

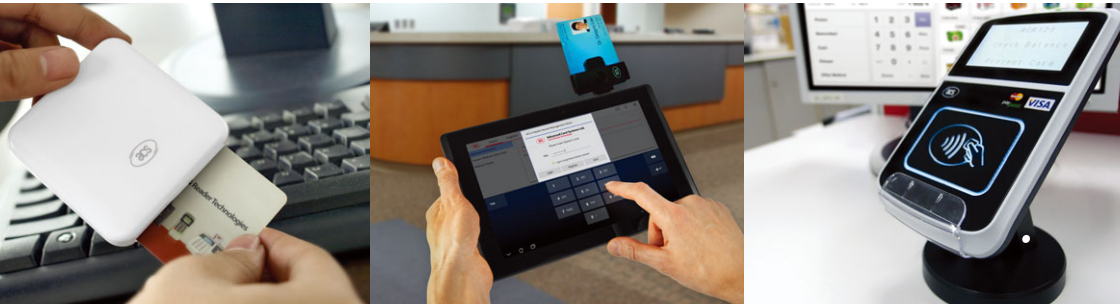


Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 8210



Interim Report 2013

** For identification only*

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.

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This document, for which the directors of Advanced Card Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the 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 2013 increased by 19% to HK\$86.4 million.
- Gross profit of the Group for the six months ended 30 June 2013 increased by 26% to HK\$50.6 million.
- Net profit after income tax of the Group for the six months ended 30 June 2013 increased by 24% to HK\$8.9 million.

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 2013 together with the comparative unaudited figures for the corresponding periods in 2012.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2013

	Notes	Three months ended 30 June		Six months ended 30 June	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Revenue	3	49,107	37,153	86,374	72,780
Cost of sales and services provided		(22,829)	(17,368)	(35,780)	(32,557)
Gross profit		26,278	19,785	50,594	40,223
Other income and gains		116	76	331	118
Selling and distribution costs		(5,020)	(3,077)	(9,361)	(6,028)
Research and development expenses		(6,590)	(5,051)	(14,047)	(10,942)
Administrative expenses		(8,408)	(7,043)	(16,465)	(14,138)
Finance costs	4	(173)	(91)	(336)	(169)
Profit before income tax	5	6,203	4,599	10,716	9,064
Income tax expense	6	(1,645)	(945)	(1,816)	(1,863)
Profit for the period, attributable to owners of the Company		4,558	3,654	8,900	7,201
Other comprehensive income					
Exchange gain/(loss) on translation of financial statements of foreign operations		415	(108)	451	(57)
Remeasurement of defined benefit obligations		(14)	-	22	-
Other comprehensive income for the period		401	(108)	473	(57)
Total comprehensive income for the period, attributable to owners of the Company		4,959	3,546	9,373	7,144
Earnings per share for profit attributable to owners of the Company during the period	8				
- Basic (HK cents)		1.605	1.290	3.133	2.543
- Diluted (HK cents)		1.605	1.289	3.133	2.540

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9	8,744	9,578
Development costs		32,036	29,311
		40,780	38,889
Current assets			
Inventories		41,724	34,766
Trade and other receivables, prepayments and deposits paid	10	26,077	19,948
Held-to-maturity financial assets		37	38
Cash and cash equivalents		41,633	34,223
		109,471	88,975
Current liabilities			
Trade payables, accruals and deposits received	11	38,979	29,075
Bank borrowings, secured		20,479	14,218
Current tax liabilities		4,586	3,465
		64,044	46,758
Net current assets		45,427	42,217
Total assets less current liabilities		86,207	81,106
Non-current liabilities			
Deferred tax liabilities		729	729
Defined benefit obligations		292	303
		1,021	1,032
Net assets		85,186	80,074
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	12	28,406	28,406
Reserves	13	56,780	51,668
Total equity		85,186	80,074

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Unaudited	
	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	13,310	(1,954)
Net cash used in investing activities	(7,387)	(7,310)
Net cash generated from financing activities	1,664	2,709
Net increase/(decrease) in cash and cash equivalents	7,587	(6,555)
Cash and cash equivalents at 1 January	34,223	22,267
Effect of foreign exchange rates changes, on cash held	(177)	(15)
Cash and cash equivalents at 30 June	41,633	15,697

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Share capital HK\$'000	Share premium* HK\$'000	Merger reserve* HK\$'000	Translation reserve* HK\$'000	Retained profits* HK\$'000	Proposed dividend* HK\$'000	Total HK\$'000
Balance as at 1 January 2012	28,316	17,829	4,496	635	11,689	-	62,965
Profit for the period	-	-	-	-	7,201	-	7,201
Other comprehensive income - exchange loss on translation of financial statements of foreign operations	-	-	-	(57)	-	-	(57)
Total comprehensive income for the period	-	-	-	(57)	7,201	-	7,144
Balance as at 30 June 2012	28,316	17,829	4,496	578	18,890	-	70,109
Balance as at 1 January 2013	28,406	17,955	4,496	886	24,070	4,261	80,074
2012 dividend approved	-	-	-	-	-	(4,261)	(4,261)
Transactions with owners	-	-	-	-	-	(4,261)	(4,261)
Profit for the period	-	-	-	-	8,900	-	8,900
Other comprehensive income - Exchange gain on translation of financial statements of foreign operations	-	-	-	451	-	-	451
- Remeasurement of defined benefit obligations	-	-	-	-	22	-	22
Total comprehensive income for the period	-	-	-	451	8,922	-	9,373
Balance as at 30 June 2013	28,406	17,955	4,496	1,337	32,992	-	85,186

* These reserve accounts comprise the consolidated reserves of HK\$56,780,000 (30 June 2012: HK\$41,793,000) in the consolidated statement of financial position as at 30 June 2013.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The interim 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 interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. The interim financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (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 2012 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 2013. 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 2013 were approved for issue by the Board on 13 August 2013.

2 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.

	Six months ended 30 June	
	2013	2012
	HK\$’000	HK\$’000
Revenue from external customers and reportable segment revenue	86,374	72,780
Reportable segment profit	11,194	9,550
Unallocated corporate expenses	(478)	(486)
Consolidated profit before income tax	10,716	9,064
	30 June	31 December
	2013	2012
	HK\$’000	HK\$’000
Reportable segment assets	150,177	127,699
Unallocated corporate assets	74	165
Consolidated assets	150,251	127,864

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 assets, 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	
	Six months ended		30 June 2013	31 December 2012
	2013	2012		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China ("PRC"), including Hong Kong and Macau (domicile)*	11,058	7,762	38,462	36,692
Foreign countries				
– Italy	17,035	11,214	-	-
– United States	13,031	19,605	17	7
– Other countries	45,250	34,199	2,301	2,190
	75,316	65,018	2,318	2,197
	86,374	72,780	40,780	38,889

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

3 REVENUE

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

	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	44,592	36,332	73,367	70,161
Smart card related services	4,515	821	13,007	2,619
	49,107	37,153	86,374	72,780

4 FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charges on bank borrowings, repayable on demand or wholly within five years	173	91	336	169

5 PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of development costs*	1,878	926	3,282	1,834
Depreciation of plant and equipment	1,211	1,120	2,441	2,185

* Included in research and development expenses in profit or loss

6 INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong profits tax				
– Provision for current period	1,486	1,086	1,486	2,004
– Over-provision in respect of prior year	–	(12)	–	(12)
	1,486	1,074	1,486	1,992
Philippines Income Tax				
– Provision for current period	159	9	330	9
– Over-provision in respect of prior year	–	(138)	–	(138)
	159	(129)	330	(129)
	1,645	945	1,816	1,863

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period.

Philippines Income Tax has been provided at 30% on the estimated taxable income or 2% on gross income incurred for the period, 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 period's assessable profits (2012: Nil).

7 DIVIDENDS

A dividend of HK1.5 cents per share amounting to approximately HK\$4,261,000 for the year ended 31 December 2012 had been approved by the shareholders at the annual general meeting and was subsequently paid on 4 June 2013.

The company had not declared any dividends for the three months and six months ended 30 June 2013.

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2013 respectively is based on profit attributable to owners of the Company of HK\$4,558,000 (2012: HK\$3,654,000) and HK\$8,900,000 (2012: HK\$7,201,000) and the weighted average of 284,058,000 (2012: 283,161,000) and 284,058,000 (2012: 283,161,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2013 respectively is based on profit attributable to owners of the Company of HK\$4,558,000 (2012: HK\$3,654,000) and HK\$8,900,000 (2012: HK\$7,201,000) and the weighted average of 284,058,000 (2012: 283,477,000) and 284,059,000 (2012: 283,459,000) 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 2013 respectively is calculated based on the weighted average of 284,058,000 (2012: 283,161,000) and 284,058,000 (2012: 283,161,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of nil (2012: 316,000) and 1,000 (2012: 298,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

9 PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	Mould <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2012					
Cost	1,883	1,194	12,301	8,022	23,400
Accumulated depreciation	(1,556)	(895)	(6,892)	(4,338)	(13,681)
Net carrying amount	327	299	5,409	3,684	9,719
Six months ended 30 June 2012					
Opening net carrying amount	327	299	5,409	3,684	9,719
Additions	762	101	767	535	2,165
Depreciation	(151)	(86)	(1,124)	(824)	(2,185)
Exchange difference	(8)	(1)	(4)	-	(13)
Closing net carrying amount	930	313	5,048	3,395	9,686
At 30 June 2012					
Cost	2,556	1,291	13,033	8,557	25,437
Accumulated depreciation	(1,626)	(978)	(7,985)	(5,162)	(15,751)
Net carrying amount	930	313	5,048	3,395	9,686
At 1 January 2013					
Cost	2,608	1,333	14,707	9,004	27,652
Accumulated depreciation	(1,891)	(1,061)	(9,130)	(5,992)	(18,074)
Net carrying amount	717	272	5,577	3,012	9,578
Six months ended 30 June 2013					
Opening net carrying amount	717	272	5,577	3,012	9,578
Additions	68	106	820	603	1,597
Disposals	-	(2)	(18)	-	(20)
Depreciation	(266)	(78)	(1,291)	(806)	(2,441)
Exchange difference	5	4	21	-	30
Closing net carrying amount	524	302	5,109	2,809	8,744
At 30 June 2013					
Cost	2,734	1,484	15,593	9,607	29,418
Accumulated depreciation	(2,210)	(1,182)	(10,484)	(6,798)	(20,674)
Net carrying amount	524	302	5,109	2,809	8,744

10 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Trade receivables	21,724	15,770
Less: Provision for impairment losses	(239)	(239)
	21,485	15,531
Other receivables, prepayments and deposits paid	4,592	4,417
	26,077	19,948

Customers are generally granted credit terms of 7 to 60 days (2012: 7 to 100) days. Based on invoice date, ageing analysis of the Group's trade receivables (net of provision for impairment loss) is as follows:

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
0-30 days	8,692	10,363
31-60 days	9,157	2,908
61-90 days	725	625
91-365 days	1,944	438
Over 365 days	967	1,197
	21,485	15,531

11 TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Trade payables	13,373	9,730
Accruals and deposits received	25,606	19,345
	38,979	29,075

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

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
0-30 days	8,721	5,596
31-60 days	3,823	3,072
61-90 days	614	883
91-365 days	168	142
Over 365 days	47	37
	13,373	9,730

12 SHARE CAPITAL

	Number of shares '000	HK\$'000
<u>Ordinary shares of HK\$0.10 each</u>		
<i>Authorised:</i>		
At 31 December 2012 and 30 June 2013	1,000,000	100,000
<i>Issued and fully paid:</i>		
At 31 December 2012 and 30 June 2013	284,058	28,406

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 a subsidiary that have been capitalised as a result of a share-for-share exchange in a prior year.

14 OPERATING LEASE COMMITMENTS

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to five years (2012: one to five years). None of the leases include contingent rentals.

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

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Within one year	3,035	3,645
In the second to fifth years, inclusive	520	1,681
	<u>3,555</u>	<u>5,326</u>

15 RELATED PARTY TRANSACTIONS

Key management of the Group are members of the Board and senior management. Key management personnel remuneration of the Group is as follows:

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Salaries and other short-term employee benefits	3,700	3,348
Retirement benefits costs	54	50
	<u>3,754</u>	<u>3,398</u>

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group does not have other material transactions with related parties during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the unaudited consolidated financial results of the Group (thereafter referred to as “ACS” or the “Group”) for the three months and six months ended 30 June 2013.

FINANCIAL REVIEW

The sales revenue, the gross profit and the net profit increased in the second quarter ended 30 June 2013 from the corresponding figures in the first quarter of the same year. On a six month, year-to-year basis, the sales revenue increased by 19% to HK\$86.4 million, the gross profit by 26% to HK\$50.6 million and the net profit by 24% to HK\$8.9 million from HK\$7.2 million.

The total sales increased by 19% in the first half year of 2013 compared to the first half year of 2012 while the sales in four regions changed as shown in the following table. There may be some fluctuations of sales in different regions as sizable projects may have turned into sales revenue in one region while in another region, the orders of goods from other big projects may have been fulfilled prior to the accounting period. The remarkable growth in the Asia Pacific region was primarily owing to the delivery of loyalty and payment solution projects in Southeast Asia.

	Three months ended			Six months ended		
	30 June			30 June		
	2013	2012	Change	2013	2012	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	
Asia Pacific	18,363	8,564	114%	35,063	18,008	95%
Europe	22,444	17,306	30%	33,763	25,148	34%
The Americas	6,313	6,508	-3%	14,204	21,680	-34%
Middle East and Africa	1,987	4,775	-58%	3,344	7,944	-58%
	49,107	37,153	32%	86,374	72,780	19%

Since ACS sells its products and services to over 100 countries in the world, the total sales amount is usually not seriously affected by temporary economic weaknesses from one region. Likewise, ACS continues to introduce new products to the market and the decline of the sales of one product line owing to maturity is often compensated by the increase in sales of an emerging line.

Total expenses increased by 28% to HK\$39.9 million from HK\$31.1 million as we continued to expand the work force and increase the activities in engineering, sales and marketing and operations in order to speed up the development work of our products, to promote and sell them and to smooth out the operations.

The net profit before income tax increased to HK\$10.7 million from HK\$9.1 million. After tax deductions, net profit was HK\$8.9 million for the first half year of 2013, compared to the corresponding figure of HK\$7.2 million the same period last year.

DIVIDEND

The Board does not declare an interim dividend in respect of the six months ended 30 June 2013. The declaration, payment, and amount of future dividends 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 conditions, and such other factors as the Board may consider important.

BUSINESS REVIEW

ACS constantly devotes resources in enhancing existing products and developing new products, attending exhibitions and employing staff members in key geographical locations (details of key milestones can be found on the press release page of ACS's website: www.acs.com.hk).

In the first half of 2013, ACS launched several products and solutions to the market. Here is a summary:

- (1) Software Development Kit for ACOS7 and ACOS10 Combi Cards



ACS introduces a software development kit (SDK) for the ACOS7 and ACOS10 Combi cards. The SDK's technical documents, demo application, and smart card and reader tool offer Chinese language support, in addition to English. The ACOS7 was designed primarily to meet the requirements of the world automated fare collection (AFC) market. In keeping with the concept of the all-in-one card, the ACOS7 has a dual (contact and contactless) interface, and supports multiple e-purse and e-deposit transactions. Meanwhile, the ACOS10 Combi is an ideal banking solution, supporting credit load and unload, purchase, withdrawal, overdraw limit updates, and transaction log reviews.

(2) APG8205 Dynamic Password Generator



ACS offers the APG8205 to enhance and strengthen security in today's banking environment. Belonging to ACS's Dynamic Password Generators product line, the APG8205 provides a two-factor authentication solution that protects online banking customers and merchants alike from malicious attacks. The APG8205 is the next-generation dynamic password generator from ACS that offers a sleeker, thinner and more modern design. Built with a clear LCD and responsive keypad, it enables user-friendly and convenient operations.

(3) Online Demo for Loyalty and e-Purse Applications



ACS launches a loyalty and e-purse application demo entitled “Online Purse and Loyalty Demo (Contact)”, which may be accessed online using ACOS3 Smart Cards, and either an ACR38U Smart Card Reader or an ACR33U-A1 SmartDuo Smart Card Reader. The demo shows how to implement point of sale (POS)–related transactions and loyalty programs with the ACOS3 and ACS's PC-linked contact card readers. Specifically, it demonstrates how to create and replenish stored value for e-Purse cards, shop for products, and convert loyalty points to e-Purse value.

Apart from launching several products and solutions to the market, ACS continued to develop new products and solutions. It also increased its sales and marketing activities. In particular, ACS participated in various trade shows and conferences to meet with business partners, learn market trends, showcase new product offerings and share knowledge. In the first half year, ACS took part in seven events with two in USA and one in each of Brazil, Japan, Singapore, Hong Kong and China.

PROSPECTS

ACS's objective has been to have not only business growth but sustainable business growth. In order to do so, it always attempts to build a strong foundation. This foundation is based on: (1) a company culture of combining Confucius thoughts and scientific spirit, (2) building a base of satisfied customers in the world and most importantly, (3) constantly enhancing and expanding its technologies in selected market segments. ACS devoted a lot of resources on developing its own technologies. A slower business growth may result when a certain new area of technology has been developed for a long period of time but has not been put into use yet.

With our hardware technology and software technology knowledge gained throughout the years, we have received initial success with new applications and solutions we developed that leverage on our existing technologies. High synergy applications and solutions like automatic fare collection and loyalty solutions have started to generate steady income streams.

With a stronger foundation, ACS is now able to constantly enlarge its product portfolio to include new products, applications and solutions that open newer and bigger markets that are not previously available to us. We expect not only growth but sustainable growth in the future.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2013, the Group's cash and cash equivalents amounted to HK\$41.6 million (31 December 2012: HK\$34.2 million). The Group keeps most of its cash in Hong Kong dollars ("HK\$"), Euro dollars ("EURO"), Philippine Pesos ("PHP"), United States dollars ("US\$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK\$20.5 million (31 December 2012: HK\$14.2 million). The bank borrowings are denominated in HK\$ and US\$, interest bearing at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 30 June 2013 was 0.24 (31 December 2012: 0.18).

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 1.71 (31 December 2012: 1.90). Net asset value as at 30 June 2013 was HK\$85.2 million (31 December 2012: HK\$80.1 million).

INVESTMENTS

During the first six months, 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 six months ended 30 June 2013.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK\$, EURO, PHP, 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 and PHP 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 30 June 2013, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2013, the Company had outstanding corporate guarantee of HK\$48.2 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 30 June 2013, the Group had 277 full time employees. Staff costs recognised in profit or loss amounted to HK\$22.3 million (corresponding period in 2012: HK\$18.0 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 2013, 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:

Name of director	Long position in ordinary shares of HK\$0.10 each				Total number of shares held	Percentage of the Company's issued share capital as at 30 June 2013
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests		
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	55,738,522	-	-	136,506,522	48.06%
Ms. Tsui Kam Ling, Alice (Note 3)	55,738,522	80,768,000	-	-	136,506,522	48.06%
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 55,738,522 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.
- 55,738,522 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 2013, 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 2013, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 28 June 2013 was HK\$0.62) with an exercise price of 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 2013	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 June 2013
		Balance as at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period				
Employees	27 October 2003	4,259	-	-	4,259 (Note 1)	- 10 May 2004 to 20 January 2013	HK\$0.24	-	
		4,259	-	-	4,259	-			

Notes:

- 1 The options lapsed upon the expiry of the options on 20 January 2013.
- 2 No option was granted, exercised or cancelled during the period.

(II) SHARE OPTION SCHEME

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares as at 30 June 2013 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 30 June 2013
Mr. Tjio Kay Loen (Note 2)	Beneficial owner and Other	22,960,000 shares (L)	8.08%
Warren Securities Limited	Beneficial owner	14,720,000 shares (L)	5.18%

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, 14,720,000 shares and 840,000 shares are held by Warren Securities Limited (a company which is owned as to 30% 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 2013 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.

CORPORATE GOVERNANCE

Save as disclosed below, the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2013.

The provision A.2 of the Code 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.

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 2013.

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. 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 2013.

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

Hong Kong, 13 August 2013