



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司 *

(incorporated in the Cayman Islands with limited liability)

Stock code: 8210



* For identification only

Interim Report
2010
Interim

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

This document, for which the directors of Advanced Card Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange 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 the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.

HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2010 increased by 14% to HK\$43.4 million from the first half year of 2009.
- Gross profit of the Group for the six months ended 30 June 2010 increased by 11% to HK\$23.6 million from the first half year of 2009.
- Net profit after income tax of the Group for the six months ended 30 June 2010 decreased by 47% to HK\$1.9 million from the first half year of 2009.
- As at 30 June 2010, the cash at banks and on hand of the Group amounted to HK\$11.2 million and there was no borrowing from banks.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2010 together with the comparative unaudited figures for the corresponding periods in 2009.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2010

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	20,189	22,834	43,423	38,256
Cost of sales		(9,007)	(10,761)	(19,829)	(16,962)
Gross profit		11,182	12,073	23,594	21,294
Other income		68	23	156	30
Administrative expenses		(4,664)	(3,731)	(9,569)	(7,645)
Research and development expenses		(3,244)	(2,962)	(6,535)	(5,765)
Selling and distribution costs		(2,543)	(1,556)	(5,128)	(3,352)
Finance costs	4	(78)	(66)	(160)	(144)
Profit before income tax	5	721	3,781	2,358	4,418
Income tax expense	6	(102)	(699)	(504)	(929)
Profit for the period		619	3,082	1,854	3,489
Other comprehensive income					
Exchange (loss)/gain on translation of financial statements of foreign operations		(10)	41	(16)	42
Other comprehensive income		(10)	41	(16)	42
Total comprehensive income for the period		609	3,123	1,838	3,531
Earnings per share for profit attributable to the owners of the Company during the period	8				
Basic		HK0.219 cents	HK1.094 cents	HK0.656 cents	HK1.238 cents
Diluted		HK0.218 cents	HK1.090 cents	HK0.654 cents	HK1.234 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	<i>Notes</i>	Unaudited 30 June 2010 HK\$'000	Audited 31 December 2009 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9	6,537	5,620
Development costs		12,227	9,945
		18,764	15,565
Current assets			
Inventories		25,442	17,882
Trade and other receivables, deposits paid and prepayments	10	12,213	19,481
Held-to-maturity financial assets		34	20
Cash and cash equivalents		11,242	23,810
		48,931	61,193
Current liabilities			
Trade payables, deposits received and accruals	11	11,860	19,462
Provision for taxation		637	827
		12,497	20,289
Net current assets		36,434	40,904
Total assets less current liabilities		55,198	56,469
Non-current liabilities			
Deferred tax liabilities		564	564
Net assets		54,634	55,905
EQUITY			
Share capital	12	28,260	28,260
Reserves	13	26,374	27,645
Total equity		54,634	55,905

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(3,676)	(2,618)
Net cash used in investing activities	(5,607)	(2,161)
Net cash used in financing activities	(3,269)	(2,399)
Net decrease in cash and cash equivalents	(12,552)	(7,178)
Cash and cash equivalents at 1 January	23,810	22,724
Effect of foreign exchange rates changes	(16)	42
Cash and cash equivalents at 30 June	11,242	15,588

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	(Accumulated losses)/ Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
Balance at 1 January 2009	28,180	20,952	4,496	13	(10,083)	2,254	45,812
2008 dividends approved	—	—	—	—	—	(2,254)	(2,254)
Transactions with owners	28,180	20,952	4,496	13	(10,083)	—	43,558
Profit for the period	—	—	—	—	3,489	—	3,489
Other comprehensive income							
- Exchange gain on translation of financial statements of foreign operations	—	—	—	42	—	—	42
Total comprehensive income for the period	—	—	—	42	3,489	—	3,531
Balance at 30 June 2009	28,180	20,952	4,496	55	(6,594)	—	47,089
Balance at 1 January 2010	28,260	17,835	4,496	69	2,136	3,109	55,905
2009 dividends approved	—	—	—	—	—	(3,109)	(3,109)
Transaction with owners	28,260	17,835	4,496	69	2,136	—	52,796
Profit for the period	—	—	—	—	1,854	—	1,854
Other comprehensive income							
- Exchange loss on translation of financial statements of foreign operations	—	—	—	(16)	—	—	(16)
Total comprehensive income for the period	—	—	—	(16)	1,854	—	1,838
Balance at 30 June 2010	28,260	17,835*	4,496*	53*	3,990*	—*	54,634

* The aggregate amount of the above balances of HK\$26,374,000 represented the reserves in the consolidated statement of financial position.

NOTES ON THE INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The interim financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

The interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies adopted in the 2009 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2010. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The interim financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the six months ended 30 June 2010 were approved for issue by the board of directors on 6 August 2010.

2 SEGMENT INFORMATION

The executive directors have identified the development, sale and distribution of smart card products, software and hardware and provision of smart card related services as the only business component in the internal reporting to the executive directors for their decisions about resources allocation and review of performance.

Six months ended
30 June 2010
HK\$’000

Revenue

From external customers	43,423
-------------------------	--------

Reportable segment revenue	43,423
-----------------------------------	---------------

Bank interest expenses	22
Bank interest income	(8)
Depreciation and amortisation of non-financial assets	2,401
Loss on disposals of plant and equipment	1
Research and development expenses	6,535
Provision for inventories	25

Six months ended
30 June 2009
HK\$'000

Revenue

From external customers 38,256

Reportable segment revenue 38,256

Bank interest expenses 19
Bank interest income (7)
Depreciation and amortisation of
non-financial assets 1,917
Loss on disposals of plant and equipment 6
Research and development expenses 5,765
Provision for inventories 285

The totals presented for the Group's operating segment reconcile to the Group's key financial figures as presented in the financial statements as follows:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Reportable segment profit	2,974	5,035
Finance costs	(160)	(144)
Unallocated corporate expenses	(456)	(473)
Profit before income tax	2,358	4,418

	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
Reportable segment assets	67,621	76,556
Other corporate assets	74	202
Group assets	67,695	76,758
Reportable segment liabilities	11,784	19,205
Deferred tax liabilities	564	564
Other corporate liabilities	713	1,084
Group liabilities	13,061	20,853

The Group's revenues from external customers are divided into the following geographical areas:

	Revenue from external customers	
	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Middle East and Africa	3,387	3,836
The Americas	7,600	6,619
Asia Pacific	14,248	10,145
Europe	18,188	17,656
Total	43,423	38,256

The geographical location of customers is based on the location at which the services were provided or the goods delivered.

Over 90% of the total assets and liabilities of the Group at the respective reporting dates were physically located and substantially employed in People's Republic of China (the "PRC") and Hong Kong. Accordingly, no geographical segmental analysis of the Group's non-current assets is presented.

3 REVENUE

Revenue from the Group's principal activities recognised during the period is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of smart card products, software and hardware	20,075	22,546	43,272	36,479
Smart card related services	114	288	151	1,777
Total	20,189	22,834	43,423	38,256

4 **FINANCE COSTS**

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest charges on bank loans				
- wholly repayable				
within five years	8	6	22	19
Bank charges	70	60	138	125
	78	66	160	144

5 **PROFIT BEFORE INCOME TAX**

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax is				
arrived at after charging/ (crediting):				
Amortisation of				
development costs	524	497	1,076	979
Depreciation	699	501	1,325	938
Net foreign exchange loss/ (gain)	372	(177)	1,253	37

6 **INCOME TAX EXPENSE**

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the period.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% (2009: 2%) on gross income incurred in the Philippines during the period. No provision for overseas tax in other locations including the PRC, Canada and Germany has been made as no assessable profits arose from the operations in these locations (2009: Nil).

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax				
- Hong Kong	71	675	439	877
- Overseas	31	24	65	52
	102	699	504	929

7 DIVIDENDS

A dividend of HK1.1 cents per share amounting to approximately HK\$3,109,000 for the year ended 31 December 2009 had been approved by the shareholders at the annual general meeting and was subsequently paid on 18 May 2010.

The Company had not declared any dividends for the three months and six months ended 30 June 2010 (2009: Nil).

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2010 respectively is based on the profit attributable to owners of the Company of HK\$619,000 (2009: HK\$3,082,000) and HK\$1,854,000 (2009: HK\$3,489,000) and the weighted average 282,600,000 (2009: 281,800,000) and 282,600,000 (2009: 281,800,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2010 respectively is based on the profit attributable to owners of the Company of HK\$619,000 (2009: HK\$3,082,000) and HK\$1,854,000 (2009: HK\$3,489,000) and the weighted average 283,579,000 (2009: 282,882,000) and 283,502,000 (2009: 282,850,000) ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months and six months ended 30 June 2010 respectively is calculated based on the weighted average 282,600,000 (2009: 281,800,000) and 282,600,000 (2009: 281,800,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average 979,000 (2009: 1,082,000) and 902,000 (2009: 1,050,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

9 PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer and office equipment HK\$'000	Moulds HK\$'000	Total HK\$'000
At 1 January 2009					
Cost	1,214	756	5,096	2,150	9,216
Accumulated depreciation	(545)	(397)	(3,199)	(1,535)	(5,676)
Net book amount	669	359	1,897	615	3,540
Six months ended 30 June 2009					
Opening net book amount	669	359	1,897	615	3,540
Additions	38	40	607	1,328	2,013
Disposals	—	—	(6)	—	(6)
Depreciation	(238)	(73)	(396)	(231)	(938)
Closing net book amount	469	326	2,102	1,712	4,609
At 30 June 2009					
Cost	1,252	790	5,655	3,478	11,175
Accumulated depreciation	(783)	(464)	(3,553)	(1,766)	(6,566)
Net book amount	469	326	2,102	1,712	4,609
At 1 January 2010					
Cost	1,272	866	6,348	4,743	13,229
Accumulated depreciation	(1,022)	(526)	(3,961)	(2,100)	(7,609)
Net book amount	250	340	2,387	2,643	5,620
Six months ended 30 June 2010					
Opening net book amount	250	340	2,387	2,643	5,620
Additions	520	184	1,289	250	2,243
Disposals	—	—	(1)	—	(1)
Depreciation	(212)	(81)	(574)	(458)	(1,325)
Closing net book amount	558	443	3,101	2,435	6,537
At 30 June 2010					
Cost	1,735	1,047	7,554	4,990	15,326
Accumulated depreciation	(1,177)	(604)	(4,453)	(2,555)	(8,789)
Net book amount	558	443	3,101	2,435	6,537

10 TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	30 June 2010 <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>
Trade receivables - net	9,139	17,096
Other receivables, deposits paid and prepayments	3,074	2,385
	12,213	19,481

Customers are generally granted credit terms of 30 to 60 days. Based on invoice dates, ageing analysis of trade receivables is as follows:

	30 June 2010 <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>
0 - 30 days	5,360	8,911
31 - 60 days	2,201	3,808
61 - 90 days	59	3,169
Over 90 days	1,519	1,208
	9,139	17,096

11 TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2010 <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>
Trade payables	8,159	13,123
Deposits received and accruals	3,701	6,339
	11,860	19,462

The Group was generally granted by its suppliers credit periods of 30 to 60 days. Based on invoice dates, ageing analysis of trade payables is as follows:

	30 June 2010 <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>
0 - 30 days	4,764	4,957
31 - 60 days	1,892	5,717
61 - 90 days	1,133	1,533
Over 90 days	370	916
	8,159	13,123

12 SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 31 December 2009 and 30 June 2010	1,000,000	100,000
<hr/>		
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 31 December 2009 and 30 June 2010	282,600	28,260
<hr/>		

13 RESERVES

The amount of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on page 5 of the financial statements.

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

14 OPERATING LEASE COMMITMENTS

As lessee

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Within one year	1,418	1,621
In the second to fifth years, inclusive	1,047	929
	<hr/>	<hr/>
	2,465	2,550
<hr/>		

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

15 RELATED PARTY TRANSACTIONS

Details of the transactions between the Group and its related parties are summarized below.

Key management of the Group are members of the board of directors and senior management. Key management personnel remuneration includes the following expenses:

	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Key management personnel remuneration		
- Salaries and other short-term employee benefits	2,997	2,895
- Retirement benefits costs	48	48
	<hr/>	<hr/>
	3,045	2,943
	<hr/> <hr/>	<hr/> <hr/>

At 30 June 2010, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK\$18,000,000 (30 June 2009: HK\$3,000,000) for certain banking facilities granted, which remained unused as at 30 June 2009 and 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the unaudited consolidated financial results of the Group (hereafter referred to as “ACS” or the “Group”) for the six month period ended 30 June 2010.

FINANCIAL REVIEW

The sales revenue increased by 14% in the first half year of 2010 to HK\$43.4 million from the corresponding figure in the first half year of 2009 of HK\$38.3 million. The gross profit increased by 11% to HK\$23.6 million while the gross profit margin decreased slightly to 54.3% from 55.7%.

The expenses increased by 27% to HK\$21.4 million in the current period comparing with the corresponding figure a year ago. One main reason of the increase was the expanded headcount which was 202 at 30 June 2010, 36.5% bigger than the figure of 148 at 30 June 2009. The continual increase of the work force was considered needed to cope with more and more emerging business opportunities. ACS has now stronger teams to develop products, to do marketing and sales work and to handle the logistics. Particularly, ACS emphasizes now more on strengthening its work force in purchasing, manufacturing through contractors and logistics. More sophisticated products are being launched to the market and such products require not only stronger research and development people but also manufacturing and quality assurance people to turn the prototypes of products into commercial products.

Another factor contributing to the increase in expenses was the exchange loss of HK\$1,253 thousand in the current six months compared with HK\$37 thousand in the first six months of 2009. The loss was owing to some sales with the price quoted in Euro. When such an order was received, the amount was stated in Euro but when the money from the sale was received, less Hong Kong dollar was obtained owing to the drop in Euro rate with the result of loss. When the currency rate is quite stable, hedging may not be used owing to the cost of hedging. However, the abrupt change of Euro rate versus Hong Kong dollar rate was highly unprecedented. In the second quarter of the year, ACS began to hedge against currency loss for the sales in Euro. The loss in the second quarter was less.

	Six months ended		
	30 June		Change
	2010	2009	
	HK\$'000	HK\$'000	
Revenue	43,423	38,256	+14%
Cost of sales	(19,829)	(16,962)	+17%
Gross profit	23,594	21,294	+11%
Other income	156	30	+420%
Expenses	(21,392)	(16,906)	+27%
Profit before income tax	2,358	4,418	-47%
Income tax expense	(504)	(929)	-46%
Profit for the period	1,854	3,489	-47%

The sales revenue by region indicates that Europe still accounted for the biggest sales in percentage (41.9%) while Asia Pacific was the second largest sales region (32.8%). The Chinese market became more and more important to ACS. ACS used to develop smart card and reader products to follow international standards. However, some big countries, such as China, Germany, Japan and USA have their own national standards. ACS started to develop products to follow national standards. Some products were qualified against the Chinese standards and so relative bigger orders were secured from China.

	Six months ended 30 June				Change in amount
	2010		2009		
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	
Europe	18,188	41.9%	17,656	46.2%	+3%
Asia Pacific	14,248	32.8%	10,145	26.5%	+40%
The Americas	7,600	17.5%	6,619	17.3%	+15%
Middle East and Africa	3,387	7.8%	3,836	10.0%	-12%
	43,423	100.0%	38,256	100.0%	+14%

DIVIDEND

The Board does not declare an interim dividend in respect of the six months ended 30 June 2010. The declaration, payment, and amount of future dividends will be decided by the Board and will depend upon, among other things, ACS's results of operations, capital requirements, cash flows, general financial conditions, and such other factors as the Board may consider important.

BUSINESS REVIEW

ACS's business is to develop smart card and reader technologies and automatic fare collection solutions. It sells its products and services to over 100 countries in the world. It emphasizes on product quality and received the 2009 Best Practices Award "Product Quality Leadership Award for Smart Card Readers" from Frost & Sullivan in 2009. It subcontracts the manufacturing of its products by third party factories while it has teams of engineers and quality assurance people stationing in these factories to ensure smooth production and quality standard.

Established in 1995, ACS entered in 2010 into its 15th year of doing smart card business. Since its inception, ACS has emphasized on building its core technologies. In the initial years, ACS focused on building card operating systems and PC-linked contact smart card readers using 8-bit micro-processors. Having built a range of technologies and developed a broad base of customers, it started to develop more sophisticated products such as contactless smart card readers, dual interface (contact and contactless) readers, flash drives integrated with smart card readers, smart card readers integrated with finger print sensors, dynamic password generators and terminals with pin-pads and displays. These products are used in a wide variety of applications particularly in nation-wide identity cards, health cards, home-banking and payment solutions.

On the card side, after developing the card operating systems for triple-DES encryption and for contact cards, ACS also started to develop more and more sophisticated card operating systems (“COS”) supporting PKI (public key infrastructure) cards, contactless cards and dual interface (both contact and contactless) cards. It also developed some card operating systems used in security access modules (“SAM”) which are small-sized cards (like a SIM card usually used in mobile phones) embedded in payment terminals to authenticate payment cards.

The automatic fare collection (“AFC”) solutions offered by ACS deploys a good range of technologies including micro-processor cards with the COS developed by ACS, the encryption technologies, the payment terminals and the various types of software. It adopts the business model of co-operating with its partners all over the world in offering its AFC solutions.

There are two emerging applications important to ACS.

Banks are offering more and more services to the consumers, such as insurance, fund management, trading of marketable securities, etc. To avoid the need of banking customers to wait in queues at bank counters and to reduce the work of the banking staff, the banks want to provide services on the Internet. They want to enhance the security of online banking. Various tools can be used, such as smart cards to hold the identity of the user of banking services, a finger print sensor to identify the user, etc.

One security tool that became popular in several countries in Europe a few years ago is becoming popular in various regions in the world, particularly in Asia owing to Asia’s vast population. MasterCard defined the standard of a “dynamic password generator” (“DPG”) called “CAP” (chip authentication program) in order to enhance the security for home banking. A DPG once activated by the credit card using a smart card chip will generate a password which the card holder can enter into the computer in the process of identifying himself. Since such credit cards using chips are getting popular practically everywhere in the world, the demand of these DPG will take off in many countries in the world. ACS has developed and got certified by MasterCard, dynamic password generators at competitive costs and is getting interesting inquiries for these products.

Another application is micro-payment made at home. Contactless smart cards are very important as payment tools for public transportation, such as by buses and by trains. Loading money into the payment cards usually require accessibility of money loading stations to the card holders. In many cities in the world, such loading stations are not widely accessible. The PC-linked contactless card readers are increasingly being used at home for the transport card holders to load money on their cards. Also, these readers and the transport cards are being used for micro-payment, usually for purchasing items on the Internet, which itself is becoming more and more popular. When these readers are used as consumer products, the demand will increase significantly. ACS has a strong team of engineers to develop a range of contactless smart card readers for the world market.

PROSPECTS

ACS has built in the last 15 years a range of technologies in smart card operating systems, smart card readers and terminals and automatic fare collection solutions. It has acquired the reputation of offering quality products and services. Its customers are located in over 100 countries in the world. Always in the pipe-line are new products being launched. The existing customers of ACS are target customers of the more sophisticated products and solutions. The management of ACS believes that ACS is entering into a new era of higher growth rates in sales and in profitability because of its confidence to get bigger orders for its more sophisticated products and solutions.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 30 June 2010, the Group's cash at banks and on hand amounted to HK\$11.2 million (30 June 2009: HK\$15.6 million).

The current ratio, being the ratio of current assets to current liabilities, was 3.9 (30 June 2009: 4.1). Net asset value as at 30 June 2010 was HK\$54.6 million (30 June 2009: HK\$47.1 million).

CAPITAL STRUCTURE

The Group's equity capital, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. Usage of bank lines has been minimal. As at 30 June 2010, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (30 June 2009: zero). The Group keeps most of its cash in Hong Kong dollars ("HK\$"), Euro, United States dollars ("US\$") and Renminbi ("RMB") in bank accounts.

INVESTMENTS

During the first six months, the Group did not make any significant investment.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2010.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK\$, Euro, US\$ and RMB. As HK\$ is pegged to US\$, accordingly the Group does not have significant exposure to risk resulting from changes in the foreign currency exchange rates of US\$. In relation to the fluctuation on RMB against HK\$, the Group considers that exchange risk arising from those currencies does not have significant financial impact to the Group. When appropriate, hedging instruments including forward contracts would be used to manage the foreign exchange exposure on Euro.

PLEDGE OF ASSETS

As at 30 June 2010, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2010, the Company had outstanding corporate guarantee of HK\$18 million (plus accrued interest thereon) to two banks in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had 202 full time employees. Staff costs amounted to HK\$12.1 million (corresponding period in 2009: HK\$10.3 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

The Group has also adopted share option schemes under which the employees of the Group may be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group.

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

As at 30 June 2010, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long position in ordinary shares of HK\$0.10 each

Name of director	Personal interests (Note 1)	Family interests	Corporate interests	Other interests	Total number of shares held	Percentage of the Company's issued share capital as at 30 June 2010
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	43,714,522	—	—	124,482,522	44.05%
Ms. Tsui Kam Ling, Alice (Note 3)	43,714,522	80,768,000	—	—	124,482,522	44.05%
Mr. Tan Keng Boon	157,893	—	—	—	157,893	0.06%

Notes:

- The shares are registered under the names of the directors who are the beneficial owners.
- 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 43,714,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.
- 43,714,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 30 June 2010, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(i) PRE-IPO SHARE OPTION PLAN

As at 30 June 2010, the consultant and employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2010 was HK\$0.495) with an exercise price of HK\$0.09 or HK\$0.24 per share under the Pre-IPO Share Option Plan (the "Plan") of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company.

Grantees	Date granted	Number of share options				Balance as at 30 June 2010	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 June 2010
		Balance as at 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period				
Consultant & Employees	27 October 2003	561,607	-	-	-	561,607 (Note 1, 2)	10 May 2004 to 24 July 2010	HK\$0.09	0.20%
Employees	27 October 2003	862	-	-	-	862 (Note 2)	10 May 2004 to 27 December 2010	HK\$0.09	0.01%
	27 October 2003	900,776	-	-	-	900,776 (Note 3)	10 May 2004 to 20 January 2013	HK\$0.24	0.32%
		1,463,245	-	-	-	1,463,245			

Notes:

- 1 401,034 share options were granted to a consultant of the Group. All other options were granted to employees of the Group.
- 2 The options vested and were exercisable since 10 May 2004, which was 6 months after the listing date of the Company.
- 3 The options vested and were exercisable in three tranches as follows:
 - (a) one-third of the options vested and were exercisable since 10 May 2004;
 - (b) a further one-third of the options vested and were exercisable since 31 December 2004; and
 - (c) the remaining one-third of the options vested and were exercisable since 31 December 2005.
- 4 No option was granted, exercised, cancelled or lapsed during the period.

(ii) SHARE OPTION SCHEME

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares at 30 June 2010 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

		Total number of ordinary shares held	Percentage of the Company's issued share capital as at 30 June 2010
22	Mr. Tjio Kay Loen (<i>Note 2</i>)	Beneficial owner and Other 24,880,000 shares (L)	8.80%
	Warren Securities Limited	Beneficial owner 14,200,000 shares (L)	5.02%

Notes:

- 1 The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the SFO) in shares.
- 2 Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,800,000 shares, 680,000 shares and 2,000,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen), Raffles Capital Pte Limited (a company which is owned as to 56% by Mr. Tjio Kay Loen) and Farina Limited (a company which is owned as to 60% by Mr. Tjio Kay Loen) respectively. Mr. Tjio Kay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 30 June 2010 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group during the period.

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

During the period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The provision A.2 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Yiu Chu, Denny was appointed as the chairman and chief executive officer of the Company. The roles of chairman and chief executive officer were not separated. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that his appointment being both the chairman and chief executive officer is beneficial to the business prospects of the Company. Save as disclosed above, the Company has met the code provisions set out in the Code throughout the six months ended 30 June 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the six months ended 30 June 2010.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the six months ended 30 June 2010.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 6 August 2010