smart card-based POS terminals

The following are driving factors for the development of smart card readers or smart card-based POS terminals:

Growth of e-commerce

The demand for smart card based authentication systems against security breaches has increased with the growing number of companies engaging in e-commerce business transactions and the exchange of information over the Internet, intranet, and virtual private networks (VPNs). The increasing popularity of network security applications is expected to raise the demand for smart card readers.

Integration of smart card readers with personal computers

Initiatives by international manufacturers of personal computers such as Acer, Dell, Compaq, IBM, and Hewlett-Packard to install smart card readers into keyboards, personal computers and notebooks will expand the scope of deployment of smart card readers. A smart card reader is poised to be transitioned from optional hardware to an integral part of a personal computers.

Industry standards

The PC/SC workgroup has been established by a number of international manufacturers of computers and ancillary products (including, for example, Apple and Microsoft). The workgroup aims to promote a standard specification to ensure that smart cards, smart card readers and computers made by different manufacturers will work together, and to facilitate the development of smart card applications for personal computers. The establishment of the workgroup and standardised specifications have encouraged the development of smart card applications for Windows by different manufacturers.

Credit card issuers such as Europay International, Visa International and MasterCard International have devised another set of standards – the EMV Integrated Circuit Card Specifications for Payment System. It is aimed to ensure compatibility amongst different systems. This has contributed to the development of EMV-compliant smart cards and smart card-based POS terminals (incorporated in EMV-compliant smart card readers).

Microsoft support

The widely-used operating system Windows is now installed with application programming interfaces that make the development of smart card applications on Windows extremely easy.

INDUSTRY OVERVIEW

In addition, Microsoft is developing a driver for USB interface devices. The launch of such a driver will reduce the need for hardware vendors to create a driver for their smart card readers and will allow a generic plug-and-play function for users.

Government initiatives

More governments around the world are adopting smart card based security solutions as they look for reliable methods to improve process management and authenticate individuals for accessing information and services. Furthermore, the multifunctionality of smart cards makes it ideal for implementation of government programmes. For example, government benefit cards can allow users access to other programmes such as health care clinics and job training centres. By integrating multiple functions, governments can manage and improve their operations at lower cost and offer innovative services. Several countries are also undergoing projects to provide government services online and to support the applications of smart cards over the Internet. Smart card projects embarked on by governments worldwide have expanded the coverage scope of smart card applications.

Biometrics link

Several governments have begun projects using biometrics for the purposes of identification and authentication. The notable growth in the biometrics market provides substantial opportunities for vendors of smart card readers. Biometrics and smart cards are complementary to each other and the integration of the two provides a high level of security and convenience to users. Smart cards are ideal portable devices for holding a user's biometrics template in a tamper-proof fashion. The application of smart cards dispenses with the need to store biometrics templates in a central database and alleviates concerns regarding misuse of the biometrics templates by unauthorised individuals.

Fraud control

Smart cards and smart card readers with incorporated encryption and authentication technologies can increase levels of security. Coupled with biometric authentication methods, smart cards are often used in government programmes and medical insurance schemes to reduce fraud and abuse. The reduction of loss arising from fraud is another important reason for governments to adopt or encourage the adoption of smart card-based security solutions. The success in reducing fraud by using smart cards in some countries is expected to encourage other countries to follow suit.

INDUSTRY OVERVIEW

Global market analysis and forecasts

The figures and chart set forth below present forecasts for the global smart card reader and smart card based POS terminal market.

Year	Unit		Revenue	
	Units (Million)	Growth Rate (%)	Revenue (US\$ Million)	Growth Rate (%)
2000	5.1	–	870.8	–
2001	7.1	40	1,101.1	26
2002	9.1	29	1,426.1	30
2003*	11.9	31	1,836.5	29
2004*	15.7	32	2,344.6	28
2005*	20.1	28	2,865.5	22
2006*	25.4	27	3,307.4	15
Compound annual growth rate (2001–2006):		29%		25%

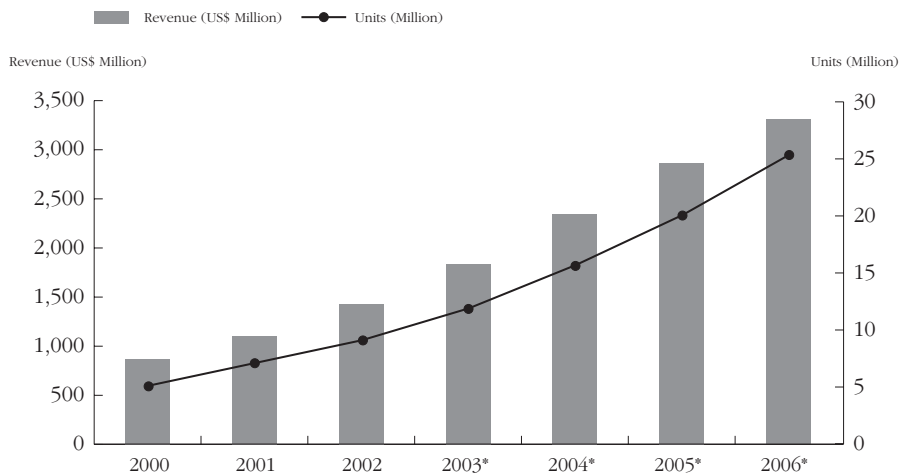
Figure 1: Total Smart Card Reader & Terminal Market: Unit Shipment and Revenue Forecasts

Note: All figures are rounded; the base year is 2000.

* Forecasts

Source: A report issued by Frost & Sullivan on 30 September, 2002.

Total Smart Card Reader & Terminal Market: Unit Shipment and Revenue Forecast (World), 2000–2006



Note: All figures are rounded; the base year is 2000.

* Forecasts

Source: A research report issued by Frost & Sullivan on 30 September, 2002.

INDUSTRY OVERVIEW

The total smart card reader and smart card-based POS terminal market is expected to grow from 5.1 million unit shipments in 2000 to 25.4 million unit shipments in 2006, representing a compound annual growth rate (CAGR) of approximately 29%.

Note: Frost & Sullivan, founded in 1961, is an independent market consulting and research organisation. It employs over 500 consultants, market analysts, corporate trainers, account managers and customer support staff globally with offices in the United States, Canada, England, France, Germany, India, Australia, Singapore, Japan, Malaysia and China. It offers nine research methodology types covering nine industry sectors namely, aerospace & defense, chemicals, materials & foods, communication & IT, consumer products, electronics & semiconductors, environment & energy, healthcare, industrial and transportation. In the process of compiling research reports and ratings of smart card companies, Frost & Sullivan interviewed key market participants such as manufacturers, suppliers, distributors and importers of smart card products and carried out research and analysis on, amongst other things, the dynamics of the smart card industry, growth potential, market trends and competition in the smart card market. The research undertaken involved gathering data from various sources including internal and online databases, trade journals, government statistics and other publications. References to the report issued by Frost & Sullivan are made as it is known to the group to be one of the major market research organisations.

In December, 2002, the Company was approached by Frost & Sullivan to participate in a market survey of the smart card product market initiated by the market research organization. Following the survey, Frost & Sullivan on its own issued a research report of the results of the survey. The report was not commissioned by the Company and was available to subscribers only. The Company subscribed for two research reports for fees of US\$6,500 in April, 2003. The Company selects to use the report issued by Frost & Sullivan because it is known to be a major research firm that covers the smart card industry. Furthermore, the Directors believe that the report which stated the Company's ranking in the market for PC linked readers will assist the group in formulating its sales and marketing strategy. Certain information relating to the smart card product industry and the ranking of the Company referred to in this prospectus are based on the research reports issued by Frost & Sullivan. Save as disclosed above, the Company has no relationship with Frost & Sullivan.

INTRODUCTION

ACS, the major operating subsidiary of the group, was established in December 1995. Today, the group specialises in the design, manufacture and sale of smart card products, including mainly smart card readers as well as smart cards and smart card operating systems (collectively “ACS products”). ACS products can be classified as (i) “off-the-shelf” products (including those requiring minor customisation work such as modifications to casings, addition of logos and minor alterations); and (ii) customised products.

When supplying ACS products, the group may also provide related services including product packaging and applying on behalf of its customers for industry standard certification (in respect of some of the customised ACS products provided on an “OEM” basis).

ACS carries out product design through its in-house product design and development team as well as by way of cooperation with technology partners and engaging an external consultancy firm. ACS manufactures its products by way of outsourcing to independent manufacturers in China and Taiwan. In particular, the group relies on one independent manufacturer in Guangdong, China for manufacturing its smart card reader products. The Directors believe that there are other manufacturers in China capable of replacing the role of the independent manufacturer in the manufacturing of the group’s smart card reader products. In the event that the group terminates the engagement of this manufacturer, the group will seek to engage other local manufacturers in China. As part of the production process, the group sources major raw materials, formulates technical specifications, design layouts, assembly methods and quality testing procedures to closely monitor and maintain the standard of the ACS products. The group does not own any manufacturing facilities. (Please refer to the subsection headed “Production process” in the section headed “Business” in this prospectus for further details.)

ACS products are sold to customers including smart card manufacturers, smart card solution providers, financial institutions, original equipment manufacturers and distributors in over fifty countries.

A smart card is a plastic card of the size of a credit card and is commonly used as a secured data storage device. Embedded in a smart card is a smart card operating system which is the microcode that manages information contents stored in the smart card and communicates with the smart card and performs a secured algorithm of encoded data. When compared to traditional magnetic strip card, smart cards are superior in terms of data storage capacity, reliability and data security. Magnetic strip cards may also verify the legitimacy of card holders, but they have relatively limited storage capacity for personal data of the holder and data of executed transactions.

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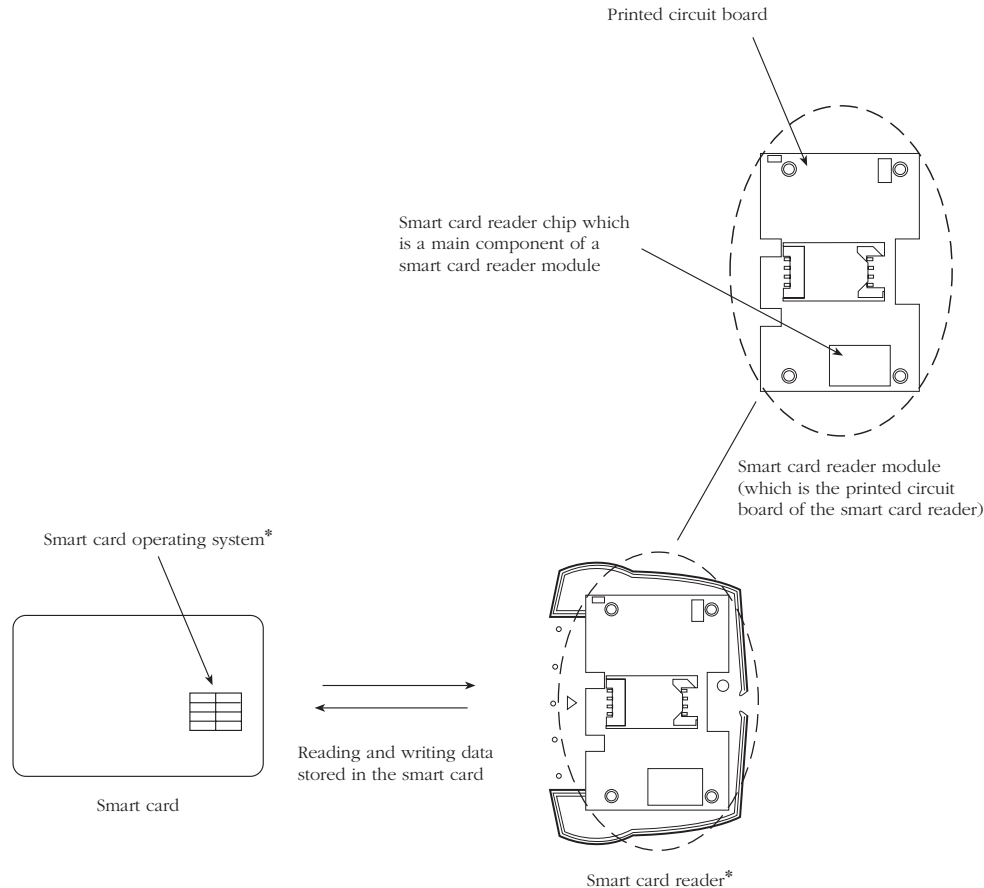
Smart cards are presently used in a wide range of applications. Examples of these applications are mobile telephones, banking, identity cards, Internet security, payment systems, access control, customer loyalty programmes and public transport.

One of the group's main products is the smart card reader which is an essential component of every smart card application. A smart card reader is a device that reads stored information and writes data on to a smart card. When the data on the smart card is verified, the smart card reader sends instructions to the smart card to either enable or disable access to a user or to provide a particular service to a subscriber. A typical example of a smart card application is the use of smart cards for payment of meter parking fees similar to the use of e-Park card in Hong Kong.

Another illustration is payment of fares in public transport. At the beginning of the journey a passenger will insert his or her smart card stored with money value in a smart card terminal (that is the hardware which contains a smart card reader) at the transport provider like taxis, railway stations or buses. At the end of the journey the passenger may use a smart card to pay the fare recorded at the terminal. In particular, the payment is effected by the passenger inserting his or her smart card into the smart card terminal. The stored value on the smart card is then reduced, via the smart card reader, by the amount of the fare for that journey. The transport provider may then collect daily reports of payment data by downloading such data from the smart card terminal, and such data will then be transferred and processed at a designated smart card operator or settlement bank for payment to the transport provider.

Smart cards can also be used for enhancing the security for data stored in computer networks. For example, smart card readers may be connected to the computer network of an organisation for authenticating identification information of authorised users stored in a smart card. Access to the network or specific data stored in the computers is only permitted for those authorised users. As the smart card application is generally considered to offer a high level of security and can reduce the risk of unauthorised access by hackers, it is suitable for circumstances that require high security protection and authentication.

A schematic diagram of a smart card application is set out below:



Note:

* Smart card readers are a principal type of products of the group.

STRENGTHS OF ACS

ACS was named in a research report titled “Strategic Analysis of the PC Link Smart Card Reader Market” issued by Frost & Sullivan in the second quarter of 2003 as the world’s fourth leading industry participant of smart card readers linked to personal computers in 2002. (Note: The rankings given by Frost & Sullivan were based on estimated unit shipment in the year under review and/or its assessment of other factors such as estimated percentage growth in revenue and unit shipment, market coverage, alliances with overseas partners, distribution network and product innovation. The rankings were not based on sales value. The Company selects to use the research reports issued by Frost & Sullivan because it is a major market research company and its reports cover the smart card industry. According to the report, the three companies ranked above ACS together accounted for more than 85% of the world’s market for

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smart card readers used with personal computers. Of the three companies, one is based in the United States and two are based in Europe.) The Directors believe that the group has the following strengths:

- **Products which meet various internationally recognised standards** Most of the smart card readers developed by ACS meet significant international standards. ACS's PC linked readers (marketed as *ACR30U-EMV*) and smart card readers with pin-pad (marketed as *ACR50 and ACR80*) comply with the EMV standard and are able to support all smart cards which conform with the ISO 7816 standards. ACS is also a smart card readers supplier accredited with the PC/SC standard, USB standard and NETS standard. The accreditation of these standards demonstrates that ACS has the ability to design smart card applications meeting internationally recognised standards. (Please refer to the table headed "Industry standards" in the section headed "Business" in this prospectus for further details.)
- **Wide applications of ACS products** The PC linked readers (marketed as *ACR30U*) can also operate with various applications. These readers can usually be tailored to customers' specific requirements for use in applications including Internet security, national healthcare programme and identity cards. Recently, two of the group's PC linked readers (marketed as the *ACR30* series) were qualified as smart card readers suitable for access to the e-Cert programme promulgated by the Hongkong Post.
- **Personnel with knowledge of and experience in the smart card industry** The group's management team comprises personnel who have experience in the smart card and electronics industries. Further, ACS has developed a global customer base, including smart card manufacturers and smart card solutions providers located in different parts of the world.
- **Respectable standing in the smart card reader industry within the region** In 1999, ACS was awarded the "HKITCC Certificate of Merit in Technological Achievement" by the Hong Kong Industrial Technology Centre Corporation for achieving a high level of technological innovation, commercialisation and fostering of technology culture. The Directors consider such an achievement an important milestone in ACS's expansion. In the research reports issued by Frost & Sullivan in the third quarter in 2002 and in the second quarter of 2003, ACS was named as a leader in the smart card reader market in Asia and ranked the world's fourth leading industry participant of smart card readers linked to personal computers in 2002. In October 2003, Frost & Sullivan presented the "Growth Strategy Leadership in the World PC Link Reader Market" award to the group for the outstanding growth of its market share in terms of unit shipment of the smart card reader industry in 2002.

- **A profitable business in 2002** The group's business has turned profitable since 2002. This has generated net positive cash flows which enable the group to fund its operations. The group presently has no bank borrowings.

Note: Frost & Sullivan, founded in 1961, is an independent market consulting and research organisation. It employs over 500 consultants, market analysts, corporate trainers, account managers and customer support staff globally with offices in the United States, Canada, England, France, Germany, India, Australia, Singapore, Japan, Malaysia and China. It offers nine research methodology types covering nine industry sectors namely, aerospace & defense, chemicals, materials & foods, communication & IT, consumer products, electronics & semiconductors, environment & energy, healthcare, industrial and transportation. In the process of compiling research reports and ratings of smart card companies, Frost & Sullivan interviewed key market participants such as manufacturers, suppliers, distributors and importers of smart card products and carried out research and analysis on, amongst other things, the dynamics of the smart card industry, growth potential, market trends and competition in the smart card market. The research undertaken involved gathering data from various sources including internal and online databases, trade journals, government statistics and other publications. The Company selects to use the research reports issued by Frost & Sullivan because it is a major market research company and its reports cover the smart card industry.

HISTORY AND DEVELOPMENT

ACS, the major operating subsidiary of the Company, was established in December 1995 by Mr. Denny Wong and Ms. Alice Wong, the wife of Mr. Denny Wong. At that time, Mr. Denny Wong and Ms. Alice Wong held 70% and 30% respectively of the then issued share capital of ACS.

Under the leadership of Mr. Denny Wong, ACS developed in 1996 a smart card reader that could be used with over fourteen different types of smart cards. The first version of the microprocessor based smart card developed by ACS was also introduced to the market. ACS also launched its first smart card reader for use in personal computers, known as a PC linked reader, in 1996.

While Mr. Denny Wong and Ms. Alice Wong had all along been the controlling shareholders of ACS (owning in aggregate over 50% of the issue share capital of ACS), they had not participated in the management of ACS for certain periods prior to 2000 when they were employed by a semiconductor components distributor group based in Canada. Mr. Denny Wong worked for Future Electronics Holdings Inc. Group from July 1997 to April 2000. Ms. Alice Wong also worked for the same distributor from July 1997 to September 1998. In March 1999, D&A Holdings, in which Mr. Denny Wong has a controlling interest and of which Mr. Denny Wong is a director, was appointed as a director of ACS. Ms. Alice Wong rejoined ACS as a member of the senior management in September 1998. Ms. Lau Kam Wai and Ms. Chan So Kuen, Gloria were appointed as directors of ACS from 10 July, 1997 to 9 March, 1999. Ms. Lau and Ms. Chan were friends of Mr. Denny Wong and Ms. Alice Wong. The above arrangement allowed Mr. Denny Wong and Ms. Alice Wong to focus on their employment with Future Electronics Holdings Inc. Group.

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On 10 July, 1997, Mr. Denny Wong transferred 5,000 ACS shares (representing 50% of the then issued share capital of ACS) held by him to Ms. Chan So Kuen, Gloria and 2,000 ACS shares (representing 20% of the then issued share capital of ACS) to Ms. Lau Kam Wai. At the same time, Ms. Alice Wong transferred 3,000 ACS shares (representing 30% of the then issued share capital of ACS) held by her to Ms. Lau Kam Wai. These shares were held by Ms. Chan So Kuen, Gloria and Ms. Lau Kam Wai in trust for Mr. Denny Wong and Ms. Alice Wong.

In December 1998 a total of 5,825,801 new ACS shares (representing some 40.2% of the then issued share capital of ACS) were allotted and issued to Ms. Chan So Kuen, Gloria who held the shares in trust for Mr. Denny Wong. Also, ACS allotted and issued to Ms. Lau Kam Wai a total of 5,825,802 new ACS shares (representing some 40.2% of the then issued share capital of ACS), of which 2,330,321 shares and 3,495,481 shares were held in trust for Mr. Denny Wong and Ms. Alice Wong, respectively.

For the periods in which Mr. Denny Wong and Ms. Alice Wong were not actively involved in the daily operations of ACS which was principally engaged in enhancement and development work on the then existing smart card readers. the development work was carried out by the in-house product design and development team led by Mr. Lin Wai Hung, a senior software engineer who joined ACS in 1995. Mr. Lin was promoted to a technical manager of ACS in April 1998 and resigned in August 1999 for personal reasons.

In December 1998, each of Thomrose Holdings and Mr. Thomas Yuen subscribed for 1,000,000 new ACS shares, representing in aggregate approximately 13.8% of the then enlarged issued share capital of ACS. The total consideration for the share subscription was HK\$2,000,000, equivalent to HK\$1.00 per ACS share. Thomrose Holdings is an investment holding company wholly-owned by Mr. Thomas Wan.

Early in 1992, Mr. Denny Wong was introduced to Mr. Thomas Wan by a colleague of Mr. Denny Wong when he worked for Motorola Semiconductor (HK) Limited. In 1998, Mr. Thomas Wan became a director of Valence Technology Limited, a distributor of semiconductor products in Hong Kong. In the same year, Mr. Denny Wong became acquainted with Mr. Thomas Yuen who was the chairman and chief executive officer of SRS Labs. Inc., a NASDAQ-listed technology solution provider specialising in electronic appliances and which took over Valence Technology Limited.

In recognition of the contribution of certain of its staff members and consultants in December 1998, ACS also allotted and issued a total of 558,397 ACS shares (representing approximately 3.9% of the then issued share capital of ACS) to Mr. Laschinsky (formerly a key technical person from January 1996 to April 1997), 180,000 ACS shares (representing approximately 1.2% of the then issued share capital of ACS) to Mr. Tong Kam Hung (a part-time consultant of ACS since April 1998) and 100,000 ACS shares (representing approximately 0.7% of the then issued share capital of ACS)

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to Mr. Lin Wai Hung (a former technical manager of ACS) at HK\$1.00 per ACS share, being its par value, representing an aggregate of approximately 5.8% of the then issued share capital of ACS.

As a result of the subscriptions for ACS shares in December 1998, the issued share capital of ACS was increased from HK\$10,000 to HK\$14,500,000.

In February 1999, D&A Holdings was incorporated. It was beneficially owned as to 70% by Mr. Denny Wong and 30% by Ms. Alice Wong from 1 March, 1999.

On 9 March, 1999, D&A Holdings was appointed as a director of ACS following the resignation of Ms. Lau Kam Wai and Ms. Chan So Kuen, Gloria from the board of directors of ACS.

Also on 9 March, 1999, Mr. Thomas Wan and Mr. Thomas Yuen were appointed as directors of ACS. It was considered that given their extensive experience and knowledge in the electronics industry, they would be able to contribute significantly to ACS. At that time, Mr. Thomas Wan was a director of Valence Technology Limited and Mr. Thomas Yuen was the chairman and chief executive officer of SRS Labs. Inc..

In March 1999, ACS successfully developed an upgraded version of its PC linked reader which complied with the USB standard and was exhibited at CeBIT'99, a trade fair in Germany. This product was accredited the PC/SC certification and was further accredited the EMV certification in 2001. The first batch of PC linked readers that complied with EMV certification was sold to a customer in August 2001.

In April 1999, Ms. Chan So Kuen, Gloria and Ms. Lau Kam Wai, as trustees of Mr. Denny Wong and Ms. Alice Wong transferred 5,830,801 ACS shares (representing some 40.2% of the then issued share capital of ACS) and 5,830,802 ACS shares (representing some 40.2% of the then issued share capital of ACS) respectively to D&A Holdings.

In May 1999, ACS appointed a full-time consultant to carry out sales and marketing activities for its smart card reader products in England and in October 1999, appointed another full-time consultant to market its products in the United States.

In 1999, the first smart card balance reader capable of reading the balance of telephone cards was successfully launched by ACS. In June 1999, ACS made its first shipment of such smart card balance readers to one of the world's largest smart card suppliers, based in France and the United States.

In July 1999, ACS allotted and issued in aggregate an additional 3,000,000 new ACS shares (representing approximately 17.2% of the then issued share capital of ACS), at HK\$1.00 per ACS share, to its then existing shareholders except for Mr. Lin Wai Hung. Immediately following the allotment and issue of new ACS shares, the

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issued share capital of ACS was owned as to approximately 74.9% by D&A Holdings (which subscribed for 1,440,300 ACS shares representing approximately 8.2% of the then issued share capital of ACS), approximately 12.6% by Thomrose Holdings (which subscribed for 1,200,000 ACS shares representing approximately 6.9% of the then issued share capital of ACS), approximately 6.9% by Mr. Thomas Yuen (who subscribed for 207,000 ACS shares representing approximately 1.2% of the then issued share capital of ACS), approximately 3.8% by Mr. Laschinsky (who subscribed for 115,500 ACS shares representing approximately 0.7% of the then issued share capital of ACS), approximately 1.2% by Mr. Tong Kam Hung (who subscribed for 37,200 ACS shares representing approximately 0.2% of the then issued share capital of ACS) and approximately 0.6% by Mr. Lin Wai Hung. Mr. Lin Wai Hung sold his entire shareholding interest in ACS to D&A Holdings at cost in November 1999 when he left the employment of ACS.

In October 1999, ACS strengthened its research capability via the appointment of Mr. Tan Keng Boon as a full-time consultant. Mr. Denny Wong became acquainted with Mr. Tan Keng Boon in 1994, when representatives of Advanced Electronics Limited were invited to attend a seminar on technology products hosted by Mr. Tan. Advanced Electronic Limited was founded by Mr. Denny Wong in 1985 and engaged in the distribution of semiconductor components of Motorola Semiconductors (Hong Kong) Ltd. and the provision of design and application engineering services to manufacturers of consumers, industrial and telecommunication products. Mr. Tan had over seven years of experience in the smart card industry working at two smart card suppliers before joining ACS. Mr. Tan subscribed for 500,000 new ACS shares, representing approximately 2.8% of the then issued share capital of ACS, for a total consideration of HK\$1 million, equivalent to HK\$2.0 per ACS share, in September 1999. The subscription price per new ACS share was determined by commercial negotiations between Mr. Tan and the management of ACS, which had made reference to the successful launch of ACS's first smart card balance reader in 1999. (Please refer to the section headed "Directors, senior management and employees" in this prospectus for further details.)

In November 1999, ACS won the "HKITCC Certificate of Merit in Technological Achievement" award presented by the Hong Kong Industrial Technology Centre Corporation for its achievement in technological innovation.

In November 1999, D&A Holdings purchased 100,000 ACS shares (representing approximately 0.6% of the then issued share capital of ACS) from Mr. Lin Wai Hung at a total consideration of HK\$100,000. The transfer was registered in January 2000.

On 28 November, 1999, ACS appointed its first distributor in South Africa.

In December 1999, when ACS was an incubatee in the Industrial Technology Centre of Hong Kong ("ITC"), ACS was introduced by the management of ITC to Morningside CyberVentures Holdings Limited. This later led to the investment by Proway Investment, a subsidiary of Morningside CyberVentures Holdings Limited, in the group in 2000 as described below.

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On 13 April, 2000, the Company was established and later on 28 April, 2000, the Company became the holding company of ACS as a result of a group reorganisation (Note: The transfer documents by which the Company became the holding company of ACS were dated 28 April, 2000 and stamped and registered on 12 May, 2000.). Under the reorganisation, shareholders of ACS became the shareholders of the Company. (Please refer to the paragraph headed “Changes in share capital of the Company” in the section headed “Further information about the Company and its subsidiaries” in appendix V to this prospectus for details of the reorganisation.)

Mr. Thomas Wan and Mr. Thomas Yuen were appointed as Directors on 28 April, 2000. However, Mr. Thomas Wan and Mr. Thomas Yuen did not take part in the day-to-day operations of the Company. They were also directors of ACS but had assumed the roles of non-executive directors.

On 16 June, 2000, the Company allotted and issued 1,343,364 series A preference shares to Proway Investment with a view to broadening its shareholder base and obtaining additional funding. The total consideration was US\$1 million (equivalent to HK\$7,800,000 or HK\$5.81 per series A preference share) and determined after arm’s length negotiation between the Company and Proway Investment. Following such subscription, Proway Investment was interested in some 6.9% of the then enlarged issued capital of the Company.

In August 2000, the group appointed a full-time consultant to carry out sales and marketing activities of its products in Germany.

On 18 October 2000, the Company allotted and issued 1,343,364 series A preference shares to Proway Investment for a total consideration of US\$1 million, (equivalent to HK\$7,800,000 or HK\$5.81 per series A preference share) and determined the price of shares after arm’s length negotiation between the Company and Proway Investment. Following such subscription, Proway Investment was interested in some 13.0% of the then enlarged issued capital of the Company. (Please refer to the subsection headed “Changes in share capital of the Company” in appendix V to this prospectus for further details.)

Immediately prior to the capitalisation issue, such series A preference shares will be redeemed and Shares of US\$0.10 each will be issued and then repurchased by the Company, and Shares of HK\$0.10 each will be allotted and issued to Proway Investment instead. The effective consideration paid per Share of HK\$0.10 so allotted and issued to Proway Investment would have been approximately HK\$0.54. (Please refer to the subsection headed “Changes in share capital of the Company” in appendix V to this prospectus for further details.)

In March 2001, a consultancy firm in the Philippines was appointed.

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In 2002, High Progress, an independent third party, offered, among other things, services to the group in relation to the selection of professionals to participate in the group's application for listing on the GEM. ACS came to know the managing director of High Progress through a mutual friend back in 2000. Save for the above, the group has no business relationship with High Progress.

The Company granted to those grantees, whose names are set out in column (1) of the following table, options to subscribe for Shares of US\$0.10 each under the terminated share option scheme on the dates and at the exercise prices per Share set out under column (2). Pursuant to the exercise of options by some of the grantees, the Company allotted and issued to them the number of Shares of US\$0.10 each set out under column (3) opposite their respective names on the dates and at the exercise prices per Share set out under column (3). On 28 October, 2003, all options granted under the terminated share option scheme which remained unexercised and outstanding as set out under column (4), being options to subscribe for an aggregate of 816,250 Shares of US\$0.10 each (representing approximately 3.4% of the then issued share capital of the Company), were cancelled. In consideration of this cancellation, the Company granted options to the relevant grantees under the pre-IPO share option plan to subscribe for the number of Shares of HK\$0.10 each set out opposite their respective names under column (5), being options to subscribe for an aggregate of 6,535,631 Shares of HK\$0.10 each (representing approximately 2.28% of the issued share capital of the Company upon completion of the capitalisation issue and the placing as enlarged by the Shares to be issued upon full exercise of all options granted under the pre-IPO share option plan (but without taking into account any exercise of the offer size adjustment option)), at the exercise prices per Share set out under column (5). The number of options granted and the exercise prices under the pre-IPO share option plan were determined on the basis that immediately after the repurchase of all the Shares of US\$0.10 each in the capital of the Company, the issuance of Shares of HK\$0.10 each to the then existing Shareholders and the capitalisation issue (as described in the sub-section headed "Changes in share capital of the Company" in appendix V) but before the placing, each option holder would be entitled to approximately the same proportion of the issued share capital of the Company by paying approximately the same subscription price as were under the cancelled options. (Please refer to the sub-section headed "Outstanding options granted under the pre-IPO share option plan" in appendix V to this prospectus for further details.)

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(1) Name of grantee	(2) Number of shares subject to options granted under the terminated share option scheme		(3) Exercise of options granted under the terminated share option scheme		(4) Number of shares subject to options granted under the terminated share option scheme cancelled on 28 October, 2003	(5) Pre-IPO share option plan Number of shares subject to options	Exercise price per share
	Granted on 25 July, 2000 at an exercise price of US\$0.10 per share	Granted on 3 December, 2001 at an exercise price of HK\$2.00 per share	Date of allotment and issue of share	Exercise price per share			
<i>Initial management shareholders</i>							
Mr. Denny Wong	300,000		23 October, 2003	US\$0.10	300,000	1,601,378	HK\$0.24
Mr. Lawrence Pang		300,000 ^{Mar 1}					
Mr. Thomas Wan	300,000		23 October, 2003	US\$0.10	300,000		
Mr. Tan Keng Boon	150,000		23 October, 2003	US\$0.10	150,000		
				HK\$2.00	25,000		
Ms. Alice Wong	100,000		23 October, 2003	US\$0.10	100,000		
				HK\$2.00	50,000		
Mr. Joachim Goebel			23 October, 2003	HK\$2.00	12,500	200,173	HK\$0.24
<i>Other shareholders</i>							
Mr. Thomas Yuen	150,000		25 July, 2003	US\$0.10	150,000		
Mr. Jorge Loesin	20,000					160,138	HK\$0.09
Mr. Tong Kam Hung	150,000					150,000	HK\$0.09
Mr. Wong Chi Ho			25 July, 2003	HK\$2.00	7,500	1,201,034	

BUSINESS

(1) Name of grantee	(2) Number of shares subject to options granted under the terminated share option scheme		(3) Exercise of options granted under the terminated share option scheme		(4) Number of shares subject to options granted under the terminated share option scheme		(5) Pre-IPO share option plan		
	Granted on 25 July, 2000 at an exercise price of US\$0.10 per share	Granted on 3 December, 2001 at an exercise price of HK\$2.00 per share	Granted on 21 January, 2003 at an exercise price of HK\$2.00 per share	Date of allotment and issue of share	Exercise price per share	Number of share subject to options exercised	Number of share cancelled on 28 October, 2003	Number of shares subject to options	Exercise price per share
<i>Employees</i>									
Mr. Chu Chi Lok	100,000						125,000	1,000,862	HK\$0.09
Mr. Tse Kam Cheung	20,000	25,000					20,000	160,138	HK\$0.09
Mr. Tse Wai Sing	60,000						60,000	480,414	HK\$0.09
Mr. Ruffly Francis Nicolo Punzalan			25,000				25,000	200,173	HK\$0.24
Ms. Sian Kwan Yuk, Janet			20,000				20,000	160,138	HK\$0.24
Ms. Lai Yuen Yee			75,000				75,000	600,517	HK\$0.24
Mr. Cheung Yuk Ngai, Edward		40,000					40,000	320,276	HK\$0.09
Ms. Lau Kam Fun, Camma	100,000		50,000	23 October, 2003	US\$0.10	100,000			
Mr. Ip Wai Chung			7,500					7,500	HK\$0.24
Mr. Chui Yiu Wing			7,500					7,500	HK\$0.24
Mr. Leung Tin Chak			7,500					7,500	HK\$0.24
Ms. Yuen Fung Tai			5,000					5,000	HK\$0.24
Ms. Chan Sau Ling			10,000					10,000	HK\$0.24
Ms. Pang Wai Yi			3,750					3,750	HK\$0.24
Mr. Chung Wing Keung			15,000					15,000	HK\$0.24
	<u>1,450,000</u> ^{Note 2}	<u>65,000</u>	<u>300,000</u> ^{Note 1}			<u>1,245,000</u>	<u>816,250</u>	<u>6,535,631</u>	

Notes:

- (1) On 24 June, 2003, options to subscribe for 100,000 Shares were cancelled.
- (2) The total number of options granted on 25 July, 2000 was 1,960,000. A total of 510,000 options held by certain former employees lapsed upon their resignation from the group in accordance with the terms of the terminated share option scheme.

BUSINESS

ACS has developed several technologies that are applied in the design of a number of its products. These technologies address specific needs of its customers and helped ACS establish and maintain its competitive advantages. These technologies include:

- **Security encryption algorithms.** Algorithms are mathematical procedures that are used to encrypt or decrypt data by means of secret keys and code words. ACS has successfully incorporated various high security data encryption algorithms into its smart card operating systems and smart card readers.
- **Customised smart card readers.** ACS has developed a number of variations to the smart card readers which can be used with third party smart cards of different makes.
- **Security countermeasures.** ACS has developed techniques that allow its smart card operating systems and smart card readers to send specifically encoded messages that disable or alter their own operating characteristics. This allows the customers of ACS to differentiate smart cards of delinquent or unauthorised subscribers, and to prevent unauthorised access more effectively by altering the operating characteristics of all valid smart cards.
- **Effective message transmission.** ACS has developed sophisticated protocols which are incorporated in its smart card operating systems and smart card readers for transmitting authorisation, entitlement and other control messages to the smart cards of its customers' subscribers.
- **Control functions to support large volume of subscribers.** ACS has developed control functions which are implemented in its smart card readers for supporting over 250 subscribers.

ACTIVE BUSINESS PURSUITS

The following paragraphs describe the active business pursuits undertaken by the group from 1 January, 2001 to the latest practicable date.

Period from 1 January, 2001 to 31 December, 2001

Strategic developments

ACS has since 2001 been in co-operation with STM, a technology partner based in France, to develop and promote jointly smart card/finger print readers. (Please refer to the heading titled "Product development" below and the subsection headed "Intellectual property rights" in this section for further details.)

BUSINESS

During this period, ACS expanded its product range to offering new versions of its smart card readers for use with personal computers. One of its PC linked readers marketed as *ACR30U-EMV* was accredited with EMV certification in April, 2001.

As part of ACS's cost control measures, ACS discontinued the appointment of three consultants in the United States, England and Germany who were responsible for sales and marketing work in these overseas markets. Instead, marketing work was carried out from the Hong Kong office.

In addition, as part of the strategic development of the group and as compensation to Proway Investment for the time and effort of Mr. Lai Tze Chuen, Gary, a non-executive director nominated by Proway Investment, to assist in the sales and marketing activities of the group during the period from 18 February, 2001 to 18 May, 2001, the Company issued on 18 May, 2001 warrants to Proway Investment, an investor of the group. The warrants entitled Proway Investment to subscribe for up to 250,000 Shares at a subscription price per Share of US\$0.2564 (or approximately HK\$2.00). The subscription price was determined after arm's length negotiation between the Company and Proway Investment and with reference to the exercise price of the employee share options in ACS at the time. The warrants are exercisable any time from 18 May, 2001 to 18 May, 2004, or upon the occurrence of a Qualified IPO (as defined in the then articles of association of the Company (*Note 1*)), whichever is the earlier. The warrants were not exercised during the track record period (*Note 2*). Prior to the capitalisation issue, the Shares to be allotted and issued upon the exercise of the warrants will be repurchased by the Company, and Shares of HK\$0.10 each will be allotted and issued to Proway Investment instead. The effective subscription price per Share in relation to the warrants is approximately HK\$0.25.

In June, 2001, the Company entered into an agreement with Mr. Lawrence Pang for the issuance to Mr. Lawrence Pang of convertible debentures in the Company. The debentures carried a principal amount of US\$385,714.35 (or approximately HK\$3.0 million) and were non-interest bearing. On 26 June, 2001, the group received subscription monies of HK\$3.0 million. The debentures were convertible into Shares of US\$0.10 each at a conversion price of US\$0.45 per Share by Mr. Lawrence Pang within 12 months of the date of issue. (*Note: The debentures were fully converted into 857,143 Shares in July, 2002. The subscription price of US\$0.45 per Share was concluded after arm's length negotiation between the Company and Mr. Lawrence Pang. Following the subscription, Mr. Lawrence Pang held approximately 3.8% of the then issued share capital of the Company.*) On 27 October, 2003, the 857,143 Shares allotted and issued upon the conversion of the debentures were repurchased by the Company, and 6,685,716 Shares of HK\$0.10 each were allotted and issued to Mr. Lawrence Pang instead. The effective consideration for each of the said 6,685,716 Shares in relation to the debentures was approximately HK\$0.45.

BUSINESS

Mr. Lawrence Pang has over 20 years of experience in sales and marketing activities. The Company issued the convertible debentures to Mr. Lawrence Pang to raise additional funds and, on 5 July 2001, appointed Mr. Lawrence Pang as a Director to strengthen the Company's sales and marketing team. Mr. Denny Wong has known Mr. Lawrence Pang since 1973 when they both studied for a masters degree in business administration at The Chinese University of Hong Kong.

Notes:

- (1) Qualified IPO means an initial public offering of the Company's shares in the United States which is either approved by the majority of the holders of Shares and holders of series A preference shares or whereby the Company's value prior to consummation of such public offering is not less than a certain amount prescribed in the articles of association of the Company, or a similar IPO on a recognised exchange in Hong Kong, Singapore or any other jurisdiction as the shareholders shall agree. The placing will not constitute a Qualified IPO.
- (2) All of the warrants will be exercised and converted into Shares prior to the capitalisation issue. Please refer to the subsection headed "Changes in share capital of the Company" in appendix V to this prospectus for further details.

Product development

The group began its research with a view to upgrading its smart card operating systems to provide support for electronic payment transactions. The Directors anticipate that the upgraded product, *ACOS2*, will reach the market in first quarter of 2004. At the same time, the group also carried out further enhancement of the *ACOS2* and the new product, to be called *ACOS3*, is expected to be launched in first half of 2004.

ACS was accredited with EMV certification in respect of one of its PC linked readers, *ACR30U-EMV* in April 2001.

On 8 February, 2001, ACS entered into an agreement with STM under which they agreed to jointly develop smart card/finger print readers. Under the agreement, STM is responsible for providing finger print scanner technology and ACS is responsible for providing the smart card reader technology. ACS purchased microprocessors and other components from STM for the production of the smart card/finger print readers. The cooperation with STM resulted in the launch in December, 2002 of a new product combining the smart card reader and finger print scanning technologies. The Directors believe that this cooperative effort marked an important achievement for ACS as this was the first product developed by ACS jointly with a technology partner. ACS and STM jointly own the intellectual property rights attached to the smart card/finger print readers.

On 1 March, 2001 the group entered into an agreement with an independent consultancy firm under which the latter was responsible for designing and developing the firmware of the smart card operating systems of ACS. (Please refer to the paragraphs under the heading "Engagement of an independent consultancy firm" in this section for further details.)

ACS entered into an agreement (as amended by a supplemental agreement) with one of its customers, Innovision Technology Corporation Limited on 4 September 2001 under which the product design and development team of ACS designed and modified its smart card reader with pin-pad to be used in a taxi fare payment system and a national health care programme in Taiwan. The design and development work for the taxi fare payment system was completed in June 2002 and launched in July 2002.

At the same time, ACS started to develop a larger-sized version of its smart card/finger print readers that will accept smart cards the size of a credit card. This new product was introduced to the market as *BioCardKey* in August 2003.

Sales and marketing

As part of its sales and marketing strategy, ACS participated in a number of exhibitions in Hong Kong, London, Germany, China, Paris and the United States to promote its products and services. During this period, ACS offered three main product lines namely, PC linked readers, contact smart cards and smart card operating systems and smart card balance readers.

– Sales in Europe, Africa and the Middle East

Europe, Africa and the Middle East was the largest market in terms of revenue generated by ACS during 2001. During this period, ACS secured a number of new purchase orders from customers in Germany, Spain and Italy. The group supplied its smart card readers to IPM Net S.p.A. in Italy, which is affiliated with one of the world's largest smart card suppliers Incard S.p.A., and a number of information solution providers in Italy and Spain.

Sales in Europe, Africa and the Middle East accounted for approximately 55% of the group's turnover during this period.

– Sales in Asia

During this period, ACS supplied both "off-the-shelf" and customised products to a customer in Malaysia. ACS also sold its products to the Singapore headquarters of a company which was one of the world's largest smart card suppliers. ACS also sold its products to Sumitomo Mitsui Card Company Limited, a credit card company, for the purpose of monitoring its customer loyalty programme. In Hong Kong, ACS serviced, amongst others, large organisations like the Hong Kong government and local bus operators.

Sales in Asia accounted for approximately 33% of the group's turnover during this period.

BUSINESS

– *Sales in the Americas*

The Americas was a relatively small market for ACS in 2001. Customers included a number of system integrators.

ACS appointed independent distributors which purchased products from ACS for resale in Spain, Israel, Hong Kong, India and the United States.

Sales in the Americas accounted for approximately 12% of the group's turnover during this period.

Human resources

Mr. Lawrence Pang was appointed as a non-executive Director of ACS on 5 July, 2001.

As at 31 December, 2001, the group had 19 full-time employees who were engaged in the following functions:

	Total
Product design and development	8
Production	4
Sales and marketing	4
Finance and administration	<u>3</u>
Total	<u><u>19</u></u>

The group continued to engage an independent consultancy firm in the Philippines to provide design services relating to the development of smart card operating systems. During the period, the consultancy firm assigned five engineers (including Mr. Jorge Locsin who is a shareholder of the Company) to provide these services to the group. In addition, the group had two technical consultants, namely, Mr. Tan Keng Boon and Mr. Tong Kam Hung.

Funding arrangements

The operations of ACS during the period were funded by internal resources and the subscription monies totalling HK\$3,000,000 from the issuance to Mr. Lawrence Pang of 857,143 Shares, at US\$0.45 (or approximately HK\$3.50) per Share in June 2001 pursuant to his exercise of the convertible debentures in the principal amount of US\$385,714.35 (or approximately HK\$3 million).

Period from 1 January, 2002 to 31 December, 2002

Strategic developments

ACS entered into an agreement with Statcard for the supply of online game software developed by Statcard that will be integrated with the PC linked readers and smart card balance readers from ACS. The integrated product (the *Game*) was marketed as “*X Action Skate*”, and launched in January 2002. Under the agreement, ACS and Statcard agreed to jointly promote the *Game*. This agreement has no expiry date. After the launch of the *Game*, the group did not sell additional PC linked readers to Statcard for this product. (Please refer to the subsections headed “Product design and development” and “Intellectual Property Rights” in this section for further details relating to the *Game*.)

In a research report prepared by Frost & Sullivan issued in the third quarter of 2002, ACS was considered a leader in the smart card reader market in Asia. It is also a smart card reader supplier accredited with the PC/SC standard, EMV standard, USB standard and NETS standard. The accreditation of these standards demonstrates that ACS has the ability to design smart card readers for various applications meeting these internationally recognised standards.

Product development

The development of smart card/finger print readers and smart card readers with pin-pad reached a final stage. The first version of the smart card/finger print reader marketed as *BioSIMKey* was formally introduced to the market in February 2002. Later in July 2002, ACS launched to the market its smart card reader with pin-pad, marketed as *ACR 50*.

Since August 2002, the group has been developing a new version of the PC linked readers to be marketed as *ACR 38*. This new product is intended to have an increased speed of operations and the ability to handle larger volume of data than ACS's readers which were then being sold. This new product was launched to the market in August 2003.

In August 2002, ACS began research into creating a contactless smart card terminal for commercial applications. This new product known as *AC-Mifare Terminal* was introduced to the market in the fourth quarter of 2002.

Sales and marketing activities

The group sold PC linked readers to over fifty countries during the period. The group's customers included large private and public organisations. Further, the group introduced the newly developed smart card/finger print readers during this period. The group also attended a number of trade shows in Germany, the United States and France to promote its products.

BUSINESS

In June 2002, ACS set up a website which enabled prospective customers to make purchases of its sample products via the Internet. The Directors consider this website to be a promotional tool for the group.

In July 2002, ACS started to sell as a package its PC linked readers together with self-developed demonstration programmes stored in a CD-ROM.

– *Sales in the Americas*

The Americas market became a key market for ACS during 2002 (accounting for approximately 40% of the group's turnover during this period). ACS supplied PC linked readers and smart card balance readers to Statcard. Other customers included a bank in the United States which purchased the group's smart card balance readers for reading values stored in smart cards.

Sales in the Americas accounted for approximately 40% of the group's turnover during this period.

– *Sales in Europe, Africa and the Middle East*

The Directors consider that Europe, Africa and the Middle East continued to be an important market for the group (accounting for approximately 27% of sales) during this period. The group sold its PC linked readers to a solution provider to be used as security devices in certain government projects in Spain. The group also sold its smart card balance readers to the developer of an electronic payment system in Russia for reading the monetary value stored in smart cards. The group continued to supply its smart card readers to Incard S.p.A. in Italy.

Sales in Europe, Africa and the Middle East accounted for approximately 27% of the group's turnover during this period.

– *Sales in Asia*

The group's smart card readers with pin-pad were sold to a system integrator in Taiwan for the recording and payment of taxi fares. Customers in Hong Kong included Jumpingym USA which is a large family entertainment chain store. ACS supplied to Jumpingym USA the PC linked readers *ACK30* for adding token value onto the smart cards for use in family games.

BUSINESS

Since January 2002 ACS has appointed a number of independent sales representatives to promote the ACS products. At the same time, a number of distributors were appointed for the resale of ACS products in North America, Poland, Japan, Malaysia, Germany, Austria, Switzerland, India and Singapore.

Sales in Asia accounted for approximately 33% of the group's turnover during this period.

Please refer to the subsection headed "Management Discussion and Analysis" in the "Financial information" section for further analysis of the group's sales in different regions.

Human resources

As at 31 December, 2002, the group had 22 full-time employees who were engaged in the following functions:

	Total
Product design and development	10
Production	5
Sales and marketing	4
Finance and administration	<u>3</u>
Total	<u><u>22</u></u>

ACS continued to engage an independent consultancy firm in the Philippines to provide design services relating to the development of smart card operating systems. During this period, the consultancy firm assigned four engineers to provide these services. Mr. Tan Keng Boon and Mr. Tong Kam Hung continued to be the group's consultants.

Funding arrangements

The operations of ACS during this period were funded by internal resources and subscription monies totalling HK\$2,344,000 received in respect of 1,172,000 new Shares issued and allotted on 14 May, 2002 to nine employees and three consultants of the group at a consideration of HK\$2.00 per Share. The share issue was made, amongst other things, in recognition of the contribution of certain staff members and consultants at the time. (Please refer to the subsection headed "Changes in share capital of the Company" in appendix V to this prospectus for further details.)

Period from 1 January, 2003 to the latest practicable date

Strategic developments

By the latest practicable date, the group had developed six main types of products for commercial applications. The group promoted these products in the United States and Taiwan as well as countries with large populations such as India and China. At the same time, the group continued to invest in the area of research and expanding product applications, amongst others, in the area of contactless smart card technology.

In May 2003, one of the group's PC linked readers *ACR30* was selected by the Taiwan government as one of the two readers to be used in its "*Natural Person Certificate*" identity card project for the Ministry of Interior Certificate Authority. The Directors anticipate that there will be a significant increase in the demand for the group's smart card readers in the future as a result of this project. The Directors consider this to be an important development for the promotion of the group in the Taiwan market.

The name of the Company was changed from Advanced Card Systems (Cayman) Limited to Advanced Card Systems Holdings Limited on 22 May, 2003.

In July 2003, the group's PC linked readers namely, *ACR30* and *ACR30 Pro* were amongst nine smart card readers named by Hong Kong Post for use in the e-Cert programme in Hong Kong. The group's PC linked readers are available for sale to retail customers in twenty designated post offices located in Hong Kong. The customers will need to use the application software supplied by the Hong Kong Post together with the PC linked readers to carry out online functions via the e-Cert programme.

In October 2003, the group was awarded the "Growth Strategy Leadership in the World PC Link Reader Market" by Frost & Sullivan in recognition of, amongst other things, its outstanding growth in the PC-linked smart card reader market in 2002.

Product development

In July 2003, the group started to develop the *CCID reader*, a PC linked reader which is intended to be compatible with the new .NET *Windows* system being developed by Microsoft Corporation.

In August 2003, the *BioCardKey* which is a larger-sized version of the smart card/finger print reader that will accept smart cards the size of a credit card, was introduced to the market.

The upgraded smart card operating system, *ACOS2*, is expected to be launched in 2004.

The development of the contactless smart card terminals is expected to be completed and to be launched to the market in the first half of 2004.

Sales and marketing activities

The group actively promoted its smart card/finger print readers and an upgraded version of its PC linked readers at trade shows in Germany and the United States.

ACS advertised its products in a magazine in China from April to June 2003.

– *Sales in Asia*

The group sold its PC linked readers to two IT solution houses in Malaysia. Some of these readers are intended to be used in electronic payment systems by banks in the Middle East. Other customers included smart card solution providers in Japan and Taiwan.

The group sold its smart card readers with pin-pad to a system integrator in Taiwan which used the readers in a national health care programme.

In August, 2003, the group sold its PC linked readers to one of the major telephone operators in Hong Kong. These readers allow the users of mobile phones to read and transfer data and other short messages stored in a SIM card to a personal computer.

Sales in Asia accounted for approximately 64% of the group's turnover during the nine months ended 30 September, 2003.

– *Sales in the Americas*

The group sold its smart card balance readers to a customer in Mexico for reading the monetary value stored in a smart card.

Sales in the Americas accounted for approximately 10% of the group's turnover during the nine months ended 30 September, 2003.

– *Sales in Europe, Africa and the Middle East*

The group supplied its smart card readers with pin-pad to a mobile telephone operator in the United Kingdom. These readers are to be used by customers of the operator to copy the telephone directory and messages stored in one SIM card to another. Other customers included an IT solution house in Germany that purchased the group's PC linked readers.

ACS expanded its sales network by appointing additional independent distributors to promote the sale of its products in Russia, Taiwan and Southern China, and Thailand.

Sales in Europe, Africa and the Middle East accounted for approximately 26% of the group's turnover during the nine months ended 30 September, 2003.

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Human resources

As at the latest practicable date, the group had 29 full-time employees who were engaged in the following functions:

Product design and development	11
Production	7
Sales and marketing	7
Finance and administration	<u>4</u>
Total	<u><u>29</u></u>

ACS continued to engage an independent consultancy firm in the Philippines to provide design services relating to the development of smart card operating systems. During the period, the consultancy firm assigned four engineers to provide these services. Mr. Tan Keng Boon joined ACS as an employee while Mr. Tong Kam Hung continued to be the group's part-time consultant.

Funding arrangements

The group's operations during this period were largely funded by internal resources. On 3 July, 2003, the group received US\$15,000 (or HK\$117,000) from the issuance of 150,000 Shares of US\$0.10 each on 25 July, 2003 as a result of the exercise by Mr. Thomas Yuen of his options to subscribe for Shares at US\$0.10 per Share. On 9 July, 2003, the group received HK\$15,000 from the issuance of 7,500 Shares of US\$0.10 each on 25 July, 2003 as a result of the exercise by Mr. Wong Chi Ho of his options to subscribe for Shares at HK\$2.0 per Share. On 4 September, 2003, the group received HK\$234,000 from the issuance of 300,000 Shares of US\$0.10 each on 23 October, 2003 as a result of the exercise by Mr. Denny Wong of his options to subscribe for Shares at US\$0.10 per Share. On 20 October, 2003, the group received aggregate funds of HK\$273,000, from the issuance of a total of 350,000 Shares of US\$0.10 each on 23 October, 2003 as a result of the exercise of options to subscribe for Shares at US\$0.10 per Share (being the par value of the Shares at the time), and aggregate funds of HK\$275,000, from the issuance of a total of 137,500 Shares of US\$0.10 each on 23 October, 2003 as a result of the exercise of options to subscribe for Shares at HK\$2.0 per Share, in each case, under the terminated share option scheme by 4 persons (including one Director, Mr. Tan Keng Boon as well as Ms. Alice Wong and Mr. Joachim Goebel who are members of the senior management of the Company). On 23 October, 2003, the group received HK\$234,000 from the issuance of 300,000 Shares of US\$0.10 each to Mr. Thomas Wan as a result of the exercise of 300,000 options granted to him on 25 July, 2000 under the terminated share option scheme. The

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exercise prices of US\$0.10 and HK\$2.0 per Share were determined by the board at the time of grant of the relevant options to be appropriate. (Please refer to the subsection headed “Changes in share capital of the Company” in appendix V to this prospectus for further details.)

On 22 October, 2003, the group received from Proway Investment the sum of US\$64,100 (or HK\$499,980) from the pending subscription for 250,000 new Shares as a result of the exercise of the warrants issued on 18 May, 2001.

Changes in the board during the active business pursuits period

The changes in the composition of the board during the active business pursuit period are tabulated below:

Between 1 January, 2001 and 5 July, 2001	Between 5 July, 2001 and 10 March, 2003	Between 10 March, 2003 29 May, 2003	Between 29 May, 2003 and latest practicable date
Mr. Denny Wong <i>(Executive Director)</i>	Mr. Denny Wong <i>(Executive Director)</i>	Mr. Denny Wong <i>(Executive Director)</i>	Mr. Denny Wong <i>(Executive Director)</i>
Mr. Thomas Wan <i>(Non-executive Director)</i>	Mr. Lawrence Pang <i>(Executive Director)</i>	Mr. Lawrence Pang <i>(Executive Director)</i>	Mr. Lawrence Pang <i>(Executive Director)</i>
Mr. Thomas Yuen <i>(Non-executive Director)</i>	Mr. Thomas Wan <i>(Non-executive Director)</i>	Mr. Thomas Wan <i>(Non-executive Director)</i>	Mr. Thomas Wan <i>(Non-executive Director)</i>
Mr. Laschinsky <i>(Non-executive Director)</i>	Mr. Thomas Yuen <i>(Non-executive Director)</i>	Mr. Thomas Yuen <i>(Non-executive Director)</i>	
Mr. Lai Tze Chuen, Gary <i>(Non-executive Director)</i>	Mr. Lai Tze Chuen, Gary <i>(Non-executive Director)</i>		

Mr. Denny Wong was the only Director who actively participated in the day-to-day operations of the group throughout the active business pursuits period. Other key members of the management were Ms. Alice Wong and Mr. Tan Keng Boon. Their responsibilities were described above and in the section headed “Directors, senior management and employees”.

Mr. Denny Wong, in his capacity as the chairman of the board meetings, is entitled under the articles of association of the Company to a second or casting vote in case of an equality of votes in board meetings. He has not exercised such a right in any board meetings of the Company during the active business pursuits period.

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Mr. Thomas Wan was introduced to Mr. Denny Wong in 1992 by Mr. Wong's former colleague at Motorola Semiconductor (HK) Limited. In 1992, Mr. Thomas Wan was engaged in the distribution of semiconductors and related products in Hong Kong.

The Directors who resigned during the active business pursuits period were Mr. Thomas Yuen, Mr. Laschinsky, and Mr. Lai Tze Chuen, Gary (who was nominated to the board by Proway Investment). Mr. Thomas Yuen was introduced to Mr. Denny Wong by Mr. Thomas Wan. Mr. Thomas Yuen resigned as he was residing in the United States and would not be able to devote the time expected of a director of a listed issuer in Hong Kong.

Mr. Laschinsky joined ACS as an employee in January 1996 through a recruitment programme advertised in newspapers. With substantial experience in the design of electronic products, Mr. Laschinsky later became a senior engineer of ACS and developed smart card products for ACS. In April 1997, Mr. Laschinsky left the group to work in the United States while remaining as a director of ACS and the Company until July 2001. ACS granted to Mr. Laschinsky ACS shares at par value of HK\$1.00 in December 1998 in recognition of his contribution to ACS. Mr. Laschinsky resigned because he had moved to work in the United States.

ACS was introduced to Proway Investment in around December 1999 by the management company of the Industrial Technology Centre in Hong Kong. Proway Investment appointed Mr. Lai Tze Chuen, Gary to the board in June 2000. Mr. Lai resigned from the board in March 2003 as Proway Investment decided to become a passive investor in the Company after listing.

None of Mr. Thomas Wan, Mr. Thomas Yuen, Mr. Laschinsky and Mr. Lai Tse Chuen, Gary participates in the day-to-day operations of the group and they are not considered to be part of the key management team of the group.

Ownership of the group during the active business pursuits period

Throughout the active business pursuit period,

- Mr. Denny Wong and Ms. Alice Wong were in control of the Company through their interest in D&A Holdings (which has owned and continues to own more than 50% of the issued share capital of the Company) and their respective direct shareholding interest in the Company; and
- ACS was a wholly-owned subsidiary of the Company.

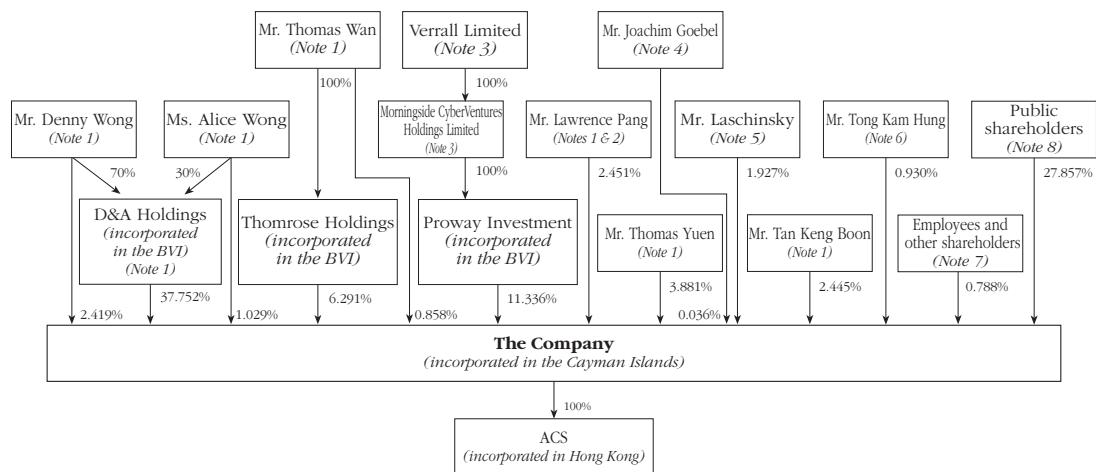
Further, D&A Holdings is owned by Mr. Denny Wong and Ms. Alice Wong who are the joint founders of the group.

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GROUP STRUCTURE

The controlling shareholders of the Company are Mr. Denny Wong and Ms. Alice Wong who together will hold in aggregate, directly and indirectly, around 41.2% of the issued share capital the Company upon its listing.

The following chart sets out the shareholding structure of the group immediately following completion of the placing, without taking into account any Shares which may be issued upon the exercise of the offer size adjustment option, options granted under the pre-IPO share option plan or the share option scheme, and the general mandate to issue Shares referred to in appendix V to this prospectus:



Notes:

1. Mr. Denny Wong, Mr. Lawrence Pang and Mr. Tan Keng Boon are executive Directors. Mr. Thomas Wan is a non-executive Director. Ms. Alice Wong, the wife of Mr. Denny Wong, is a member of the senior management of the Company. Mr. Thomas Yuen was a non-executive Director from 28 April, 2000 to 29 May, 2003. Other than the investment in the Company, D&A Holdings does not have any other investment and is not engaged in any other business activities. Thomrose Holdings is an investment holding company and is wholly-owned by Mr. Thomas Wan. In addition to its interests in the Company, Thomrose Holdings holds the entire issued share capital of Hectrix Limited. (Please see the subsection headed “Competition” in this section for further details of Hectrix Limited.)
2. On 5 July, 2002, Mr. Lawrence Pang subscribed for 857,143 new Shares at US\$0.45 (or approximately HK\$3.50) per Share as a result of the exercise of the convertible debentures. The total consideration was US\$385,714.35 (or approximately HK\$3 million).
3. Proway Investment is an investment holding company and is a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited which is in turn wholly-owned by Verrall Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. Madam Chan is interested in the Shares owned by Proway Investment in her capacity as founder of the trust under the Securities and Futures Ordinance. Proway Investment is a passive investor in the group. During the period from 16 June, 2000 to 10 March, 2003, Proway Investment appointed Mr. Lai Tze Chuen, Gary as a non-executive Director. On 10 March, 2003, Mr. Lai Tze Chuen, Gary resigned from the board as Proway Investment wished to take a passive role in respect of its investment in the Company. Following the resignation

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of Mr. Lai Tze Chuen, Gary from the board, Proway Investment is not involved in the management of the group and has no representation on the board. Proway Investment, Morningside CyberVentures Holdings Limited, Verrall Limited in its capacity as trustee of the family trust established by Madam Chan Tan Ching Fen and Madam Chan Tan Ching Fen are independent third parties. Madam Chan Tan Ching Fen has no relationship with other shareholders of the Company as at the latest practicable date.

4. Mr. Joachim Goebel is an engineering manager responsible for the group's product design and development.
5. Mr. Laschinsky was a non-executive director of ACS from 9 March, 1999 to 5 July, 2001, and was a senior engineer of ACS from January 1996 to April 1997. He was also a non-executive Director from 28 April, 2000 to 5 July, 2001 and has remained a passive investor of the Company since his resignation.
6. Mr. Tong Kam Hung has been a part-time consultant of the group since April 1998. He advises the group on areas covering product development and product specifications.
7. Details of the employees and other shareholders, and their respective shareholding interest in the Company immediately after completion of the placing and the capitalisation issue (assuming the offer size adjustment option is not exercised) are shown below:

Employees

Mr. Tse Kam Cheung	0.052%
Mr. Tse Wai Sing	0.009%
Mr. Ruffy Francis Nicolo Punzalan	0.017%
Ms. Sian Kwan Yuk, Janet	0.057%
Ms. Lai Yuen Yee	0.172%
Mr. Cheung Yuk Ngai, Edward	0.017%
Ms. Lau Kam Fun, Canna	0.429%

Other shareholders

Mr. Jorge Locsin	0.014%
Mr. Wong Chi Ho	0.021%
Total	<u>0.788%</u>

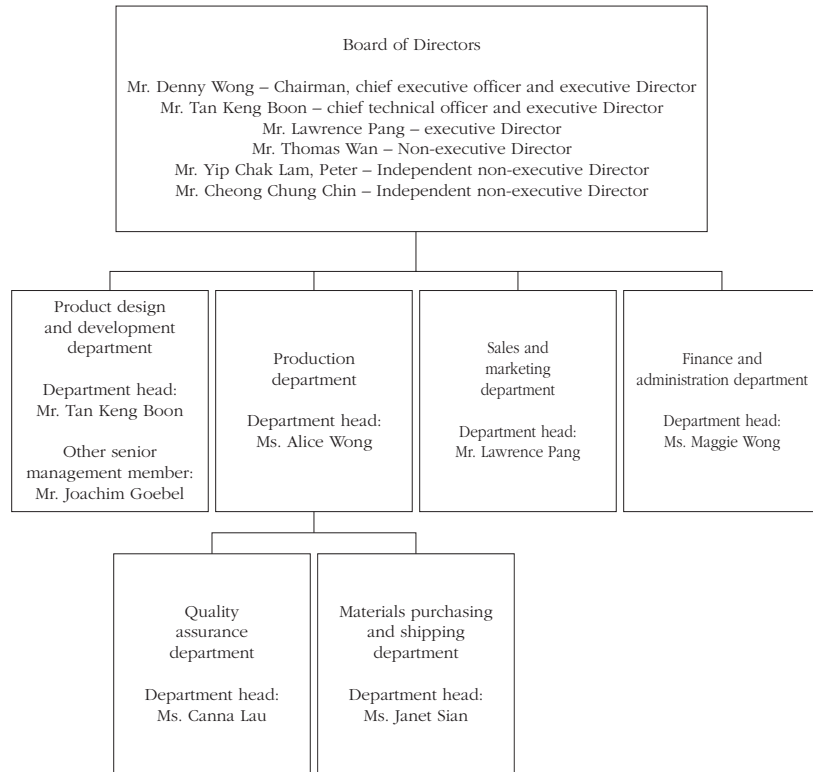
Mr. Jorge Locsin is one of the engineers assigned by an independent consultancy firm that provides the group with design service relating to the development of its smart card operating systems. Save for this relationship, Mr. Jorge Locsin is an independent third party and has no management role in the group.

8. Public shareholders are holders of the placing shares.

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ORGANISATION STRUCTURE

The diagram below shows the organisation structure of the group:



BUSINESS OPERATIONS

Products

The products of ACS can be categorised into six main types as follows:

1. contact smart cards and smart card operating systems;
2. PC linked readers;
3. smart card balance readers;
4. smart card/finger print readers;
5. smart card readers with pin-pad; and
6. contact and contactless smart card terminals.

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The group may at the request of its customers supply customised smart card readers and their chips and modules and provide customisation of smart card drivers (which are the software programmes that make the smart card readers work with various computer platforms). Save for the contactless smart card terminals which are currently being developed, the above products are also available in a kit (with demonstration software programmes and drivers) developed by ACS to assist customers in using the products.

Most of the above products can be used with a variety of smart cards (including smart cards not manufactured by ACS), or with hardware produced by different manufacturers and with the exception of the smart card/finger print readers (which were developed jointly by ACS and STM), all the above products were developed by ACS. Most of these products (with the exception of the contact smart cards and smart card operating systems) may also be modified to meet specific requirements of customers. From time to time, ACS designs and modifies, to a lesser extent, other smart card reader components, including, for example, smart card reader chips upon receipt of requests from customers.

The Directors believe that ACS is well placed as a supplier of smart card readers for use with personal computers. This is demonstrated by the fact that the group is one of the suppliers of PC linked readers to a number of the world's largest smart card manufacturers. (Please refer to the "Customers" subsection in this section for further information.)

Product types**Description**

1. Contact smart cards and smart card operating systems



A smart card is a plastic card the size of a credit card which is commonly used as a secured data storage device. Embedded in the smart cards is a smart card operating system that has four main functions, namely,

- to establish the communication between the smart card and the smart card reader;
- to manage the memory allocation in the smart card;
- to control the access to the memory areas according to defined access conditions; and
- to perform security authentication of the smart card user before he or she can use a particular smart card system.

ACS developed and introduced into the market its first smart card operating systems in 1996 and recorded sales from this product in that year.

Actual applications: Purchases and payment transactions within a small network, such as café chains in a city, security access control, national smart card based identity card programmes and credit card bonus points programmes offered by banks.

Product name: *ACOS1*, *AC-Kit* which is the demonstration kit

Product types**Description**

2. PC linked readers



This product uses a single microprocessor that makes it a cost effective solution for electronic payment and information security applications. It allows a contact smart card to communicate with a computer (or a network of computers) and may be used with a range of smart cards and a number of PC platforms. It is typically connected to a computer (or a network of computers) where data can be entered through a computer keyboard and information is displayed via a computer monitor. This type of product was initially launched in August 1996.



Possible applications: Security control for online purchases or execution of banking transactions through the Internet and in-house security measures to monitor access to information stored in computers. This product can also be integrated with payphones, parking meters and vending machines for deducting amounts from smart cards for the payment of services.

Product names: *ACR20, ACR20U, ACR30, ARC30SP-PNC, ACR30U, ACR30U-EMV, ACF30, ACK30, ACT30, ACR38 and SIMmate* and *AC-kit* which are demonstration kits

3. Smart card balance readers



This type of reader reads and shows data stored in a contact smart card (including monetary balances on pre-paid phone cards, smart cards used for paying bus fares, bonus points awarded by retailers to customers for their purchases, details of recent transactions of a smart card based credit card or content of a national identity card). This type of product was introduced to the market in 1999 and sales from this product were first recorded in that year.

Product name: *ABR06BS, ABR10RS and ABR16RS*

Product types**Description**

4. Smart card/finger print readers



This product, formally launched in December 2002, is a security access control device used with contact smart cards. It is 7 centimetres in length, 3 centimetres in width and 1.5 centimetres in thickness. It was jointly developed by ACS which provided the smart card reader technology and STM, which provided the finger print scanning technology. This product can be connected to personal computers to scan finger prints and is compatible with a variety of smart cards. The use of fingerprints to replace passwords or personal identification numbers provides a more secure and convenient authentication process.

The Directors expect this product to receive increasing demand in view of the anticipated growth in financial applications and spread of network security applications.

Actual applications: PC access control, logical access control to computer network and identity authentication for electronic payments.

Product names: *BioSIMKey (ADT60)*, BioSIMKey software development kit (BioSIMKey-SDK) which is the demonstration kit

Product types**Description**

5. Smart card readers with pin-pad



This relatively new type of product, launched in July 2002, allows the user to enter a security number on the built-in keypad to authenticate the user's identity. After that, the user may use a contact smart card for processing a number of transactions including online payment transactions. The built-in display can show the user, for instance, the value of a particular transaction. Transaction details may also be checked before the user confirms payment.



This type of product has a 16-key keypad with four function keys and two smart card slots.

Possible applications:

- (i) In national health care programmes, for instance, this product may be used to authenticate the identity of the doctor (who will insert his or her smart card in one slot of the smart card reader) and the patient (who will insert his or her healthcare card, on which basic medical data and the medical insurance records of the patient are stored, in another slot of the smart card reader). The patient may use the smart card for payment and storing medical consultation and insurance data. The doctor may have access to additional medical information about the particular patient stored in the host computer system to which the smart card reader is connected.

Product types**Description**

- (ii) Payment and collection of taxi fares where the passenger inserts his or her smart card into the smart card reader for payment of taxi fares. The taxi driver's smart card may be inserted into the smart card reader which collects transaction data accumulated during the day and the taxi fares may be collected following the authentication process.

Product names: *ACR50, ACR50-22 and ACR80*

6. Contact and contactless smart card terminals



The contactless smart card terminal is capable of reading from and writing to a smart card (that is either manufactured by ACS or other suppliers) within a proximity of three centimetres of the terminal. This product was introduced to the market in the fourth quarter of 2002.

Possible applications: Payment transactions in canteens of universities, factories and retail outlets, replacement of magnetic strip credit cards for customers of banks to perform banking transactions at retail outlets equipped with the contactless smart card terminals.

Product name: *AC-Mifare Terminal*

Features of products of ACS

The Directors believe that the following are common features amongst most of the ACS products:

- compatibility with different software environments, durability and versatility as demonstrated by their accreditation with a number of international and domestic certification of standards applicable to smart card readers. ACS is one of the companies in Asia that are accredited with these certifications in respect of its PC linked readers (Please refer to the subsection titled “Industry standards” in this section for further details);
- ability to support different types of smart cards manufactured by different companies which conform to international or domestic standards; and
- ability to function efficiently even in heavy PC traffic conditions and various hardware environments.

Industry standards

Various ACS products meet international and national standards prescribed by smart card issuers and various private users of smart cards relating to the quality of smart card readers. An example of this is *ACR30*, a PC linked reader developed by ACS which meets the specifications laid down by EMV. In ACS’s experience the development process for such a product (including the time for obtaining the EMV certification) typically takes approximately twelve months to complete. The table below sets out these standards in greater detail and the time when ACS products were accredited with the relevant certification.

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	Details of requirements	Products of ACS that meet the relevant standards	Effective period
International standards:			
a. PC/SC standard	This standard requires smart card readers to function properly in personal computer environments using different Microsoft Windows platforms.	– PC linked readers (<i>ACR30U</i>)	Since November, 2000
b. EMV standard	This standard requires smart card readers to read and write on a range of smart cards that comply with the ISO7816 standard.	– PC linked readers (<i>ACR30U-EMV</i>) – Smart card readers with pin-pad (<i>ACR50</i>)	Since April, 2001 Since November, 2002
c. USB standard	This standard requires smart card readers to function with USB certified devices in a variety of applications.	– PC linked readers (<i>ACR30U</i>)	Since October, 2002
d. FCC standards	These standards require smart card readers to meet certain minimum safety and electromagnetic compatibility thresholds promulgated in the the United States.	– PC linked readers (<i>ACR20U</i>) – Smart card balance readers (<i>ABR06BS</i>) – Smart card/finger print readers (<i>ADT60</i>) – Smart card readers with pin-pad (<i>ACR50</i>)	Since July, 1999 Since March, 2000 Since August, 2002 Since February, 2003
e. CE standard	This standard requires smart card readers to meet certain safety and electromagnetic compatibility thresholds promulgated in Europe.	– PC linked readers (<i>ACR20U</i>) – Smart card balance readers (<i>ABR06BS</i>) – Smart card readers with pin-pad (<i>ACR50</i>) – Smart card/finger print readers (<i>ADT60</i>)	Since July, 1999 Since March, 2000 Since January, 2003 Since May, 2002

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	Details of requirements	Products that meet the relevant standards	Effective period
National standards:			
f.	VCCI (or Voluntary Control Council for Interference) standard	This standard requires smart card readers to meet certain safety standards so that the reader will not disrupt other electronic products in Japan.	– PC linked readers (<i>ACR38</i>) Since January, 2003
g.	NETS (Network for Electronics Transfers Singapore) Pte. Limited	This standard requires smart card readers to comply with certain software configurations for online payment transactions in South Korea and Singapore.	– PC linked readers (<i>ACR3OSP-PNC</i>) Since January, 2002
h.	CSA (Canadian Standards Association) standards	This standard requires smart card readers to meet certain safety requirements to reduce the risk of personal injury due to electrical shock or fire in Canada.	– Smart card/finger print readers (<i>ADT60</i>) Since May, 2002

Receiving customers' orders

ACS receives customers' orders for their products which include "off-the-shelf" products and customised products.

i. "Off-the-shelf" products

In respect of "off-the-shelf" products (and those requiring only minor customisation work including modifications to casings, addition of logos and minor alterations, etc), representing approximately 96% of sales during the track record period, the customers will typically place their orders by way of a purchase order, stating the price, payment terms and delivery date of the products required. Where necessary, a prototype of the product will be produced, trial tested and sent to the prospective customer for approval. Typically the sales and marketing personnel of ACS will finalise the delivery schedule, payment and other terms of the purchase order with prospective customers prior to production.

Various departments in ACS take part in the formulation of an order. The production department coordinates with the independent manufacturer for the manufacturing of the products, schedules the supply of materials required and assesses ACS's ability to meet the requisite delivery dates, taking into account the complexity of the products to be manufactured. Upon confirmation of an order, ACS will commence the manufacturing process.

ii. Customised products

In other cases, where significant customisation and, or research is required, representing approximately 4% of sales during the track record period, ACS will first confirm the required specifications for the proposed product (including basic functionality and minimum standard requirements) before commencing the development process. A prototype of the product will be prepared and trial tested as part of ACS's initial quality control measures.

Depending on the nature and complexity of the customisation required, the time required for the development of a new product may vary from a few months to over 12 months. A binding purchase agreement is usually entered into between ACS and the customer prior to commencement of the development work. The group seeks to limit its liabilities by incorporating, where commercially practicable, provisions in its contracts with customers for the reconsideration of the obligations of the parties in events of force majeure.

Various departments in ACS take part in the formulation of an order. The product design and development team is responsible for advising on the designs and features of the proposed products and the development time required. The production department coordinates with the contractor for the manufacturing of

the products, schedules the supply of materials required and assesses ACS's ability to meet the requisite delivery dates, taking into account the complexity of the products to be manufactured.

From time to time, ACS may apply at the request of and on behalf of its customers for certain product certifications in respect of customised products designed by ACS.

Revenue model – payments and other terms of contracts

i. “Off-the-shelf” products

Prices for “off-the-shelf” products are negotiated with reference to a pricing guide. Pricing is flexible although offers which are below those prices stated in the pricing guide require prior approval from the management of ACS. If a customer requires minor customisation work such as altering the design of a product casing or printing the customer's logo on the casing or other specific design work for a particular product, ACS may charge its customers a design fee of a fixed amount that varies according to the complexity of the design.

One of the “off-the-shelf” products is the smart card/finger print reader jointly developed by ACS and STM. ACS manufactures this product and sells it to STM as well as other customers. Under an agreement entered into between ACS and STM on 8 February, 2001, ACS is entitled to receive from STM certain fees calculated based on the number of units of the smart card/finger print readers sold to and by STM, subject to a maximum amount. (Please see the paragraph headed “Cooperation with technology partners” in this section for further details.)

ii. Customised products

After a sample product is tested and completed, the customer may place orders for the relevant product. From time to time, the customer may request ACS to apply on its behalf for certain international industry standards certifications in respect of the customised products. In these situations, ACS may charge the customer a service fee calculated on the basis of the administrative costs incurred plus the charges payable to the certification bodies. Payments may be requested at different stages, for example, upon the delivery of the sample products to the customers and after appropriate product testing.

Other service fees charged by the group include design and customisation fees and product packaging fees. These fees are determined after negotiation with the relevant customers and vary according to the complexity of the work involved, the size of the order and the relationship between ACS and the customer.

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The group may offer to its customers a 12-month warranty or an additional quantity of 2% of its products for free in lieu of a warranty for manufacturing defects.

Production process

ACS has contracted out the production of its smart card reader products mainly to an independent manufacturer in Guangdong, China since 1999, and its contact smart cards and smart card operating systems to an independent manufacturer in Taiwan since 1996. The group currently does not own any interests in any of the two manufacturers. The group does not own any manufacturing facilities for the production of its products.

Contact smart cards and smart card operating systems are produced by an independent manufacturer in Taiwan in accordance with the group's specification. Smart card modules are configured to accommodate the application of an encryption technology and initialised to allow the recording of particulars such as personal identities data or a fixed face value by the independent manufacturer. The module which forms part of the smart card operating system (which is designed jointly by the group and an independent consultancy firm) is then embedded into the smart card by the independent manufacturer.

The group has devised testing procedures to monitor the production by the external manufacturer in China to ensure the high standard of quality of its products. The group sources the required major raw materials for the production, except packaging materials used in the production of smart card reader products which are sourced by the manufacturer in China, and supplies them onward to the independent manufacturer. The production process of smart card readers may include some or all of the following key steps. At the initial stage of production, the production department of ACS supplies the manufacturer with the design layout, assembly method, product testing procedures and other technical specifications of the relevant products prepared by the product design and development team. From time to time, the prototype designed by the product design and development team of ACS may also be provided to the manufacturer for the making of the smart card reader module (which is the printed circuit board of the smart card reader and other electronic components), installing product cases, pin-pad and liquid crystal display, and batteries (all of which are purchased from independent suppliers) to the smart card reader, and for one of its product line marketed as *BioSIMKey*, integrating the smart card reader with a finger print scanner. The smart card reader will then be configured by the manufacturer in accordance with the procedures provided by the group which may include the adoption of data encryption technology that enables communication between the smart card and a smart card reader in a secure environment. Some of the readers may be customised to customers' specifications. The final stage of the production is adding labels to the product and packaging. All of the finished products are tested by the manufacturer before they are delivered to the group. Once the manufacturing process has been completed, samples of the finished products will be trial tested on a random basis and inspected by quality assurance personnel of the group before transportation to customers.

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During the track record period and up to the latest practicable date, ACS has not experienced any significant return of products or complaints from its customers due to substandard products.

During each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, around 95%, 97% and 99% respectively of the group's smart card reader products in terms of sales were contracted out to the independent manufacturer in Guangdong, China.

The group came to know the independent manufacturer in Guangdong back in 1997 through the introduction by a supplier of electronic components. Founded in 1992, the independent manufacturer manufactures smart card reader products for other companies, as well as other products including digital phone systems and automated home security systems. Save for the contractual relationship with the independent manufacturer in Guangdong, China that manufactures the ACS products, the group does not have any relationship with this manufacturer. Presently, the group continues to deploy the independent manufacturer for the production of smart card reader products as it is satisfied with the quality of the finished products produced by this manufacturer.

Under an agreement entered into between ACS and the independent manufacturer in Guangdong on 2 May, 2003 (as subsequently amended), the latter is entitled to a fee calculated on the basis of the number of units manufactured and the unit price to be agreed upon between the manufacturer and the group with reference to the complexity and cost of production. Duration of the agreement is for three years effective from 2 May, 2003. Unless otherwise terminated, the agreement is renewable annually upon expiry for the subsequent four years until 2 May, 2010. It was further agreed that any intellectual property rights in works, products and information created in the performance of the agreement would be owned by ACS. Each party is also obliged to keep confidential all information furnished to it by the other party under the agreement. The critical technologies used in the production of the group's smart card readers (including the firmware, the driver, circuit design and testing methods) were developed by the group's own product design and development department based in Hong Kong and through co-operation with technology partners and engagement of external consultants. The group's production department is also responsible for sourcing major raw materials for production purposes.

Financial or other difficulties faced by the independent manufacturer or any change in the group's relationship with this manufacturer could affect the group's ability to meet scheduled product deliveries to its customers and may in turn adversely affect the group's business operations and performance. However, the Directors believe this risk to be minimal as the procedures for the production of smart card reader products are carried out by the independent manufacturer in accordance with the instructions and specifications provided by the group, and the manufacturer mainly performs assembly work which does not involve a high level of skills or technology.

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Further, the Directors are of the view that there are other manufacturers in China capable of replacing the role of the existing independent manufacturer in the production of the group's smart card reader products. In the event the group terminates the engagement of or otherwise stop using the existing independent manufacturer in China for its production, the group intends to engage another independent manufacturer for the production of ACS products. The agreement with the existing independent manufacturer in China may be terminated, among other events, at any time upon mutual agreement in writing by the parties to the agreement. The group knows of two independent manufacturers which the Directors believe have the relevant know-how. These independent manufacturers are also located in Guangdong, China. The Directors believe that the switch to these two manufacturers will take around two to four weeks and that these two manufacturers can perform the production work for the group without significant interruption or delay to the group's production and delivery schedule. (Please refer to the subsection headed "Intellectual Property Rights" in this section for further details relating to the protection of the related intellectual property.)

Inventory

The principal materials used by ACS in its products include microprocessors, smart card connectors and cables. Other materials including liquid crystal displays and finger print scanners are also used in some products. ACS sources these materials from a number of suppliers in France and Italy, the United States, Korea, Taiwan, Hong Kong, and others accounting for approximately 27%, 19%, 4%, 6%, 39% and 5% respectively of aggregate purchases for the track record period. The prices of the materials required by ACS during track record period were reasonably stable. The Directors believe that changes in the cost of most raw materials supplied by any particular supplier will not have a material impact on the profitability of ACS given that most of them (with the exception of microprocessors) can be provided by different suppliers. Further, no significant interruption in the supply of major raw materials or major price fluctuations has been experienced by the group during the track record period. ACS normally purchases its raw materials in Hong Kong dollars or US dollars.

ACS maintains an inventory of various commonly used types of materials that are used for the production of its smart card readers and smart cards. Other materials are generally only purchased after an order has been placed by a customer and the quantity of the required material is known.

ACS also keeps an inventory of finished products which should be sufficient to meet most small orders from customers that may require prompt delivery of the ACS products. Taking into account the product life of around four years, the Directors consider that ACS faces minimal risk of its inventory becoming obsolete. Most of the group's inventory is stored at the group's premises in Hong Kong or in the premises

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of the independent manufacturer in Guangdong province. The group's average inventory turnover were some 196 days, 92 days and 173 days as at 31 December, 2001, 31 December, 2002 and 30 April, 2003, respectively. (Please refer to the subsection headed "Management discussion and analysis" in the "Financial information" section in this prospectus for further details.)

The five largest material suppliers of the group in aggregate accounted for approximately 55%, 71% and 49% of the group's purchases of materials for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003 respectively. The group's purchase of materials from its largest supplier for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003 amounted to approximately HK\$2.2 million, HK\$3.6 million and HK\$0.5 million, respectively, and represented some 34%, 28% and 13% of the group's total purchase of materials for the corresponding period. STM was the largest supplier to the group for each of the two years ended 31 December, 2002 and the second largest supplier accounted for approximately 9% of the group's purchases of materials for the four months ended 30 April, 2003. The group purchased from STM microprocessors and other components for the production of its PC linked readers and smart card/finger print readers. STM was also a technology partner of the group in the development of the smart card/finger print reader in 2001 and a customer of the group during the track record period. (Please refer to the subsection headed "Active business pursuits" subsection and paragraphs under the "Corporation with technology partners" heading in this section for further details.) None of the Directors, their respective associates and shareholders holding more than 5% of the issued share capital of the Company had any interest in any of the suppliers of the group during the track record period and up to the latest practicable date. The inventory balance purchased by the group from STM was some HK\$1.0 million as at 30 April, 2003.

The group's major customer Statcard in the United States was also one of its five largest suppliers during 2002. Statcard is a technology partner of the group for the development of the online game packaged with PC linked readers and balance readers (*the Game*) which was marketed as "*X Action Skate*" (Please refer to paragraphs under the heading titled "Cooperation with technology partners" in this section for further details.) In that year, the group purchased from Statcard online game software (for use in online game products that were integrated with the PC linked readers and smart card balance readers from ACS) totalling around HK\$2.5 million, representing some 19% of its total purchase of materials. Save as disclosed above, the group did not source other materials from its customers. The inventory balance purchased by the group from Statcard was nil as at 30 April, 2003.

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The table below shows further details of the group's major suppliers during the track record period. All of these suppliers are independent third parties.

For the track record period	Product supplied to ACS	Information on the suppliers
STM in Singapore	Microprocessors, interface chips, touch chips and integrated circuit modules	STM is a publicly-listed company on the stock exchange in New York, Paris and Milan. It develops semiconductor solutions for various microelectronic applications and produces semiconductors such as transistors and microprocessors.
An electronic products manufacturer in Hong Kong	Printed circuit boards	The manufacturer is engaged principally in the manufacturing of printed circuit boards.
StatCard in the United States	Online games software	StatCard develops and supplies online smart card based entertainment games and products.
Versatile Card Technology, Inc. in the United States	Plastic cards	Versatile Card Technology, Inc. is a multi-national manufacturer of plastic cards.
An export trading company in Hong Kong	Packaging materials and services	The trading company, whose securities are listed on the main board of the Stock Exchange, is engaged in the provision of sourcing of various materials and products.

The group adopts a policy of making specific provisions for obsolete inventory when the Directors anticipate low utilisation or realisation rates in respect of certain products due to changes in the design or manufacture of the product. For the year ended 31 December, 2001, the group recorded a specific provision for inventory of approximately HK\$418,000, of which about HK\$45,000 was reversed in the following financial year as part of the inventory was utilised for producing certain customised products during the period. For the following year and the four months ended 30 April, 2003, the group recorded specific provisions for obsolete or slow moving inventory of approximately HK\$373,000 and HK\$438,000, respectively. During the four months ended 30 April, 2003, an additional provision of HK\$65,000 was charged to the profit and loss account of the group.

Quality assurance

ACS devotes significant resources and uses test facilities to test its products prior to launching them to the market. The group outsources the entire production process of its smart card reader products to an independent manufacturer in Guangdong, China which is accredited by the International Organisation for Standardisation ISO 9001 certification for its quality management system on areas covering the design and manufacture of products.

In addition, finished products are inspected and trial tested on a random basis by the group's quality assurance department and will be rejected by the group if they fail to meet the standards set by the group's quality assurance department. From time to time the group returns products to the manufacturers for modification and further enhancement. The group has maintained long term business relationships with the manufacturers, and the Directors consider that the manufacturers which have manufactured ACS products during the track record period have consistently maintained the high standard of quality required by the group. This can be demonstrated by the fact that the group has not experienced any significant product returns due to substandard products during that period. In particular, the group recorded sales return totalling some HK\$80,000 for the track record period as a result of changes to customers' product specifications.

PRODUCT DESIGN AND DEVELOPMENT

Product design is carried out mainly by ACS's in-house product design and development team and through co-operation with technology partners and engagement of external consultants. The Directors believe that there is no undue reliance on external consultants in terms of research and development capabilities as demonstrated by the fact recorded sales of the PC linked readers (which were developed internally by ACS) generated over 70% of the group's turnover during the track record period.

The Directors believe that ACS has an ongoing commitment to product design and development. Most of the research and development activities carried out by ACS are centred on enhancing the features of the existing and planned products. ACS is currently engaged in research and new product development efforts in the areas of more sophisticated smart card readers. (Please refer to the subsection headed "New products and services" under the section headed "Statement of business objectives and strategies" in this prospectus for further details.)

ACS may from time to time commence new research and development projects upon the request for specific modification of its products from existing or prospective customers. Customers may be required to pay to ACS a non-refundable deposit before the commencement of research and development and product design work.

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The group's management and sales personnel may from time to time initiate new product proposals in anticipation of market demands. The new product development committee (consisting of the chief executive officer, the head of the sales and marketing department, the chief technical officer and the engineering manager) is responsible for considering new product proposals taking into account the technical feasibility of the proposed products, the estimated development time required and financial returns.

For the two years ended 31 December, 2002 and the four months ended 30 April, 2003, the group spent approximately HK\$5.0 million, HK\$4.3 million and HK\$1.3 million in product research and development, representing approximately 38.5%, 15.3% and 17.7% of the turnover of the group for the corresponding period respectively.

In determining the amount of resources to be allocated for research and development of a new product, the Directors may take into account the return expected to be derived from the new product and may consider factors such as technical knowledge and length of time required for product development, the anticipated product demand, and sales and marketing expenditure required for the launch of the product. Generally, the product development period will range from two to three years before a new product is introduced or launched to the market. The first year of the product development period may normally be required for research and development and trial run of a new product. After the third year, it is expected that the new product may be launched to the market and that revenue generated from it may exceed the related product research and development costs.

When the group decides to develop a new product, the engineering manager in charge of the project will prepare a detailed specification of the new product and set out the important aspects of the development, including the selection of integrated circuits and types of printed circuit boards, computer programming language to be adopted and the appearance of the product. The project manager will assess the raw materials required for the development. The sales and marketing department will aim to identify the actual needs of the customers before development work starts. Milestones will be set from an early stage so that the progress of the development can be tracked. Generally, once a product prototype (which is a product that has the basic required functions) has been developed and tested, it may be sent to the target customers for evaluation. Where necessary, product enhancement and certification by the relevant authorities will then follow. Typically, pilot production runs (of approximately 100 to 200 units) of the product will be manufactured by the group's manufacturer followed by the formal introduction of the product to the market.

Research and development costs comprise all costs including staff costs (which normally account for a significant portion of the total research and development costs), consultancy fees, rental expenses and direct overheads that are directly attributable to research and development activities or that can be allocated on a

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reasonable basis to such activities. These expenses consist mainly of remuneration of product design and development engineers, related product testing expenses and payments to certification bodies for application on behalf of customers for industry standard certification. The group's research and development costs are capitalised when the group has demonstrated all of the following: (i) the technical feasibility of completing the product development project so that the product will be available for use or sale; (ii) the intention to complete the product development project and ability to use or sell the product under development; (iii) the product under development will generate probable future economic benefits and, among other things, the existence of a market for the product under development; (iv) the availability of adequate technical, financial and other resources to complete the development of the product; and (v) the ability to reliably measure the expenditure attributable to the product development.

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. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads that are directly attributable to development activities. Capitalised costs are stated at cost less accumulated amortisation and impairment losses. (Please refer to note 1(d) in appendix I to this prospectus.)

During the track record period, the development expenses of 22 projects were capitalised. The aggregate capitalised costs of these products were approximately HK\$4.3 million, HK\$3.8 million and HK\$1.2 million for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003 respectively, representing some 33.6%, 13.7% and 16.4% of the group's turnover for the corresponding period. The capitalised costs are being amortised using the straight line method over the estimated useful life of a product of not exceeding four years from the date when the relevant products are put into commercial production. The Directors believe that it is appropriate to use a four-year period for amortisation of the research and development costs as the ACS products generally have a useful life not exceeding four years.

Cooperation with technology partners

In addition to its own research and development activities, ACS maintains close cooperative relationships with other technology providers to perform joint research and product development activities. Examples of this is the cooperation between ACS and STM in developing smart card/finger print readers and between ACS and Statcard which supplied online entertainment game software for integration with the group's PC linked readers and smart card balance readers.

Under a co-development agreement entered into between ACS and STM on 8 February, 2001, which was re-newed on 21 October, 2003, the objective of the

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cooperation with STM was to develop a small portable finger print reader combining smart card and fingerprint scanning technologies. ACS was responsible for providing the smart card technology and STM was responsible for providing the fingerprint scanning technology. In particular, ACS was in charge of the overall development project. Once STM provided ACS with the fingerprint scanning technology, the product design and development team of ACS prepared the product specification, researched and studied into methods of combining smart card technology and fingerprint scanning technology, selected the requisite raw materials, adopted appropriate computer programming language and designed the appearance of the smart card/finger print reader. The development was successful and the product was launched in December 2002. Under the co-development agreement, ACS and STM jointly own the intellectual property rights attached to the smart card/finger print readers.

Under the terms of the agreement, each of ACS and STM is entitled to certain licence fees from the other party for the product. Licence fees are payable by STM to ACS where STM sells readers produced by STM itself. Such fees are calculated based on an agreed unit price multiplied by the volume of readers sold by STM to third parties. Licence fees payable by ACS to STM are calculated based on an agreed unit price multiplied by the volume of finger print scanners used in the readers. Total licence fees payable in each case are subject to an agreed maximum amount. Furthermore, where STM buys from ACS readers produced by ACS, the amount payable by STM to ACS shall be based on an agreed unit price multiplied by the volume of readers sold to STM. Where ACS buys finger printer scanners and microprocessors from STM for production of the readers, the amount payable by ACS to STM shall be based on an agreed unit price multiplied by the volume of such components sold by STM.). This arrangement aims to achieve increased sales of its smart card/finger print readers. For each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, the group recorded sales of HK\$28,000, HK\$292,000 and HK\$95,000 from its smart card/finger print readers, respectively.

On 3 January, 2002, ACS entered into an agreement with Statcard that supplied to ACS online game software developed by Statcard. Under the agreement, ACS was responsible for the development of PC linked readers and smart card balance readers compatible with the online game software. The integrated product is a customised product marketed as "*X Action Skate*". ACS incorporated in the *Game* a security access feature for monitoring access to online game and allowing the players to read and store their scores onto smart cards designed for that purpose.

Prior to the launch of the *Game* in the first quarter in 2002, ACS carried out research and trial tests of this product to ensure that the ACS's readers were compatible with and functioned effectively with the *Game*. This product is an amalgamation of ACS's PC linked and smart card balance readers together with the online game software developed by Statcard.

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ACS owns the intellectual property rights attached to the hardware of the *Game*, being the PC linked and smart card balance readers, and Statcard owns the intellectual property rights attached to the online game software.

Under the agreement, ACS and Statcard agreed to jointly promote the *Game*. The Directors consider this arrangement to be an additional marketing tool in promoting indirectly the group's PC linked and smart card balance readers to consumers of online entertainment games. The Directors further believe that cooperation with STM and Statcard has enhanced the product development capability of ACS.

According to the agreement, sales generated from this product will be split between Statcard and ACS on the basis of fixed ratio agreed between the parties. The group recorded some HK\$8.7 million and nil from the sale of the *Game* for the financial year ended 31 December, 2002 and the four months ended 30 April, 2003, respectively.

STM and Statcard were also suppliers of the group during the track record period. (Please refer to subsection headed "Inventory" in this section for further details.)

Engagement of an independent consultancy firm

As at the latest practicable date, ACS had 11 staff members engaged in product design and development activities. Additionally, ACS has continued to engage an independent consultancy firm in the Philippines. Under an agreement dated 1 March, 2001 between ACS and the consultancy firm, the latter was responsible for designing and developing the firmware of the group's smart card operating systems. In providing these services, the consultancy firm would assign a team of engineers to work exclusively for ACS in developing smart card operating systems. Design of other aspects of the smart card and smart card operating systems such as technical specifications is carried out by the group's in-house product design and development team.

The revenue generated from the sale of smart card and smart card operating systems accounted for some 4%, 2% and 2% of the group's total turnover for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, respectively.

The above consultancy arrangement became effective for a period of one year commencing from 1 March, 2001 and is renewed automatically for successive one-year periods. ACS pays to the consultancy firm monthly fees of around HK\$30,000 comprising the relevant remuneration paid to the engineers and certain of its overhead expenses during the track record period. The Directors believe that this arrangement allows the group to better control its research and development cost given the lower cost base in the Philippines.

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The Directors believe the discontinuance of the arrangement with the consultancy firm will have limited adverse impact on the group's operations for the following reasons:

- the consultancy firm provides design services relating to smart card operating systems which is only one of the six product lines of the group;
- sales from the smart card operating systems represented between 1.6% and 3.8% of the group's turnover during the track record period;
- the sale of PC linked readers, which accounted for over 70% of the group's turnover for the track record period, is not dependent on the sale of contact smart cards and smart card operating systems;
- information including source code, methodology, processes and results of the development work by the consultancy firm belongs to ACS as provided under the contractual arrangements entered into between ACS and the consultancy firm;
- the group's chief technical officer, Mr. Tan Keng Boon has been actively involved in defining the product development road map of the group and leading the in-house product design and development team to develop new products;
- the critical parts of product specifications including security management, file and memory management, system architecture and design are prepared by the group's employees;
- the group's sales and marketing staff are the main contact point of customers; and
- the agreement between ACS and the consultancy firm provides that the intellectual property rights of any design software created by the consultancy firm belongs to ACS.

Other consultants of the group

During the history of the group, the group engaged the services of, among others, two consultants, namely, Mr. Tan Keng Boon and Mr. Tong Kam Hung. Mr. Denny Wong first knew Mr. Tan Keng Boon in around 1994 when Mr. Tan was the technical manager of Gemplus Technologies Asia Pte Ltd.. In October 1999, Mr. Denny Wong invited Mr. Tan to be a full-time consultant of ACS. On 25 October, 2003, Mr. Tan was appointed as a Director.

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Mr. Denny Wong knew Mr. Tong Kam Hung, another consultant of the group back in the early 1970's when they worked for Fairchild Semiconductor (Hong Kong) Limited. At the invitation of Mr. Denny Wong, Mr. Tong has become a technical consultant of ACS. The Directors believe that there is no undue reliance on external consultants to carry out research and development work. In particular, Mr. Tong is only one out of a total of some eleven product design and development personnel and Mr. Tong is a part-time consultant of the group.

During each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, the group incurred research and development expenses of some HK\$5.0 million (of which some HK\$1.3 million was paid to the consultants and some HK\$3.7 million was incurred by the group's product design and development department), HK\$4.3 million (of which some HK\$1.1 million was paid to the consultants and some HK\$3.2 million was incurred by the group's product design and development department) and HK\$1.3 million (of which some HK\$0.3 million was paid to the consultants and some HK\$1.0 million was incurred by group's product design and development department), respectively.

INTELLECTUAL PROPERTY RIGHTS

ACS relies on confidentiality and non-disclosure agreements entered with its employees, manufacturers, consultants and customers to protect its intellectual property rights. Recently, ACS has also applied for certain patents, copyrights and trademarks. ACS developed all the source code underlying the software of all of its smart card operating systems and smart card readers, including all of its customised products. (Please refer to the paragraph headed "Intellectual property" in appendix V to this prospectus for further details.)

The group has applied for registration of invention and design patents in the PRC. As at the latest practicable date, all of these applications were still being processed. The group has not applied for registration of patents directly in Hong Kong as a standard patent in Hong Kong may only be granted on the basis of a patent granted by certain designated patent offices in other jurisdictions, including the State Intellectual Property Office in the PRC. The PRC was chosen by the group because of its proximity to Hong Kong where the group is based, and also because the PRC is one of the member countries under the Paris Convention. This is considered by the Directors to be advantageous to the group because the group may file the same application in other member countries within one year of the date of filing of the PRC invention patent application, and such application will be treated as though it had been filed on the PRC priority date and not the actual date of filing in the other member countries. Most of the markets which are considered important by the group are members of the Paris Convention, for example Hong Kong, the United States and European countries including Italy, Germany and Spain. Furthermore, the cost of

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application is lower in the PRC than in many other countries. The group plans to apply for patents covering other member countries of the Paris Convention such as the United States and certain European countries where appropriate.

ACS had not applied for registrations of invention patents until recently and had decided to defer the application for certain patents until its listing mainly due to cost considerations. The Directors consider that the decision to apply for certain invention patents rests on, amongst other things, the anticipated demand for the product to be patented. As ACS has now gained significant experience in and knowledge of the design of smart card readers, the Directors consider it appropriate to apply for patent registration in respect of some of its products (including some that are yet to be commercialised). The group has also applied for registration of design patents for two of its products that have proved popular. The group typically takes into account the costs and benefits involved when planning on whether to apply for registration of its trademarks as well as the location and timing of registration. The group intends to apply for registration of trademarks in various countries in Europe and the United States in the future.

The group has registered the “BioSIMKey” trademark in the PRC, which is one of the potential markets for its smart card/finger print readers. The group has also applied for registration of the trademark relating to the ACS logo in Hong Kong, which is its principal place of operation.

Under an agreement entered into between ACS and STM on 8 February, 2001, it was agreed that the parties would jointly own the intellectual property rights attached to the smart card/finger print readers.

No separate ownership of intellectual property rights has been created in respect of the integrated product (*the Game*) marketed as “*X Action Skate*” since the product is merely an amalgamation of the group’s PC linked and smart card balance readers together with the online game software developed by Statcard. ACS will continue to own the intellectual property rights attached to its hardware, being the PC linked and smart card balance readers, and Statcard will own the intellectual property rights attached to the online game software used in the *Game*.

Under an agreement dated 2 May, 2003 (as subsequently amended) entered into between ACS and an independent manufacturer in the PRC (described under the sub-section headed “Production” in this section), it was agreed that the intellectual property rights in works, products and information created in the performance of the agreement would be owned by ACS. Each party is also obliged to keep confidential all information furnished to it by the other party under the agreement.

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Under the agreement entered into between ACS and the independent consultancy firm in the Philippines engaged by ACS, the intellectual property rights of any software of any design produced by the consultancy firm would belong to ACS. Under a consulting services agreement entered into between ACS and Mr. Tong Kam Hung, it was agreed that any software, hardware or any design produced by ACS would be the intellectual property of ACS.

SALES AND MARKETING

ACS's sales force is based in Hong Kong, responsible for promoting ACS products in the Americas, Asia, Europe, Africa and the Middle East. ACS participates in international trade shows from time to time where it exhibits the latest products of ACS. Once any ACS products is accredited with the relevant certification by smart card issuers or various private users of smart cards, such accreditation may be publicised by these issuers and users and may serve as a marketing tool for ACS. (Please refer to "Industry Standards" subsection in this section for further details.) As at the latest practicable date, the group employed a total of 7 sales and marketing personnel.

ACS also generates indirect sales opportunities through establishing relationships with third party technology suppliers to develop products jointly. An example of this is the smart card/finger print reader developed jointly by ACS and STM. Under the arrangement, ACS is entitled to receive certain fees calculated on the basis of the number of units of this product sold to STM, subject to a maximum amount. In order to expand ACS's market and geographic coverage, ACS's products are also sold via ten third party distributors and marketed by three representatives in over thirteen countries including Russia, Poland, Germany, Austria, Switzerland, the United States, Taiwan, Japan, Malaysia, India, Singapore and China. Subject to the terms of the relevant distributorship agreements and representative agreements, the distributors and representatives may be encouraged to meet annual sales quotas. The main difference between a representative and a distributor is that a representative receives a commission calculated based on the value of the ACS products sold by it, while a distributor buys ACS products and resells them to its customers at a price determined by the distributor itself. The duration of the distributorship agreements and representative agreements is mostly between one and two years.

During the track record period, over 94% of the group's turnover represented sales generated by its own sales team, with the remaining sales generated principally via the distributorship arrangements. While the distributors and representatives have yet to contribute significantly to the group's sales, these arrangements with the group (which are typically non-exclusive) have continued as they enable the group to broaden its markets quickly and in a cost efficient manner.

CUSTOMERS

ACS's portfolio of customers includes some of the world's largest smart card manufacturers and solution houses. ACS has at least one year of business relationship with each of its top five customers. The customers of ACS are located in the Americas, Asia, Europe, Africa and the Middle East and include:

In the Americas

- Versatile Card Technology, Inc. in the United States – one of the global leaders in plastic card manufacturing;
- Didya in the United States – an online retailer and distributor of smart card products;
- Statcard in the United States – a solution provider of smart card based entertainment products; and
- Giesecke & Devrient de Mexico, S.A. de C.V., in Mexico – one of the world's largest smart card manufacturers.

In Europe, Africa and the Middle East

- Incard S.p.A. in Italy – a manufacturer of smart cards for GSM applications for use in phone cards, bank cards, e-commerce national identity cards etc.;
- Orga Kartensysteme GmbH in Germany – one of the world's largest suppliers of smart cards;
- Zeitcontrol Card Systems GmbH in Germany – a company specialising in smart card related technology;
- ChipMEDIA S. L. in Spain – a smart card consultant and solution house; and
- Mr. Prepaid (Pty) Ltd. in South Africa – a smart card system integrator.

In Asia

- Sumitomo Mitsui Card Company Limited in Japan – a member of the Sumitomo Mitsui Financial Group;
- Innovision Technology Corporation Limited in Hong Kong – a smart card system integrator;

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- TsingHua TongFang Co., Ltd. in China – an information technology company whose shares are listed on the stock exchange in Shanghai, China; and
- Iris Corporation Berhad in Malaysia – a supplier of smart cards and solution house whose shares are listed on the stock exchange in Malaysia.

Other customers include a number of other smart card manufacturers, system integrators, banks, governments, private organisations and individuals.

For each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, total turnover generated from the group's five largest customers amounted to approximately HK\$6.1 million, HK\$14.6 million and HK\$4.0 million, representing some 48%, 53%, and 55% of the group's turnover for the corresponding period respectively. Total turnover generated from the group's largest customer, for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003 amounted to approximately HK\$3.9 million, HK\$9.0 million and HK\$1.2 million respectively, and represented approximately 30%, 32% and 16% of the group's turnover for the corresponding periods respectively. Statcard was the largest customer of the group for the year ended 31 December, 2002. None of the Directors, their respective associates or shareholders holding more than 5% of the issued share capital of the Company had any interest in any of the customers of the group during the track record period and up to the latest practicable date.

The table below sets out further details of the group's major customers during the track record period. All of these customers are independent third parties.

Name of customers	Product purchased from ACS	Information on the customers	Relationship since
For the year ended 31 December, 2001			
IPM Net S.p.A. in Italy	PC linked readers	IPM Net S.p.A. is engaged in the design, production and marketing of products and services relating to Internet access.	1999
ChipMedia S.L. in Spain	PC linked readers	ChipMedia S.L. is a smart card consultant and solution house.	2000

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Name of customers	Product purchased from ACS	Information on the customers	Relationship since
For the year ended 31 December, 2001			
TsingHua TongFang Co., Ltd. in China	PC linked readers and smart card balance readers	TsingHua TongFang Co., Ltd. is an information technology company whose shares are listed on the stock exchange in Shanghai, China.	2001
Sumitomo Mitsui Card Co., Limited in Japan	PC linked readers	Sumitomo Mitsui Card Co. Ltd. is a subsidiary of Sumitomo Mitsui Financial Group that is listed on the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange in Japan. Sumitomo Mitsui Card Co. Ltd. offers credit card settlement and financing services.	2001
A distributor of electronic components in Hong Kong	PC linked readers	The company sources smart card readers for a listed company on the stock exchange of Malaysia.	2000

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Name of customers	Product purchased from ACS	Information on the customers	Relationship since
For the year ended 31 December, 2002			
StatCard in the United States	PC linked readers and smart card balance readers	StatCard develops and supplies online smart card based entertainment games and products.	2001
Incard S.p.A. in Italy	PC linked readers	Incard S.p.A. manufactures smart cards for GSM applications, or for use in phone cards, bank cards, e-commerce, national identity or health cards.	2002
Guangzhou Foreign Trade A&E Limited in China	PC linked readers, smart card balance readers	Guangzhou Foreign Trade A&E Limited is an entity approved by the government in China as an "Enterprise with foreign trade rights in China".	2002
A smart card device supplier in France	PC linked readers	This customer designs, manufactures and sells smart card devices.	2000
Innovision Technology Corporation Ltd. in Hong Kong	Smart card readers with pin-pad	Innovision Technology Corporation Ltd. is a smart card system integrator, specialising in payment systems for banks, for taxi fare collection and for petrol stations.	2000
For the four months ended 30 April, 2003			
Incard S.p.A. in Italy	PC linked readers	Please see above.	2002
Guangzhou Foreign Trade A&E Limited in China	PC linked readers and smart card balance readers	Please see above.	2002

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Name of customers	Product purchased from ACS	Information on the customers	Relationship since
For the four months ended 30 April, 2003			
Smart Wireless Corporation in Japan	PC linked readers	Smart Wireless Corporation is a consultancy firm and reseller of smart card products.	2002
I-Serve Technology Sdn Bhd. in Malaysia	PC linked readers	I-Serve Technology Sdn. Bhd. distributes smart card products.	2003
a customer in Taiwan	Smart card readers with pin-pad and PC linked readers	The customer is engaged in system integration and development of smart card technologies and chip operating system.	2002

The group had over 240, 300 and 180 customers for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003 respectively.

CREDIT POLICY

As part of its credit control procedures, the group will generally evaluate the financial background of its customers before extending credit terms to them. Payments to the group by its existing customers are normally by way of telegraphic transfers or letters of credit within a credit period of 30 to 60 days from the date of the invoice. The group may require new customers or customers that do not have a good payment record to make advance payments or pay by way of letters of credit in an amount which ranges from between 30% and 100% of the invoice sum. From time to time, the group obtains insurance from Hong Kong Export Credit Insurance Corporation against the amounts due from customers to minimise the credit risk exposure of the group. The group monitors the ageing and settlement of its accounts receivables from time to time and makes specific provisions against all known bad debts and against any amounts which are not expected to be recoverable. For each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, the group made specific provisions for bad debts amounting to approximately HK\$459,000, HK\$206,000 and nil, respectively.

Over 90% of the sales were transacted in US dollars during the track record period.

COMPETITION

The Directors consider the fact that the design and manufacturing of smart card readers require an advanced level of expertise and technical knowledge acts as a barrier to new entrants to the group's market.

The Directors are aware that there are larger competitors offering similar products and services. According to a report issued by Frost & Sullivan in the second quarter of 2003, ACS was ranked the world's fourth leading industry participant of smart card readers linked to personal computers in 2002. Its principal competitors include (i) a NASDAQ-listed company based in France and the United States and which the Directors believe to be the world's largest supplier of smart cards and smart card readers, (ii) a US based NASDAQ-listed company that supplies smart card based security products involving personal authentication and digital pay television contents delivery; and (iii) a relatively smaller-sized smart card and readers supplier in Germany. In spite of the above, the Directors believe that the group enjoys a competitive advantage because of its proximity to prospective customers in Asia and its ability to meet the needs of small to mid-sized customers who may place smaller-sized orders.

The Directors believe that competition in the business of the group does not only relate to price and commercial terms but also to the following:

- the ability of the products to integrate and function with different software, hardware, and different types of smart cards;
- the degree of compliance with various international and national industry standards;
- the level of security that the products offer;
- the availability of readily made smart card operating systems and readers; and
- the ability of the PC linked readers to function efficiently in heavy PC traffic conditions or various hardware environments (including for example, with different PC motherboards).

Rule 11.04 of the GEM listing rules

Mr. Thomas Wan, who is a non-executive Director, 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. Mr. Thomas Wan indirectly controls Hectrix Limited through his shareholdings in Thomrose Holdings which owns the entire issued share capital of Hectrix Limited. The Directors and

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Anglo Chinese are of the view that Hectrix Limited is not in competition with the group as the former manufactures an entirely different line of smart card related finished products like authentication devices which are used in the control of access to physical assets such as buildings. The devices are designed specifically for users that do not have to develop their own or use third party application software before using such devices. This is because these products are sold with application software such that they can be used instantly after installation. They are different from the ACS products which are not sold along with any application software. The users of ACS products will therefore have to develop their own or use third party application software before the products can fully operate. Save for the sale of smart card balance readers which may be used by end-users to read contents of payphone cards, and PC linked readers which may be used together with application software provided by the Hong Kong Post to retail customers to carry out online transactions via the e-Cert programme, the group in general sells its products to customers such as smart card manufacturers, smart card solution providers and original equipment manufacturers as components for integration with their smart card based solutions and does not sell to the end-users directly.

In contrast, Hectrix Limited sells its products directly to end-users and is not engaged in the manufacture and sale of smart card balance readers. The customer profile of Hectrix Limited is different from that of the group and includes private organisations, but does not include smart card manufacturers, smart card solution providers and original equipment manufacturers. The ACS products (other than the contactless smart card terminals which are currently being developed) are also available in a kit with demonstration software programmes and drivers. These demonstrating programmes are developed mainly to illustrate how the products can be used or applied, and are not application software for operating the product. It is presently not the strategy of the group to focus on the development of application software.

Currently two ACS products use similar technology to those adopted in the products of Hectrix Limited. These are the smart card/finger print readers and the contact and contactless smart card terminals (under development). Hectrix Limited uses the fingerprint scanning technology in some of its security device products that are equipped with the necessary application software. These products are used for monitoring physical access to buildings and are different from the group's smart card/finger print readers that, when connected with personal computers, can scan finger prints to control access to computers and authenticate identity of individuals before executing online payments. In general, the ACS products cannot be readily used as physical access control devices. Other security device products of Hectrix Limited contain the component contactless smart card readers similar to the smart card terminals of the group. Hectrix Limited provides its customers with application software in these products used for physical access control purposes. This is different from the applications of the group's smart card terminals that are used for payments in canteens of universities, factories and retail outlets or performing banking transactions.

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On 27 October, 2003, Thomrose Holdings, Hectrix Limited and Mr. Thomas Wan entered into a Deed of Undertaking with the Company under which each of Thomrose Holdings, Hectrix Limited and Mr. Thomas Wan severally undertakes to the Company that while Mr. Thomas Wan is a Director, that it/he will not, and none of its/his associates will, (by itself or through any other person or entity) directly or indirectly engage in, hold any right or interest in or otherwise be involved in any business (other than his interest in the group) which is or may be in competition with the business of the group as described in this prospectus or any other business carried on by the group from time to time, in each case except for any business in which it/he and its/his associates have an aggregate direct or indirect interest of less than 30%. The undertakings by Thomrose Holdings and Hectrix Limited only apply while Mr. Thomas Wan or his associates are, whether individually or together, entitled to exercise or control directly or indirectly the exercise of 30% or more of the voting power at shareholders meetings of Thomrose Holdings or Hectrix Limited, as the case may be.

The group had not in the past and currently does not have any business relationship with Hectrix Limited.

Mr. Cheong Chung Chin, an independent non-executive Director is not engaged in any business that competes with the group. Mr. Cheong is currently the president of Oberthur Smart Cards (Asia) Pte Limited which provides card management systems for smart cards applications and is a supplier of smart cards used in GSM mobile telephones. Mr. Cheong is not a director or shareholder of Oberthur Smart Cards (Asia) Pte Limited.

CONNECTED TRANSACTIONS

The group had entered into, among others, the following transactions, as more fully described below with certain connected persons during the track record period as described below. These transactions were carried out in the ordinary and usual course of the group's business on an arm's length basis and on normal commercial terms.

The following transactions had already been ceased or completed and will not continue after the listing of the Shares on the Stock Exchange:

Leasing arrangement

The group previously leased a residential unit at Flat 1B, Block 5, Julimount Garden, Tai Wai, Shatin, New Territories with a gross floor area of about 1,872 square feet and a car parking space. These premises were leased on normal commercial terms from United Animal Exchange Limited from 1 June, 2000 up to 28 February, 2003. Mr. Denny Wong holds 70% of the issued share capital of United Animal Exchange Limited whilst the remaining 30% issued share capital is held by Ms. Alice Wong. Both Mr. Denny Wong and Ms. Alice Wong are directors of United Animal Exchange Limited. The group leased the premises as the residence for Mr. Denny Wong and his family. Following the expiry of the lease, the group has not renewed the lease. The rental expenses paid by the

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group to United Animal Exchange Limited for the above premises amounted to about HK\$360,000, HK\$288,000 and HK\$48,000 for each of the two years ended 31 December, 2002 and the two months ended 28 February, 2003 respectively. The leasing arrangement was terminated on 28 February, 2003 and will not continue after the listing of the Shares on the Stock Exchange.

Issuance of convertible debentures in the Company

Pursuant to an agreement reached in June, 2001, the Company agreed to issue to Mr. Lawrence Pang, an executive Director, convertible debentures in a total principal amount of US\$385,714.35. The convertible debentures were non-interest bearing. The conversion price was US\$0.45, or equivalent to HK\$3.50 per Share. As a result of Mr. Lawrence Pang's election, in accordance with the terms of the convertible debentures, to exercise the conversion rights attached to the entire convertible debentures, in July 2002, the Company issued 857,143 Shares (representing some 3.8% of the then issued share capital of the Company) to Mr. Pang upon the conversion. The Company received proceeds totalling HK\$3 million (equivalent to the principal amount of the convertible debentures) during the year ended 31 December, 2001. The Company issued the convertible debentures to Mr. Lawrence Pang partly for the purpose of raising additional funds for the group.

Under the GEM listing rules, each of United Animal Exchange Limited, Mr. Denny Wong and Mr. Lawrence Pang is a connected person within the meaning of the GEM listing rules after the listing of the Shares on the Stock Exchange for so long as Mr. Denny Wong remains a Director or substantial shareholder of the Company, Mr. Lawrence Pang remains a Director and United Animal Exchange Limited remains an associate of Mr. Denny Wong.

Consultancy arrangement

A consultancy agreement was entered into between Mr. Tan Keng Boon and ACS on 1 October, 1999. Under the GEM listing rules, Mr. Tan Keng Boon is a connected person as he is an initial management shareholder of the Company. The consultancy fees payable to Mr. Tan Keng Boon amounted to about HK\$720,000, HK\$576,000 and HK\$192,000 for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003, respectively. The consultancy agreement was terminated on 9 May, 2003 when ACS appointed Mr. Tan Keng Boon as its chief technical officer on the same date.

The Directors and Anglo Chinese are of the view that the connected transactions described above have been carried out in the ordinary course of business of the group on an arm's length basis and on normal commercial terms.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

BUSINESS OBJECTIVES AND STRATEGIES

ACS was ranked as the world's fourth leading industry participant of smart card readers linked to personal computers (in terms of estimated unit shipment) in 2002, in a research report titled "Strategic Analysis of the PC Link Smart Card Reader Market" issued by Frost & Sullivan in the second quarter of 2003. According to the report, the top three participants accounted for more than 85% of the PC linked smart card reader market. The group's business objectives are to increase its market share in the smart card industry, and excel in the development of smart card readers. In Hong Kong, special focus will also be placed on participation in the upcoming smart card based electronic identity card project promulgated by the Hong Kong government in August 2003. According to announcements of the Hong Kong government, the new electronic identity card will in the future be used for a number of e-government applications like income tax submission, licence application and renewal and payment of fines.

The group expects to broaden its customer base and range of its products. The group intends to establish more alliances with other smart card related technology providers and to participate in joint marketing campaigns for the group's products. The Directors expect that such alliances will be effective in raising ACS's profile and in helping ACS to achieve its business objectives.

The Directors have devised the following strategies to achieve the group's business objectives:

– **Enhancing the PC linked reader and developing new product**

The group will continue to build on its experience and knowledge in the technology for developing PC linked readers to enhance this product, which is the group's flagship product. In particular, the group will seek to improve the following aspects of its products: reliability, durability, security, processing time and cost. The group will recruit additional technical personnel to conduct research and development of new products. The group will also apply for patent registration of the intellectual properties rights of its new products if considered appropriate by the group. In particular, the group will focus on expanding the commercial applications of the smart card balance readers, the smart card/finger print readers and the smart card readers with pin-pad so that they can be used in different industries with minimal modifications in the future.

– **Strengthening and developing industry alliances**

The group will endeavour to strengthen and develop its alliances with major players in relevant industry sectors to develop a wider range of products which are applicable in those industries.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

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

The group plans to continue its efforts in developing customised products. Under the terms of most of the agreements under which the group supplies customised products, the intellectual property rights and know-how are not assigned to the relevant customer. The Directors consider that Intellectual property rights and the know-how developed by the group in those instances can, therefore, be used to develop generic products for future sales.

– **Expansion of ACS's sales network**

The group plans to set up a sales office in Europe. Sales and marketing personnel at this overseas office will maintain direct contact with existing and prospective customers so as to keep abreast of their business needs on a regular basis. The office in Europe will handle sales in Europe, the Middle East and Africa. The group will continue sales and marketing activities to advertise its products and services in Asia and recruit additional sales and marketing staff to join its office to be opened in China and its Hong Kong headquarters. At the same time, the group will continue to participate in trade shows in Europe, the United States and Asia to promote its products. As part of the group's marketing plans, additional local distributors in Europe, Latin America and Africa will be appointed to market the group's products.

The group also plans to upgrade its own management information system to cater for the anticipated increase in business activities.

– **Enhancing research and development capability**

The group intends to enhance its research and development capability. This will be achieved by recruiting experienced engineers and cooperating with reputable technology partners in other industries for the joint development of products. In the longer term, the group will seek opportunities to acquire third party smart card reader technologies to complement the group's research capabilities.

– **Exploring additional commercial applications**

The group plans to explore additional commercial applications of its existing smart card readers, focusing on smart card readers with pin-pad and smart card operating systems in sectors covering e-commerce, banking and retailing. The Directors consider that once the use of smart cards reaches a critical mass worldwide, the application of smart card technologies will be used commonly in a wide range of commercial applications and daily life.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

– **Building on new market opportunities**

The group intends to rely on existing know-how and relationships with smart card manufacturers and other technology providers to anticipate and adapt to developments in the smart card industry. The group plans to continue to be actively involved in the development and application of new smart card technologies for the IT sector.

– **Catering to the needs of small and medium-sized customers**

The group aims to provide all its customers, including customers with small and medium-sized orders, with quality products within a short delivery lead-time. The Directors believe that other suppliers of smart card products usually have a high threshold for size per order. The group plans to penetrate the market for customers with small to medium-sized orders.

BASES AND ASSUMPTIONS

The business objectives and strategies of the group described above have been formulated on the following bases and assumptions:

- there will be no material, adverse changes in the existing laws (whether in Hong Kong or any other part of the world), administrative orders, policies, industry or regulatory treatments relating to the group, or in the political, economic or market conditions of the countries in which the group operates;
- there will be no change in the effectiveness of the licences and permits obtained by the group;
- inflation, interest rates and exchange rates will not differ materially from those prevailing as of the latest practicable date;
- there will be no material changes in the bases or rates of taxation applicable to the group;
- the group is able to, and will be able to, recruit and retain personnel for its existing business as well as its business development and future growth;
- there will be no change in the funding requirements of the group for each of the development strategies described herein from those estimated by the management of the group;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- the group will have sufficient financial resources to meet its planned research and capital expenditure and business development requirements during the period to which the business objectives and strategies stated herein relate;
- in estimating the group's research and development expenditure, the Directors have assumed that the general price level of the countries in which the group operates and the exchange rates of currencies of these countries will follow their respective historical trends and will not be significantly volatile or suffer any material adverse fluctuation so far as the group is concerned;
- while the Directors consider that they have evaluated sufficient amounts of information in formulating the business objectives and strategies stated herein and believe that such information is reliable, they have assumed that there will not be any unforeseeable circumstances or events occurring during the period to which the business objectives and strategies stated herein relate which may materially and adversely affect the implementation of such business objectives or strategies; and
- there will be no disasters or other events, natural, political or otherwise, which would materially disrupt the business or operations of the group or cause substantial loss, damages or destruction to its property or facilities.

NEW PRODUCTS AND SERVICES

The group has commenced research in and development of a number of new products as follows:

	Product types	Expected launch date
1.	<i>ACR38T</i> , an upgraded version of the group's PC linked readers currently on sale	First quarter of 2004
2.	<i>ACOS3</i> , an upgraded version of the smart card operating system	First half year of 2004
3.	<i>PDA station</i> , a contact and contactless smart card terminal	First half year of 2004

As at the latest practicable date, there are five other new products as described below which the group intends to introduce to the market in the next two years.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Product types	Expected launch date
1. <i>CCID reader</i> , a PC linked reader that is intended to be used with the new <i>Windows</i> system and the reader driver developed by Microsoft Corporation	First half year of 2004
2. Contactless PC linked reader	Fourth quarter of 2004
3. <i>China Tax Terminal</i> , a device integrated with a smart card reader that is intended to be used by retailers in China to print value added tax invoices and record sales transactions data	Second quarter of 2005
4. A smart card balance reader for reading any smart cards that are in compliance with <i>CEPS</i>	Third quarter of 2005
5. <i>Low Power Consumption Portable Reader</i> , a battery-powered smart card reader with pin-pad that allows users to programme the terminal themselves	Third quarter of 2005

IMPLEMENTATION SCHEDULE

The group intends to implement its strategies in the time periods set out below. However, it should be noted that the group operates in a dynamic market which is subject to rapid changes in technologies and customer preferences that are difficult to predict. Consequently, the implementation schedule set out below only reflects the Directors' present intentions, which may be subject to change in response to changes in the different markets and changing market conditions. Subject to this and on the bases and assumptions set out above, the Directors intend to implement the following plans:

For the period from the latest practicable date to 31 December, 2003

Strategic development

Following the posting of ACS by the Hong Kong Post in its website in the first half of 2003 as one of the recommended suppliers of PC linked readers, the group aims to participate in the smart card based identity card project that

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

started in June 2003. In particular, the group aims to be one of the suppliers of PC linked readers for the project. The smart card based identity cards to be issued by the Hong Kong government will contain a digital certificate, a component of which is the PC linked smart card reader that performs the security authentication of holders.

ACS is one of two recommended suppliers of PC linked readers to the Taiwan government for a project relating to the provision of government services and e-commerce transactions on the Internet. The other supplier named by the Taiwan government is a local smart card reader manufacturer in Taiwan. The Directors intend to make use of this recommendation to increase the group's market share in Taiwan.

The Directors plans to penetrate the market of Singapore and other Asian countries by co-operating with a Singapore solution provider which operates an automatic teller machine network and an electronic purse payment system. ACS intends to develop a contactless smart card reader that is able to connect to POS terminals of banks. As at the latest practicable date, the group was in discussions with the solution provider in Singapore. These discussions were at a preliminary stage and no agreement had been reached as at the latest practicable date.

Products and services development

The group expects to introduce an upgraded version of its PC linked readers (to be marketed as *ACR38T*) which will be in the size of an ordinary key. This new product is expected to operate faster than the current reader and be able to handle the large volume of data stored in smart cards.

The group expects to recruit one additional technical staff by 31 December, 2003.

Sales and marketing

The group plans to exhibit its latest products at *Cartes*, an international trade show to be held in France in November 2003.

The Directors intend to promote ACS products in China and Taiwan markets by visiting the group's existing and prospective customers in Taiwan and various cities in China to better understand their requirements.

The group intends to recruit 3 additional sales and marketing personnel in Hong Kong.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

For the period from 1 January, 2004 to 30 June, 2004

Strategic development

The group plans to set up a sales office and a warehouse in Guangdong, China for sourcing materials and conducting sales and marketing activities. Another new office in Manila, the Philippines is expected to be opened during this period. This office is intended to be engaged in developing smart card operating systems, smart card reader related software and demonstration software programmes to be sold along with the group's products.

The Group plans to purchase and install a web-based computer system to cater for the expansion of its operations outside Hong Kong. The installation of the web-based computer system is expected to commence in early 2004 and be completed in late 2004.

Products and services development

The group intends to launch an upgraded version of its smart card operating system *ACOS3* initially targeting Asia. The Directors believe that the product will be suitable for authenticating drivers' personal and licence data. A new version of the PC linked readers, *ACR38T* with increased speed of operations and higher capability to handle data is also intended to be launched.

The group also plans to sell a new smart card terminal to be marketed as *PDA station* to a customer in South Africa. This product can be used in a range of commercial applications.

Sales and marketing

The Directors intend to promote the group's smart card terminal *AC-Mifare* in China through its office in Guangdong, China.

The group intends to continue its participation in trade shows in the United States, Germany, Beijing, Japan and Korea. Other sales and marketing activities will include advertisements in technology related magazines issued in Asia and Europe. The group intends to recruit four additional sales and marketing personnel in Hong Kong.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

For the period from 1 July, 2004 to 31 December, 2004

Strategic development

The group plans to increase its profile in and tap into the United States and South America markets through participation in “Smart Card Alliance”, a trade association based in the United States, and recruitment of consultants with experience in the smart card related projects of the US government.

Products and services development

The group expects to upgrade its PC linked readers by incorporating contactless smart card technology.

In April 2004, the group intends to start the development of the *China Tax Terminal*. This new product is intended to be used online or offline by retailers in China to print value added tax invoices and record sales transactions data.

In July 2004, the group plans to enhance its smart card balance readers so that they can be used to read data in various smart cards developed based on the CEPS. The development work is expected to be completed by June 2005 for launch in the second half year of 2005.

Development work on the *Low Power Consumption Portable Reader* which is a smart card reader with pin-pad and liquid crystal display is intended to commence during this period. This portable product works on a battery and has a built-in script interpretation function that allows the users to programme the terminal by themselves. The group expects to launch this product in the third quarter of 2005.

The group expects to recruit 33 additional technical staff for the year ending 31 December, 2004.

Sales and marketing

The Directors intend that a sales office will be set up in France or the United Kingdom to facilitate the group’s expansion into these markets. In particular, the Directors plan to broaden the group’s penetration in its existing European market from France, Italy, Germany and Spain to cover other countries in Europe. The Directors intend the group to continue its participation in trade shows in France. The group intends to recruit one additional sales and marketing personnel in Hong Kong.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

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

Strategic development

As part of its plan to further expand its market globally, the group plans to study the market potential in Saudi Arabia and other parts of the Middle East before launching its products to this new market.

The group plans to cooperate with smart card solution houses or other technology developers to develop new types of smart card products.

Products and services development

It is expected that the *China Tax Terminal* planned for the China market will be launched.

Sales and marketing

The group intends to continue to participate in trade shows in the United States, Germany, Beijing, Japan and Korea. Other sales and marketing activities will include advertisements in technology related magazines.

For the period from 1 July, 2005 to 31 December, 2005

Strategic development

The group intends to cooperate or form alliances with suitable technology partners to expand its research capabilities while maintaining the current size of its product design and development team. The group hopes to develop new products mainly initiated by its customers who would pay a deposit that will finance part of the research cost.

The group plans to continue to outsource the manufacturing of its products to independent manufacturers.

Products and services development

The group expects to launch its *Low Power Consumption Portable Reader* and its smart card balance reader that can be used to read data in various smart cards developed based on CEPS.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The group expects to recruit 19 additional technical staff for the year ending 31 December, 2005.

Sales and marketing

The group continues to enhance its computer system and compile a database of its customers and competitors to facilitate better formulation of sales and marketing strategy. The system is intended to allow access to this database by sales personnel in various offices of the group for better monitoring of overseas operations and sales activities from the headquarter in Hong Kong.

The group intends to continue to participate in trade shows in France. Other sales and marketing activities will include advertisements in technology related magazines.

Human resources

The group plans to recruit technical and marketing personnel in tandem with anticipated growth in its business activities.

USE OF PROCEEDS

The net proceeds from the placing (based on the issue price) are estimated to amount to approximately HK\$16.5 million after deduction of expenses payable by the Company in relation to the placing, assuming that the offer size adjustment option is not exercised. The Directors presently intend to apply such net proceeds from the placing as follows:

- approximately HK\$8.4 million for enhancing existing products and developing new products expected to be introduced to the market in the next two years, of which approximately HK\$7.0 million is designated for employment of existing technical staff and the recruitment of additional 53 technical persons (including 4 technical persons assigned by a consultancy firm in the Philippines) and approximately HK\$1.4 million is designated for the development of new product prototypes and registration for industry standards for the new products;
- approximately HK\$3.0 million for:
 - the recruitment of sales and marketing personnel and sales and marketing activities including the setting up a new sales office in Europe (of approximately HK\$1.0 million);
 - the recruitment of sales and marketing personnel and sales and marketing activities in China (of approximately HK\$0.2 million); and
 - the recruitment of sales and marketing personnel and sales and marketing activities in Hong Kong (of approximately HK\$1.8 million);

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- approximately HK\$0.8 million for application for patent, copyright and trademark registration of the group's intellectual properties rights;
- approximately HK\$1.0 million for upgrading the group's own management information system to cater for the anticipated growth in its business;
- approximately HK\$1.0 million for recruiting additional personnel for its operations other than sales and marketing (including production, finance and administration) in Hong Kong and overseas;
- approximately HK\$0.6 million for relocation of the group's office premises in Hong Kong to cater for the anticipated expansion of the group's business; and
- the balance of approximately HK\$1.7 million as general working capital of the group.

If the offer size adjustment option is exercised in full, the additional net proceeds of the placing are estimated to amount to approximately HK\$3.6 million. The Directors intend to use approximately HK\$1.5 million of such additional net proceeds for product development, approximately HK\$0.9 million for sales and marketing, and approximately HK\$1.2 million as additional working capital of the group. To the extent that the net proceeds of the placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term deposits with banks or other authorised financial institutions.

In the event that the business plan of the group does not materialise or proceed as planned, the Directors will carefully evaluate the requirements of the group and other relevant factors and circumstances and may reallocate parts of the relevant portion(s) of the net proceeds to other business plans, new projects and, or investment opportunities and/or place the same on short-term deposits. Any material departure from the use of proceeds stated above will be announced accordingly.

The Directors consider that the net proceeds from the placing together with the group's internally generated funds of approximately HK\$4.0 million for the year ending 31 December, 2004 and approximately HK\$2.8 million for the year ending 31 December, 2005 will be sufficient to finance the future development of the group as described in the section headed "Statement of business objectives and strategies" in this prospectus.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The proposed use of net proceeds by the group during the period commencing from the listing date to 31 December, 2003 and for each of the successive six-month periods up to 31 December, 2005 is set out below:

	Listing date to 31 December, 2003	1 January, 2004 to 30 June, 2004	1 July, 2004 to 31 December, 2004	1 January, 2005 to 30 June, 2005	1 July, 2005 to 31 December, 2005	Total
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Product						
development	0.3	2.9	3.8	1.4	–	8.4
Sales and marketing	0.2	0.5	0.8	0.7	0.8	3.0
Patent copyright and trademark registration	0.1	0.1	0.2	0.2	0.2	0.8
Management						
information system	–	0.5	0.5	–	–	1.0
Human resources	0.1	0.1	0.5	0.3	–	1.0
Relocation						
of Hong Kong office	0.2	0.4	–	–	–	0.6
General working capital	0.2	0.4	0.4	0.4	0.3	1.7
	<u>1.1</u>	<u>4.9</u>	<u>6.2</u>	<u>3.0</u>	<u>1.3</u>	<u>16.5</u>

The proposed use of internal funding by the group for the implementation of the group's business objectives and strategies during the two years ending 31 December, 2005 is set out below:

	Year ended 31 December, 2004	Year ended 31 December, 2005
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Sales and marketing	1.9	1.2
Management information system	0.7	–
Human resources	0.8	1.6
Relocation of Hong Kong office	0.6	–
	<u>4.0</u>	<u>2.8</u>

DIRECTORS**Executive Directors**

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. Denny 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, in which Mr. Denny Wong has a controlling interest and of which Mr. Denny Wong is a director, was appointed as a director of ACS. In June 2000, Mr. Denny Wong 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. 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 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.

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

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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 service. 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.

Non-executive Director

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 of Valence Technology Limited, a distributor of semiconductor products in Hong Kong.

Independent non-executive Directors

Dr. Yip Chak Lam, Peter, aged 53 worked as a technical instructor for Cable & Wireless in Hong Kong from 1980 to 1981 before he pursued his teaching career at Nanyang Technological Institute in Singapore from 1981 to 1985 as a lecturer in the school of electrical and electronic engineering for the initial two years and later as a senior lecturer. In 1985, Dr. Yip was appointed as a senior lecturer at City University of Hong Kong (formerly known as City Polytechnic of Hong Kong). In 1995, Dr. Yip joined Hutchison Global Crossing Limited as the general manager (technology), and later in 2000, as the chief operating officer before he retired in 2002. Dr. Yip was awarded a doctor and a masters degree of philosophy specialising in electronics engineering theories by The Council for National Academic Awards (the United Kingdom) in 1980 and 1978 respectively and a bachelor of science degree in electronics by The Chinese University of Hong Kong in 1975. He is a fellow member of The Institution of Electrical Engineers of the United Kingdom and The Hong Kong Institution of Engineers. Dr. Yip is also the author of a book titled “High-Frequency Circuit Design and Measurements” published in 1990.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Cheong Chung Chin, aged 44, 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 had been 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.

SENIOR MANAGEMENT

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.

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 Informationssysteme 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 University degree in general electrotechnics from the University of Wuppertal in June, 1986.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS' REMUNERATION

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 27 October, 2003. The executive Directors are entitled to basic salaries, allowances and benefits as described in the paragraph headed "Particulars of service agreements" in the section headed "Further information about Directors, senior management and staff" in appendix V to this prospectus. In addition, the three executive directors are entitled to discretionary bonuses of such amount, if any, as the board may in its absolute discretion decide. (Please refer to the paragraph headed "Particulars of service agreements" in the section headed "Further information about Directors, senior management and staff" in appendix V to this prospectus for further details.)

The aggregate amount of basic remuneration and benefits in kind paid or granted by the group to the executive Directors (including pension scheme contributions) was approximately HK\$1,769,000, approximately HK\$1,953,000 and approximately HK\$584,000 for the two years ended 31 December, 2002 and the four months ended 30 April, 2003 respectively. According to their respective service agreements, the aggregate amount of basic remuneration to be paid will be approximately HK\$2,336,000 for the financial year ending 31 December, 2003. No discretionary bonus was paid to the three executive Directors during the track record period. As at the latest practicable date, the board had not determined to pay any discretionary bonus to the three executive Directors for the financial year ending 31 December, 2003.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in accordance with Rules 5.23 to 5.25 of the GEM listing rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the board. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the group. The audit committee has three members comprising two independent non-executive Directors, namely Dr. Yip Chak Lam, Peter and Mr. Cheong Chung Chin, and an executive Director, Mr. Denny Wong. Dr. Yip Chak Lam, Peter is the chairman of the audit committee.

STAFF

As at the latest practicable date, the group employed a total of 29 full-time employees and one part-time consultant.

The board believes that relations with the employees of the group are satisfactory.

SHARE OPTION SCHEMES

The Company has adopted the pre-IPO share option plan and the share option scheme. The principal terms of the pre-IPO share option plan and the share option scheme are summarised in the paragraphs headed “Summary of the terms of the pre-IPO share option plan” and “Summary of the terms of the share option scheme” in the section headed “Share option schemes” in appendix V to this prospectus.

The Company has granted options to a total of eighteen employees and consultants (including Mr. Lawrence Pang who is a Director and an initial management shareholder, Mr. Tong Kam Hung who is a consultant, Mr. Jorge Locsin who is assigned by an independent consultancy firm to work on ACS projects, and Mr. Joachim Goebel, a member of the senior management of the group and an initial management shareholder) under the pre-IPO share option plan to subscribe for an aggregate of 6,535,631 Shares, representing approximately 2.28% of the enlarged issued share capital of the Company immediately following completion of the placing and the capitalisation issue (assuming full exercise of all outstanding options under the pre-IPO share option plan and without taking into account any exercise of the offer size adjustment option). The exercise price of these options is either HK\$0.09 or HK\$0.24 per Share, representing a discount of approximately 72% or 25% to the issue price of HK\$0.32 respectively.

OTHER BENEFITS

In addition to the pre-IPO share option plan and the share option scheme, the group also provides a mandatory provident fund scheme for its employees in Hong Kong, details of which are contained in note 11 of the accountants’ report in appendix I to this prospectus. The group also provides other benefits to its employees or particular categories of its employees, including medical insurance schemes for its staff in Hong Kong and performance-based discretionary bonuses.

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, immediately following completion of the placing and the capitalisation issue and assuming that the offer size adjustment option is not exercised, the following persons and entities will be entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company:

Substantial shareholders	Number of Shares	Approximate shareholding percentage
D&A Holdings	105,706,210 Shares	37.752%
Mr. Denny Wong (<i>see note 1</i>)	105,706,210 Shares 6,773,831 Shares 2,882,481 Shares	41.201%
Proway Investment	31,740,305 Shares	11.336%
Morningside CyberVentures Holdings Limited (<i>see note 2</i>)	31,740,305 Shares	11.336%
Verrall Limited (<i>see note 2</i>)	31,740,305 Shares	11.336%

Notes:

1. 105,706,210 Shares are/will be held by D&A Holdings (a company owned as to 70% by Mr. Denny Wong and as to 30% by his wife, Ms. Alice Wong), 6,773,831 Shares are/will be held by Mr. Denny Wong personally and 2,882,481 Shares are/will be held by Ms. Alice Wong personally. Mr. Denny Wong will be taken to be interested in the Shares held by Ms. Alice Wong and D&A Holdings for the purposes of the Securities and Futures Ordinance upon the listing of the Shares.
2. Proway Investment 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 Securities and Futures Ordinance) for the purposes of the Securities and Futures Ordinance upon the listing of the Shares.

Each of the substantial shareholders listed above has given certain undertakings to the Stock Exchange, the Company, Anglo Chinese, Japan Asia and the underwriters with respect to the Shares held by them. (Please refer to the notes to the “Shareholding structure and restrictions on disposal of shares and initial investment costs” table in the “Summary” section and the “Undertakings” subsection in the “Underwriting” section in this prospectus for details of these undertakings.)

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

SIGNIFICANT SHAREHOLDERS

So far as is known to the Directors, immediately following completion of the placing and the capitalisation issue and assuming that the offer size adjustment option is not exercised, save as disclosed under the subsections headed “Substantial shareholders” and “Initial management shareholders” in this section, there are no other persons who will be entitled to exercise or control the exercise of 5% or more of the then voting power at any general meeting of the Company.

INITIAL MANAGEMENT SHAREHOLDERS

So far as is known to the Directors, the following persons and entities will, immediately following completion of the placing and the capitalisation issue and assuming that the offer size adjustment option is not exercised and without taking into account any Shares which may be issued upon the exercise of options granted pursuant to the pre-IPO share option plan, be considered to be initial management shareholders:

Name	Number of Shares	Approximate shareholding percentage
D&A Holdings (<i>Note 1</i>)	105,706,210	37.752%
Mr. Denny Wong (<i>Notes 1 & 2</i>)	115,362,522	41.201%
Ms. Alice Wong (<i>Notes 1 & 3</i>)	115,362,522	41.201%
Mr. Thomas Wan (<i>Notes 4 & 5</i>)	20,017,230	7.149%
Thomrose Holdings (<i>Note 4</i>)	17,615,162	6.291%
Mr. Lawrence Pang	6,863,052	2.451%
Mr. Tan Keng Boon	6,845,893	2.445%
Mr. Joachim Goebel	100,086	0.036%

Notes:

1. D&A Holdings is owned as to 70% by Mr. Denny Wong and as to 30% by his wife, Ms. Alice Wong.
2. The Shares disclosed here include the indirect shareholding interest in 105,706,210 Shares of Mr. Denny Wong held through D&A Holdings and his wife’s personal interest in 2,882,481 Shares which he will be taken to be interested under the Securities and Futures Ordinance upon the listing of the Shares, as well as the 6,773,831 Shares which Mr. Denny Wong will hold directly immediately upon completion of the placing and the capitalisation issue.
3. The Shares disclosed here include the 105,706,210 Shares which are/will be held by D&A Holdings and the 6,773,831 which her husband, Mr. Denny Wong, is/will be holding personally and which she will be taken to be interested under the Securities and Futures Ordinance upon the listing of the Shares in addition to the 2,882,481 Shares which she is/will be holding personally immediately upon the completion of the placing and the capitalisation issue.

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

4. Thomrose Holdings is an investment company and is wholly-owned by Mr. Thomas Wan. In addition to its interests in the Company, Thomrose Holdings holds the entire issued share capital of Hectrix Limited (Please see the “Competition” subsection in the “Business” section in this prospectus for further details of Hectrix Limited).
5. The Shares disclosed here include his indirect shareholding interest in the Company held through Thomrose Holdings of 17,615,162 Shares which he will be taken to be interested under the Securities and Futures Ordinance upon the listing of the Shares in addition to the 2,402,068 Shares which he is/will be holding immediately upon the completion of the placing and the capitalisation issue.

Each of the initial management shareholders of the Company has given certain undertakings to the Stock Exchange, the Company, Anglo Chinese, Japan Asia and the underwriters with respect to the Shares held by them. (Please refer to the notes to the “Shareholding structure and restrictions on disposal of shares and initial investment costs” table in the “Summary” section and the “Undertakings” subsection in the “Underwriting” section in this prospectus for the details of these undertakings.)

SHARE CAPITAL

	<i>US\$</i>	<i>HK\$</i>
<i>Authorised share capital:</i>		
1,000,000,000 Shares of HK\$0.10 each	–	100,000,000
43,283,000 Shares of US\$0.10 each (<i>Note 1</i>)	4,328,300	–
<u>6,717,000 Series A preference shares (<i>Note 1</i>)</u>	<u>671,700</u>	<u>–</u>
<i>Shares in issue:</i>		
2,686,728 Series A preference shares (<i>Note 1</i>)	268,673	–
10,000 Shares of US\$0.10 each (<i>Note 1</i>)	1,000	–
165,860,317 Shares of HK\$0.10 each	–	16,586,032
<i>Shares to be issued:</i>		
30,920,160 Shares of HK\$0.10 each to be issued to Proway Investment for the purpose of repurchase of its Shares of US\$0.10 each (<i>Note 1</i>)	–	3,092,016
5,219,523 Shares of HK\$0.10 each to be issued pursuant to the capitalisation issue	–	521,952
78,000,000 Shares of HK\$0.10 each to be issued pursuant to the placing (before any exercise of the offer size adjustment option) (<i>Note 2</i>)	–	7,800,000
<i>Total Shares issued and to be issued upon completion of placing:</i>		
<u>280,000,000 Shares of HK\$0.10 each (<i>Note 1</i>)</u>	<u>–</u>	<u>28,000,000</u>

Notes:

1. Conditional on the fulfilment or waiver of the conditions as mentioned in the subsection headed “Conditions of the placing” in the section headed “Structure of the placing” in this prospectus, the 2,686,728 series A preference shares presently held by Proway Investment will be redeemed with the proceeds of redemption to be applied for subscription of 3,704,123 Shares of US\$0.10 each and warrants presently held by Proway Investment which may be exercised resulting in the issue of 250,000 Shares of US\$0.10 each will be fully converted into Shares of US\$0.10 each, and all the Shares of US\$0.10 each to be issued pursuant to such subscription and conversion and the other 10,000 Shares of US\$0.10 each currently held by Proway Investment will immediately thereafter be repurchased by the Company in consideration for the issue of a total of 30,920,160 Shares of HK\$0.10 each by the Company to Proway Investment. Immediately after such repurchase, the authorised share capital of the Company will be reduced by the cancellation of all the 6,717,000 series preference A shares and the 43,283,000 Shares of US\$0.10 each and such conversion, repurchase, reduction and cancellation will take place prior to the capitalisation issue. Accordingly, the authorised and issued share capital of the Company immediately after completion of the placing and the capitalisation issue will consist wholly of Shares of HK\$0.10 each.
2. If the offer size adjustment option is exercised in full, 11,700,000 additional Shares will be issued resulting in a total issued share capital of 291,700,000 Shares.
3. Pursuant to rule 11.23(1) of the GEM listing rules, at the time of the listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public.

SHARE CAPITAL

Assumptions

The above table assumes that the placing will become unconditional and will be completed.

It, however, takes no account of (i) any exercise of the offer size adjustment option, (ii) any Shares which may be issued upon the exercise of any options granted under the pre-IPO share option plan and the share option scheme, or (iii) any Shares which may be allotted and issued under the general mandate (see below), or which may be repurchased by the Company pursuant to the share repurchase mandate (see below).

Ranking

The placing shares will rank pari passu with all the Shares in issue or to be issued as mentioned in this prospectus and will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the listing date.

Share option scheme

The Company has adopted the share option scheme, a summary of the principal terms of which is set out in the paragraph headed “Summary of the terms of the share option scheme” in the section headed “Share option schemes” in appendix V to this prospectus.

Pre-IPO share option plan

The Company has adopted the pre-IPO share option plan, a summary of the principal terms of which is set out in the paragraph headed “Summary of the terms of the pre-IPO share option plan” in the section headed “Share option schemes” in appendix V to this prospectus. Options have been granted to 18 individuals comprising one executive Director, 15 employees of the group, and two consultants engaged by or worked for the group. As at the date of this prospectus, options to subscribe for an aggregate of 6,535,631 Shares of HK\$0.10 each, representing approximately 2.28% of the issued share capital of the Company immediately after completion of the placing and the capitalisation issue (without taking into consideration the exercise of the offer size adjustment option) as enlarged by the Shares issued upon full exercise of these options have been granted by the Company under the pre-IPO share option plan.

The purpose of the pre-IPO share option plan is to recognise the contribution of certain directors and employees of the group, and consultants engaged by or worked for the group to the growth of the group and/or to the listing of Shares on GEM and for the purpose of cancellation of the terminated share option scheme. All options

SHARE CAPITAL

granted under the pre-IPO share option plan were granted to those employees and directors of the group and consultants engaged by or worked for the group 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. The terminated share option scheme was adopted by the Company on 25 July, 2000. Options for 1,450,000, 65,000, 300,000 and 346,250 shares were allotted on 25 July, 2000, 28 December, 2000, 3 December, 2001 and 21 January, 2003 respectively, which options have either been converted into Shares of US\$0.10 each or cancelled in exchange for the grant of options under the pre-IPO share option plan. On 28 October, 2003, all options granted under the terminated share option scheme which remained unexercised and outstanding on that date, being options to subscribe for an aggregate of 415,000 Shares of US\$0.10 each at an subscription price of US\$0.10 and 401,250 Shares of US\$0.10 each at an subscription price of HK\$2.00, were cancelled in consideration of the granting of options to subscribe for an aggregate of 3,322,862 Shares of HK\$0.10 each at subscription price of HK\$0.09 and an aggregate of 3,212,769 Shares of HK\$0.10 each at a subscription price of HK\$0.24, under the pre-IPO share option plan. No options granted under the terminated share option scheme are currently outstanding.

The number of options and the subscription price for the underlying Shares granted under the pre-IPO share option plan were determined by the board on the basis that (i) the proportion of the issued share capital of the Company immediately after completion of the placing and capitalisation issue (excluding shares which may be issued upon exercise of the offer size adjustment option and options granted pursuant to the pre-IPO share option plan) to which a grantee is entitled under the options granted to him or her under the pre-IPO share option plan and the proportion of the issued share capital of the Company at the time of termination of the terminated share option scheme to which the holder of options of the terminated share option scheme was entitled under the outstanding options which were previously granted to him or her under the terminated share option scheme; and (ii) the aggregate subscription price payable by such grantee on the full exercise of the options, would remain as nearly as possible the same but not more than before. The subscription price for the underlying Shares under the pre-IPO share option plan was derived for each optionholder by multiplying the number of options unexercised for that holder (the "Unexercised Options") under the terminated share option scheme by the original subscription price (of US\$0.10 or HK\$2.00, as applicable), then dividing the result by the number of options granted to that holder under the pre-IPO share option plan in exchange for cancellation of the Unexercised Options.

SHARE CAPITAL

The principal terms of the pre-IPO share option plan, as approved by resolutions of the Shareholders passed on 27 October, 2003, are substantially the same as the terms of the share option scheme (other than its purpose and the basis of determination of eligibility, which are mentioned above) except that:

- (a) there is no requirement as to the minimum amount of subscription price for each Share subject to the options granted under the pre-IPO share option plan save that it shall not be less than the nominal value of each Share;
- (b) the total number of Shares subject to the pre-IPO share option plan is 6,535,631 Shares, representing approximately 2.28% of the total issued share capital of the Company immediately following completion of the placing and the capitalisation issue (excluding Shares which may be issued pursuant to the exercise of the offer size adjustment option) as enlarged by the Shares issued upon full exercise of all the options granted under the pre-IPO share option plan;
- (c) save for the options which have been granted, no further options will be offered or granted, as the right to do so will end upon the listing of the Shares on GEM;
- (d) the exercise of the options granted under the pre-IPO share option plan is conditional on: (i) the GEM listing committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued pursuant to the exercise of options granted under the pre-IPO share option plan and the share option scheme respectively; and (ii) the obligations of the underwriters under the underwriting agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise) and may be exercised within a period of up to 10 years after the date of grant of the options. (For further details, please see the sub-section headed “Outstanding options granted under the pre-IPO share option plan” in the “Share option schemes” section in appendix V); and
- (e) the taking effect of the pre-IPO share option plan is not subject to conditions.

SHARE CAPITAL

General mandate to issue new Shares

Subject to the placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with a total nominal value of not more than the sum of:

1. 20% of the total nominal amount of the share capital of the Company in issue immediately following the completion of the capitalisation issue and the placing (including any additional Shares which may be issued pursuant to any exercise of the offer size adjustment option); and
2. the total nominal amount of the share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares referred to below.

This mandate does not cover any Shares allotted, issued or dealt with under a rights issue, scrip dividend scheme or similar arrangement or upon the exercise of options granted under the pre-IPO share option plan and the share option scheme.

This mandate will expire:

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by applicable law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

Further information on this general mandate is contained in the paragraph headed “Resolutions of the Shareholders passed on 27 October, 2003” in the section headed “Further information about the Company” in appendix V to this prospectus.

General mandate to repurchase Shares

Subject to the placing becoming unconditional, the Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following the completion of the capitalisation issue and the placing (including any additional Shares which may be issued pursuant to any exercise of the offer size adjustment option).

SHARE CAPITAL

This mandate only relates to repurchases which are made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and regulations. A summary of the relevant GEM listing rules is set out in the paragraph headed “Repurchase by the Company of its own securities” in the section headed “Further information about the Company” in appendix V to this prospectus.

This mandate will expire:

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by applicable law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings and credit facilities

As at the close of business on 30 September, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the group did not have any outstanding liabilities or any term loans or other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and loans, debt securities or similar indebtedness, or any mortgages and charges, or any guarantees or other material contingent liabilities.

Contingent liabilities

As at 30 September, 2003, the group had no material contingent liabilities.

Securities and guarantees

As at 30 September, 2003 the group had no material securities and guarantees.

Disclaimers

Save as disclosed herein and apart from inter-group company liabilities, the group did not have outstanding at the close of business on 30 April, 2003, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the group since 30 April, 2003 and up to the latest practicable date.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Working capital

As at 30 September, 2003, the net current assets of the group amounted to approximately HK\$11,071,000. The current assets comprised inventories of approximately HK\$5,628,000, accounts receivable of approximately of HK\$8,995,000, other receivables, deposits and prepayments of approximately HK\$1,986,000 and cash and cash equivalents of approximately of HK\$1,196,000. The current liabilities comprised accounts payable of approximately HK\$4,122,000, and other payables, deposits and accruals of approximately HK\$2,612,000.

FINANCIAL INFORMATION

The group's accounts receivable increased from HK\$3,528,000 as at 30 April, 2003 to approximately HK\$8,995,000 as at 30 September, 2003 due to a significant improvement in the group's sales during the five months period ended 30 September, 2003. The increase in the group's accounts payable from HK\$2,326,000 as at 30 April, 2003 to approximately HK\$4,122,000 as at 30 September, 2003 was a result of increased purchases of materials to cope with the increased sales during the period.

Capital commitments

As at 30 September, 2003, the group had no material capital commitments.

Operating lease commitments

As at 30 September, 2003, the group had future minimum lease payments under non-cancellable operating leases of approximately HK\$87,000 and HK\$73,000 in respect of office premises and staff quarters respectively.

Hedging policy

Since the majority of the transactions of the group are denominated in US dollars and Hong Kong dollars and the exchange rates between such currencies have been stable during the track record period, no hedging or other alternatives have been implemented.

As at 30 September, 2003, the group did not have outstanding hedging instruments.

Directors' opinion of the net current asset position

The Directors are of the opinion that, taking into account the internally generated resources of the group, and the estimated net proceeds of the placing (assuming that the offer size adjustment option is not exercised), the group has sufficient working capital for its present requirements.

FINANCIAL INFORMATION

TRADING RECORD

A summary of the audited consolidated results of the group during the track record period, which is extracted from the accountants' report in appendix I to this prospectus, is set out as below:

	Year ended		Four months
	31 December,		ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2003</i>
	<i>(except per Share data)</i>		
Turnover <i>(Note 1)</i>	12,863	27,794	7,307
Cost of sales	<u>(7,517)</u>	<u>(15,338)</u>	<u>(3,109)</u>
	5,346	12,456	4,198
Other revenue	328	19	28
Other net income	15	6	11
Operating expenses			
Staff costs	(5,092)	(5,073)	(1,674)
Depreciation	(514)	(581)	(189)
Amortisation of development costs	(341)	(825)	(430)
Other operating expenses	<u>(3,870)</u>	<u>(2,898)</u>	<u>(770)</u>
(Loss)/profit from operations	(4,128)	3,104	1,174
Finance costs	<u>(61)</u>	<u>(88)</u>	<u>(31)</u>
(Loss)/profit from ordinary activities before taxation	(4,189)	3,016	1,143
Taxation	<u>–</u>	<u>–</u>	<u>–</u>
(Loss)/profit from ordinary activities after taxation	(4,189)	3,016	1,143
Accumulated losses brought forward	<u>(23,439)</u>	<u>(27,628)</u>	<u>(24,612)</u>
Accumulated losses carried forward	<u>(27,628)</u>	<u>(24,612)</u>	<u>(23,469)</u>
(Loss)/earnings per Share (HK cents)			
Basic <i>(Note 2)</i>	<u>(2.07)</u>	<u>1.49</u>	<u>0.57</u>

FINANCIAL INFORMATION

In accordance with paragraphs 27 and 31 of the Third Schedule of the Companies Ordinance, the Company is required to include its financial results for each of the three financial years immediately preceding the issue of this prospectus. Pursuant to the exemption under section 5 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, financial results for each of the immediately preceding two financial years have been included in the accountants' report in appendix I to this prospectus instead of three financial years as required under the Third Schedule of the Companies Ordinance.

Notes:

1. Turnover represents the invoiced value of sales to customers less discounts and returns during the period under review.
2. The calculation of the basic earnings/(loss) per share for each year/period is based on the group's consolidated profit/(loss) attributable to shareholders for each respective year/period and on 202,000,000 Shares outstanding after the proposed repurchase of 3,964,123 Shares of US\$0.10 each and issuance of 30,920,160 Shares of HK\$0.10 each and the capitalisation issue as if those Shares had been outstanding for each year/period presented as described in the section headed "Further information about the company" in appendix V to this prospectus.

There were no potential dilutive ordinary Shares in issue during the relevant period.

The calculation of basic and diluted earnings/(loss) per share has not taken into account the Shares which will or may be issued pursuant to the placing or subsequent to the placing.

An analysis of the group's turnover categorised by product lines and geographical markets during the track record period is shown below:

	Year ended				Four months	
	31 December,				ended	
	2001		2002		2003	
	<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>	
Turnover						
(i) by product lines						
Contact smart cards and smart card operating systems	495	3.8%	457	1.6%	152	2.1%
PC linked readers	11,369	88.4%	21,235	76.4%	5,463	74.8%
Smart card balance readers	290	2.3%	2,902	10.4%	94	1.3%
Smart card/finger print readers (see note 1)	28	0.2%	292	1.1%	95	1.3%
Smart card readers with pin-pad (see note 1)	–		768	2.8%	967	13.2%
(ii) service fees (see note 2)	681	5.3%	2,140	7.7%	536	7.3%
	<u>12,863</u>		<u>27,794</u>		<u>7,307</u>	
Total	<u>12,863</u>	100%	<u>27,794</u>	100%	<u>7,307</u>	100%

FINANCIAL INFORMATION

Notes:

1. These products were formally launched to the market during 2002.
2. The service fees include fees for customisation of the group's existing products, design of product casing and packaging of custom-made products according to customers' specifications, setting up customers' logo on products and application on behalf of customers for industry standard certification in respect of custom-made products.

	Year ended		Four months
	31 December,		ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	2003
			<i>HK\$'000</i>
Turnover – by geographical markets			
the Americas	1,492	11,119	338
Asia	4,232	9,064	4,471
Europe, Africa and the Middle East	7,139	7,611	2,498
	<u>12,863</u>	<u>27,794</u>	<u>7,307</u>
Total	<u>12,863</u>	<u>27,794</u>	<u>7,307</u>

Sales, cost of sales and gross profit margins

The table below sets out the sales, cost of sales and services rendered and gross profit margins of the Group during the track record period:

	Year ended		Four months ended	
	31 December,		30 April,	
	2001	2002	2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>Gross profit margin</i>
	<i>Gross profit margin</i>	<i>Gross profit margin</i>	<i>Gross profit margin</i>	
Sale of smart card products				
Turnover	12,182	25,654	6,771	
Cost of sales	(7,517)	(15,338)	(3,109)	
	<u>4,665</u>	<u>10,316</u>	<u>3,662</u>	
Gross profit – product sales	<u>4,665</u>	<u>10,316</u>	<u>3,662</u>	54%
Smart card related service				
Service fees received	681	2,140	536	
	<u>5,346</u>	<u>12,456</u>	<u>4,198</u>	
Total gross profit	<u>5,346</u>	<u>12,456</u>	<u>4,198</u>	
Total turnover	<u>12,863</u>	<u>27,794</u>	<u>7,307</u>	
Overall gross profit margin	42%	45%	57%	

FINANCIAL INFORMATION

Note: The above turnover figures exclude interest income, forfeited deposits from customers, exchange gains and other sundry income. (Please refer to note (3) to the accountants' report in appendix I to this prospectus for further details.)

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

During the track record period, the group generated revenue principally from the sale of its products in the Americas, Europe, Africa, the Middle East and Asia. Service fees charged by the group include product design and customisation fees, product packaging fees, fees charged for application for industry standard certification in respect of customised products as well as remuneration received from customers relating to the sale of a specific customised product. Other revenue of the group comprised mainly interest income and exchange gains.

Cost of sales consists primarily of materials that accounted for approximately 86% of the total cost of sales, subcontracting fees, transportation expenses and other production costs.

Operating costs include principally staff costs, depreciation expenses, amortisation of development costs, research and development expenses, marketing as well as other administrative and finance expenses. 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. These expenses consist mainly of remuneration of product design engineers, related product testing expenses and payments to certification bodies for application on behalf of customers for industry standard certification. The group's research and development expenses are capitalised. The group's research and development expenses are capitalised when the group has demonstrated all of the following: (1) the technical feasibility of completing the product development project so that the product will be available for use or sale; (2) the intention to complete the product development project and ability to use or sell the product under development; (3) how the product under development will generate probable future economic benefits and among other things, the existence of a market for the product under development; (4) the availability of adequate technical, financial and other resources to complete the development of the product; and (5) the ability to reliably measure the expenditure attributable to the product development. 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. During the track record period, the development expenses of 22 projects were capitalised. The aggregate capitalised costs of these products were approximately HK\$4.3 million, HK\$3.8 million and HK\$1.2 million for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003 respectively. The capitalised costs are being amortised using the straight line method over the estimated useful life of a product of not exceeding four years from the date when the relevant products are put into commercial production.

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Financial year ended 31 December, 2001

The group's combined turnover for the year was about HK\$12.9 million, of which over 88% represents turnover from the sale of the group's PC linked readers, with the remaining turnover generated from the sale of smart cards and readers. During the second quarter of 2001, the group made a soft launch of its smart card/finger print readers and recorded turnover of HK\$28,000 from this new product. (Note: This product was formally launched to the market in December 2002.)

The group recorded total service fees of approximately HK\$681,000 which include fees for designing the smart card/finger print readers of approximately HK\$431,000 and design and customisation fees of other products totalling approximately HK\$250,000. The overall gross profit margin was about 42%.

Total operating expenses were approximately HK\$9.8 million, of which staff costs totalling approximately HK\$5.1 million accounted for some 52%. Depreciation of fixed assets and amortisation of development costs amounted to approximately HK\$514,000 and HK\$341,000, respectively, with their sum representing some 9% of the group's total operating expenses. The amortisation expense was calculated based on the development costs of approximately HK\$4.3 million capitalised during the year ended 31 December, 2001 and amortised on a straight line basis over their estimated useful lives of four years. Expenditure on research and development of approximately HK\$623,000 includes a write off of a total payment of HK\$400,000 made to a local university in previous years for sponsoring a project for the development of generic authentication technologies used in secure smart card applications. As the Directors expected that the project would involve in-depth research and it would probably be a considerable period of time before a product with commercial value may emerge, the full amount of HK\$400,000 was written off during the year. The remaining research and development expenses represented cost of materials, direct labour and an appropriate proportion of overheads which were directly attributable to development activities. Other key operating expenses comprised rental of the group's office premises of approximately HK\$347,000, advertising and promotional expenses of approximately HK\$420,000 and travelling expenses of approximately HK\$472,000.

During the year under review, the group incurred bad debts of approximately HK\$459,000 which comprise overdue amounts from seven customers for more than ten months as at 31 December, 2001. As at the latest practicable date, HK\$8,000 of these debts has been subsequently settled.

Net loss for the year amounted to approximately HK\$4.2 million.

The group's average inventory turnover, creditor turnover and debtor turnover as at 31 December, 2001 were 196 days, 90 days and 45 days, respectively. The high inventory turnover period at the end of 2001 was due to certain large customers'

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orders received in the last quarter of 2001 that were due for delivery in January 2002. Accordingly, the group's average inventory turnover period was 18 days as at 31 January, 2002.

Financial year ended 31 December, 2002

The financial year ended 31 December, 2002 was a record year for the group which generated turnover of about HK\$27.8 million. This represented an improvement of some 2.2 times on the turnover of the previous financial year. During the year, the group secured a significant order for its PC linked readers and smart card balance readers from a new customer in the United States amounting to some HK\$9.0 million and a number of new customer orders for these two main products lines. Additional sales of some HK\$1.0 million were recorded in respect of two new products, the smart card readers with pin-pad and the smart card/finger print readers launched during the year. Geographically, turnover derived from Asia increased substantially from HK\$4.2 million to HK\$9.1 million during the period on the back of the growing demand for PC linked readers in Asia. In addition, the group's decision to discontinue the deployment of consultants in the United States, England and Germany to save costs and focus its sales and marketing work in Hong Kong had also resulted in the increase in turnover from Asia.

Service fees increased some HK\$1.5 million to HK\$2.1 million in 2002 largely as a result of increased large customers orders for product packaging and customisation work. In particular, the group secured five new major customers during the year.

As the group became more experienced in the smart card related technology and better able to plan its use of materials in a cost efficient manner, and with a marked increase in the group's turnover during 2002, the group was able to generate improved economies of scale, and, consequently, the gross profit margin improved from 42% in 2001 to 45% in 2002.

Other revenue reduced after 2001 due to (i) a forfeiture of non-refundable deposits of HK\$210,000 received by the group from a customer upon cancellation of orders in 2001 which was not recurring in 2002 or 2003, and (ii) the decrease in interest income by HK\$64,000 from 2001 to 2002 as a result of a decrease in fixed deposits held at banks and interest rates in Hong Kong.

As a result of stringent cost control measures implemented during the year under review, the total operating expenses of approximately HK\$9.4 million accounted for some 34% to the group's turnover, as compared to a ratio of operating expenses to turnover of some 76% in 2001. Staff costs remained stable at approximately HK\$5.1 million (2001: HK\$5.1 million). Depreciation expenses remained stable totalling approximately HK\$581,000 (2001: HK\$514,000). Amortisation of development costs increased from approximately HK\$341,000 in 2001 to approximately HK\$825,000 in

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2002 due to the launch of a new version of smart card readers with pin-pad marketed as *ACR50-22* and the amortisation of HK\$209,000 charged to the profit and loss account for the year ended 31 December, 2002. In addition, amortisation related to PC linked readers *ACR30-EMV* increased by HK\$129,000 as the amortisation of the same product for only five months was made for the year ended 31 December, 2001. Other operating expenses decreased some 25% to HK\$2.9 million during the year as a result of effective cost control measures. In particular, research and development expenses reduced to approximately HK\$458,000 (2001: HK\$623,000) in the absence of the write off of the research and development expense of HK\$400,000 in 2001. The research and development expenses incurred during the year related mainly to the research work carried out on the group's contact and contactless smart card terminals. Another major cost reduction is in advertising and promotional expenses that decreased from approximately HK\$420,000 in 2001 to approximately HK\$276,000 in 2002 as the group participated in trade shows selectively. Consultancy fee expenses also reduced 56% to approximately HK\$333,000 as a result of the departure of three consultants during the period from March to June 2001, and a reduction in the monthly consultancy fees paid to another consultant, Mr. Tan Keng Boon.

During the year under review, the group incurred bad debts of approximately HK\$206,000 (2001: HK\$459,000). The bad debts included an amount of approximately HK\$195,000 due from a customer which initially intended to use the group's products for a project involving smart card technology. The related project was later aborted.

Net profit before taxation amounted to about HK\$3.0 million, and represented a return on shareholders' funds of some 22%. No provision for taxation has been made as the group has brought forward accumulated tax losses that exceed the estimated assessable profits for the year ended 31 December, 2002.

The group's average inventory turnover, creditor turnover and debtor turnover as at 31 December, 2002 were 92 days, 48 days and 33 days, respectively.

Four months period ended 30 April, 2003

During this period, the group recorded a turnover of approximately HK\$7.3 million, comprising sales of products of some HK\$6.8 million and service income of some HK\$0.5 million. Around 81% of the turnover from product sales related to the sale of the Group's PC linked readers totalling some HK\$5.5 million, followed by the sale of the smart card readers with pin-pad which generated around HK\$1.0 million. Turnover from the sale of the smart card balance readers was relatively low when compared to 2002 in which the group secured large customers orders for this product. Sale of the group's contact smart cards and smart card operating systems and smart card/finger print readers remained steady and generated turnover of some HK\$152,000 and HK\$95,000, respectively. The group's sales in April 2003 were slightly affected by the outbreak of atypical pneumonia in Hong Kong and Taiwan and the quarantine

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arrangements in Taiwan in that some of the group's existing and prospective customers in Taiwan postponed their plans to travel to Hong Kong. As a result, negotiation of new product initiatives and testing of certain customised products developed for the group's customers in Taiwan have been delayed. The group's business in its other markets was also affected by the outbreak of the disease due to the reduction in meetings between the group and its customers. In spite of the outbreak of the disease, the group sold its PC linked readers to three IT solution houses in Malaysia, Japan, and Taiwan, which were three of the top five customers of the group from whom approximately 55% of the group's revenue was derived during the period. Geographically, turnover derived from Asia increased from approximately HK\$9.1 million for the year ended 31 December, 2002 to approximately HK\$13.4 million calculated, on an annualised basis, for the year ending 31 December, 2003.

The group did not record sales from the integrated product known as "Game" during the four months ended 30 April, 2003. While the Directors believe that demand for this product remains, the related sales had slowed during the period under review. ACS and Statcard are formulating new marketing strategies like changing sales venue from toy chain stores to retail outlets of entertainment games and targeting young people rather than children as potential customers.

Service fee income of HK\$536,000 was recorded and related largely to the sale of PC linked readers (approximately HK\$210,000) and smart card balance readers (approximately HK\$310,000).

Gross profit margin improved significantly to some 57% in the absence of discounts of approximately 20% granted to a major customer that placed significant sized orders in the previous financial year. Further, the improved profit margin was due to the higher proportion of sale of higher margin types of PC linked readers like *ACF30S*, *ACF30U* and *SDK-ADT60S* which are smart card/finger print readers. The group had also been able to raise the selling prices of its smart card readers with pin-pad following satisfactory market acceptance of the product since its introduction to the market in July 2002.

Total operating expenses amounted to some HK\$3.1 million. Of these expenses, staff costs accounted for some HK\$1.7 million and have remained stable when compared to the year ended 31 December, 2002. Amortisation of development costs was some HK\$0.4 million. On an annualised basis, the group is expected to record total amortisation expense of some HK\$1.3 million for the year ending 31 December, 2003. This is relatively higher than the amortisation expense of some HK\$0.8 million in 2002 as amortisation of a number of newly launched products only commenced during the second half of 2002. These products include the PC linked readers (*ACR30-SMC*), the smart card reader with pin-pad (*ACR50-22*) launched in July 2002 and the smart card/finger print reader rolled out in December 2002.

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Total other operating expenses amounted to some HK\$770,000, which was lower than that of the previous financial year for a number of reasons. First, the group recorded a write back of the provision for bad debts of some HK\$7,800 during the four months ended 30 April, 2003 as compared to a provision for bad debts of approximately HK\$206,000 for the year ended 31 December, 2002. Secondly, for the year ended 31 December, 2002, the group recorded a non-recurrent professional fee of HK\$120,000 paid to an external solution house in Guangdong for designing complicated software for certain parts of a customised product. No such fee was recorded during the four months ended 30 April, 2003. Thirdly, the group incurred around HK\$141,000 relating mainly to additional customisation work performed on certain products that were launched during 2002. These costs were not recurring in nature and resulted from specific requests made by customers. No such costs were recorded during the four months ended 30 April, 2003. Further, total consultancy fee of some HK\$68,000 were charged to the profit and loss account during the period (2002: around HK\$333,000 for the full year) as a higher proportion of the fees paid to the group's consultants that directly related to research and development activities were capitalised during the four months ended 30 April, 2003 as compared to 2002.

During the period, the group incurred total research and development costs of around HK\$1.3 million, of which HK\$1.2 million were capitalised and around HK\$100,000 were charged to the profit and loss account.

Net profit before taxation was about HK\$1.1 million. No provision for taxation has been made as the group has brought forward accumulated tax losses that exceed the estimated assessable profits for the period.

The group's average inventory turnover, creditor turnover and debtor turnover as at 30 April, 2003 were 173 days, 71 days and 57 days, respectively. The high inventory turnover period resulted partly from the outbreak of SARS which had delayed the product acceptance testing timetable relating to certain customised products ordered by a customer in Taiwan, and partly from increased purchases of raw materials to cater for anticipated increased sales in May and June 2003 based on orders and instructions received from customers in Mexico and Italy. The inventory relating to the products ordered by the customer in Taiwan carried a value of around HK\$1.3 million as at 30 April, 2003. Subsequently, around HK\$0.4 million of this inventory was used for the production of customised readers for delivery to the customer in Taiwan in mid August 2003. The Directors expect that with the SARS outbreak in Taiwan being under control in May 2003, the remaining inventory of HK\$0.9 million will be used in the production for fulfilling the remaining balance of the sales order by this customer by the end of December 2003. Of the group's total inventory of approximately HK\$5.3 million recorded as at 30 April, 2003, approximately HK\$2.9 million was used or sold and approximately HK\$2.4 million remained unused or unsold as at 30 September, 2003.

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The group's debtor turnover period was 57 days as at 30 April, 2003 as compared to 33 days as at 31 December, 2002. The debtor turnover period falls within the credit period of between 30 to 60 days granted to the group's customers. Of the accounts receivable of approximately HK\$3.5 million as at 30 April, 2003, approximately HK\$3.2 million had been settled by 30 September, 2003.

PROPERTY INTERESTS

The group leases premises in Hong Kong with a total gross floor area of approximately 3,528 square feet. One of these premises at workshop 2 on 3rd floor, Shun Fat Industrial Building, No. 17, Wang Hoi Road, Kowloon, Hong Kong is currently occupied by the group as its office, products' research and development and for storage purposes. This is inconsistent with the permitted use of the premises being for industrial use only during the term of the tenancy from 15 September, 2001 to 31 December, 2003. The Hong Kong government and, or the landlord of the premises may take action against ACS for its breach of the permitted user regarding the premises. There is a risk that the Buildings Department in Hong Kong may take action requesting ACS to cease to use the premises as storage and office or the Lands Department may exercise its rights of re-entry or the landlord may exercise its right to terminate the tenancy agreement due to the breach of the user clause contained therein. In the third case, the landlord may also have the common-law right to claim against ACS for damages suffered or may have sustained by the landlord arising from such termination. Pursuant to the deed of indemnity (being the material contract referred to in sub-paragraph (a)(3) of the paragraph headed "Further information about the business of the group" in appendix V to this prospectus) certain existing shareholders of the Company have given certain indemnities in favour of the Company in connection with such inconsistency in user.

As the group has planned in any event to move from the above premises following the expiry of the relevant lease arrangement on 31 December, 2003, there will not be any additional relocation costs if it is asked by the landlord or the relevant authorities in Hong Kong to relocate its office due to the inconsistent use of the premises. The Directors do not anticipate difficulties in finding a suitable premises given the current demand-driven rental property market in Hong Kong. The Directors estimate that the relocation will take place over a weekend and refurbishment work will take no more than three weeks, and which will be carried out during weekends and after-office hours to minimise the disruption to the group's operations. The Company has identified a number of suitable premises for the relocation and the new tenancy arrangement is expected to be finalised before end of December, 2003. On the basis of the Directors' views stated above, Anglo Chinese concurs with the Directors' views.

The group also leases other premises in Hong Kong with a total gross floor area of approximately 700 square feet, which are used as staff quarters.

The property interests of the group were valued by RHL Appraisal Limited, an independent property valuer, as at 31 August, 2003. The text of a letter, a summary of the valuations and an extract of the valuation certificate from RHL Appraisal Limited are set out in appendix III to this prospectus.

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TAXATION

No taxation charges were recorded for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003. No provision for overseas taxation was made during the track record period as the group did not have any overseas operations. The manufacturing of ACS products was undertaken by independent subcontractors in China and Taiwan. The group was not liable for any tax liabilities or charges arising from the activities of the subcontractors. (Please refer to note 5 to the accountants' report in appendix I to this prospectus for further details.)

DIVIDENDS AND WORKING CAPITAL

Dividends

The Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the financial year ending 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 operation, capital requirements, cash flows, general financial condition and such other factors as the board may deem relevant. (Please refer to note 21 to the accountants' report appendix I to this prospectus.)

Working capital

The Directors are of the opinion that, taking into account the internally generated funds of, and banking facilities available to, the group and the estimated net proceeds from the placing (assuming that the offer size adjustment option is not exercised), the group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to the shareholders of the Company as at 30 April, 2003, being the date to which the latest audited financial statements of the group were made up, amounted to approximately HK\$15,717,000.

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 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.

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The Group had a net deficit of reserves of HK\$11,021,000, HK\$4,253,000 and HK\$3,110,000 at 31 December, 2001, 31 December, 2002 and 30 April, 2003, respectively, as set out in note 21 of the accountants' report in appendix I to this prospectus. In view of the consolidated negative reserves sustained by the group as at 30 April, 2003, the Directors presently do not intend to recommend the payment of dividend by the Company in respect of the financial year ending 31 December, 2003 and in future if the consolidated reserves of the group remain negative.

	At 31 December, 2001 <i>HK\$'000</i>	At 31 December, 2002 <i>HK\$'000</i>	At 30 April, 2003 <i>HK\$'000</i>
Company	11,998	15,718	15,717
Subsidiary	(27,515)	(24,467)	(23,323)
Merger reserves	<u>4,496</u>	<u>4,496</u>	<u>4,496</u>
Group	<u><u>(11,021)</u></u>	<u><u>(4,253)</u></u>	<u><u>(3,110)</u></u>

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in appendix II to this prospectus, the forecast of the consolidated profit after tax but before extraordinary items of the group for the year ending 31 December, 2003 will not be less than HK\$10.0 million. The expected increase in net profit from HK\$3.0 million for the year ended 31 December, 2002 is mainly due to significant improvement in the group's actual performance due largely to increased sales during the five months period ended 30 September, 2003 and the Directors' belief in (i) the trend of increasing popularity of smart card applications for day-to-day use; and (ii) further improved sales built on the group's established know-how and broad customer base, and as a result of increased promotional efforts after the listing. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December, 2003.

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ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of the adjusted net tangible assets of the group is based on the audited net assets of the group as at 30 April 2003 as shown in the accountants' report set out in appendix I to this prospectus, and adjusted as follows:

	<i>HK\$ '000</i>
Audited net assets of the group as at 30 April, 2003	14,565
<i>Less:</i> Intangible assets – development costs	<u>(7,728)</u>
Audited net tangible assets of the group as at 30 April, 2003	6,837
Unaudited profit after taxation of the group for the period from 1 May, 2003 to 30 September, 2003 based on management accounts (<i>Note 1</i>)	5,722
<i>Less:</i> Additions to intangible assets net of amortisation for the period from 1 May, 2003 to 30 September, 2003	(886)
Net proceeds from the subscription for 157,500 ordinary shares as a result of exercise of options for the period from 1 May, 2003 to 30 September, 2003. (<i>Note 2</i>)	131
Proceeds from the subscription by Proway Investment for 250,000 new Shares as a result of the exercise of the warrants which were issued on 18 May, 2001 and expected to be exercised prior to the placing	500
Proceeds from the subscription for a total of 1,087,500 Shares as a result of exercise of options held by directors and employees (<i>Note 3</i>)	1,016
Estimated net proceeds from the placing (<i>Note 4</i>)	<u>16,500</u>
Adjusted net tangible assets	<u><u>29,820</u></u>
Adjusted net tangible asset value per Share (<i>Note 5</i>)	<u><u>10.65 HK cents</u></u>

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Notes:

1. During the five months period ended 30 September, 2003, the group recorded unaudited turnover of HK\$18,380,000. The Directors have confirmed that there has been no material adverse change in the business of the group during this period.
2. On 3 July, 2003, the group received US\$15,000 (or HK\$117,000) from the issuance of 150,000 Shares of US\$0.10 each as a result of the exercise by Mr. Thomas Yuen of his options issued on 25 July, 2000 to subscribe for Shares at US\$0.10 per Share. On 9 July, 2003, the group received HK\$15,000 from the issuance of 7,500 Shares of US\$0.10 each as a result of the exercise by Mr. Wong Chi Ho of his options issued on 21 January, 2003 to subscribe for shares at HK\$2.0 per Share.
3. On 4 September, 2003, the group received HK\$234,000 from the issuance of 300,000 Shares of US\$0.10 each on 23 October 2003 as a result of the exercise by Mr. Denny Wong of his options to subscribe for 300,000 Shares at US\$0.10 per Share. On 20 October, 2003, the group received a total of HK\$548,000 from the issuance on 23 October, 2003 of (a) 350,000 Shares of US\$0.10 each as a result of the exercise of options issued on 25 July, 2000 to subscribe for Shares at US\$0.10 per Share and (b) 137,500 Shares of US\$0.10 each as a result of exercise of options issued on 21 January, 2003 to subscribe for Shares at HK\$2.00 per Share. On 23 October, 2003, the group received HK\$234,000 from the issuance of 300,000 Shares of US\$0.10 each to Mr. Thomas Wan pursuant to the exercise of options for 300,000 Shares of US\$0.10 each granted to him on 25 July, 2000 under the terminated share option scheme.
4. The estimated net proceeds of the placing is based on the issue price and takes no account of any Shares which may be allotted and issued upon the exercise of the offer size adjustment option. If the offer size adjustment option is exercised in full, the estimated additional net proceeds of the placing will be approximately HK\$3.6 million.
5. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed "Adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of a total of 280,000,000 Shares in issue immediately following completion of the capitalisation issue and the placing and without taking into account (i) any Shares which may be issued upon the exercise of the offer size adjustment option; (ii) any Shares which may be issued upon the exercise of the options granted under the pre-IPO share option plan or the share option scheme; and (iii) any Shares which may be issued or repurchased by the Company pursuant to the general mandate or the share repurchase mandate referred to in the paragraph headed "Resolutions of the Shareholders passed on 27 October, 2003" in the section headed "Further information about the Company" in appendix V to this prospectus.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the latest practicable date, they were not aware of any circumstances that would give rise to a disclosure obligation under Rules 17.15 to 17.21 of the GEM listing rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the group since 30 April, 2003 being the date to which the latest audited financial statements of the group were made up.

UNDERWRITING

UNDERWRITERS

Anglo Chinese Corporate Finance, Limited
Japan Asia Securities Limited
ICEA Capital Limited
JS Cresvale Capital Limited
CSC Securities (HK) Limited
Wintech Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting agreement

Pursuant to the underwriting agreement, the Company has agreed to offer the placing shares for subscription subject to the terms and conditions of this prospectus at the issue price. Subject to, among other things, the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus being granted by the GEM listing committee not later than 5:00 p.m. on the 30th day after the date of this prospectus (or such later date as Japan Asia, (in consultation with Anglo Chinese), for itself and on behalf of Anglo Chinese and the underwriters may agree in writing with the Company), the underwriters have severally agreed to subscribe for or purchase or procure subscribers or purchasers to subscribe for or purchase the placing shares on the terms and conditions of this prospectus.

Grounds for termination

The obligations of the underwriters to subscribe for or purchase or procure subscribers or purchasers to subscribe for or purchase the placing shares, are subject to termination if certain grounds arise on or before 9:00 a.m. on the business day immediately preceding the listing date. The grounds for termination include, among others, circumstances where:

- (a) there has come to the notice of Anglo Chinese, Japan Asia or any of the underwriters:
 - (i) that any statement contained in this prospectus is or has become, untrue, incorrect or misleading in any material respect; or
 - (ii) that any enquiries or investigation are/is made by any government or regulatory body (including the Stock Exchange or the SFC) in relation to certain matters over which indemnities are given by parties to the underwriting agreement (other than by Anglo Chinese, Japan Asia and the underwriters); or

UNDERWRITING

- (iii) that any matter has arisen or has been discovered (and the details relating thereto are not disclosed in this prospectus) which, had it arisen or been discovered immediately before the date of this prospectus, would (for the reason that such details had not been disclosed in this prospectus) constitute a material omission therefrom; or
 - (iv) any material breach of the representations, warranties and undertakings given by any party to the underwriting agreement (other than by Anglo Chinese, Japan Asia and the underwriters); or
 - (v) any event, act or omission which gives or is reasonably likely to give rise to any material liability of the Company pursuant to the indemnities contained in the underwriting agreement; or
 - (vi) any material breach of any of the obligations imposed upon any party to the underwriting agreement (other than on Anglo Chinese, Japan Asia or any of the underwriters); or
 - (vii) any material adverse change in the business or in the financial or trading position of the Company and/or ACS; or
- (b) there shall develop, occur or come into effect:
- (i) any event, or series of events of force majeure (including, without limitations, acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism, acts of God, accident or interruption or delay in transportation); or
 - (ii) any change in local, international, financial, economic, political, military, industrial, fiscal, regulatory or stock market conditions (including but not limited to any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange); or
 - (iii) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the Cayman Islands, Hong Kong, Singapore or any other jurisdiction relevant to the group or any member thereof; or
 - (iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by the U.S. or the European Economic Community (or any member thereof), on the Cayman Islands, Hong Kong or any other jurisdiction relevant to the group or any member thereof; or

UNDERWRITING

- (v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Cayman Islands, Hong Kong or any other jurisdiction relevant to the group or any member thereof; or
- (vi) any litigation or claim of material importance by any third party being threatened or instigated against any member of the group;

which, in the opinion of Japan Asia (in consultation with Anglo Chinese), for itself and on behalf of Anglo Chinese and the underwriters:

- (i) is or will or is likely to be materially adverse to the business, financial or trading conditions or prospects of the Company and/or ACS; or
- (ii) has or will or is likely to have a material adverse effect on the success of the placing or the level of placing shares being applied for or accepted or the distribution of the placing shares; or
- (iii) makes it inadvisable or inexpedient to proceed with the placing.

UNDERTAKINGS

Each of the initial management shareholders (namely D&A Holdings, Mr. Denny Wong, Ms. Alice Wong, Thomrose Holdings, Mr. Thomas Wan, Mr. Lawrence Pang, Mr. Tan Keng Boon and Mr. Joachim Goebel), and each of the substantial shareholders (namely Proway Investment, Morningside CyberVentures Holdings Limited and Verrall Limited) has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange that for a period of twelve months for D&A Holdings, Mr. Denny Wong, Ms. Alice Wong, Thomrose Holdings, Mr. Thomas Wan, Mr. Lawrence Pang, Mr. Tan Keng Boon, Proway Investment, Morningside CyberVentures Holdings Limited and Verrall Limited and six months for Mr. Joachim Goebel immediately following the listing date:

- (i) it, he or she will place in escrow, with an escrow agent acceptable to the Stock Exchange, all its/his/her relevant securities (as defined in rule 13.15(4) of the GEM listing rules) (the “Securities”) on such terms as are acceptable to the Stock Exchange;
- (ii) it, he or she will not, save as provided in rule 13.18 of the GEM listing rules or in the case of D&A Holdings, otherwise pursuant to any transactions under the stock borrowing agreement, dispose of (or enter into any agreement to dispose of) nor permit the registered holder (if any) to dispose of (or to enter into any agreement to dispose of) any of its, his or her direct or indirect interest in the Securities;

UNDERWRITING

- (iii) in the event that it, he or she, pledges or charges any of its, his or her direct or indirect interest in the Securities under rule 13.18(1) of the GEM listing rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to rule 13.18(4) of the GEM listing rules, it, he or she will inform the Company immediately thereafter and disclose the details required by the GEM listing rules; and
- (iv) in the event that it, he or she has pledged or charged any of its, his or her interest in the Securities under sub-paragraph (iii) above, the relevant initial management shareholder or substantial shareholder will inform the Company immediately in the event that it, he, or she becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Securities affected.

In addition, each of Mr. Denny Wong and Ms. Alice Wong has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of, his or her direct or indirect interest in D&A Holdings within the first twelve months following the listing date. Mr. Thomas Wan has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or enter into any agreement to dispose of, his direct or indirect interest in Thomrose Holdings within the first twelve months following the listing date. Each of Verrall Limited and Morningside CyberVentures Holdings Limited has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange not to dispose of, or to enter into any agreement to dispose of, its direct or indirect interest in Morningside CyberVentures Holdings Limited and Proway Investment (as the case may be) within the first twelve months following the listing date.

Verrall Limited has undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange that the direct or indirect interest in the relevant securities (as such term is defined in rule 13.15(4) of the GEM listing rules) of Proway Investment, Morningside CyberVentures Holdings Limited and Verrall Limited as trustee of the family trust established by Madam Chan Tan Ching Fen will not be distributed to the discretionary objects of the trust within the first twelve months following the listing date.

Verrall Limited has further undertaken to the Company, Anglo Chinese, Japan Asia, the underwriters and the Stock Exchange that the undertakings given by Verrall Limited as trustee of the family trust established by Madam Chan Tan Ching Fen will be binding upon its successors as trustees of the said trust within the first twelve months following the listing date.

UNDERWRITING

Commission and expenses

The underwriters will receive a combined praecipium, underwriting and selling commission of 4.0% of the aggregate issue price of all the placing shares (including, for the avoidance of doubt, any Shares that may fall to be issued under the offer size adjustment option), out of which they will pay any sub-underwriting commission. In addition, Anglo Chinese will receive a financial advisory and sponsorship fee in relation to the placing. Such fees and commissions, together with the Stock Exchange listing fees, the Stock Exchange trading fee, SFC transaction levy and the investor compensation levy payable in respect of the placing shares, legal and other professional fees, printing and other expenses relating to the placing, which are currently estimated to amount in aggregate to approximately HK\$8.5 million, assuming that the offer size adjustment option is not exercised, are payable by the Company. The fee charged by the Company's reporting accountants in respect of the proposed listing of the Shares on GEM is a fixed amount and not contingent upon the success of the listing.

Underwriters' interests in the Company

Save for its rights and obligations under the underwriting agreement, none of the underwriters has any shareholding interests in any member of the group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the group. However, each of the underwriters and, or its subsidiaries may subscribe for or purchase Shares under the placing, or purchase Shares in the market for its own account.

Sponsor agreement

Under a sponsor agreement entered into between Anglo Chinese and the Company on 30 October, 2003, pursuant to which Anglo Chinese agrees to act as a sponsor to the Company for a fee for the remainder of the financial year of the Company ending 31 December, 2003 and the period of 24 months commencing from 1 January, 2004 until 31 December, 2005 or until the sponsor's agreement is terminated upon the terms and conditions set out therein.

Sponsor's interest in the Company

Save for the financial advisory and sponsorship fees to be paid to Anglo Chinese as sponsor of the placing and Anglo Chinese's interests and obligations under the underwriting agreement and the sponsor agreement, neither Anglo Chinese nor any of its associates has or may, as a result of the placing, have any shareholding interest in any member of the group nor does any of them have any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the group.

UNDERWRITING

Neither Anglo Chinese nor any of its associates has accrued any material benefit as a result of the successful outcome of the placing, including by way of, for example, the repayment of material outstanding indebtedness or success fees, save and except for the financial advisory and sponsorship fee to be received by Anglo Chinese as sponsor of the placing and the fees payable to Anglo Chinese by the Company under the sponsor agreement.

None of the directors or employees of Anglo Chinese holds any directorship in the Company.

STRUCTURE OF THE PLACING

PRICE PAYABLE ON SUBSCRIPTION

Investors subscribing for the placing shares at the issue price are also required to pay a 1.0% brokerage, a 0.005% Stock Exchange trading fee, a 0.005% SFC transaction levy and a 0.002% investor compensation levy. Based on the issue price of HK\$0.32 per placing share, the amount to be paid by investors, in cash, will be approximately HK\$2,586 per board lot of 8,000 placing shares.

THE PLACING

The placing shares will represent approximately 27.857% of the Company's enlarged issued share capital immediately after completion of the placing, assuming that the offer size adjustment option and the options granted under the pre-IPO share option plan are not exercised.

It is expected that the underwriters or selling agents nominated by them will conditionally place the placing shares on behalf of the Company at the issue price with selected professional, institutional and private investors, subject to certain restrictions. Such professional, institutional and other private investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities, and corporate entities and private individuals who regularly invest in shares and other securities. The placing shares are unlikely to be allocated to individual retail investors, who are expected to subscribe for or purchase Shares in the placing through banks and other institutions.

CONDITIONS OF THE PLACING

Acceptance of all applications for the placing shares will be conditional on:

- (a) the GEM listing committee granting listing of, and permission to deal in, all the Shares in issue and the Shares to be issued as mentioned herein on GEM; and
- (b) the obligations of the underwriters under the underwriting agreement becoming unconditional (including, if relevant, following the waiver of any condition(s) by Japan Asia (in consultation with Anglo Chinese), for itself and on behalf of Anglo Chinese and the other underwriters) and the underwriting agreement not being terminated in accordance with its terms or otherwise, prior to 9:00 a.m. on the business day immediately preceding the listing date.

If such conditions have not been fulfilled or waived prior to the times and dates specified in the underwriting agreement, the placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the placing will be published by the Company on the GEM website on the next business day following such lapse. In the event that the placing lapses, all application moneys will be returned to the applicants without interest.

STRUCTURE OF THE PLACING

OFFER SIZE ADJUSTMENT OPTION

Solely for the purpose of covering over-allocations, if any, under the placing, the Company has granted the offer size adjustment option to the underwriters which is exercisable by Japan Asia (on behalf of Anglo Chinese and the underwriters) at any time before 5:30 p.m. on the business day immediately before the date of announcement of the level of indication of interest in the placing. The offer size adjustment option will lapse if it is not exercised before that time. Pursuant to the offer size adjustment option, the Company may be required to allot and issue at the issue price up to an aggregate of 11,700,000 additional new Shares, representing 15% of the Shares initially available under the placing, solely to cover and facilitate the settlement of Shares under the placing as a result of offer size adjustments, if any. If the offer size adjustment option is exercised in full, the additional placing share will represent approximately 4.011% of the Company's issued share capital immediately following the completion of the placing and the capitalisation issue and as enlarged by the Shares issued upon the full exercise of the offer size adjustment option.

The Company will disclose in its announcement of the level of indication of interest in the placing whether the offer size adjustment option has been exercised.

The Company will, whether or not the offer size adjustment option is exercised, raise sufficient funding through the listing to meet the minimum listing criteria.

The option is considered to be in the best interest of the Company as it provides flexibility for Japan Asia and the underwriters to meet any excessive demands under the placing. Any exercise of the option will be made at any time before 5:30 p.m. on the business day immediately before the date of announcement of the level of indication of interest in the placing. The offer size adjustment option shall not be used for price stabilization purposes. As such, it is not subject to the Securities and Futures (Price Stabilizing) Rules.

Japan Asia (for itself and acting on behalf of Anglo Chinese and the underwriters) may borrow Shares from D&A Holdings under a stock borrowing agreement prior to an exercise of the offer size adjustment option.

No Shares in the secondary market will be purchased by Japan Asia (for itself and acting on behalf of Anglo Chinese and the underwriters) following the completion of the placing for the purpose of settling any over-allocations in the placing.

Assuming the offer size adjustment option is exercised in full but the pre-IPO share options are not exercised, the public float of the Company will increase from approximately 34.630% to approximately 37.254%.

(Please refer to the section headed "Statement of business objectives and strategies – Use of proceeds" for details of the use of the additional net proceeds from the exercise of the offer size adjustment option.)

STRUCTURE OF THE PLACING

STOCK BORROWING

In order to facilitate the settlement of Shares under the placing as a result of offer size adjustments, if any, in connection with the placing, Japan Asia (for itself and acting on behalf of Anglo Chinese and the underwriters) may borrow Shares, up to a maximum of 11,700,000 Shares, representing 15% of the Shares initially available under the placing, from D&A Holdings under the stock borrowing agreement prior to any exercise of the offer size adjustment option. The main terms of the stock borrowing agreement are set out below:

- (i) Shares may be borrowed by Japan Asia solely for the settlement of Shares under the placing as a result of offer size adjustments;
- (ii) the maximum number of Shares which may be borrowed from D&A Holdings must not exceed 11,700,000 Shares; and
- (iii) the same number of Shares borrowed is returned to D&A Holdings and deposited with the escrow agent appointed by D&A Holdings for the purposes of rule 13.16(1) of the GEM listing rules within 3 business days after the last day on which the offer size adjustment option may be exercised or, if earlier, the date on which the offer size adjustment option is exercised in full.

The stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements. No benefits or payments will be made to D&A Holdings by Japan Asia in relation to such stock borrowing arrangement.

Japan Asia will return Shares to D&A Holdings by exercise of the offer size adjustment option. If the offer size adjustment option is exercised in full, the total placing shares will represent approximately 30.751% of the enlarged issued share capital of the Company immediately after the completion of the placing, the capitalisation issue and the issue of Shares pursuant to the exercise of the offer size adjustment option, taking no account of any Shares which may be issued upon the exercise of the options granted under the share option scheme, the pre-IPO share option plan and the general mandate to issue Shares referred to in appendix V to this prospectus. In the event that the offer size adjustment option is exercised, the Company will disclose this in its announcement of the level of indication of interest in the placing.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI to this prospectus, a copy of the Accountants' Report is available for inspection.



8th Floor
Prince's Building
10 Chater Road
Hong Kong

The Directors
Advanced Card Systems Holdings Limited
Anglo Chinese Corporate Finance, Limited

31 October, 2003

Dear Sirs,

We set out below our report on the financial information relating to Advanced Card Systems Holdings Limited (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003 (the "relevant period") for inclusion in the prospectus of the Company dated 31 October, 2003 (the "Prospectus").

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 on 28 April, 2000 pursuant to a group reorganisation (the "Reorganisation"), as detailed in paragraph headed "Further information about the Company" in Appendix V of the Prospectus. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation and the incurring of certain administrative expenses.

We have acted as auditors of the companies now comprising the Group throughout the relevant period.

We have examined the audited financial statements of the respective companies comprising the Group for the relevant period, or since their respective dates of incorporation where there is shorter period, in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants. We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 April, 2003.

The Directors of the respective companies of the Group are responsible for preparing 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.

The Directors of the Company are responsible for the preparation of the balance sheets of the Company and the consolidated balance sheets of the Group at 31 December, 2001, 31 December, 2002 and 30 April, 2003 and the Group's consolidated profit and loss accounts, consolidated cash flow statements and consolidated statements of changes in equity for the relevant period, together with the notes thereto as set out in sections C to E below (the "Financial Information"). The Financial Information as set out in this report has been prepared based on the audited financial statements of the companies now comprising the Group, and on the basis set out in section A below.

It is our responsibility to form an independent opinion on the Financial Information.

In our opinion, for the purpose of this report, and on the basis of presentation set out in section A below, the Financial Information set out below together with the notes thereto gives a true and fair view of the consolidated results and cash flows of the Group for the relevant period and of the consolidated state of affairs of the Group and the state of affairs of the Company as at 31 December, 2001, 31 December, 2002 and 30 April, 2003.

A. BASIS OF PRESENTATION

The Company and its subsidiary resulting from Reorganisation have been regarded as a continuing group. Accordingly, the Financial Information has 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.

The measurement basis used in the preparation of the Financial Information is historical cost.

All significant intercompany transactions and balances have been eliminated on consolidation.

The following sets out the particulars of the subsidiary of the Company.

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 HK\$1 each	100%	Development, sale and distribution of smart card products, software and hardware and the provision of smart card related services

B. CONSOLIDATED FINANCIAL INFORMATION**1. Consolidated profit and loss account**

The consolidated results of the Group for the relevant period, prepared on the basis set out in section A above, are set out below.

	Section C Note	Year ended		Four months
		31 December, 2001	2002	ended 30 April, 2003
		HK\$'000	HK\$'000	HK\$'000
		<i>(except per share data)</i>		
Turnover	2	12,863	27,794	7,307
Cost of sales		(7,517)	(15,338)	(3,109)
		5,346	12,456	4,198
Other revenue	3(a)	328	19	28
Other net income	3(b)	15	6	11
Operating expenses				
Staff costs		(5,092)	(5,073)	(1,674)
Depreciation		(514)	(581)	(189)
Amortisation of development costs		(341)	(825)	(430)
Other operating expenses		(3,870)	(2,898)	(770)
(Loss)/profit from operations		(4,128)	3,104	1,174
Finance costs	4(a)	(61)	(88)	(31)
(Loss)/profit from ordinary activities before taxation	4	(4,189)	3,016	1,143
Taxation	5(a)	–	–	–
(Loss)/profit from ordinary activities after taxation		(4,189)	3,016	1,143
Accumulated losses brought forward	21(a)	(23,439)	(27,628)	(24,612)
Accumulated losses carried forward	21(a)	(27,628)	(24,612)	(23,469)
(Loss)/earnings per share (HK cents)				
Basic	9	(2.07)	1.49	0.57

The accompanying notes form part of the Financial Information.

2. Consolidated balance sheet

The consolidated balance sheets of the Group at 31 December, 2001, 31 December, 2002 and 30 April, 2003, prepared on the basis set out in Section A above, are set out below.

		At		At
	Section C	31 December,		30 April,
	Note	2001	2002	2003
		HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Fixed assets	12	1,051	872	810
Development costs	13	3,986	6,962	7,728
		5,037	7,834	8,538
Current assets				
Inventories	15	4,204	3,570	5,285
Accounts receivable	16	1,663	3,298	3,528
Other receivables, deposits and prepayments	16	757	356	960
Cash and cash equivalents	17	2,178	2,119	1,441
		8,802	9,343	11,214
Total current assets				
Current liabilities				
Accounts payable	18	2,669	1,328	2,326
Other payables, deposits and accruals	18	3,097	2,427	2,861
Convertible debentures	19	3,000	–	–
		8,766	3,755	5,187
Total current liabilities				
		36	5,588	6,027
Net current assets				
NET ASSETS				
		5,073	13,422	14,565
CAPITAL AND RESERVES				
Share capital	20	16,094	17,675	17,675
Reserves	21(a)	(11,021)	(4,253)	(3,110)
		5,073	13,422	14,565

The accompanying notes form part of the Financial Information.

3. Company balance sheet

The balance sheets of the Company at 31 December, 2001, 31 December, 2002 and 30 April, 2003, are set out below.

		At		At
	Section C	31 December,		30 April,
	Note	2001	2002	2003
		HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Investment in a subsidiary	14	31,142	33,443	33,442
Current liabilities				
Other payables, deposits and accruals	18	50	50	50
Convertible debentures	19	3,000	–	–
Total current liabilities		3,050	50	50
NET ASSETS		<u>28,092</u>	<u>33,393</u>	<u>33,392</u>
CAPITAL AND RESERVES				
Share capital	20	16,094	17,675	17,675
Reserves	21(b)	11,998	15,718	15,717
		<u>28,092</u>	<u>33,393</u>	<u>33,392</u>

The accompanying notes form part of the Financial Information.

4. Consolidated statement of changes in equity

The consolidated statements of changes in equity of the Group for the relevant period, prepared on the basis set out in section A above, are set out below.

		Year ended		Four months
		31 December,		ended
	Section C	2001	2002	2003
	Note	HK\$'000	HK\$'000	HK\$'000
Shareholders' equity at 1 January,		9,262	5,073	13,422
(Loss)/profit for the year/period	21(a)	(4,189)	3,016	1,143
Movements in share capital:				
– Shares issued to full time employees, consultants and advisors of the Company and its subsidiary	20	–	914	–
– Shares issued upon conversion of convertible debentures	20	–	667	–
– Net share premium received	21(a)	–	3,752	–
Net increase in shareholders' equity arising from capital transactions with shareholders		–	5,333	–
Shareholders' equity at 31 December,/30 April,		5,073	13,422	14,565

The accompanying notes form part of the Financial Information.

5. Consolidated cash flow statement

The consolidated cash flow statements of the Group for the relevant period, prepared on the basis set out in section A above, are set out below.

	Section C	Year ended		Four months
	Note	31 December,	2002	ended
		2001	2002	30 April,
		HK\$'000	HK\$'000	2003
		HK\$'000	HK\$'000	HK\$'000
Operating activities				
(Loss)/profit from ordinary activities before taxation		(4,189)	3,016	1,143
Adjustments for:				
– Depreciation		514	581	189
– Amortisation of development costs		341	825	430
– Finance costs		61	88	31
– Interest income		(68)	(4)	–
		<u> </u>	<u> </u>	<u> </u>
Operating (loss)/profit before changes in working capital		(3,341)	4,506	1,793
(Increase)/decrease in inventories		(348)	634	(1,715)
Increase in accounts receivable		(127)	(1,635)	(230)
Decrease/(increase) in other receivables, deposits and prepayments		26	401	(604)
Increase/(decrease) in accounts payable		1,642	(1,341)	998
Increase in other payables, deposits and accruals	22	2,542	1,674	434
		<u> </u>	<u> </u>	<u> </u>
Cash generated from operations		394	4,239	676
Tax paid		–	–	–
		<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities		394	4,239	676
Investing activities				
Payments for the purchase of fixed assets		(522)	(402)	(127)
Development costs capitalised		(4,327)	(3,801)	(1,196)
Interest received		68	4	–
		<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities		(4,781)	(4,199)	(1,323)
Financing activities				
Other borrowing costs paid		(61)	(88)	(31)
Proceeds on issue of convertible debentures		3,000	–	–
Share issue expenses	21(a)	–	(11)	–
		<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in) financing activities		2,939	(99)	(31)
Net decrease in cash and cash equivalents		(1,448)	(59)	(678)
Cash and cash equivalents at 1 January,		3,626	2,178	2,119
		<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at 31 December,/30 April,	17	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>

Details of major non-cash transaction are set out in note 22.

The accompanying notes form part of the Financial Information.

C. NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. Principal accounting policies

The principal accounting policies adopted by the Group in arriving at the Financial Information included in this report are set out below.

(a) Basis of preparation of the Financial Information

The Financial Information has been prepared in accordance with the principal accounting policies set out below. These accounting policies conform with accounting principles generally accepted in Hong Kong. The Financial Information presented also conforms with the disclosure requirements of the Listing Rules of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports included in Listing Documents.

The measurement basis used in the preparation of the Financial Information set out in this report is historical cost.

(b) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated Financial Information, 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 Information. 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 1(d)), 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.

(c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses (note 1(d)).

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated 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.

(d) 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.

(e) 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.

(f) *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 cash flow statement.

(g) *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

With effect from 1 January, 2003, deferred taxation is provided using balance sheet liability method for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. When the initial recognition of assets or liabilities affects neither accounting profits nor taxable profit or loss, no deferred taxation is provided for. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realised.

(b) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the 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.

(i) *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.

(j) *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 1(d)). 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.

(k) *Translation of foreign currencies*

The Financial Information is 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.

(l) *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.

(m) *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.

(n) 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.

(o) Related parties

For the purposes of the Financial Information, 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.

(p) 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.

2. Turnover

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

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

	Year ended		Four months ended
	31 December,	2002	30 April,
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of smart card products, software and hardware	12,182	25,654	6,771
Smart card related services	681	2,140	536
	<u>12,863</u>	<u>27,794</u>	<u>7,307</u>

3. Other revenue and other net income

	Year ended		Four months
	31 December,		ended
	2001	2002	30 April,
	HK\$'000	HK\$'000	2003
			HK\$'000
(a) <i>Other revenue</i>			
Interest income	68	4	–
Forfeited deposits	210	–	–
Sundry income	50	15	28
	<u>328</u>	<u>19</u>	<u>28</u>
(b) <i>Other net income</i>			
Exchange gain	15	6	11
	<u>15</u>	<u>6</u>	<u>11</u>

4. (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Year ended		Four months
	31 December,		ended
	2001	2002	30 April,
	HK\$'000	HK\$'000	2003
			HK\$'000
(a) <i>Finance costs:</i>			
Other borrowing costs:			
– bank charges	60	88	31
– bank overdraft charges	1	–	–
	<u>61</u>	<u>88</u>	<u>31</u>

	Four months ended		
	Year ended		30 April,
	31 December,	2002	2003
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
(b) <i>Other items:</i>			
Cost of inventories	6,915	14,888	2,804
Write-down/(reversal of write-down) of inventories (<i>note 15</i>)	418	(45)	65
Provision for bad debts	459	206	–
Auditors' remuneration	65	90	–
	<u>7,225</u>	<u>7,074</u>	<u>2,220</u>
Salaries and benefits	7,225	7,074	2,220
Retirement scheme contributions	184	222	69
	<u>7,409</u>	<u>7,296</u>	<u>2,289</u>
Total staff costs	7,409	7,296	2,289
Staff costs included in research and development costs	2,504	2,520	693
Less: amounts capitalised in development costs	(2,317)	(2,223)	(615)
	<u>187</u>	<u>297</u>	<u>78</u>
Staff costs (after amounts capitalised)	<u>5,092</u>	<u>5,073</u>	<u>1,674</u>
Consultancy fees	2,046	1,345	378
Less: amount included in research and development costs	(1,284)	(1,107)	(310)
	<u>762</u>	<u>238</u>	<u>68</u>
Operating lease charges for properties	978	733	190
Less: amount included in research and development costs	(193)	(90)	(30)
	<u>785</u>	<u>643</u>	<u>160</u>
	<u>5,092</u>	<u>5,073</u>	<u>1,674</u>
	<u>762</u>	<u>238</u>	<u>68</u>
	<u>785</u>	<u>643</u>	<u>160</u>
	<u>623</u>	<u>458</u>	<u>100</u>
	<u>4,950</u>	<u>4,259</u>	<u>1,296</u>
Less: costs capitalised (<i>note 13</i>)	(4,327)	(3,801)	(1,196)
	<u>623</u>	<u>458</u>	<u>100</u>

	Four months ended		
	Year ended		30 April,
	31 December,	2002	2003
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
(c) <i>Research and development costs:</i>			
– Staff costs	2,504	2,520	693
– consultancy fees	1,284	1,107	310
– rental expenses	193	90	30
– direct overheads	969	542	263
	<u>4,950</u>	<u>4,259</u>	<u>1,296</u>
Less: costs capitalised (<i>note 13</i>)	(4,327)	(3,801)	(1,196)
	<u>623</u>	<u>458</u>	<u>100</u>

Research and development costs amounted to HK\$1,296,000, HK\$4,259,000 and HK\$4,950,000 for the four months ended 30 April, 2003 and years ended 31 December, 2002 and 2001 respectively and have been calculated to the extent that staff costs and direct overheads can be allocated by management on a reasonable basis to research and development activities. Included in the total costs of HK\$1,296,000, HK\$4,259,000 and HK\$4,950,000 were amounts of HK\$1,196,000, HK\$3,801,000 and HK\$4,327,000 capitalised during four months ended 30 April, 2003 and the years ended 31 December, 2002 and 2001 respectively (note 13).

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

5. Taxation

(a) Taxation

No provision for Hong Kong Profits Tax has been made by the Company as it did not earn any assessable income during the relevant period.

No provision for Hong Kong Profits Tax has been made by the subsidiary as the tax losses brought forward from previous periods exceed any estimated assessable profits during the relevant period.

The Company and the subsidiary did not earn any assessable income subject to overseas taxation during the relevant period and, accordingly, no provision for overseas taxation has been made by the Group.

(b) Deferred taxation

No provision for deferred taxation has been accounted for as the Group has net deferred tax assets at the balance sheet date. The major components of the unprovided deferred taxation of the Group at 30 April, 2003, 31 December, 2002 and 31 December, 2001 are set out below:

	The Group		
	At 31 December, 2001	At 30 April, 2002	At 30 April, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation allowances in excess of the related depreciation	(127)	(95)	(87)
Timing difference relating to the capitalisation of development costs	(638)	(1,114)	(1,352)
Future benefit of tax losses	5,161	5,091	5,518
	<u>4,396</u>	<u>3,882</u>	<u>4,079</u>

The Group has not provided the net deferred taxation assets as the generation of future taxable profits against which the assets can be utilised is uncertain.

The Company has no material deferred taxation assets or liabilities.

6. Directors' remuneration

Two of the five Directors of the Company were also Directors or employees of the subsidiary during the relevant period. Details of the emoluments paid and payable to these Directors in their capacity as executives of the subsidiary for the relevant period are as follows:

	Year ended		Four months
	31 December,		ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	2003
			<i>HK\$'000</i>
Fees	–	–	–
Basic salaries, housing and other allowances and benefits in kind	1,620	1,928	576
Discretionary bonuses	137	–	–
Retirement scheme contributions	12	25	8
	<u>1,769</u>	<u>1,953</u>	<u>584</u>

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

	Year ended		Four months
	31 December,		ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	2003
			<i>HK\$'000</i>
Not more than HK\$1,000,000	1	1	2
HK\$1,000,001 – HK\$1,500,000	1	1	–
HK\$1,500,001 – HK\$2,000,000	–	–	–
HK\$2,000,001 – HK\$2,500,000	–	–	–
	<u>2</u>	<u>2</u>	<u>2</u>

Of the five Directors of the Company as noted above, three of the Directors did not receive any emoluments during the relevant period whilst two Directors received emoluments of approximately HK\$1,702,000 and HK\$67,000 for the year ended 31 December, 2001 and approximately HK\$1,260,000 and HK\$693,000 for the year ended 31 December, 2002, and approximately HK\$420,000 and HK\$164,000 for the four months ended 30 April, 2003.

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

During the relevant period, no emoluments were paid or payable to the non-executive director and the independent non-executive directors of the Company.

Details of the share options granted to Directors of the Company are set out in note 20(a).

7. Senior management remuneration

Set out below is an analysis of the emoluments of 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:

	Year ended		Four months
	31 December,	2002	ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	2003
			<i>HK\$'000</i>
Fees	–	–	–
Basic salaries, housing and other allowances and benefits in kind	1,704	1,462	492
Discretionary bonuses	82	–	–
Retirement scheme contributions	24	12	4
	<u>1,810</u>	<u>1,474</u>	<u>496</u>

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

	Year ended		Four months
	31 December,	2002	ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	2003
			<i>HK\$'000</i>
Not more than HK\$1,000,000	3	3	3
HK\$1,000,001 – HK\$1,500,000	–	–	–
HK\$1,500,001 – HK\$2,000,000	–	–	–
HK\$2,000,001 – HK\$2,500,000	–	–	–
	<u>3</u>	<u>3</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 relevant period.

8. Dividends

The Company had not declared or paid any dividend during the relevant period.

9. Basic and diluted earnings/(loss) per share

The calculation of the basic earnings/(loss) per share for each year/period is based on the group's consolidated profit/(loss) attributable to shareholders for each respective year/period and on the 202,000,000 Shares outstanding after the proposed issuance of Shares to Proway Investment Limited and the proposed capitalisation issue as if those Shares had been outstanding for each year/period presented as described in the section headed "Further information about the company" in Appendix V to this Prospectus.

There were no potential dilutive ordinary Shares in issue during the relevant period.

The calculation of basic and diluted earnings/(loss) per share has not taken into account the Shares which will or may be issued pursuant to the placing or subsequent to the placing.

10. 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 relevant period, the Group was principally engaged in the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to customers.

Four months ended 30 April, 2003

	Development, sale and distribution of smart card products, software and hardware	Provision of smart card related services	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	6,771	536	7,307
Other revenue			
– allocated	–	–	–
– unallocated			28
			<u>7,335</u>
Segment result and profit from operations			1,174
Finance costs			(31)
			<u>1,143</u>
Profit from ordinary activities before taxation			1,143
Taxation			–
			<u>1,143</u>
Profit from ordinary activities after taxation			<u>1,143</u>
Depreciation and amortisation	<u>619</u>	<u>–</u>	<u>619</u>

Year ended 31 December, 2002

	Development, sale and distribution of smart card products, software and hardware	Provision of smart card related services	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	25,654	2,140	27,794
Other revenue			
– allocated	–	–	–
– 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>

Year ended 31 December, 2001

	Development, sale and distribution of smart card products, software and hardware	Provision of smart card related services	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	12,182	681	12,863
Other revenue			
– allocated	210	–	210
– unallocated			118
			<u>13,191</u>
Segment result and loss from operations			(4,128)
Finance costs			(61)
Loss from ordinary activities before taxation			(4,189)
Taxation			–
Loss from ordinary activities after taxation			<u>(4,189)</u>
Depreciation and amortisation	<u>855</u>	<u>–</u>	<u>855</u>

All segment assets and liabilities are attributable to the segment of "Development, sale and distribution of smart card products, software and hardware" and, accordingly, no segmental analysis of the Group's assets, liabilities and capital expenditure is presented.

(b) *Geographical segments*

The Group's operations are located in Hong Kong. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of its customers who are principally located in the Americas, Asia, Europe, Africa and the Middle East. Segment information relating to these geographical markets is presented below:

	Turnover		
	Year ended		Four months
	31 December,	2002	ended
	2001	2002	30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	2003
			<i>HK\$'000</i>
The Americas	1,492	11,119	338
Asia	4,232	9,064	4,471
Europe, Africa and the Middle East	7,139	7,611	2,498
	<u>12,863</u>	<u>27,794</u>	<u>7,307</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.

11. Retirement benefits

The Group participates in a 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.

	Four months		
	Year ended		ended
	31 December,	2002	30 April,
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Retirement contributions payable to retirement schemes	184	222	69
	<u>184</u>	<u>222</u>	<u>69</u>

At 30 April, 2003, there were no forfeited contributions, which arose upon employees leaving the retirement scheme up to 30 April, 2003, available to reduce the contributions payable by the Group in future periods.

12. Fixed assets

	Leasehold improvements <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	The Group Furniture and fixtures <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 January, 2001	–	1,309	190	226	1,725
Additions	98	311	17	96	522
At 31 December, 2001 and 1 January, 2002	98	1,620	207	322	2,247
Additions	–	178	2	222	402
At 31 December, 2002 and 1 January, 2003	98	1,798	209	544	2,649
Additions	–	58	6	63	127
Disposals	–	(26)	–	–	(26)
At 30 April, 2003	98	1,830	215	607	2,750
Accumulated depreciation:					
At 1 January, 2001	–	508	98	76	682
Charge for the year	25	366	43	80	514
At 31 December, 2001 and 1 January, 2002	25	874	141	156	1,196
Charge for the year	24	391	32	134	581
At 31 December, 2002 and 1 January, 2003	49	1,265	173	290	1,777
Charge for the period	8	126	10	45	189
Written off on disposals	–	(26)	–	–	(26)
At 30 April, 2003	57	1,365	183	335	1,940
Net book value:					
At 30 April, 2003	41	465	32	272	810
At 31 December, 2002	49	533	36	254	872
At 31 December, 2001	73	746	66	166	1,051

13. Development costs

	The Group		
	Year ended 31 December, 2001 HK\$'000	2002 HK\$'000	Four months ended 30 April, 2003 HK\$'000
Cost:			
At 1 January,	–	4,327	8,128
Additions through internal development during the year/period	4,327	3,801	1,196
At 31 December,/30 April,	4,327	8,128	9,324
Accumulated amortisation:			
At 1 January,	–	341	1,166
Charge for the year/period	341	825	430
At 31 December,/30 April,	341	1,166	1,596
Net book value:			
At 31 December,/30 April	3,986	6,962	7,728

Development costs of HK\$1,196,000, HK\$3,801,000 and HK\$4,327,000 capitalised during the four months ended 30 April, 2003 and the years ended 31 December, 2002 and 2001 respectively are being amortised to the profit and loss account on a straight-line basis over their estimated useful lives of four years.

14. Investment in a subsidiary

	The Company		
	At 31 December, 2001 HK\$'000	2002 HK\$'000	At 30 April, 2003 HK\$'000
Unlisted shares, at cost	14,004	14,004	14,004
Amount due from a subsidiary	17,138	19,439	19,438
	31,142	33,443	33,442

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 HK\$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 30 April, 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.

15. Inventories

	The Group		
	At 31 December, 2001	2002	At 30 April, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	2,407	2,827	3,408
Work in progress	772	38	1,023
Finished goods	1,025	705	854
	<u>4,204</u>	<u>3,570</u>	<u>5,285</u>

Included in raw materials, work in progress and finished goods are inventories stated net of a specific provision of HK\$438,000, HK\$373,000 and HK\$418,000 at 30 April, 2003, 31 December, 2002 and 2001 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 four months ended 30 April, 2003 and the years ended 31 December, 2002 and 2001 is HK\$Nil, HK\$45,000 and HK\$Nil, respectively. The reversal during the year ended 31 December, 2002 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.

16. Accounts receivable, other receivables, deposits and prepayments

	The Group		
	At 31 December, 2001	2002	At 30 April, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivable	1,663	3,298	3,528
Other receivables	9	–	–
Utility and other deposits	92	140	220
Prepayments	656	216	740
	<u>757</u>	<u>356</u>	<u>960</u>
	<u>2,420</u>	<u>3,654</u>	<u>4,488</u>

The amount of other receivables, deposits and prepayments expected to be recovered after more than one year is HK\$29,000, HK\$89,000 and HK\$82,000 at 30 April, 2003, 31 December, 2002 and 31 December, 2001 respectively.

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:

	At 31 December,		At 30 April,
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	1,333	2,162	2,449
Aged over 1 month but less than 2 months	53	204	353
Aged over 2 months but less than 3 months	97	302	32
Aged over 3 months	180	630	694
	<u>1,663</u>	<u>3,298</u>	<u>3,528</u>

The amounts due from top five customers of the Group accounted for approximately 41%, 55% and 69% respectively of the accounts receivable at 30 April, 2003, 31 December, 2002 and 2001.

17. Cash and cash equivalents

	The Group		At 30 April,
	At 31 December,	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at bank and in hand	<u>2,178</u>	<u>2,119</u>	<u>1,441</u>

18. Accounts payable, other payables, deposits and accruals

	The Group			The Company		
	At 31 December,	2002	At 30 April,	At 31 December,	2002	At 30 April,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts payable	2,669	1,328	2,326	-	-	-
Other payables	2,344	-	-	-	-	-
Deposits received	501	1,621	2,285	-	-	-
Accruals	252	806	576	50	50	50
	<u>3,097</u>	<u>2,427</u>	<u>2,861</u>	<u>50</u>	<u>50</u>	<u>50</u>
	<u>5,766</u>	<u>3,755</u>	<u>5,187</u>	<u>50</u>	<u>50</u>	<u>50</u>

Other payables of HK\$2,344,000 at 31 December, 2001 represented payments made by certain employees of the subsidiary upon subscribing for 1,172,000 ordinary shares of the Company which had been received by the subsidiary (note 20(b)). At 31 December, 2001, the legal process in respect of subscribing for these shares had not been completed and the amounts were classified as "other payables".

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		
	At 31 December,		At 30 April,
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	2,280	865	1,940
Aged over 1 month but less than 2 months	329	356	201
Aged over 2 months but less than 3 months	60	72	59
Aged over 3 months	–	35	126
	<u>2,669</u>	<u>1,328</u>	<u>2,326</u>

19. Convertible debentures

	The Group and the Company		
	At 31 December,		At 30 April,
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Convertible debentures	<u>3,000</u>	<u>–</u>	<u>–</u>

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 US\$385,714 (HK\$3,000,000). The convertible debentures were non-interest bearing.

The holder of the convertible debentures had, subject to certain conditions, the right at any time following the expiry of twelve months from the date of issuance of the convertible debentures, to convert part or all of the convertible debentures into ordinary shares of the Company at a price equivalent to US\$0.45 (HK\$3.50) per share. The convertible debentures were to be automatically converted into ordinary shares of the Company at a conversion price of US\$0.45 (HK\$3.50) per share upon the first occurrence of any one of the following events:

- (a) the expiry of the twelve months after the issuance of the convertible debentures;
- (b) the receipt of the additional financing for the Group; and
- (c) the occurrence of a liquidation, dissolution or winding up of the Company.

On 5 July, 2002, the Company issued 857,143 ordinary shares upon conversion of the convertible debentures in the principal amount of US\$385,714 (HK\$3,000,000) upon the exercise of the conversion rights by the holder. The shares so issued rank pari passu with the then existing ordinary shares of the Company in all respects.

20. Share capital

	At 31 December, 2001		At 31 December, 2002		At 30 April, 2003	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:						
Ordinary shares of US\$0.10 each	43,283	33,674	43,283	33,674	43,283	33,674
Series A preference shares of US\$0.10 each	6,717	5,226	6,717	5,226	6,717	5,226
	<u>50,000</u>	<u>38,900</u>	<u>50,000</u>	<u>38,900</u>	<u>50,000</u>	<u>38,900</u>
Issued and fully paid:						
Ordinary shares of US\$0.10 each						
At 1 January,	18,000	14,004	18,000	14,004	20,029	15,585
Shares issued to full time employees, consultants and advisors of the Company and its subsidiary (note 20(b))	-	-	1,172	914	-	-
Shares issued upon conversion of convertible debentures (note 19)	-	-	857	667	-	-
At 31 December, 30 April,	<u>18,000</u>	<u>14,004</u>	<u>20,029</u>	<u>15,585</u>	<u>20,029</u>	<u>15,585</u>
Series A preference share of US\$0.10 each						
At 1 January,	2,687	2,090	2,687	2,090	2,687	2,090
Shares issued during the year/period	-	-	-	-	-	-
At 31 December,/30 April,	<u>2,687</u>	<u>2,090</u>	<u>2,687</u>	<u>2,090</u>	<u>2,687</u>	<u>2,090</u>
		<u>16,094</u>		<u>17,675</u>		<u>17,675</u>

At general meetings of the Company each holder of Series A preference shares has a right to vote on a show of hands. Whilst on a poll, each holder of Series A preference shares present in person or by proxy or by a representative is entitled to exercise the number of votes to which the holder would have been entitled if all the Series A preference shares held by the holder had been converted into ordinary shares immediately before the holding of the general meeting.

Each Series A preference share carries a right to a non-cumulative preference dividend at a rate and in an amount determined from time to time by the board of Directors. The non-cumulative preference dividend has not been accounted for in the Financial Information in the absence of distributable profits from which to effect payment.

On a return of capital on liquidation, winding up, dissolution or otherwise of the assets of the Company available for distribution, the holders of Series A preference shares will be entitled to receive an amount in priority to any repayment to the holder of any other class of shares or securities equal to:

- (1) the amount of any declared but unpaid dividends relating to the Series A preference shares; and
- (2) the repayment of the amount (including both share capital and share premium) for the time being paid up on each Series A preference share.

Subject to the provisions stated in the Company's amended and restated articles of association, adopted on 18 October, 2000 each Series A preference share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share into such number of fully paid up ordinary shares based on the conversion price calculated in accordance with the amended and restated articles of association.

(a) 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 HK\$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 four months ended 30 April, 2003 and the years ended 31 December, 2002 and 2001 were as follows:

Persons	Date option granted	Period during which the options are exercisable <i>(Note)</i>	Exercise price	At 31	At 31	At 30
				December, 2001	December, 2002	April, 2003
				Number of options outstanding		
Directors	25 July, 2000	10 years from 25 July, 2000 to 24 July, 2010 *	US\$0.10	750,000	750,000	750,000
	3 December, 2001	10 years from 3 December, 2001 to 2 December, 2011 **	US\$0.264	300,000	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	950,000##	950,000##	850,000##
	28 December, 2000	10 years from 28 December, 2000 to 27 December, 2010 #	US\$0.10	65,000	65,000	65,000
	21 January, 2003	10 years from 21 January, 2003 to 20 January, 2013 ***	HK\$2	-	-	346,250

(Note)

- * The options so granted vest in three approximately equal tranches on 31 December, 2000, 2001 and 2002.
- # The options so granted vest in three approximately equal tranches on 31 December, 2001, 2002 and 2003.
- ** The options so granted vest 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 Director of the Company in July 2001.
- *** The options so granted vest in three equal tranches on 31 December, 2003, 2004 and 2005.

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 Directors was passed on 24 June, 2003 to cancel the 100,000 options. 100,000 options lapsed in respect of the full time employees, consultants and advisors during the four months ended 30 April, 2003. No options were exercised during the relevant period.

(b) Shares subscribed for by full time employees and consultants

During the year ended 31 December, 2001, an offer to subscribe for a total of 1,250,000 ordinary shares of the Company at HK\$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 HK\$2.00 each. The legal process in respect of subscribing for these shares had not been completed at 31 December, 2001 (note 18). 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 rank *pari passu* with the then existing ordinary shares of the Company in all respects.

(c) Warrants

On 16 June, 2000 and 18 October, 2000, 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 exercise price of US\$1.4525 per share. Such subscription price will be adjusted upon issuance of additional ordinary shares in certain circumstances. The issuance of ordinary shares during the year ended 31 December, 2002 has not resulted in any adjustments to the initial exercise price of US\$1.4525 per share.

On 18 May, 2001, the Company issued further 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 will 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 has not resulted 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 four months ended 30 April, 2003 and the years ended 31 December, 2002 and 2001 were as follows:

Date warrants granted	Periods during which the warrants are exercisable	Exercise price	Number of shares to be issued upon exercise of warrants		
			At 31 December, 2001	At 31 December, 2002	At 30 April, 2003
16 June, 2000	16 June, 2000 to the earlier of 16 June, 2002 or Qualified IPO *	US\$1.4525	134,336	-	-
18 October, 2000	18 October, 2000 to the earlier of 18 October, 2002 or Qualified IPO *	US\$1.4525	134,336	-	-
18 May, 2001	18 May, 2001 to the earlier of 18 May, 2004 or Qualified IPO *	US\$0.2564	250,000	250,000	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.

Warrants for 268,672 shares issued in 2000 expired during the year ended 31 December, 2002. None of the warrants were exercised during the relevant period.

21. Reserves

(a) The Group

	Share premium HK\$'000	Merger reserves HK\$'000	Revenue reserves HK\$'000	Total HK\$'000
At 1 January, 2001	12,111	4,496	(23,439)	(6,832)
Loss for the year	-	-	(4,189)	(4,189)
At 31 December, 2001 and 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 the 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)
Profit for the period	-	-	1,143	1,143
At 30 April, 2003	<u>15,863</u>	<u>4,496</u>	<u>(23,469)</u>	<u>(3,110)</u>

(b) *The Company*

	Share premium <i>HK\$'000</i>	Revenue reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January, 2001	12,111	(10)	12,101
Loss for the year	—	(103)	(103)
At 31 December, 2001 and 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 the 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
Loss for the period	—	(1)	(1)
At 30 April, 2003	<u>15,863</u>	<u>(146)</u>	<u>15,717</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 30 April, 2003, 31 December, 2002 and 31 December, 2001, reserves of the Company available for distribution to shareholders amounted to HK\$15,717,000, HK\$15,718,000 and HK\$11,998,000, respectively.

The Group had a net deficit of reserves of HK\$3,110,000, HK\$4,253,000 and HK\$11,021,000 at 30 April, 2003, 31 December, 2002 and 31 December, 2001 respectively.

	At 31 December, 2001 <i>HK\$'000</i>	At 31 December, 2002 <i>HK\$'000</i>	At 30 April, 2003 <i>HK\$'000</i>
Company	11,998	15,718	15,717
Subsidiary	(27,515)	(24,467)	(23,323)
Merger reserves	<u>4,496</u>	<u>4,496</u>	<u>4,496</u>
Group	<u>(11,021)</u>	<u>(4,253)</u>	<u>(3,110)</u>

The Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the financial year ending 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.

22. Major non-cash transaction

During the year ended 31 December, 2001, an offer to subscribe for a total of 1,250,000 ordinary shares of the Company at HK\$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 HK\$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 amounts due of HK\$2,344,000 were satisfied by the issue of 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 rank pari passu with the existing ordinary shares of the Company in all respects.

23. Commitments

At 30 April, 2003, the total future minimum lease payments under non-cancellable operating leases for property rental are payable as follows:

	The Group and the Company		
	At 31 December, 2001	2002	At 30 April, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	429	337	160
After 1 year but within 5 years	285	–	–
	<u>714</u>	<u>337</u>	<u>160</u>

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

24. Related party transactions

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

	<i>Notes</i>	Four months ended		
		Year ended 31 December, 2001	2002	30 April, 2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Consultancy fees payable	<i>(i)</i>	1,065	837	252
Rentals payable	<i>(ii)</i>	360	288	48
Salaries payable to a related party	<i>(iii)</i>	650	480	160
		<u> </u>	<u> </u>	<u> </u>
Sales of smart card products	<i>(iv)</i>	19	328	168
		<u> </u>	<u> </u>	<u> </u>
Convertible debentures	<i>(v)</i>	3,000	–	–
		<u> </u>	<u> </u>	<u> </u>

Notes:

- (i) The subsidiary has entered into agreements with Mr. Tan Keng Boon and Mr. Tong Kam Hung and paid in aggregate HK\$252,000, HK\$837,000 and HK\$1,065,000 to them for the provision of consultancy services during the four months ended 30 April, 2003 and the years ended 31 December, 2002 and 31 December 2001 respectively. The terms of the transactions are mutually agreed between the related parties and the subsidiary. Consultancy fees are determined based on services provided with reference to market rates. Mr. Tan Keng Boon (who has been a full time consultant of the subsidiary since October 1999) 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 during the relevant period. Mr. Tan Keng Boon ceased to be consultant of the subsidiary in May 2003 and was appointed as chief technical officer of the Group in May 2003 and as executive Director on 25 October, 2003. Mr. Tong Kam Hung was a consultant of the subsidiary during the relevant period.
- (ii) On 1 June, 2000, the subsidiary entered into a rental agreement with United Animal Exchange Limited ("UAEL"), whereby the subsidiary paid monthly rental of HK\$30,000 to UAEL for the use of property owned by UAEL for a term of one year commencing from 1 June, 2000. The rental agreement was subsequently renewed at a monthly rental of HK\$30,000 for a period of seven months commencing from 1 June, 2001.

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

Rentals payable by the subsidiary to UAEL amounted to HK\$48,000, HK\$288,000 and HK\$360,000 during the four months ended 30 April, 2003 and the years ended 31 December, 2002 and 2001. Mr. Wong Yiu Chu, Denny is interested in the agreement as a Director of the Company and a Director and shareholder of UAEL.

- (iii) The subsidiary paid salaries of HK\$160,000, HK\$480,000 and HK\$650,000 to Ms Tsui Kam Ling, for her role as operation Director of the subsidiary during the four months ended 30 April, 2003 and the years ended 31 December, 2002 and 2001, respectively. The terms of the transactions are mutually agreed between the related parties and 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 relevant period are included in the senior management remuneration set out in note 7 on the Financial Information.
- (iv) The subsidiary sold smart card products in the amounts of HK\$168,000, HK\$328,000 and HK\$19,000 to external customers during the four months ended 30 April, 2003 and the years ended 31 December 2002 and 31 December 2001 respectively, where T & C Technologies (Pte) Limited acted as a sales agent on behalf of the subsidiary. The terms of the transactions were mutually agreed between the subsidiary and the external customers.
- Mr. Tan Keng Boon was interested in these transactions as he is a major shareholder of T & C Technologies (Pte) Limited and was 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 chief technical officer of the Group in May 2003 and executive Director on 25 October, 2003.
- (v) In 2001, the Company entered into an agreement with a Director of the Company, to issue convertible debentures with a principal amount of US\$385,714 (HK\$3,000,000). Details of the transaction are set out in note 19 on the Financial Information.

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 and have confirmed that the above transactions will not continue in the future after the placing of the shares of the Company except for the transactions described in notes (i) and (iii) above.

25. Ultimate holding company

The Directors consider the ultimate holding company at 30 April, 2003 to be D & A Holdings Limited, which is incorporated in the British Virgin Islands.

D. SUBSEQUENT EVENTS

- (a) In July 2003, the Company issued 157,500 ordinary shares of US\$0.10 each as a result of the exercise by the holders of (a) share options issued on 25 July, 2000 to subscribe for 150,000 shares at US\$0.10 per share and (b) share options issued on 21 January, 2003 to subscribe for 7,500 shares at HK\$2.0 per share.
- (b) On 23 October, 2003, the Company issued a total of 1,087,500 shares which comprised (a) 950,000 shares of US\$0.10 each as a result of the exercise of options issued on 25 July, 2000 to subscribe for shares at US\$0.10 per share and (b) 137,500 shares of US\$0.10 each as a result of the exercise of options issued on 21 January, 2003 to subscribe for shares at HK\$2.00 per share.
- (c) On 27 October, 2003, resolutions of the shareholders were passed pursuant to which, amongst other things:
- (i) the authorised share capital of the company was increased to the aggregate of US\$5,000,000 and HK\$100,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.10 par value each;
 - (ii) 165,860,317 shares of HK\$0.10 each were issued for cash at a price of HK\$0.10 per share to the existing shareholders (other than Proway Investment Limited) and 21,264,143 shares of US\$0.10 each then held by those existing shareholders were repurchased by the Company at total considerations equivalent to the subscription price for the said 165,860,317 shares of HK\$0.10 each.
- (d) Pursuant to resolutions of the shareholders passed on 27 October 2003, the share option scheme (note 20) was terminated and a new share option scheme was adopted. All options granted under the new share option scheme were granted to those employees and directors of the Group and consultants engaged by or 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 HK\$0.10 each at an exercise price of HK\$0.09 or HK\$0.24 per share.

E. INFORMATION RELATING TO THE COMPANY**(a) Distributable reserves**

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

On the basis of the Financial Information set out in Sections A to C above, the aggregate amount of distributable reserves of the Company at 30 April, 2003 was HK\$15,717,000.

(b) Net assets of the Company

On the basis of the Financial Information set out in sections A to C above, the net assets of the Company as at 30 April, 2003, amounted to HK\$33,392,000.

(c) Subsequent financial statements

No audited financial statements have been prepared by the Company or its subsidiary in respect of any period subsequent to 30 April, 2003.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

The forecast of the consolidated profit after taxation but before extraordinary items of the Group for the financial year ending 31 December, 2003 is set forth under "Profit forecast" in the section headed "Financial information" in this prospectus.

1. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the consolidated profit after taxation but before extraordinary items of the group for the financial year ending 31 December, 2003 on the basis of the audited consolidated accounts of the group for the four months ended 30 April, 2003, the unaudited consolidated management accounts of the group for the five months ended 30 September, 2003 and a forecast of the combined results of the group for the remaining three months ending 31 December, 2003. The Directors are not aware of any extraordinary item which has arisen, nor do they expect that any is likely to arise, in respect of the financial year ending 31st December, 2003. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the group as summarised in the Accountants' Report, the text of which is set out in appendix I to this prospectus and on the following principal assumptions.

- (a) there will be no material changes in the existing political, legal, fiscal or economic conditions in countries and territories in which the group currently has operations.
- (b) there will be no material changes in the bases or rates of taxation applicable to any member of the group in countries and territories in which the group currently has operations; and
- (c) exchange rates and interest rates will not differ materially from those presently prevailing.

2. LETTERS

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

時務顧問有限公司
美高

31 October, 2003

The board of Directors
Advanced Card Systems Holdings Limited
Room 302, 3rd Floor
Shun Fat Industrial Building
17 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs,

We refer to the forecast of the consolidated profit after taxation but before extraordinary items of Advanced Card Systems Holdings Limited (the “Company”) and its subsidiary (hereinafter collectively referred to as the “Group”) for the year ending 31 December, 2003 as set out in the subsection headed “Profit Forecast” in the section headed “Financial Information” (the “Profit Forecast”) in the prospectus of the Company dated 31 October, 2003 (the “Prospectus”).

We have discussed with you the bases and assumptions made by the Directors of the Company as set out in appendix II to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 31 October, 2003 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Profit Forecast has been made.

Based on the foregoing, we have formed the opinion that the Profit Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Dennis Cassidy
Director



31 October, 2003

The Board of Directors
Advanced Card Systems Holdings Limited
Room 302, 3rd Floor
Shun Fat Industrial Building
17 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

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

Dear Sirs

**Advanced Card Systems Holdings Limited
(formerly “Advanced Card Systems (Cayman) Limited”) (the “Company”)
Placing of 78,000,000 shares (subject to the offer size adjustment option) of the
Company to be listed on the Growth Enterprise Market of The Stock Exchange
of Hong Kong Limited (“the Placing”)**

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the consolidated profit after taxation but before extraordinary items of the Company and its subsidiary (hereinafter collectively referred to as “the Group”) for the year ending 31 December, 2003 (the “Forecast”), for which the directors of the Company are solely responsible, as set out in the subsection headed “Profit Forecast” in section headed “Financial Information” in the prospectus of the Company dated 31 October, 2003 (the “Prospectus”). The Forecast has been prepared by the directors of the Company based on the audited consolidated results of the Group for the four months ended 30 April, 2003, the unaudited consolidated results of the Group based on the unaudited management accounts of the Group for the five months ended 30 September, 2003 and a forecast of the consolidated results of the Group for the remaining three months ending 31 December, 2003.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases adopted by the directors of the Company as set out in the paragraph headed “Bases and assumptions” in Appendix II to the Prospectus and is presented on a basis consistent, in all material respects, with the basis of presentation and the accounting policies normally adopted by the Group as set out in our Accountants’ Report dated 31 October, 2003, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully

KPMG

Certified Public Accountants

Hong Kong

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus, received from RHL Appraisal Limited, an independent property valuer, in connection with its valuation as at 31 August, 2003 of the property interests of the group.



Member of RHL International Property Consultants
永利行國際物業顧問集團成員

RHL Appraisal Ltd.
永利行評值顧問有限公司

Surveyors, Valuers, Land & Property Consultants
測量師、估值師、土地及物業顧問

Room 1010
Star House
Tsimshatsui
Kowloon
Hong Kong

The Directors

Advanced Card Systems Holdings Limited

Room 302, 3/F
Shun Fat Industrial Building
17 Wang Hoi Road
Kowloon Bay, Kowloon
Hong Kong

31 October, 2003

Dear Sirs,

Re: Valuation of Properties in Hong Kong

1. INSTRUCTION

In accordance with your instructions for us to value the property interests of Advanced Card Systems Holdings Limited (referred to as the “Company”) and its subsidiary (together referred to as the “Group”) situated in Hong Kong, we confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of such property interests as at 31 August, 2003 (referred to as the “date of valuation”).

This letter, which forms part of our valuation report, explains the basis and methodology of valuation and sets out the assumptions made and other qualifications.

2. BASIS OF VALUATION

Our valuation is our opinion of the open market value which we would define as intended to mean “the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

The property interests which are all rented by the group under respective short term leases have no commercial value due either to the prohibition against assignment or subletting or to the lack of substantial profit rent.

3. TITLE INVESTIGATION

We have been provided with copies of stamped tenancy agreements relating to the properties. All documents stated herein have been used for reference only.

4. LIMITING CONDITIONS

We have inspected the exterior of the properties valued and, where possible, we have also inspected the interior of the properties but no structural survey has been made. In the course of our inspections, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No test was carried out on any of the services. All dimensions, measurements and areas are approximations.

We have relied to a considerable extent on the information provided by the group and have accepted advice given to us by the group on such matters as statutory notices, easements, tenure, occupation, tenancy details, floor areas and in the identification of the properties rented by the group.

We have no reason to doubt the truth and accuracy of the information as provided to us by the group. We have relied on the group's confirmation that no material facts have been omitted from the information supplied.

5. REMARKS

In preparing this valuation report, we have conducted in accordance with the Hong Kong Guidance Notes on the Valuation of Properties Asset (2nd Edition) published by The Hong Kong Institute of Surveyors and complied with all requirements contained in Chapter 8 of the GEM Listing Rules issued by The Stock Exchange of Hong Kong Limited.

We enclose herewith the summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S.W. Lau
MHKIS AAPI RPS (GP)
Managing Director

Tse Wai Leung
BSc MRICS MHKIS RPS (GP)
Director

Serena S. W. Lau, who is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC, and Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC, have over eight years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property	Capital value in existing states as at 31 August, 2003
1. Workshop 2 on 3rd Floor Shun Fat Industrial Building No. 17 Wang Hoi Road Kowloon Hong Kong	No commercial value
2. Ground Floor of the domestic house on Lot No. 1594 in D.D.189 known as House No.174 Tin Sam Village Shatin New Territories Hong Kong	No commercial value
Grand Total:	No commercial value

VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2003
1. Workshop 2 on 3rd Floor Shun Fat Industrial Building No. 17 Wang Hoi Road Kowloon Hong Kong	<p>The property comprises an industrial unit on 3rd floor of a 15-storey industrial building completed in 1987.</p> <p>The saleable floor area of the property is 3,528 square feet.</p> <p>The property is rented by the Company's subsidiary for a term commencing on 15 September, 2001 and expiring on 31 December, 2003 at a current monthly rent of HK\$29,000 inclusive of Government rent and rates but exclusive of management charges.</p>	The property is occupied by the group for storage, product's research and development, and office purposes	No commercial value

Notes:

1. As revealed by a Tenancy Agreement dated 25 August, 2001, a Supplemental Tenancy Agreement dated 3 April, 2003, and a Lease Extension Agreement executed on between 25 June, 2003 and 26 June, 2003 the tenant of the property is Advanced Card Systems Limited, a subsidiary of the Company. As stated in the tenancy agreement, the permitted use of the property is industrial.
2. The group plans to relocate its office, products's research and development, and storage premises following the expiry of the current tenancy agreement on 31 December, 2003.

No. Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2003
2. Ground Floor of the domestic house on Lot No. 1594 in D.D.189 known as House No. 174 Tin Sam Village Shatin New Territories Hong Kong	<p>The property comprises a domestic unit on ground floor of a 3-storey house completed in 1988.</p> <p>The gross floor area of the property is approximately 700 square feet.</p> <p>The property is rented by the Company's subsidiary for a term of 1 year commencing on 20 September, 2003 and expiring on 19 September, 2004 at a monthly rent of HK\$6,300 inclusive of Government rent and rates.</p>	The property is occupied by the Company as staff quarters.	No commercial avalue

Note: As revealed by a Tenancy Agreement dated 8 September, 2003, the tenant of the property is Advanced Card Systems Limited, a subsidiary of the Company. As stated in the tenancy agreement, the permitted use of the property is residential.

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 13 April, 2000 under the Companies Law. The Memorandum of Association and the Articles of Association comprise its constitution.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. Memorandum Of Association

The Memorandum of Association of the Company (the “Memorandum of Association”) was adopted conditionally on 27 October, 2003 and states, *inter alia*, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in appendix VI in the section headed “Documents available for inspection”.

2. Articles Of Association

The Articles of Association of the Company (the “Articles of Association”) were adopted conditionally on 27 October, 2003 and include provisions to the following effect:

A. Classes of Shares

The share capital of the Company consists of ordinary shares.

B. Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, he, together with any of his associates, is not beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which he may benefit;
 - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (vi) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to his remuneration entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a retiring Director shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, not less than seven and not more than 28 clear days before the day appointed for the meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing director or joint managing director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

- (i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

C. Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

D. Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

E. Alteration of capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

F. Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

G. Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members of the Company present in person or by proxy and entitled to vote; or
- (c) any member or members of the Company present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meeting; or
- (d) any member or members of the Company present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its Directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person

authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which

notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the GEM listing rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to subparagraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

K. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the GEM listing rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the SFC.

M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken

subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the GEM listing rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the GEM listing rules) as the Directors may determine for each inspection.

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the Directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph D above.

S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

T. Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of

the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

U. Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the GEM listing rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

A. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

B. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 13 April, 2000 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

C. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the Directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

D. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

E. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

F. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

G. Disposal of assets

The Companies Law contains no specific restrictions on the powers of Directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the Directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

H. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

I. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its Directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

J. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

K. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

L. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The Directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

M. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

N. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder

may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

O. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and Directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

P. Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

Q. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

R. Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

- (2) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
- (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 2 May, 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

S. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

T. General

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT THE COMPANY**(a) Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 13 April, 2000. The Company has established a place of business in Hong Kong at Room 302, 3/F., Shun Fat Industrial Building, 17 Wang Hoi Road, Kowloon Bay, Kowloon and has applied for registration as an oversea company in Hong Kong under Part XI of the Companies Ordinance, with Mr. Denny Wong of 1B, Block 5, Julimount Garden, Tai Wai, Shatin, New Territories, Hong Kong appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises a memorandum of association and an articles of association. A summary of certain relevant parts of the Company's constitution and certain relevant aspects of Cayman Islands company law are set out in appendix IV to this prospectus.

(b) Changes in share capital of the Company

As at the date of incorporation of the Company, its authorised share capital was US\$5,000,000 divided into 50,000,000 shares of US\$0.10 each. On 13 April, 2000, one subscriber's share of par value US\$0.10 in the Company was allotted and issued to each of Joanna Lawrence and Forde Pierson for cash at par. On the same day, such shares were transferred to D&A Holdings at a total consideration of US\$0.20.

On 28 April, 2000, the group underwent a reorganisation whereby the Company acquired all the ACS Shares then in issue (*note 1*). Pursuant to such 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 ACS in consideration for their sale to the Company of all the then issued ACS shares. The said 17,999,998 Shares were allotted and issued as follows:

Allottees	Number of Shares of US\$0.10
D&A Holdings	13,201,901
Thomrose Holdings	2,200,000
Mr. Thomas Yuen	1,207,000
Mr. Laschinsky	673,897
Mr. Tong Kam Hung	217,200
Mr. Tan Keng Boon	500,000

On 16 June, 2000, 6,717,000 Shares of US\$0.10 each in the authorised but unissued share capital of the Company were reclassified into 6,717,000 series A preference shares. The principal rights and restrictions of the series A preference shares were:

- (i) *As regards voting.* On a show of hands, each shareholder present in person or (being a corporation) by a representative has one vote. On a poll, each holder of Shares present in person or by proxy or (being a corporation) by a representative is entitled to have one vote for every Share held by it or him. Each holder of series A preference shares present in person or by proxy or (being a corporation) by a representative is entitled to exercise the number of votes which it or he would have been entitled to exercise if all the series A preference shares held by it or him had been converted into Shares immediately before the holding of the general meeting at the then applicable conversion rate.
- (ii) *As regards dividends.* Holders of series A preference shares are entitled to be paid in each financial year of the Company, in priority to any payment to holders of Shares and any other class of shares, out of profits of the Company available for distribution and from time to time resolved to be distributed, a preferential, non-cumulative preference dividend at a rate and in an amount determined from time to time by the board. The amount of such dividend per series A preference share (on an as converted basis) shall not be less than the dividend per share to be declared, paid or distributed on any other shares or securities of the Company
- (iii) *As regards capital.* Except under certain specified circumstances, on a return of capital on liquidation, winding up, dissolution or otherwise, the assets of the Company available for distribution among members shall be applied in repaying to each holder of series A preference shares, in priority to any repayment to the holders of any other class of shares or securities: (a) first, the amount of any declared but unpaid dividends relating to the series A preference shares calculated up to and including the date of commencement of the liquidation, winding up or return of capital; and (b) secondly, in repaying the amount for the time being paid up on each series A preference share. If the assets of the Company are not sufficient for such distribution, such assets shall be distributed pro rata to holders of series A preference shares according to their entitlement as aforesaid. All assets remaining after this pro rata distribution shall be available for distribution to the holders of each Share, series A preference share and/or other classes of shares and securities pro rata among such holders on an as-converted basis.

- (iv) *As regards conversion.* Each series A preference share shall be convertible, at the option of the holder thereof, at any time (provided the same have been fully paid) after the date of issuance of such share, into such number of fully paid Shares as is determined by dividing the subscription price by the conversion price in effect at the time of the conversion.
- (v) *As regards access to information.* So long as Proway Investment continues to hold not less than 50% of the entire issued series A preference shares, each holder of series A preference shares holding at least 25% of the issued series A preference shares shall have certain rights to receive financial statements and other information of each member of the group and certain inspection rights. These information and inspection rights shall be terminated on the consummation of a Qualified IPO. (*Note 2*)
- (vi) *As regards pre-emption rights.* Each holder of series A preference shares shall have a right of first offer to purchase and subscribe for an amount of securities of the Company of any class or kind which the Company proposes to issue sufficient to maintain the proportionate beneficial ownership interest in the Company of such holder of series A preference share (on an as-converted, fully diluted basis).

On 16 June, 2000, the Company allotted and issued 1,343,364 series A preference shares to Proway Investment at a total consideration of US\$1,000,000. On the same date, the Company issued a warrant to Proway Investment whereby Proway Investment was entitled to purchase from the Company 134,336 Shares of US\$0.10 each at a purchase price of US\$1.4525 per Share on or before 16 June, 2002. These warrants lapsed on 16 June, 2002 unexercised.

On 18 October, 2000, the Company allotted and issued 1,343,364 series A preference shares to Proway Investment at a total consideration of US\$1,000,000. On the same date, the Company issued a warrant to Proway Investment whereby Proway Investment was entitled to purchase from the Company 134,336 Shares of US\$0.10 each at a purchase price of US\$1.4525 per Share on or before 18 October, 2002. These warrants lapsed on 18 October, 2002 unexercised.

On 18 May, 2001, the Company issued a warrant to Proway Investment exercise of which would entitle Proway Investment to subscribe for up to 250,000 Shares of US\$0.10 each at a subscription price of US\$0.2564 per Share at any time before 5:00 p.m. (Hong Kong time) on 18 May, 2004 or upon occurrence of a Qualified IPO (as defined in the then articles of association of the Company (*Note 2*)), whichever is earlier (the "Warrant"). The Warrant may be exercised in whole or in part in multiples of not less than 5,000 Shares of US\$0.10 each before its expiry. Under the terms of the Warrant, the exercise price per Share and the number of Shares which may be converted upon the exercise of the Warrant may be adjusted upon the occurrence of certain events, including certain events which result in an alteration in the capital structure of the Company, payment by the Company of a dividend or distribution in the form of securities

of the Company, cash or other property or in the event of any reorganisation or merger in which Shares are converted into or exchanged for securities, cash or other property, in accordance with the terms of the Warrant. The Warrant and all rights thereunder are transferable subject to compliance with certain transfer requirements.

On 14 May, 2002, the Company allotted and issued a total of 1,172,000 Shares of US\$0.10 each at a subscription price of HK\$2.00 per Share. The said 1,172,000 Shares were allotted and issued as follows:

Name of allottees	Number of shares
<i>Employees</i>	
Mr. Denny Wong	546,000
Mr. Sin Man Chiu	10,000
Mr. Cheung Yuk Ngai, Edward	6,000
Ms. Sian Kwan Yuk, Janet	20,000
Mr. Tse Wai Sing	3,000
Mr. Ruffy Francis Nicolo Punzalan	6,000
Ms. Lai Yuen Yee	60,000
Ms. Alice Wong	210,000
Mr. Tse Kam Cheung	18,000
<i>Consultants at the time</i>	
Mr. Tong Kam Hung	108,000
Mr. Tan Keng Boon	180,000
Mr. Jorge Locsin	5,000
Total:	<u>1,172,000</u>

On 5 July, 2002, the Company allotted and issued a total of 857,143 Shares of US\$0.10 each to Mr. Lawrence Pang at a price of US\$0.45 per Share as a result of the exercise by Mr. Lawrence Pang of the conversion rights attached to the convertible debenture issued by the Company in the principal amount of US\$385,714.35.

On 20 May, 2003, Mr. Sin Man Chiu transferred 10,000 Shares of US\$0.10 each to Proway Investment for a total consideration of HK\$20,000.

On 27 October, 2003, the authorised share capital of the Company was increased to the aggregate of US\$5,000,000 and HK\$100,000,000 by the creation of an additional 1,000,000,000 Shares of HK\$0.10 par value each.

On 27 October, 2003, the number of Shares of HK\$0.10 each set out in the second column of the following table were issued for cash at a price of HK\$0.10 per Share to the persons whose names are set out in the first column of the table (collectively, the “Existing Shareholders”). On the same day, the issued Shares of US\$0.10 each then held by the Existing Shareholders as set out in the third column of the following table were repurchased by the Company in each case at an aggregate consideration equivalent to the total subscription price payable for the shares of HK\$0.10 each allotted and issued to them respectively.

Name of Existing Shareholder	No. of HK\$ Shares to be issued	No. of US\$ Shares to be repurchased
D & A Holdings	102,974,844	13,201,903
Thomrose Holdings	17,160,000	2,200,000
Mr. Thomas Yuen	10,584,600	1,357,000
Mr. Denny Wong	6,598,800	846,000
Mr. Thomas Wan	2,340,000	300,000
Ms. Alice Wong	2,808,000	360,000
Mr. Lawrence Pang	6,685,717	857,143
Mr. Tan Keng Boon	6,669,000	855,000
Mr. Laschinsky	5,256,397	673,897
Mr. Tong Kam Hung	2,536,560	325,200
Mr. Tse Kam Cheung	140,400	18,000
Mr. Tse Wai Sing	23,400	3,000
Mr. Ruffly Francis Nicolo Punzalan	46,800	6,000
Ms. Sian Kwan Yuk, Janet	156,000	20,000
Ms. Lai Yuen Yee	468,000	60,000
Mr. Cheung Yuk Ngai, Edward	46,800	6,000
Mr. Jorge Locsin	39,000	5,000
Ms. Lau Kam Fun, Canna	1,170,000	150,000
Mr. Joachim Goebel	97,500	12,500
Mr. Wong Chi Ho	58,500	7,500

Assuming that the placing becomes unconditional, the issue of the placing shares, the redemption of all the series A preference shares and issuance of 3,704,123 Shares of US\$0.10 out of the proceeds of redemption and 250,000 Shares of US\$0.10 each on exercise of the warrants held by Proway Investment, the issue of 30,920,160 Shares of HK\$0.10 each for the repurchase of all the Shares of US\$0.10 each in issue (including the 10,000 Shares of US\$0.10 each acquired by Proway Investment from Mr. Sin Man Chiu) after such redemption, issuance and exercise and the repurchase of such Shares of US\$0.10 each, the reduction of the authorised share capital of the Company by the cancellation of

all the Shares of US\$0.10 each in the authorised share capital of the Company and the capitalisation issue mentioned herein are made, but taking no account of any Shares which may be issued upon the exercise of the offer size adjustment option and options granted pursuant to the pre-IPO share option plan, the authorised share capital of the Company immediately after completion of the placing will be HK\$100,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK\$28,000,000 divided into 280,000,000 Shares of HK\$0.10 each fully paid or credited as fully paid, with 720,000,000 Shares remaining unissued. Other than the 30,920,160 Shares of HK\$0.10 each to be issued for the purpose of repurchase of Shares of US\$0.10 each in issue after the redemption of the series A preference shares and issuance of Shares of US\$0.10 each out of the proceeds of redemption and exercise of the warrants mentioned above, Shares to be issued under the capitalisation issue and Shares which may be issued pursuant to options which have been granted under the pre-IPO share option plan and any options which may be granted under the share option scheme or pursuant to exercise of the offer size adjustment option, or the exercise of the general mandate to issue shares referred to in the paragraph headed “Resolutions of the Shareholders passed on 27 October, 2003” in this appendix, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

The Company granted to those grantees whose names are set out in column (1) of the following table options to subscribe for Shares of US\$0.10 each under the terminated share option scheme on the dates and at the exercise prices per Share set out under column (2). Pursuant to the exercise of options by some of the grantees, the Company allotted and issued to them the number of Shares of US\$0.10 each set out under column (3) opposite their respective names on the dates and at the exercise prices per Share set out under column (3). On 28 October, 2003, all options granted under the terminated share option scheme which remained unexercised and outstanding as set out under column (4), being options to subscribe for an aggregate of 816,250 Shares of US\$0.10 each, were cancelled. In consideration of this cancellation, the Company granted options to the relevant grantees under the pre-IPO share option plan to subscribe for the number of Shares of HK\$0.10 each set out opposite their respective names under column (5), being options to subscribe for an aggregate of 6,535,631 Shares of HK\$0.10 each, at the exercise prices per Share set out under column (5). The number of options granted and the exercise prices under the pre-IPO share option plan were determined on the basis that immediately after the repurchase of all the Shares of US\$0.10 each in the capital of the Company, the issuance of Shares of HK\$0.10 each to the then existing Shareholders and the capitalisation issue but before the placing, each option holder would be entitled to approximately the same proportion of the issued share capital of the Company by paying approximately the same (but not more than) subscription price as were under the cancelled options.

(1) Name of grantee	(2) Number of shares subject to options granted under the terminated share option scheme		(3) Exercise of options granted under the terminated share option scheme		(4) Number of shares subject to options granted under the terminated share option scheme cancelled on 28 October, 2003	(5) Pre-IPO share option plan	
	Granted on 25 July, 2000 at an exercise price of US\$0.10 per share	Granted on 28 December, 2000 at an exercise price of US\$0.10 per share	Date of allotment and issue of share	Exercise price per share			Number of share subject to options exercised
<i>Employees</i>							
Mr. Chu Chi Lok	100,000	25,000			125,000	1,000,862	HK\$0.09
Mr. Tse Kam Cheung	20,000				20,000	160,138	HK\$0.09
Mr. Tse Wai Sing	60,000				60,000	480,414	HK\$0.09
Mr. Ruffly Francis Nicolo Punzalan					25,000	200,173	HK\$0.24
Ms. Sian Kwan Yuk, Janet					20,000	160,138	HK\$0.24
Ms. Lai Yuen Yee					75,000	600,517	HK\$0.24
Mr. Cheung Yuk Ngai, Edward		40,000			40,000	320,276	HK\$0.09
Ms. Lau Kam Fun, Canna	100,000		23 October 2003	US\$0.10	100,000		
Mr. Ip Wai Chung				HK\$2.00	50,000		
Mr. Chui Yiu Wing					7,500	60,052	HK\$0.24
Mr. Leung Tin Chak					7,500	60,052	HK\$0.24
Ms. Yuen Fung Tai					7,500	60,052	HK\$0.24
Ms. Chan Sau Ling					5,000	40,035	HK\$0.24
Ms. Pang Wai Yi					10,000	80,069	HK\$0.24
Mr. Chung Wing Keung					3,750	30,026	HK\$0.24
					15,000	120,104	HK\$0.24
	1,450,000 ^{Note 2}	65,000					
					300,000 ^{Note 1}	346,250	
					1,245,000	6,535,631	

Notes:

(1) On 24 June, 2003, options to subscribe for 100,000 Shares were cancelled.

(2) The total number of options granted on 25 July, 2000 was 1,960,000. A total of 510,000 options held by certain former employees lapsed upon their resignation from the group in accordance with the terms of the terminated share option scheme.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

Notes:

- (1) The transfer documents by which the group reorganisation took effect are dated 28 April, 2000 but were stamped and registered on 12 May, 2000.
- (2) Qualified IPO means an initial public offering of the Company's shares in the U.S. which is either approved by the majority of the holders of Shares and holders of series A preference shares or whereby the Company's value prior to consummation of such public offering is not less than a certain amount prescribed in the then articles of association of the Company, or a similar IPO on a recognised exchange in Hong Kong, Singapore or any other jurisdiction as the shareholders shall agree.

(c) Resolutions of the Shareholders passed on 27 October, 2003

On 27 October, 2003, resolutions of the Shareholders were passed pursuant to which, amongst other things:

- (1) the authorised share capital of the Company was increased to the aggregate of US\$5,000,000 and HK\$100,000,000 by the creation of an additional 1,000,000,000 Shares of HK\$0.10 par value each;
- (2) the number of Shares of HK\$0.10 each set out in the second column of the following table were issued for cash at a price of HK\$0.10 per Share to the Existing Shareholders whose names are set out in the first column of the table, and the issued Shares of US\$0.10 each then held by the Existing Shareholders as set out in the third column of the following table were repurchased by the Company in each case at an aggregate consideration equivalent to the total subscription price for the Shares of HK\$0.10 each allotted and issued to them respectively:

Name of Existing Shareholder	No. of HK\$ Shares to be issued	No. of US\$ Shares to be repurchased
D & A Holdings	102,974,844	13,201,903
Thomrose Holdings	17,160,000	2,200,000
Mr. Thomas Yuen	10,584,600	1,357,000
Mr. Denny Wong	6,598,800	846,000
Mr. Thomas Wan	2,340,000	300,000
Ms. Alice Wong	2,808,000	360,000
Mr. Lawrence Pang	6,685,716	857,143
Mr. Tan Keng Boon	6,669,000	855,000
Mr. Laschinsky	5,256,397	673,897

Name of Existing Shareholder	No. of HK\$ Shares to be issued	No. of US\$ Shares to be repurchased
Mr. Tong Kam Hung	2,536,560	325,200
Mr. Tse Kam Cheung	140,400	18,000
Mr. Tse Wai Sing	23,400	3,000
Mr. Ruffy Francis Nicolo Punzalan	46,800	6,000
Ms. Sian Kwan Yuk, Janet	156,000	20,000
Ms. Lai Yuen Yee	468,000	60,000
Mr. Cheung Yuk Ngai, Edward	46,800	6,000
Mr. Jorge Locsin	39,000	5,000
Ms. Lau Kam Fun, Canna	1,170,000	150,000
Mr. Joachim Goebel	97,500	12,500
Mr. Wong Chi Ho	58,500	7,500

- (3) conditional on (i) the GEM listing committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of the offer size adjustment option, options granted under the pre-IPO share option plan or any options which may be granted under the share option scheme); and (ii) the obligations of the underwriters under underwriting agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Japan Asia (in consultation with Anglo Chinese) for itself and on behalf of Anglo Chinese and the other underwriters) and not being terminated in accordance with the terms of such agreement or otherwise prior to the time and date stated in such agreement:
- (a) the placing and the granting by the Company of the offer size adjustment option were approved and the Directors were authorised to allot and issue the placing shares and any Shares which may be required to be issued if the offer size adjustment option is exercised; and
- (b) the memorandum and articles of association of the Company were approved and adopted;
- (4) conditional on the share premium account of the Company being credited as a result of the issue of placing shares under the placing, the sum of HK\$521,952.30 standing to the credit of such account was directed to be capitalised and applied in paying up in full at par

5,219,523 Shares of HK\$0.10 each for allotment and issue (the “capitalisation issue”) as follows:

Name of Allottee	No. of HK\$ Shares to be issued
D & A Holdings	2,731,366
Thomrose Holdings	455,162
Proway Investment	820,145
Mr. Denny Wong	175,031
Ms. Alice Wong	74,481
Mr. Lawrence Pang	177,336
Mr. Tan Keng Boon	176,893
Mr. Thomas Wan	62,068
Mr. Joachim Goebel	2,586
Mr. Thomas Yuen	280,752
Mr. Laschinsky	139,424
Mr. Tong Kam Hung	67,281
Mr. Tse Kam Cheung	3,724
Mr. Tse Wai Sing	621
Mr. Ruffy Francis Nicolo Punzalan	1,241
Ms. Sian Kwan Yuk, Janet	4,138
Ms. Lai Yuen Yee	12,413
Mr. Cheung Yuk Ngai, Edward	1,241
Mr. Jorge Locsin	1,034
Ms. Lau Kam Fun, Canna	31,034
Mr. Wong Chi Ho	1,552

- (5) the rules of the pre-IPO share option plan were approved and the Directors were authorised to grant options to subscribe for Shares thereunder as set out in the paragraph headed “Outstanding options granted under the pre-IPO share option plan” in this appendix and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the pre-IPO share option plan and to take all such steps as they consider necessary or desirable to implement the pre-IPO share option plan and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;
- (6) the terminated share option scheme was terminated;
- (7) the rules of the share option scheme were approved and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with

Shares pursuant to the exercise of subscription rights under any options which may be granted under the share option scheme and to take all such steps as they consider necessary or desirable to implement the share option scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;

- (8) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with, otherwise than by way of rights or an issue of shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of any options granted under the pre-IPO share option plan or which may be granted under the share option scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of shares or rights to acquire shares or any scrip dividend schemes or similar arrangements 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 a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the aggregate of (i) the total nominal value of the share capital of the Company in issue immediately following completion of the placing and the capitalisation issue and (ii) the total nominal value of the share capital of the Company which may be issued pursuant to the offer size adjustment option, such mandate to remain in effect until whichever is the earliest of:
- (a) the conclusion of the next annual general meeting of the Company;
 - (b) 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
 - (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (9) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on GEM or on any other stock exchange on which the securities of the

Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares with a total nominal value as will represent up to 10% of the aggregate of (i) the total nominal value of the share capital of the Company in issue immediately following completion of the placing and the capitalisation issue and (ii) the total nominal value of the share capital of the Company which may be issued pursuant to the offer size adjustment option, such mandate to remain in effect until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
 - (b) 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 other applicable laws to be held; or
 - (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (10) the general unconditional mandate mentioned in paragraph (8) above was 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 pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (9) above provided that such extended amount shall not exceed 10% of the aggregate of (i) the total nominal value of the share capital of the Company in issue immediately following completion of the placing and the capitalisation issue and (ii) the total nominal value of share capital of the Company which may be issued pursuant to the offer size adjustment option;

(11) conditional on the obligations of the underwriters under the underwriting agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Japan Asia (in consultation with Anglo Chinese) for itself and on behalf of Anglo Chinese and the underwriters) and not being terminated in accordance with the terms of such agreement or otherwise prior to the time and date stated in such agreement:

(a) the Directors were authorised to:

(i) redeem all the series A preference shares from Proway Investment at a price of US\$2,000,000 and allot and issue 3,704,123 Shares of US\$0.10 each at a price of US\$2,000,000, being the amount of the proceeds from the redemption, upon the exercise by Proway Investment of the conversion right attached to the series A preference shares; and

(ii) allot and issue 250,000 Shares of US\$0.10 each credited as fully paid upon exercise of the warrants convertible into 250,000 Shares of US\$0.10 each currently held by Proway Investment;

(b) the Directors were further authorised to allot and issue a total of 30,920,160 Shares of HK\$0.10 for cash at par to Proway Investment and to repurchase and cancel all the 3,954,123 Shares of US\$0.10 each to be issued to Proway Investment pursuant to paragraph (11)(a) above and the other 10,000 Shares of US\$0.10 each currently held by Proway Investment at a total consideration of HK\$3,092,016; and

(c) the authorised but unissued share capital of the Company after the repurchase of shares pursuant to paragraph (11)(b) above will be reduced by the cancellation of all of the authorised 6,717,000 series A preference shares and 43,283,000 Shares of US\$0.10 each;

(12) one of the articles in the current articles of association of the Company was re-numbered to correct a typographical error of duplicate numbering of the articles; and

(13) the Directors were authorised to fix their remuneration.

(d) Changes in the share capital of the subsidiary of the Company

The Company's subsidiary, ACS, is referred to in the accountants' report for the Company, the text of which is set out in appendix I to this prospectus.

There has been no alteration in the share capital of ACS within the two years preceding the date of this prospectus.

(e) Repurchase by the Company of its own securities

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(1) GEM listing rules

The GEM listing rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All repurchases of securities on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to the resolution of the Shareholders passed on 27 October, 2003, a general unconditional mandate (the "Buyback Mandate") was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose of up to 10% of the aggregate of (i) the total nominal value of the share capital of the Company in issue immediately following completion of the placing and the capitalisation issue and (ii) the total nominal value of the share capital of the Company which may be issued pursuant to the offer size adjustment option, at any time until the conclusion of the next annual general meeting of the Company or 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 the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(b) Source of funds

Any repurchases must be financed out of funds legally available for the purpose in accordance with the memorandum and articles of association of the Company and the applicable laws and regulation of the Cayman Islands.

(c) Trading restrictions

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of

that company or warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that has been repurchased for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchases on GEM if the result of the repurchases would be that the number of the listed securities in public hands would be below the relevant prescribed minimum percentage for that company as determined by the Stock Exchange. A company may only repurchase shares on GEM if (i) the purchase price is not higher than the latest (or current) independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock Exchange), whichever is higher, and (ii) the Company has not made the opening bid nor any bid in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange.

(d) Status of repurchased securities

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled, irrespective of whether or not such purchase took place on GEM and the relative certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(e) Suspension of repurchase

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of Directors' decision until the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of the company's half-year report or a quarterly report, a company may not purchase its securities on GEM unless the circumstances are

exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on GEM if a company has breached the GEM listing rules.

(f) Reporting requirements

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The Directors' report is also required to contain reference to the purchases made during the year and the Directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(g) Connected parties

Under the GEM listing rules, a company shall not knowingly purchase shares from a connected person (as defined under the GEM listing rules) and a connected person shall not knowingly sell his shares to the company. As at the latest practicable date and to the best of the knowledge of the Directors, having made all reasonable enquires, none of the Directors or their associates (as defined under GEM listing rules) has a present intention to sell Shares to the Company.

(2) Exercise of the Buyback Mandate

Exercise in full of the Buyback Mandate, on the basis of 280,000,000 Shares in issue immediately after listing of the Shares and the capitalisation issue (taking no account of any Shares which may be issued upon the exercise of the offer size adjustment option) and on the basis of 291,700,000 Shares in issue immediately after listing of the Shares and the capitalisation issue and upon the exercise of the offer size adjustment option in full could accordingly result in up to 28,000,000 Shares and up to 29,170,000 Shares respectively being repurchased by the Company during the period up to (a) the conclusion of the next annual general meeting of the Company;

(b) 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 (c) the revocation, variation or renewal of the repurchase mandate by ordinary resolution of the Shareholders in general meeting, whichever occurs first.

(3) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value per Share of the Company and/or its earnings per Share.

(4) *Funding of repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the memorandum and the articles of association of the Company and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(5) *General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM listing rules, the memorandum and articles of association of the Company and the applicable laws and regulations of the Cayman Islands.

No connected person (as defined in GEM listing rules) of the Company has notified the Company that he or she has a present intention to sell any Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Code), depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

II. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

(a) Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the group within the two years preceding the date of this prospectus and are or may be material:

- (1) a deed of undertaking dated 27 October, 2003 entered into between Thomrose Holdings, Hectrix Limited, Mr. Thomas Wan (collectively the "Covenantors") and the Company, under which the Covenantors undertake not to engage in any business which competes with the business of the group subject to certain conditions and exceptions, being the deed of undertaking referred to under the subsection headed "Competition" in the section headed "Business";
- (2) the underwriting agreement;
- (3) a deed of indemnity dated 30 October, 2003 entered into between the initial management shareholders (other than Mr. Joachim Goebel) (collectively, the "Indemnifiers") and the Company for itself and as trustee for its subsidiary, under which the Indemnifiers have given certain indemnities in favour of the group containing, among other things, the indemnities referred to in the sub-paragraph headed "Deed of indemnity" under the paragraph headed "Other information" in this appendix; and
- (4) the sponsor agreement dated 30 October, 2003 entered into between the Company and Anglo Chinese in relation to the appointment of Anglo Chinese as the sponsor of the Company.

(b) Intellectual property*(1) Invention patents*

As at the latest practicable date, the group had applied for registration of the following invention patents and such applications are still being processed:

Title of invention	Place of application	Application date	Application number
Slim smart card reader	PRC	31 May, 2003	03140651.3
Multi-function device merging smart card and smart card reader	PRC	27 June, 2003	03145284.1
Disposable smart card reader	PRC	31 May, 2003	03140652.1

(2) Design patents

As at the latest practicable date, the group had applied for registration of the following design patents and such applications are still being processed:

Title of design	Place of application	Application date	Application number	Locarno classification
Smart card reader	PRC	17 May, 2003	03342040.8	14-02
SIMTracker II	PRC	17 May, 2003	03342039.4	14-02

(3) *Copyrights*

As at the latest practicable date, the group had applied for registration of the following copyrights and such applications are still being processed:

Title of work	Place of application	Date of delivery at U.S. Copyright Office
ACOS1 smart card operating system	U.S.	2 June, 2003
ACR30 Firmware	U.S.	2 June, 2003
ACR80 Firmware	U.S.	2 June, 2003

(4) *Trademarks*

(i) The group has registered the following trademark:


Trademark	Place of registration	Class	Registration number	Registration date
BioSIMKey	PRC	9 ⁽¹⁾	3076254	14 May, 2003

Note:

(1) Types of goods covered:

smart card reader; fingerprint scanner

(ii) As at the latest practicable date, the group had applied for registration of the following trademarks and such applications are still being processed:

Trademark	Place of application	Class	Application number	Application date
 (series)	Hong Kong	9 ⁽¹⁾	300018404	14 May, 2003
<i>Smarten yourself</i> (series)	Hong Kong	9 ⁽²⁾	300031607	12 June 2003
SIMmate (series)	Hong Kong	9 ⁽²⁾	300031599	12 June 2003

Notes:

(1) Types of goods covered:

smart cards, integrated circuit (IC) cards, magnetic striped cards, contactless cards, proximity cards, combi cards, hybrid cards, basic cards, card operating systems for the above cards; reading and/or writing interfaces for the above cards; POS (Point of Sales) terminals; card readers for personal computer memory cards, balance readers for smart cards, value checkers for smart cards; smart card systems; smart card software and hardware; card operating systems for mobile phones; smart card based devices for network; electronic devices with smart card interface, such as set-top box, utility meters, pagers, mobile phones watches, personal computer keyboards, keyboards, vending machines, copying machines, taxi meters, door locks, screen phones; all included in Class 9.

(2) Types of goods covered:

smart cards, integrated circuit (IC) cards, magnetic striped cards, contactless cards, proximity cards, combi cards, hybrid cards, basic cards, card operating systems for the above cards; reading and/or writing interfaces for the above cards; POS (Point of Sales) terminals; card readers for personal computer memory cards, balance readers for smart cards, value checkers for smart cards; smart card systems; smart card software and hardware; card operating systems for mobile phones; smart card based devices for network; electronic devices with smart card interface, such as set-top box, utility meters, pagers, personal computer keyboards, keyboards, vending machines, copying machines, taxi meters, door locks, screen phones; all included in Class 9.

(5) Domain names

The group has registered the following domain names:

Domain name	Registrant	Registration date	Expiry date
acs.com.hk	ACS	1 January, 1996	null
contactlesscard.com	ACS	3 November, 1999	3 November, 2003
biosimkey.com	ACS	20 December, 2000	20 December, 2004
simmate2000.com	ACS	31 August, 2000	31 August, 2004
simcopier.com	ACS	1 April, 2002	1 April, 2005

III. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

(a) Directors

Immediately following completion of the placing and the capitalisation issue (taking no account of Shares which may be taken up pursuant to the placing and the Shares to be issued pursuant to the exercise of the offer size adjustment option), the interests of each of the Directors in the Shares and underlying Shares which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests which they are taken or deemed to have under such provisions) once the Shares are listed, or will be required, pursuant to

section 352 of the Securities and Futures Ordinance, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to Rules 5.40 to 5.58 of the GEM listing rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows (assuming that their interest will remain unchanged after 27 October, 2003 other than as a result of the capitalisation issue):

Name of Company	Name of Director	Number of Shares				Total
		Personal interest	Family interest	Corporate interest	Other interest	
The Company	Mr. Denny Wong <i>(Note 1)</i>	6,773,831	2,882,481	105,706,210	-	115,362,522
The Company	Mr. Lawrence Pang <i>(Note 2)</i>	8,464,430	-	-	-	8,464,430
The Company	Mr. Tan Keng Boon	6,845,893	-	-	-	6,845,893
The Company	Mr. Thomas Wan <i>(Note 3)</i>	2,402,068	-	17,615,162	-	20,017,230

Notes:

1. Of these Shares, 105,706,210 Shares are/will be held by D&A Holdings (a company which is owned as to 70% by Mr. Denny Wong and as to 30% by his wife, Ms. Alice Wong) and 2,882,481 Shares are/will be held by Ms. Alice Wong personally. Mr. Denny Wong will be taken to be interested in these Shares under the Securities and Futures Ordinance upon listing of the Shares.
2. The interest disclosed herein includes the 1,601,378 Shares subject to the options granted to him pursuant to the pre-IPO share option plan. Further details of such options are disclosed under the paragraph headed "Outstanding options granted under the pre-IPO share option plan" in this appendix.
3. Of these Shares, 17,615,162 Shares are/will be held by Thomrose Holdings (a company which is wholly-owned by Mr. Thomas Wan). Mr. Thomas Wan will be taken to be interested in these Shares under the Securities and Futures Ordinance upon listing of the Shares.

(b) Substantial Shareholders

Immediately following completion of the placing and the capitalisation issue, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the persons who will be interested or deemed to be interested under Part XV of the Securities and Futures Ordinance in 10% or more of the Shares then in issue, or who have interests or short positions in the

Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, will be as follows:

Substantial shareholders	Name of member of the group	Capacity	Class and number of Shares	Approximate shareholding percentage
D&A Holdings	The Company	Beneficial owner	105,706,210 Shares (L)	37,752%
Ms. Alice Wong (see note 2)	The Company	Personal Family	2,882,481 Shares (L) 112,480,041 Shares (L)	41.201%
Proway Investment (see note 3)	The Company	Beneficial owner	31,740,305 Shares (L)	11.336%
Morningside CyberVentures Holdings Limited (see note 3)	The Company	Other	31,740,305 Shares (L)	11.336%
Verrall Limited (see note 3)	The Company	Other	31,740,305 Shares (L)	11.336%
Madam Chan Tan Ching Fen (see note 3)	The Company	Other	31,740,305 Shares (L)	11.336%
Thomrose Holdings	The Company	Beneficial owner	17,615,162 Shares (L)	6.291%

Notes:

- The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the Securities and Futures Ordinance) in Shares.
- 105,706,210 Shares are/will be held by D&A Holdings, 2,882,481 Shares are/will be held by Ms. Alice Wong personally and 6,773,831 Shares are/will be held by her husband, Mr. Denny Wong, personally. Ms. Alice Wong will be taken to be interested in the Shares held by Mr. Denny Wong and D&A Holdings under the Securities and Futures Ordinance upon the listing of the Shares.
- Proway Investment 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 Securities and Futures Ordinance) upon the listing of the Shares.

Save as disclosed above, the Directors are not aware of any persons who will immediately following completion of the placing and capitalisation issue be interested or deemed to be interested under Part XV of the Securities and Futures Ordinance in 10% or more of the Shares then in issue, or who have

interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

(c) Particulars of service agreements

- (i) Each of the executive Directors has entered into a service agreement with the Company. Principal particulars of these agreements, except as indicated, are in all material respects identical and are summarised below:
 - (a) each service agreement is of an initial term of three years commencing on 27 October, 2003 and shall continue thereafter 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;
 - (b) the monthly salary for each of Mr. Denny Wong, Mr. Tan Keng Boon and Mr. Lawrence Pang from 27 October, 2003 to 31 December, 2003 shall be HK\$80,000, HK\$48,000 and HK\$40,000 respectively. As from 1 January, 2004, the annual salary of each executive Director shall be as determined by the board of Directors, provided that any increment of which shall not be more than 20% of the annual salary received by the executive Director for the immediate preceding year;
 - (c) each of the executive Directors is entitled to a management bonus by reference to the audited consolidated net profits of the group after taxation and minority interests but before extraordinary items (the "Net Profits") as the board of Directors may, in its absolute discretion approve provided that the aggregate amount of the management bonuses payable to all executive Directors in respect of any financial year of the group shall not exceed 10% of the Net Profits for the relevant financial year;
 - (d) in the case of Mr. Denny Wong, a monthly housing allowance of HK\$24,000 or such other amount as determined by the board of Directors; and
 - (e) each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the board of Directors regarding the amount of annual salary, management bonus and, where applicable, housing allowance payable to himself.

- (ii) Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any other member of the group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(d) Directors' remuneration

- (i) The Company's policies concerning remuneration of executive Directors are:
 - (a) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the group;
 - (b) non-cash benefits may be provided to the Directors under their remuneration package; and
 - (c) the executive Directors may be granted, at the discretion of the board of Directors, options pursuant to the share option scheme, as part of their remuneration package.
- (ii) Approximately HK\$2,436,000 (excluding any management bonus which may be paid) as remuneration is expected to be paid to the Directors by the group in respect of the financial year ending 31 December, 2003 pursuant to the present arrangement.
- (iii) None of the Directors or any past Directors of any member of the group has been paid any sum of money for the financial year ended 31 December, 2002 (a) as an inducement to join or upon joining the Company or (b) for loss of office as a Director of any member of the group or of any other notice in connection with the management of the affairs of any member of the group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the financial year ended 31 December, 2002.

- (v) Each of the non-executive Directors has been appointed for a term of two years, commencing on 25 October, 2003 and expiring on 24 October, 2005. Save for monthly remuneration of HK\$15,000, none of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.
- (vi) Save as disclosed in appendix I to this prospectus, no Director received any remuneration or benefits in kind from the group for the financial year ended 31 December, 2002. Particulars of emoluments paid to the five persons who received the highest emoluments from the group for the financial year ended 31 December, 2002 are set out in Note 7 to the accountants' report set out in appendix I to this prospectus.

(e) Disclaimers

Save as disclosed herein:

- (1) none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who, as at the latest practicable date, had any interests or short position in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the Securities and Futures Ordinance (including interest and short positions which they are taken or deemed to have under such provisions of the Securities and Futures Ordinance), or which will be required pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to in that section, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rule 5.40 to 5.58 of the GEM listing rules relating to securities transactions by any Directors to be notified to the Company and the Stock Exchange once the Shares are listed;
- (2) none of the Directors nor any of the persons whose names are listed in the paragraph headed "Consents of experts" under the section headed "Other Information" in this appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the group, or are proposed to be acquired or disposed of by or leased to any member of the group;

- (3) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Consents of experts” under the section headed “Other Information” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the group;
- (4) none of the persons whose names are listed in the paragraph headed “Consents of experts” under the section headed “Other Information” in this appendix has any shareholding in any member of the group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the group;
- (5) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (6) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the placing or related transaction as mentioned in this prospectus; and
- (7) so far as is known to the Directors, none of the Directors, their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the group.

IV. SHARE OPTION SCHEMES

(a) Summary of the terms of the share option scheme

The following is a summary of the principal terms of the share option scheme approved by the resolutions of the Shareholders passed on 27 October, 2003:

(A) *Purpose of the share option scheme*

The purpose of the share option scheme is to provide the people and the parties working for the interest of the group with an opportunity to obtain 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) Who may join

The Board may, at its discretion, invite (i) employees of the Company (whether full-time or part-time) or any of its subsidiaries or associated companies; (ii) directors (whether executive directors or non-executive directors or independent non-executive directors) of the Company or any of its subsidiaries or associated companies; (iii) suppliers of goods and/or services to the Company or any of its subsidiaries or associated companies; and (iv) technological, technical, financial and legal advisers or consultants engaged by or worked for the Company or any of its subsidiaries or associated companies (together, the “Participants” and each a “Participant”), to take up options (“Options”) to subscribe for Shares at a price calculated in accordance with paragraph (E) below. No performance target is required to be achieved before an Option can be exercised.

In determining the basis of eligibility of each Participant, the Directors would mainly take into account the experience of the Participant in the group’s business, the length of service of the Participant with the group (if the Participant is an employee or a director of any member of the group), the length of business relationship the Participant has established with the group (if the Participant is a supplier, an adviser or a consultant engaged by or worked for any member of the group), the amount of support, assistance, guidance, advice, efforts and contributions the Participant has exerted and given towards the success of the group and/or the amount of potential support, assistance, guidance, advice, efforts and contributions the Participant is likely to be able to give or make towards the success of the group in the future.

(C) Grant of Options

Any grant of Options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM listing rules. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM listing rules) for the approval of the Company’s results for any year, half-year or quarter-year period; and (ii) the deadline for the Company to publish announcement of its results for any year, half-year or quarter-year period under the GEM listing rules, and ending on the date of the relevant results announcement, no Option may be granted.

(D) Payment on acceptance of option offer

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant.

(E) Subscription price of Shares

Subject to any adjustments made as described in paragraph (L) below, the subscription price in respect of each Share issued under the share option scheme will be a price determined by the Board and notified to a Participant and will be no less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for the business of dealing in securities (a "Trading Day"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the Participant (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.

(F) Maximum number of Shares available for subscription

- (1) At the time of adoption of the share option scheme, the Company may seek approval of its Shareholders in a general meeting to authorise the Directors to grant options under the share option 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 share option 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 the Shareholders pursuant to sub-paragraph (2) below. Options lapsed in accordance with paragraph (Q) below shall not be counted for the purpose of calculating the Scheme Mandate Limit.

- (2) The Company may seek approval of the 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 under the share option 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 share option 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 share option scheme (including those outstanding, cancelled, lapsed in accordance with the share option scheme or exercised Options) shall not be counted for the purpose of calculating the Refreshed Limit.
- (3) The Company may grant Options to specified Participant(s) beyond the Scheme Mandate Limit or Refreshed Limit if the grant of such Options is specifically approved by the Shareholders in general meeting.

Notwithstanding the above and subject to paragraph (L) below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option 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 option may be granted under any schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the share option 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 approval of the Shareholders in general meeting, at which such Participant and his associates shall abstain from voting.

(G) Requirements on granting options to connected persons

Any grant of Options to a Participant who is a director, chief executive, management shareholder or substantial shareholder (each as defined in the GEM listing rules) of the Company or any of their respective associates

(as defined in the GEM listing rules) must be approved by the independent non-executive Directors (excluding an independent non-executive Director who is the relevant grantee).

Where the Board proposes to grant any Option to a Participant who is a substantial shareholder or an independent non-executive director of the Company or any of their respective associates and such Option which, if exercised in full, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted pursuant to the share option scheme and other share option schemes of the Company (including options exercised and outstanding) to such Participant in the 12-month period up to and including the date of grant being proposed by the Board (the “Relevant Date”):

- (1) representing in aggregate more than 0.1% of the total number of Shares in issue at the Relevant Date; and
- (2) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the Relevant Date (and if the Relevant Date is not a Trading Day, the Trading Day immediately preceding the Relevant Date), in excess of HK\$5,000,000.

Such proposed grant of Options must be approved by the Shareholders on a poll in general meeting with the Participant concerned and all other connected persons (as defined in the GEM listing rules) of the Company abstaining from voting (except that any connected person may vote against such proposed grant at the general meeting provided that his intention to do so has been stated in the circular issued to the Shareholders).

(H) Time of exercise of option

An Option may be exercised in accordance with the terms of the share option 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 share option scheme and expire on the last day of such period as determined by the Board.

Note: Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is no minimum period for which an Option must be held before it can be exercised.

(I) Rights are personal to grantee

An Option may not be transferred or assigned and is personal to the grantee.

(J) Rights on ceasing employment or engagement

If the grantee of an option ceases to be a Participant for any reason other than on his death or termination of his employment, directorship or engagement on one or more of the grounds specified in paragraph (Q)(6), the Option granted to such grantee will lapse on the date of such cessation (to the extent that it has not already been exercised) and will not be exercisable unless the Board otherwise determines to grant an extension at the discretion of the Board in which event the grantee may exercise the Option within such period of extension and up to a maximum entitlement directed at the discretion of the Board on the date of grant of extension (to the extent that it has not already been exercised) and subject to any other terms and conditions decided at the discretion of the Board. For the avoidance of doubt, such period of extension (if any) shall be granted within and in any event ended before the expiration of the period of one month following the date of his cessation to be a Participant.

(K) Rights on death

If the grantee of an Option dies before exercising the Option in full and none of the events which would be a ground for termination of his employment, directorship or engagement under paragraph (Q)(6) arises, his personal representative(s) shall be entitled within a period of 12 months from the date of death to exercise the Option up to the entitlement of such grantee as at the date of death (to the extent that the Option has become exercisable and has not already been exercised).

(L) Reorganisation of capital structure

In the event of a capitalisation issue, rights issue, sub-division or consolidation of the Shares or reduction of capital in the Company (excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party), or in the event of any distribution of the Company's capital assets to the Shareholders on a pro rata basis (whether in cash or in specie), other than dividend paid out of the net profits attributable to the Shareholders, whilst any Option remains exercisable, such corresponding alterations (if any) certified in writing by an independent financial adviser appointed by the Company or the auditors for the time

being of the Company as fair and reasonable in his or their opinion either generally or as regards any particular grantee will be made to the subscription price at which the Offeror gives notice to acquire the remaining Shares and/or the number or nominal amount of Shares subject to the Option so far as unexercised, provided that any such alterations shall give a grantee the same proportion of the issued share capital of the Company as that to the Option he was previously entitled, but so that no such alterations shall be made to the effect that any Share would be issued at less than its nominal value.

(M) Rights on take-over

If a general offer by way of take-over (other than by way of scheme of arrangement pursuant to paragraph (N) below) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror (“Dissenting Shareholders”) and if such offer becomes or is declared unconditional and the Offeror is entitled and does give notice pursuant to the Companies Law, Chapter 22 (Law 3 of 1961 consolidated and revised) of the Cayman Islands to acquire Shares held by the Dissenting Shareholders prior to the expiry of the relevant option period, the grantee (or his personal representative(s)) may by notice in writing to the Company within 21 days of the notice of the offeror exercise the Option (to the extent that the Option has become exercisable on the date of the notice of the offeror and has not already been exercised) to its full extent or to the extent specified in such notice.

(N) Rights on scheme of arrangement

If a general offer by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary majority of holders of Shares at the requisite meetings, the grantee (or his personal representative(s)) may thereafter (but only until such time as shall be notified by the Company, after which it shall lapse) exercise the Option (to the extent which it has become exercisable and has not already been exercised) to its full extent or to the extent specified in such notice.

(O) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice

thereof to the grantee on the same date as it despatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representative(s)) may forthwith and until the expiry of the period commencing on such date and ending on the earlier of the date two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the court, exercise any of his Options (to the extent the Option has become exercisable and not already exercised) whether in full or in part, but the exercise of an Option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all Options shall lapse except insofar as previously exercised under the share option scheme. The Company may require the grantee (or his personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of Options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(P) Voluntary wind-up

If a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, other than for the purpose of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice give notice thereof to all grantees and thereupon, the grantees (or their respective personal representative(s)) may, subject to the provisions of all applicable law, by notice in writing to the Company within two Trading Days prior to the proposed general meeting of the Company, exercise the Option (to the extent the Option has become exercisable and not already exercised) in accordance with the share option scheme whereupon the Company shall as soon as possible and, in any event, no later than the Trading Day immediately prior to the date of the proposed general meeting allot the relevant Shares to the grantee credited as fully.

(Q) Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (1) the expiry of the option period;

- (2) the expiry of the periods referred to in paragraph (J), (K) or (M) respectively;
- (3) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (N);
- (4) subject to the compromise or arrangement becoming effective, the expiry of the period referred to in paragraph (O);
- (5) subject to the expiry of the period of extension (if any) referred to in paragraph (J), the date on which the grantee ceases to be a Participant for any reason other than on his death or the termination of his employment, directorship or engagement on one or more grounds specified in sub-paragraph (6) below;
- (6) the date on which the grantee ceases to be a Participant by reason of the termination of his employment, directorship or engagement on grounds including, but not limited to, misconduct, breach of material terms of employment contract, service contract, supply contract or engagement contract, bankruptcy, insolvency and conviction of any criminal offence;
- (7) the date of commencement of the winding-up of the Company referred in paragraph (P);
- (8) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any Option in breach of the share option scheme; or
- (9) the date on which the Option is cancelled by the Board as set out in paragraph (S).

(R) Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to the articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made in respect of a record date which falls on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

References to “Shares” in the share option scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification, redenomination or reconstruction of the share capital of the Company from time to time.

(S) Cancellation of Options granted

With the consent of the relevant grantee, the Board may by resolution at any time cancel any Option granted but not exercised. Where the Company cancels Options and offers to holders of such Options new Options, the offer of such new Options may only be made under the share option scheme with available Options (to the extent not yet granted and excluding the cancelled Options) within the limit approved by the Shareholders as mentioned in paragraph (F).

(T) Period of share option scheme

The share option scheme will remain valid for a period of 10 years commencing on 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 share option scheme shall remain in full force and effect.

(U) Alteration to share option scheme

The share option scheme may be altered in any respect by resolution of the Board except that the provisions relating to matters contained in Rule 23.03 of the GEM listing rules shall not be altered to extend the class of persons eligible for the grant of Options or to the advantage of grantees or Participants except with the prior approval of a resolution of the Company in general meeting (with grantees and their associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the articles of association for the time being of the Company for a variation of the rights attached to the Shares.

Any alterations to the terms and conditions of the share option scheme which are of a material nature or change the authority of the Board shall be approved by the Stock Exchange and the Shareholders, except where the alterations take effect automatically under the existing terms of the share option scheme.

The terms of the share option scheme, as it may from time to time be amended, must comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.

(V) Termination

The Company by resolution in general meeting or the Board may at any time terminate the operation of the share option scheme and in such event no further Options will be offered but in all other respects the provisions of the share option scheme shall remain in full force and effect.

(W) Conditions of the share option scheme

The share option scheme is conditional upon (i) the GEM listing committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and the granting of the listing of, and permission to deal in, any Shares which may be issued pursuant to the exercise of Options granted under the share option scheme; (ii) the obligations of the underwriters under the placing and underwriting agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise.

Application has been made to the GEM listing committee for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the Options granted under the share option scheme.

As at the date of this prospectus, no Option has been granted or agreed to be granted by the Company under the share option scheme.

(b) Summary of the terms of the pre-IPO share option plan

The purpose of the pre-IPO share option plan is to recognise the contribution of certain directors and employees of the group, and consultants engaged by or worked for the group to the growth of the group and/or to the listing of Shares on GEM and for the purpose of cancellation of the terminated share option scheme. All options granted under the pre-IPO share option 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. No options granted under the terminated share option scheme are currently outstanding. The number of options and the subscription price for the underlying Shares granted under the pre-IPO share option plan were determined by the board on the basis that

(i) the proportion of the issued share capital of the Company immediately after completion of the placing (excluding shares which may be issued upon exercise of the offer size adjustment option and options granted pursuant to the pre-IPO share option plan) to which a grantee is entitled under the options granted to him or her under the pre-IPO share option plan and the proportion of the issued share capital of the Company at the time of termination of the terminated share option scheme to which the holder of options of the terminated share option scheme was entitled under the outstanding options which were previously granted to him or her under the terminated share option scheme; and (ii) the aggregate subscription price payable by such grantee on the full exercise of the options, would remain as nearly as possible the same but not more than before. The principal terms of the pre-IPO share option plan, as approved by resolutions of the Shareholders passed on 27 October, 2003, are substantially the same as the terms of the share option scheme (other than its purpose and the basis of determination of eligibility which are mentioned above) and except that:

- (a) there is no requirement as to the minimum subscription price for each Share subject to the options granted under the pre-IPO share option plan save that it shall not be less than the nominal value of each Share;
- (b) the total number of Shares subject to the pre-IPO share option plan is 6,535,631 Shares, representing approximately 2.28% of the total issued share capital of the Company immediately following completion of the placing and the capitalisation issue (excluding Shares which may be issued pursuant to the exercise of the offer size adjustment option) as enlarged by the Shares issued upon full exercise of all the options granted under the pre-IPO share option plan; and
- (c) save for the options which have been granted (the exercise of which is conditional on: (i) the GEM listing committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued pursuant to the exercise of options granted under the pre-IPO share option plan; and (ii) the obligations of the underwriters under the placing and underwriting agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise), no further options will be offered or granted, as the right to do so will end upon the listing of the Shares on GEM, and
- (d) the taking effect of the pre-IPO share option plan is not subject to conditions.

Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options granted under the pre-IPO share option plan.

(c) Outstanding options granted under the pre-IPO share option plan

As at the date of this prospectus, options to subscribe for an aggregate of 6,535,631 Shares of HK\$0.10 each, representing approximately 2.28% of the issued share capital of the Company immediately after completion of the placing and the capitalisation issue (without taking into consideration the exercise of the offer size adjustment option) as enlarged by the Shares issued upon full exercise of these options at the respective exercise price per Share and exercise period set out in the table below have been conditionally granted by the Company under the pre-IPO share option plan. Particulars of these outstanding options granted to the grantees under the pre-IPO share option plan are set out below:

Name of grantee	Address	Number of Shares subject to the options	Exercise price (Note) (HK\$)	Exercise period	Approximate percentage of total issued share capital of the Company immediately after completion of the placing
Director					
1. Mr. Lawrence Pang	House 23, Royal Castle, 23 Pik Sha Road, Sai Kung, New Territories, Hong Kong	1,601,378	0.24	12 months after the listing date to 2 December, 2011	0.56%
Consultants					
2. Mr. Tong Kam Hung	No. 3, 3/F., Violet Court, 2M, Cornwall Street, Kowloon Tong, Kowloon, Hong Kong	1,201,034	0.09	6 months after the listing date to 24 July, 2010	0.42%
3. Mr. Jorge Locsin	2205 Meiling Tower, 1133 Aguilar Street, Binondo, Manila, Philippines	160,138	0.09	6 months after the listing date to 24 July, 2010	0.06%

Name of grantee	Address	Number of Shares subject to the options	Exercise price (Note) (HK\$)	Exercise period	Approximate percentage of total issued share capital of the Company immediately after completion of the placing
Employees					
4. Mr. Tse Kam Cheung	Room 2912, 29/F., Man Kin House, Tsz Wan Shan, Kowloon, Hong Kong	160,138	0.09	6 months after the listing date to 24 July, 2010	0.06%
5. Mr. Tse Wai Sing	Room 747, Fung King House, Lai King Estate, Kwai Chung, New Territories, Hong Kong	480,414	0.09	6 months after the listing date to 24 July, 2010	0.17%
6. Mr. Ruffy Francis Nicolo Punzalan	1/F., Hoi Wan Building, 25 Hoi Wan Road, Quarry Bay, Hong Kong	66,724	0.24	6 months after the listing date to 20 January, 2013	0.07%
		66,724	0.24	31 December, 2004 to 20 January, 2013	
		66,725	0.24	31 December, 2005 to 20 January, 2013	
7. Ms. Sian Kwan Yuk, Janet	Flat 1615, Ping Yan House, Ping Tin Estate, Lam Tin, Kowloon, Hong Kong	53,379	0.24	6 months after the listing date to 20 January, 2013	0.06%
		53,379	0.24	31 December, 2004 to 20 January, 2013	
		53,380	0.24	31 December, 2005 to 20 January, 2013	
8. Ms. Lai Yuen Yee	Flat A, 6/F., Block 7, Grand Del Sol, Yuen Long, New Territories Hong Kong	200,172	0.24	6 months after the listing date to 20 January, 2013	0.21%
		200,172	0.24	31 December, 2004 to 20 January, 2013	
		200,173	0.24	31 December, 2005 to 20 January, 2013	
9. Mr. Cheung Yuk Ngai, Edward	Flat B, 19/F, Yan Wing Mansion, 241 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong	320,276	0.09	6 months after the listing date to 27 December, 2010	0.11%

Name of grantee	Address	Number of Shares subject to the options	Exercise price (HK\$)	Exercise period	Approximate percentage of total issued share capital of the Company immediately after completion of the placing
Employees					
10. Mr. Chu Chi Lok	Flat C, 2/F, 35 Shaukeiwan Road, Hong Kong	800,689	0.09	6 months after the listing date to 24 July, 2010	0.35%
		200,173	0.09	6 months after the listing date to 27 December, 2010	
11. Mr. Ip Wai Chung	Room 2, 23/F., Fai Lun House, Siu Lun Court, Tuen Mun, New Territories, Hong Kong	20,017	0.24	6 months after the listing date to 20 January, 2013	0.02%
		20,017	0.24	31 December, 2004 to 20 January, 2013	
		20,018	0.24	31 December, 2005 to 20 January, 2013	
12. Mr. Joachim Goebel	Unit A, 12/F., Wah Tao Building, 14-16 Tai Po Road, Shamshuipo, Kowloon, Hong Kong	100,086	0.24	31 December, 2004 to 20 January, 2013	0.07%
		100,087	0.24	31 December, 2005 to 20 January, 2013	
13. Mr. Chui Yiu Wing	Room 1120, Block E, Lok Man Sun Estate, Tokwawan, Kowloon, Hong Kong,	20,017	0.24	6 months after the listing date to 20 January, 2013	0.02%
		20,017	0.24	31 December, 2004 to 20 January, 2013	
		20,018	0.24	31 December, 2005 to 20 January, 2013	
14. Mr. Leung Tin Chak	Flat D, 1/F., Block 9, The Paramount, 23 Shan Tong Road, Tai Po, New Territories, Hong Kong	20,017	0.24	6 months after the listing date to 20 January, 2013	0.02%
		20,017	0.24	31 December, 2004 to 20 January, 2013	
		20,018	0.24	31 December, 2005 to 20 January, 2013	
15. Ms. Yuen Fung Tai	Room 1913, Shin King House, Fu Shin Estate, Tai Po, New Territories, Hong Kong	13,345	0.24	6 months after the listing date to 20 January, 2013	0.01%
		13,345	0.24	31 December, 2004 to 20 January, 2013	
		13,345	0.24	31 December, 2005 to 20 January, 2013	

Name of grantee	Address	Number of Shares subject to the options	Exercise price (HK\$)	Exercise period	Approximate percentage of total issued share capital of the Company immediately after completion of the placing
Employees					
16. Ms. Chan Sau Ling	275-285 Hennessy Road, Wanchai, Hong Kong	26,689	0.24	6 months after the listing date to 20 January, 2013	0.03%
		26,690	0.24	31 December, 2004 to 20 January, 2013	
		26,690	0.24	31 December, 2005 to 20 January, 2013	
17. Ms. Pang Wai Yi	9E, Block 3, New Jade Garden, Chai Wan, Hong Kong	10,008	0.24	6 months after the listing date to 20 January, 2013	0.01%
		10,009	0.24	31 December, 2004 to 20 January, 2013	
		10,009	0.24	31 December, 2005 to 20 January, 2013	
18. Mr. Chung Wing Keung	Flat 22G, Block 25, Laguna City, Kwun Tong, Kowloon, Hong Kong	40,034	0.24	6 months after the listing date to 20 January, 2013	0.04%
		40,035	0.24	31 December, 2004 to 20 January, 2013	
		40,035	0.24	31 December, 2005 to 20 January, 2013	
	Total:	<u>6,535,631</u>			

Note: The exercise price of HK\$0.09 and HK\$0.24 (as applicable) were derived for each option holder by multiplying the number of options unexercised for that holder (the “Unexercised Options”) under the terminated share option scheme by the original subscription price (of US\$0.10 or HK\$2.00, as applicable), then dividing the result by the number of options granted to that holder under the pre-IPO share option plan in exchange for cancellation of the Unexercised Options.

In the event that the options under the pre-IPO share option plan are exercised in full or in part, the earnings per Share and the shareholding interests of the then existing Shareholders will be diluted.

V. OTHER INFORMATION**(a) Deed of indemnity***(i) Estate duty and tax indemnity*

Each of the Indemnifiers has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for its present subsidiary) (being the material contract (3) referred to in the subsection headed “Summary of material contracts” under the section headed “Further information about the business of the group” of this appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the group on or before the date on which the placing becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or its subsidiary in the Cayman Islands.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the group on a joint and several basis in relation to taxation which might be payable by any member of the group in respect of any income, profits or gains earned, accrued or received on or before the date on which the placing becomes unconditional other than taxation chargeable in respect of income, profits or gains made in the ordinary course of its business after 30 April, 2003.

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

- (1) to the extent that provision has been made for such taxation in the audited consolidated financial information of the group for each of the two years ended 31 December, 2002 and the four months ended 30 April, 2003;
- (2) to the extent that it would not have arisen but for any act or omission by any members of the group voluntarily effected after the date of the deed of indemnity (other than pursuant to a legally binding commitment created on or before such date) without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business of the relevant member of the group;

- (3) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; and
- (4) to the extent that any provision or reserve made for taxation in the consolidated financial information of the group up to 30 April 2003 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such over-provision or reserve applied referred to in this item (v) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

(ii) Property indemnity

Each of the Indemnifiers has also provided indemnity on a joint and several basis in respect of, among other things, any claims, demands, costs (including relocation costs), expenses, fines, liabilities, damages incurred or suffered by the group as a result of or in connection with the group's use of the property referred to in item 1 of the valuation certificate in the Property Valuation Report set out in appendix III to this prospectus being challenged as in breach of the relevant tenancy agreement or otherwise contrary to or inconsistent with the permitted/approved user of such property.

(b) Litigation

No member of the group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the group.

(c) Address for service of process and notices

Mr. Denny Wong has been appointed as the agent to accept service of process and notices of the Company. The address for service of process and notices is 1B, Block 5, Julimount Garden, Tai Wai, Shatin, New Territories, Hong Kong.

(d) Sponsor

Anglo Chinese has made an application on behalf of the Company to the GEM listing committee for listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the capitalisation issue and the placing and Shares to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the offer size adjustment option and pursuant to the exercise of any options which may be granted under the share option scheme and options granted under the pre-IPO share option plan).

(e) Preliminary expenses

The preliminary expenses of the Company were approximately HK\$20,000 and were paid by the group.

(f) Promoter

The promoter of the Company is D&A Holdings incorporated on 23 February, 1999 in the BVI. As at the latest practicable date, the issued share capital of D&A Holdings was US\$50,000.00 divided into 50,000 shares of US\$1.00 each which are fully paid or credited as fully paid. D&A Holdings's current directors are Mr. Denny Wong and Ms. Alice Wong.

Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus, or proposed to be paid, allotted or given, to the promoter in connection with the placing or the related transactions described in this prospectus.

(g) Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<i>Name</i>	<i>Qualification</i>
Anglo Chinese	A deemed licensed corporation to carry on types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the Securities and Futures Ordinance
KPMG	Certified public accountants
RHL Appraisal Limited	Property valuers
Maples and Calder Asia	Cayman Islands attorneys-at-law

(h) Consents of experts

Each of Anglo Chinese, KPMG, RHL Appraisal Limited and Maples and Calder Asia has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

(i) Binding effect

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

(j) Advisory fees or commissions received

The underwriters will receive an underwriting commission and advisory fee as referred to in the paragraph "Commission and expenses" under the section headed "Underwriting" in this prospectus.

(k) Related party transactions

The group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in the section headed “Related party transactions” of the accountants’ report set out in appendix I to this prospectus and in the section headed “Connected transactions” in this prospectus.

(l) Miscellaneous

- (1) Save as disclosed in this prospectus:
 - (a) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (c) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (d) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.
- (2) No company within the group is presently listed on any stock exchange or traded on any trading system.
- (3) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (4) Mr. Lee Yip Wah, Peter, the secretary of the Company, is a partner of Woo, Kwan, Lee & Lo, legal advisers to the Company as to Hong Kong law. Woo, Kwan, Lee & Lo will receive professional fees in connection with matters relating to the placing.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) the written consents referred to in the paragraph headed “Consents of experts” under the section headed “Other Information” in appendix V to this prospectus; and (ii) copies of the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the group” in appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Woo Kwan Lee and Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the memorandum and articles of association of the Company conditionally adopted on 27 October, 2003;
- (b) the accountants’ report prepared by KPMG, the text of which is set out in appendix I to this prospectus;
- (c) the audited financial statements which have been prepared for each of the companies comprising the group for each of the two years ended 31 December, 2002;
- (d) the letters relating to the profit forecast of the group, the text of which is set out in the appendix II to this prospectus;
- (e) the letter, summary of values and valuation certificates relating to the property interests of the group prepared by RHL Appraisal Limited, the texts of which are set out in appendix III to this prospectus;
- (f) the letter prepared by Maples and Calder Asia summarising certain aspects of Cayman Islands company law referred to in appendix IV to this prospectus;
- (g) the Companies Law;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (h) the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the group” in appendix V to this prospectus; together with the service contracts with the executive Directors referred to in the paragraph headed “Particulars of service agreements” under the section headed “Further information about Directors, senior management and staff” in appendix V to this prospectus;
- (i) the rules of the share option scheme and the pre-IPO share option plan; and
- (j) the written consents referred to under the paragraph headed “Consents of experts” under the section headed “Other Information” in appendix V to this prospectus.