



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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

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 announcement, 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 announcement.

This announcement, 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 announcement 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 announcement misleading.

* For identification only

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2011 increased by 25% to HK\$117.5 million from the year ended 31 December 2010.
- Gross profit of the Group for the year ended 31 December 2011 increased by 19% to HK\$60.4 million from the year ended 31 December 2010.
- Net profit after income tax of the Group for the year ended 31 December 2011 increased by 15% to HK\$5.1 million from HK\$4.4 million in 2010.

AUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of the Company are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "ACS") for the year ended 31 December 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Revenue	4	117,488	93,729
Cost of sales and services provided		(57,043)	(43,086)
Gross profit		60,445	50,643
Other income and gains	5	181	211
Selling and distribution costs		(10,526)	(10,393)
Research and development expenses		(18,798)	(13,857)
Administrative expenses		(23,290)	(19,952)
Finance costs	6	(798)	(441)
Profit before income tax	7	7,214	6,211
Income tax expense	8	(2,095)	(1,777)
Profit for the year, attributable to owners of the Company		5,119	4,434
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		406	160
Other comprehensive income for the year		406	160
Total comprehensive income for the year, attributable to owners of the Company		5,525	4,594
Earnings per share for profit attributable to owners of the Company during the year	10		
- Basic (HK cents)		1.808	1.568
- Diluted (HK cents)		1.806	1.564

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment		9,719	6,918
Development costs		22,141	15,166
		31,860	22,084
Current assets			
Inventories		36,845	26,708
Trade and other receivables, prepayments and deposits paid	11	17,010	17,197
Held-to-maturity financial assets		36	36
Current tax assets		—	393
Cash and cash equivalents		22,267	15,323
		76,158	59,657
Current liabilities			
Trade payables, accruals and deposits received	12	35,158	13,609
Bank borrowings, secured		8,285	10,051
Current tax liabilities		710	—
		44,153	23,660
Net current assets		32,005	35,997
Total assets less current liabilities		63,865	58,081
Non-current liabilities			
Deferred tax liabilities		900	641
Net assets		62,965	57,440
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital		28,316	28,316
Reserves		34,649	29,124
Total equity		62,965	57,440

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium* HK\$'000	Merger reserve* HK\$'000	Translation reserve* HK\$'000	Retained profits* HK\$'000	Proposed dividend* HK\$'000	
Balance as at 1 January 2010	28,260	17,835	4,496	69	2,136	3,109	55,905
2009 dividends approved (note 9)	—	—	—	—	—	(3,109)	(3,109)
Issue of shares upon exercise of share options	56	(6)	—	—	—	—	50
Transactions with owners	56	(6)	—	—	—	(3,109)	(3,059)
Profit for the year	—	—	—	—	4,434	—	4,434
Other comprehensive income – exchange gain on translation of financial statements of foreign operations	—	—	—	160	—	—	160
Total comprehensive income for the year	—	—	—	160	4,434	—	4,594
Balance as at 31 December 2010 and 1 January 2011	28,316	17,829	4,496	229	6,570	—	57,440
Profit for the year	—	—	—	—	5,119	—	5,119
Other comprehensive income – exchange gain on translation of financial statements of foreign operations	—	—	—	406	—	—	406
Total comprehensive income for the year	—	—	—	406	5,119	—	5,525
Balance as at 31 December 2011	28,316	17,829	4,496	635	11,689	—	62,965

* These reserve accounts comprise the consolidated reserves of HK\$34,649,000 (2010: HK\$29,124,000) in the consolidated statement of financial position as at 31 December 2011.

NOTES

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at Uglan House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is located at Units 2010-2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong. The Company's shares are listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company is investment holding. The Company and its subsidiaries are referred to as the "Group" hereinafter. The Group's operations are based in the People's Republic of China (the "PRC"), including Hong Kong. There were no significant changes in the nature of the Group's principal activities during the year.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The financial statements have been prepared in Hong Kong dollars ("HK\$"), being the functional and presentation currency of the Company. All financial information presented in HK\$ has been rounded to the nearest thousands, unless otherwise stated.

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 20 March 2012.

2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 Adoption of new or amended HKFRSs

In the current year, the Group has applied for the first time the following 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 2011:

- HKAS 24 (Revised) – Related Party Disclosures; and
- HKFRS (Amendments) – Improvements to HKFRSs 2010

Other than as noted below, the adoption of the new HKFRSs had no material impact on the Group’s financial statements.

HKAS 24 (Revised) – Related Party Disclosures

The amendment clarified the definition of related party to remove inconsistencies. As a result, the Group has reassessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group’s related party disclosures in the current and previous period. The amendment also introduced modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

2.2 New or amended HKFRSs that have been issued but are not yet effective

At the date of this announcement, the following new or amended HKFRSs, that are potentially relevant to the Group's financial statements, have been issued but are not yet effective, and have not been adopted early by the Group for the year ended 31 December 2011.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or amended HKFRSs have been issued but are not expected to have a material impact on the Group's financial statements.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012)

The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future (e.g. exchange difference on translation of financial statements of foreign operations) by presenting them separately from those that would never be reclassified to profit or loss. Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments also change the title "Statement of comprehensive income" to "Statement of profit or loss and other comprehensive income". However, entities are still allowed to use the old title. The amendments will be applied retrospectively.

HKFRS 9 - Financial Instruments (Effective for annual periods beginning on or after 1 January 2015)

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 - Consolidated Financial Statements (Effective for annual periods beginning on or after 1 January 2013)

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns.

HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them.

The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agent of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 will be applied retrospectively subject to certain transitional provisions.

HKFRS 12 - Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2013)

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

3. SEGMENT INFORMATION

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue from external customers and reportable segment revenue	117,488	93,729
Reportable segment profit	8,207	7,203
Unallocated corporate expenses	(993)	(992)
Consolidated profit before income tax	7,214	6,211
Reportable segment assets	107,953	81,183
Current tax assets	—	393
Unallocated corporate assets	65	165
Consolidated assets	108,018	81,741
Reportable segment liabilities	43,167	23,407
Current tax liabilities	710	—
Deferred tax liabilities	900	641
Unallocated corporate liabilities	276	253
Consolidated liabilities	45,053	24,301
Other segment information		
Interest income	(15)	(15)
Interest expense	349	112
Depreciation and amortisation of non-financial assets	5,740	4,873
Research and development expenses	18,798	13,857
Write-down/ (Reversal of write-down) of inventories	425	(30)
Additions to non-current assets	15,395	11,395

Geographical location of customers is based on the location at which the customers are resided. Geographical location of non-current assets is based on the physical location of the asset, in the case of plant and equipment, and the location of the operation to which they are allocated, in the case of development costs. The Group's revenue from external customers and non-current assets is divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
PRC, including Hong Kong and Macau (domicile)#	17,894	11,506	31,430	21,467
Foreign countries				
– Italy	23,181	17,961	—	—
– Other countries	76,413	64,262	430	617
	99,594	82,223	430	617
	117,488	93,729	31,860	22,084

The Company is an investment holding company incorporated in Cayman Islands where the Group does not have any activities. The Group has the majority of its operations in the PRC, and therefore, PRC is considered as the Group's country of domicile for the purpose of disclosures as required by HKFRS 8 "Operating Segments".

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. During each of the years ended 31 December 2011 and 2010, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Customer A*	23,118	17,836
Customer B*	1,822	3,462

* Customers A & B are known to the Group to be under common control

4. REVENUE

Revenue, which is also the Group's turnover, represents:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Sale of smart card products, software and hardware	115,853	91,575
Smart card related services	1,635	2,154
	<hr/>	<hr/>
	117,488	93,729
	<hr/> <hr/>	<hr/> <hr/>

5. OTHER INCOME AND GAINS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interest income on:		
– Held-to-maturity financial assets	1	1
– Bank deposits	14	14
	<hr/>	<hr/>
Interest income on financial assets not at fair value through profit or loss	15	15
Forfeiture of deposits	—	7
Research and development service fee income	—	143
Sundry income	166	46
	<hr/>	<hr/>
	181	211
	<hr/> <hr/>	<hr/> <hr/>

Included above is income from listed investment of HK\$1,000 (2010: HK\$1,000).

6. FINANCE COSTS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interest charges on bank borrowings, repayable on demand or wholly within five years	349	112
Bank charges	449	329
	<hr/>	<hr/>
	798	441
	<hr/> <hr/>	<hr/> <hr/>

7. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/ (crediting):

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Amortisation of development costs*	2,271	2,103
Cost of inventories recognised as expense, including:	55,501	42,057
– Write-down/ (Reversal of write-down) of inventories^	425	(30)
Depreciation of plant and equipment	3,469	2,770
Net foreign exchange loss	660	1,468
Net loss on disposals of plant and equipment	8	3
<hr/>		
Auditors' remuneration		
– Audit services	342	338
– Other services	20	–
	362	338
<hr/>		
Minimum lease payments under operating leases for land and buildings	3,049	2,891
Less: Amount capitalised into development costs	(124)	(133)
Amount recognised in profit or loss	2,925	2,758

* Included in research and development expenses in profit or loss

^ Reversal of the write-down of inventories is due to the obsolete stock has been used or disposed

8. INCOME TAX EXPENSE

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current tax		
Hong Kong profits tax		
– Provision for current year	1,801	1,570
Philippines Income Tax		
– Provision for current year	138	129
– (Over)/ Under-provision in respect of prior years	(103)	1
	35	130
	1,836	1,700
Deferred tax	259	77
	2,095	1,777

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year.

Philippines Income Tax has been provided at 30% on the estimated taxable income or 2% on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

No provision for income tax in other locations including PRC and Canada has been made as no assessable profits arose from the operations in these locations or the related subsidiaries had unused tax losses brought forward to offset against the current year's assessable profits (2010: Nil).

9. DIVIDENDS

Dividends attributable to the previous financial year, approved and paid during the year:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Dividend in respect of year ended 31 December 2009 of HK1.1 cents per ordinary share	—	3,109

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to owners of the Company of HK\$5,119,000 (2010: HK\$4,434,000) and weighted average of 283,161,000 (2010: 282,866,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to owners of the Company of HK\$5,119,000 (2010: HK\$4,434,000) and the weighted average of 283,427,000 (2010: 283,509,000) ordinary shares outstanding during the year, 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 is calculated based on the weighted average of 283,161,000 (2010: 282,866,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 266,000 (2010: 643,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

11. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	14,241	14,509
Deposits paid	1,188	1,013
Prepayments	804	956
Other receivables	777	719
	17,010	17,197

Customers are generally granted credit terms of 14 to 100 (2010: 30 to 60) days. Based on invoice date, ageing analysis of the Group's trade receivables is as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	9,944	8,370
31 – 60 days	2,332	3,327
61 – 90 days	677	131
91 – 365 days	1,133	2,640
Over 365 days	155	41
	14,241	14,509

At each reporting date, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2011 and 2010, no allowance for impairment loss was recognised.

12. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	9,518	7,774
Deposits received	20,220	1,821
Accruals	5,420	4,014
	<hr/>	<hr/>
	35,158	13,609
	<hr/>	<hr/>

Based on the invoice dates, ageing analysis of the Group's trade payables is as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	4,340	4,094
31 – 60 days	4,517	2,964
61 – 90 days	503	631
91 – 365 days	112	39
Over 365 days	46	46
	<hr/>	<hr/>
	9,518	7,774
	<hr/>	<hr/>

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's sales revenue in the year ended 31 December 2011 increased 25% compared to the previous year. The Group sells its products and services to over 100 countries in the world and the countries are grouped into four regions as shown in the following chart.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	Change
Asia Pacific	47,896	28,651	+67%
Europe	43,756	42,500	+3%
The Americas	13,727	14,609	-6%
Middle East and Africa	12,109	7,969	+52%
	117,488	93,729	+25%

For the first time in our history of selling, Asia Pacific overtook Europe as the biggest region to account for our sales. Substantial increases were seen in Hong Kong, Japan, Taiwan, Malaysia and Thailand, with the overall growth in Asia Pacific being 67% year to year.

In 2011, Europe accounted for 37% of the total sales revenue showing a drop from 45% last year. In absolute value, an increase of 3% was recorded despite its economic weakness in 2011. Significant sales drops occurred in Spain, Belgium and Bulgaria but these declines were compensated by good growths in Switzerland, Germany, the United Kingdom and Luxembourg.

Of the four regions, the Americas were the only region showing a decline of sales, by 6%. Even though ACS increased the sales in USA substantially in 2011, the increase was countered by a big decline in sales in Brazil during the year. The sales momentum in USA is high as the Group is gradually making successes to sell to this country. The business in the Americas as a whole region is expected to prosper in 2012.

The countries that accounted for the bulk of the sales in the Middle East and Africa region were South Africa, Egypt and Nigeria. This region, particularly Africa, is of utmost importance to ACS owing to its vast population and untapped markets that demand for the Group's products and services. Nigeria, with a population of 150 million and with the Group's initial successes there, will become the star for the Group in 2012 and beyond.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	Change
Revenue	117,488	93,729	+25%
Cost of sales and services provided	(57,043)	(43,086)	+32%
Gross profit	60,445	50,643	+19%
Gross profit margin	51%	54%	
Other income and gains	181	211	-14%
Selling and distribution costs	(10,526)	(10,393)	+1%
Research and development expenses	(18,798)	(13,857)	+36%
Administrative expenses	(23,290)	(19,952)	+17%
Finance costs	(798)	(441)	+81%
Total expenses	(53,412)	(44,643)	+20%
Profit before income tax	7,214	6,211	+16%
Income tax expense	(2,095)	(1,777)	+18%
Profit for the year	5,119	4,434	+15%

The overall gross profit margin dropped from 54% to 51%. The drop was partially accounted for by the lower gross profit margin of the PC-linked contact smart card readers which are relatively more mature products. Contactless readers which command higher gross profit margins are gradually replacing contact readers and so will help compensate the margin drop in contact smart card readers. ACS constantly invests heavily in research and development. With innovative products and solutions constantly launched, the Group aims to keep the gross profit margin above 50%.

In 2011, the Group continued to increase its headcount to expand its engineering work force in order to develop new products and services more quickly and to strengthen its sales, marketing and operations capabilities in anticipation of the good demand of the products and services which the Group is launching. At the end of 2011, the number of staff members was 248 compared to the figures of 216 and 171 at the end of 2010 and 2009 respectively.

Primarily owing to the increase in headcount, the total expenses of the Group rose by 20% from HK\$44.6 million to HK\$53.4 million. This increase was out-matched by the rise in gross profit and so the profit before income tax increased by 16% to HK\$7.2 million and the profit for the year increased by 15% to HK\$5.1 million.

	2011 HK\$'000	2010 HK\$'000	Change
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9,719	6,918	+40%
Development costs	22,141	15,166	+46%
	31,860	22,084	+44%
Current assets			
Inventories	36,845	26,708	+38%
Trade receivables	14,241	14,509	-2%
Other receivables, prepayments and deposits paid	2,769	2,688	+3%
Held-to-maturity financial assets	36	36	+0%
Current tax assets	–	393	-100%
Cash and cash equivalents	22,267	15,323	+45%
	76,158	59,657	+28%
Current liabilities			
Trade payables, accruals and deposits received	35,158	13,609	+158%
Bank borrowings	8,285	10,051	-18%
Current tax liabilities	710	–	N/A
	44,153	23,660	+87%
Net current assets	32,005	35,997	-11%
Total assets less current liabilities	63,865	58,081	+10%
Non-current liabilities			
Deferred tax liabilities	900	641	+40%
Net assets	62,965	57,440	+10%
EQUITY			
Share capital	28,316	28,316	+0%
Reserves	34,649	29,124	+19%
Total equity	62,965	57,440	+10%

The plant and equipment increased by HK\$2.8 million to HK\$9.7 million mainly owing to the increase of the headcount with the resulting increase in computer and office equipment. Furthermore, the tooling (mould) for fabricating the packages of the smart card readers and terminals became more expensive as the products became more sophisticated.

The development costs increased owing to more engineers enrolled and products being put into new development. With product development capitalized in excess of development amortized, this item increased by HK\$7.0 million to HK\$22.1 million.

Inventories increased by HK\$10.1 million to HK\$36.8 million as a result of the overall increase in sales revenue and at the same time at year end more raw materials and work-in-progress inventories were kept to prepare for the increased shipment volumes in the first quarter of 2012.

The trade receivables reduced by HK\$0.3 million to HK\$14.2 million. Trade payables, accruals and deposits received increased by HK\$21.5 million to HK\$35.2 million. A customer in USA and one in Japan, both being global companies, made advanced payments to the Group accounting for HK\$16 million of trade payables, accruals and deposits received of HK\$35.2 million, to buy smart card terminals from us. Shipments were made in 2011 and the deliveries will be extended to 2012. Other customers also paid the Group in advance as the Group is prudent in credit extension. The Group had good records in managing its trade receivables and suffered almost zero bad debts.

Cash and cash equivalents increased by HK\$6.9 million to HK\$22.3 million. If the bank borrowings had all been retired at year end, the Group would have seen the cash and cash equivalents to be HK\$14.0 million. The Group anticipated that the business may take off in 2012 and so arranged more credit facilities from banks. All these facilities were extended to ACS with no mortgages, pledges, personal guarantees or other encumbrances.

The HK\$8.3 million bank borrowings as at the end of 2011 is the outstanding amount of two term loans from two banks. The outstanding "trust receipt loans" was zero. Of this HK\$8.3 million term loans, HK\$3.7 million had maturity of one year at 2011 year end.

DIVIDEND

The board of directors (the "Board") does not recommend the payment of a dividend in respect of the year ended 31 December 2011 (2010: Nil). The declaration, payment and amount of future dividend will be decided by 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 consider important.

BUSINESS REVIEW

Business

ACS was established in 1995. Today, it develops, manufactures through sub-contractors and markets smart card operating systems, smart card readers and terminals and automatic fare collection (AFC) systems for public transportation. ACS sells its smart card products directly to developers of smart card solutions, users of the applications and it also sells through distributors. ACS sells its automatic fare collection systems directly to public transport operators and through partners located in the target countries. ACS supplies its AFC systems in the name of TaptoPay Limited which is a wholly-owned subsidiary of ACS.

ACS is listed on the GEM of the Stock Exchange. It has four main offices, namely, in (1) Hong Kong as its headquarters, (2) Manila, (3) Shenzhen and (4) Zhuhai with the total head count of 248. ACS is combining the strengths of these offices. While Zhuhai is a research and development center, the other offices perform a variety of functions including sales and marketing, research and development and operations functions. ACS also has a sales office in Japan and Canada.

Since the founding of ACS, the management have considered the world as its target market. Now ACS supplies its products and services to over 100 countries in the world. ACS was ranked in 2010 by Frost & Sullivan as Asia Pacific's 1st and the world's 3rd supplier of PC-linked smart card readers.

ACS received the 2009 Best Practices Award "Product Quality Leadership Award for Smart Card Readers" from Frost & Sullivan. Since 2007, to meet the requirements in the certification process of the ISO9001 standard, ACS sent questionnaires each year to customers to study about their satisfaction and received widespread positive feedbacks from them.

In 2010, ACS was selected to be one of Forbes Asia's "200 Best Under a Billion" companies in Asia Pacific among 12,930 public companies with actively traded shares and sales between US\$5 million and US\$1 billion. ACS was one of only three Hong Kong companies included in the Forbes' prestigious list that year.

Business Strategy

ACS considers itself to be a technology provider. In order to survive and prosper in the market, it must constantly advance and enhance its technologies and introduce new products and services to the market. This is what ACS has been doing.

Smart cards and their reading and writing devices are applied in different market segments including national identity cards, health cards, mobile phone cards, credit cards, public transportation cards, etc. There are certain industry standards that are considered by customers, especially those in developed countries, to be important as their compliance is an indication of product quality.

ACS emphasizes on getting its key products certified against industry standards such as (1) CE/FCC standards to ensure minimal emissions of electro-magnetic waves, (2) ROHS (Restrictions On Hazardous Materials), (3) PC/SC, Personal Computer/Smart Card, standard to ensure that smart card readers can function in different Microsoft Windows platforms, (4) Europay, Mastercard and Visa (EMV) standards to ensure that smart card readers can read and write on various smart cards developed based on EMV standards, etc.

In the 16 years since its inception, ACS has been constantly expanding and enhancing its technologies. The automatic fare collection solutions offered by ACS in particular make use of the wide range technologies developed by ACS internally. Very few AFC solution providers boast of having such a wide range of intellectual properties including (1) card operating systems, (2) PC-linked smart card readers, (3) validators for buses and for gates (in an AFC system for trains), (4) cryptography and key management systems, (5) hardware security module, (6) back-end computer software, and (7) overall system design.

Products and services

ACS products and services are classified into the following main categories:

- (1) Card Operating Systems (COS) including those with triple DES encryption, Public Key Infrastructure encryption and dual interface cards, i.e. one chip enabling the contact and contactless features of the card.

The customer base and the application scope of this category of products are very wide. Examples are health cards, identity cards, customer loyalty cards and transportation cards.

- (2) PC-linked smart card readers, both contact and contactless

The customers are located in over 100 countries. Projects in which more than 500 thousand readers were used include the Belgium national identity card project, the Italy health card project, the Spanish ID card project, the Brazilian corporate ID card project and other projects.

- (3) Smart card terminals

These readers are more challenging to develop and manufacture than the PC-linked readers. ACS has overcome a lot of challenges and has come up with some high quality products for the market. Some devices are developed for specific customers including global companies such as a USA-based provider of physical access control, a Japan-based company providing payment solution in Japan and a USA-based provider of AFC solutions.

(4) Automatic fare collection solutions

ACS also supplies end-to-end automatic fare collection solutions.

A successful automatic fare collection system using contactless smart card brings benefits to all parties involved. Here are a few:

For commuters:

- * Shortened transaction time
- * Discounted fares and benefits through merchant sponsored loyalty program
- * No longer paying more due to lack of money change

For transport operators:

- * Reduced operating costs
- * Increase revenue (the convenience attracting riders)
- * Wide range of fare options through one single card
- * Increased service efficiency
- * Better reports, e.g. on traffic analysis, ridership analysis, etc.

For government:

- * Improved city image
- * Reduce coins and notes in circulation
- * Reduced carbon dioxide emission through better public transportation usage

ACS focuses on developing countries with large populations. In these countries, public transportation is very important to the residents in their daily life.

The AFC system can be applied to buses, trains, ferries and can be extended to toll roads, parking lots and even extended to cover non-transit area to enable automatic payment for convenience stores, fast food restaurants and other retail outlets.

PROSPECTS

ACS now provides a wide range of smart cards and smart card reading and writing devices which can be said to be smart card hardware. It also provides solutions. While its hardware is used in many types of technology solutions, ACS focuses on one type of end-to-end solutions, i.e. AFC solutions.

This smart card industry as a whole is growing. The demand of one type of smart card or smart card reading device may drop over time, but the demand of another type may rise. For example, the demand of PC-linked contact smart card readers softened in the past two years but the demand of their contactless counterparts rose. Likewise, the lackluster European market is contrasted by the booming Asia Pacific market. ACS always attempts to advance its technologies and introduce new products to the market. It also emphasizes on wide geographical coverage and customer satisfaction in order to attain a business which is sustainable.

At the same time, the business of more complex reading and writing devices, e.g. the various terminals and the business of providing automatic fare collection systems, are growing rapidly.

The management of ACS is optimistic of the overall business growth in 2012 and further ahead. The management of ACS want to build a long-termed sustainable business. The offering of technology solutions by using smart cards creates economic value without comparable consumption of natural resources. Likewise, the provision of automatic fare collection systems contributes to the increased use of public transportation rather than the use of private cars. The expansion of ACS business is in line with its vision to grow the business while protecting the environment.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2011, the Group's cash and cash equivalents amounted to HK\$22.3 million (2010: HK\$15.3 million). The Group keeps most of its cash in Hong Kong dollars ("HK\$"), Euro dollars ("EURO"), United States dollars ("US\$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK\$8.3 million (2010: HK\$10.1 million). The bank borrowings are denominated in HK\$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 31 December 2011 was 0.13 (2010: 0.17).

The Group's equity capital, bank borrowings, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. The current ratio, being the ratio of current assets to current liabilities, was 1.7 (2010: 2.5). Net asset value as at the year end date was HK\$63.0 million (2010: HK\$57.4 million).

INVESTMENTS

During the year, the Group did not make any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2011.

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\$, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates of US\$ to HK\$. In relation to the fluctuation on RMB against HK\$, the Group considers that exchange risk arising from RMB 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 31 December 2011, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2011, the Company had outstanding corporate guarantee of HK\$28 million (plus accrued interest thereon) to 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 31 December 2011, the Group had 248 full time employees. Staff costs recognised in profit or loss amounted to HK\$33.0 million (2010: HK\$26.1 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' 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 year.

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

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited. The Company has complied with the code provisions of the Code except for the provision A.2 of the Code, which 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.

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 reviewed the effectiveness of the internal control systems of the Group and met once with the external auditor to review the Group's audited results for the year ended 31 December 2011.

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

Hong Kong, 20 March 2012

As at the date of this announcement, 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.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the day of its posting.