



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

First Quarterly Report

Q1 2010

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 enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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 three months ended 31 March 2010 increased by 51% to HK\$23.2 million from the first quarter of 2009.
- Gross profit of the Group for the three months ended 31 March 2010 increased by 35% to HK\$12.4 million from the first quarter of 2009.
- Net profit after income tax of the Group for the three months ended 31 March 2010 amounted to HK\$1.2 million which is three times of the figure of HK\$0.4 million in the first quarter of 2009.
- As at 31 March 2010, cash at banks and on hand of the Group amounted to HK\$18.0 million (31 March 2009: HK\$20.6 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 ended 31 March 2010 together with the comparative unaudited figures for the corresponding period in 2009, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2010

	Notes	Three months ended 31 March	
		2010 HK\$'000	2009 HK\$'000
Revenue	2	23,234	15,422
Cost of sales		(10,822)	(6,201)
Gross profit		12,412	9,221
Other income		88	7
Administrative expenses		(4,905)	(3,914)
Research and development expenses		(3,291)	(2,803)
Selling and distribution costs		(2,585)	(1,796)
Finance costs	3	(82)	(78)
Profit before income tax	4	1,637	637
Income tax expense	5	(402)	(230)
Profit for the period		1,235	407
Other comprehensive income			
Exchange (loss) / gain on translation of financial statements of foreign operations		(6)	1
Other comprehensive income		(6)	1
Total comprehensive income for the period		1,229	408
Earnings per share for profit attributable to the owners of the Company during the period	7		
Basic		HK0.437 cents	HK0.144 cents
Diluted		HK0.436 cents	HK0.144 cents

Notes:

1 BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

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.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the three months ended 31 March 2010 were approved for issue by the board of directors on 7 May 2010.

2 REVENUE

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

	Three months ended	
	31 March	
	2010	2009
	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	23,197	13,933
Smart card related services	37	1,489
	<u>23,234</u>	<u>15,422</u>

3 FINANCE COSTS

	Three months ended	
	31 March	
	2010	2009
	HK\$'000	HK\$'000
Interest charges on bank loans		
- wholly repayable within five years	14	13
Bank charges	68	65
	<u>82</u>	<u>78</u>

4 PROFIT BEFORE INCOME TAX

	Three months ended	
	31 March	
	2010	2009
	HK\$'000	HK\$'000
Profit before income tax is arrived at after charging:		
Amortisation of development costs	552	482
Depreciation	626	437

5 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 Peoples' Republic of China, Canada and Germany has been made as no assessable profits arose from the operations in these locations (2009: Nil).

	Three months ended	
	31 March	
	2010	2009
	HK\$'000	HK\$'000
Current tax		
- Hong Kong	368	202
- Overseas	34	28
	402	230

6 DIVIDEND

The Company had not declared or paid any dividend for the three months ended 31 March 2010 (2009: Nil).

7 EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY DURING THE PERIOD

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$1,235,000 (2009: HK\$407,000) and the weighted average 282,600,000 (2009: 281,800,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK\$1,235,000 (2009: HK\$407,000) and the weighted average 283,398,000 (2009: 282,815,000) 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 is calculated based on the weighted average 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 798,000 (2009: 1,015,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

8 RESERVES

	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	20,952	4,496	13	(10,083)	2,254	17,632
Profit for the period	—	—	—	407	—	407
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	—	—	1	—	—	1
Total comprehensive income for the period	—	—	1	407	—	408
Balance at 31 March 2009	20,952	4,496	14	(9,676)	2,254	18,040
Balance at 1 January 2010	17,835	4,496	69	2,136	3,109	27,645
Profit for the period	—	—	—	1,235	—	1,235
Other comprehensive income						
- Exchange loss on translation of financial statements of foreign operations	—	—	(6)	—	—	(6)
Total comprehensive income for the period	—	—	(6)	1,235	—	1,229
Balance at 31 March 2010	17,835	4,496	63	3,371	3,109	28,874

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the Group's unaudited consolidated financial results for the quarter ended 31 March 2010.

FINANCIAL REVIEW

The sales increased by 50.7% to HK\$23.2 million in the first quarter of 2010 (1 January to 31 March 2010) compared with the corresponding figure in the first quarter of 2009. The gross profit amount increased by 34.6% to HK\$12.4 million. The gross profit margin decreased to 53.4% in the first quarter of 2010 from 59.8% in the first quarter of 2009. Primarily owing to the increased head count which resulted in higher payroll plus bigger office space, the total expenses increased by 26.4% to HK\$10.9 million on a quarter to quarter basis. The net profit before income tax increased by 157.0% and the net profit after income tax increased by 203.4% in this first quarter.

The sales increased in all of the four regions as shown in the table below. Europe which accounted for about half of the total sales represented the biggest region for the Group's revenue. The relatively big sales in Europe resulted mainly from the Group's success to continue winning orders to supply PC-linked smart card readers to support the identity cards and health cards issued by the government in Italy, Belgium and Spain. Also the Group has made initial successes in penetrating similar markets in other European countries such as Switzerland and Germany.

	Three months ended		
	31 March		
	2010	2009	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Europe	11,343	6,568	+73%
Asia Pacific	5,921	4,245	+39%
The Americas	4,867	3,651	+33%
Middle East and Africa	1,103	958	+15%
	23,234	15,422	+51%

DIVIDEND

The Board does not declare an interim dividend in respect of the three months ended 31 March 2010. 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 condition, and such other factors as the Board may consider important.

BUSINESS REVIEW

The Group's main business is to develop and supply smart cards and smart card readers. It has not its own manufacturing facilities and employs third party factories to manufacture its products. It has production engineers and quality assurance people stationing in these factories to ensure that the ordered products are produced on time and with quality. The Group supplies its products to over one hundred countries in the world.

The Group's products and services can be classified broadly into three categories (1) smart cards with the operating systems developed by the Group (2) smart card readers and devices which combine smart card readers with other technologies such as flash drives and finger print scanners and (3) smart card based solutions, primarily automatic fare collections for public transportation.

The Group's flag-ship products are PC-linked smart card readers that are used primarily for controlling access to a computer network. Based on the research report of Frost and Sullivan, the Group is Asia Pacific's Number 1 supplier of PC-linked smart card readers. It supplies both smart card readers supporting contact-based cards and contactless cards.

The automatic fare collection (AFC) systems built by the Group combines a range of technologies developed by the Group in the past fifteen years of its business including smart card operating system software, encryption know-how, smart card reader technologies, reader terminal software and back-end software, i.e. software at the central server. The AFC system represents an important product offering by the Group in the coming years.

Award

The Group's eH880 eHealth Smart Card Terminal was awarded the "2009 Hong Kong Awards for Industries: Machinery and Machine Tools Design Certificate of Merit".

The Hong Kong Awards for Industries (HKAI), championed by the Hong Kong Government, evaluates and rewards annually the outstanding achievements of Hong Kong enterprises in their technology advancement and value-added endeavors. ACS participated in the competition under the Machinery and Machine Tools Design category, and its eH880 terminal, which was designed for use in electronic health card systems, was honored the Certificate of Merit.



PROSPECTS

When the business was established in 1995, the Group set its prime goal to develop and supply contact-based smart card readers used with the PC. The Group is now exporting such readers to over 100 countries in the world and is Asia Pacific's top supplier of PC-linked smart card readers according to Frost & Sullivan. The Group is also a leading supplier of contactless smart card readers used with the PC in the world. Over the years, the Group developed a range of smart card and reading technologies and is introducing to the market more sophisticated products. The Group emphasizes on quality and its high quality standard was acknowledged by the quality award by Frost & Sullivan. Using its range of smart card technologies, it was able to develop automatic fare collection solutions for the rapidly growing market.

Any viable technology business requires certain economies of scale. The Group turned the world financial crisis in the last 24 months into an opportunity by attracting and enrolling a good number of talented people. It has improved its economies of scale and is continuing to expand its headcount and its sales.

Owing to the good product quality image, a diversified base of satisfied customers, more advanced technologies and above all a stronger staff force, the Group looks forward to better performance in the remaining months of 2010 and the years to come.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 31 March 2010, the Group's cash at banks and on hand amounted to HK\$18.0 million (31 March 2009: HK\$20.6 million including pledged time deposits of HK\$0.9 million which were pledged to a bank as security for bank lines). At 31 March 2010, the previous pledges on bank deposits were all released, and the credit lines offered by the bank were not utilised (31 March 2009: Nil).

The current ratio, being the ratio of current assets to current liabilities, was 3.9 (31 March 2009: 4.2). Net asset value as at 31 March 2010 was HK\$57.1 million (31 March 2009: HK\$46.2 million). As at 31 March 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 (31 March 2009: zero).

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

At 31 March 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
						31 March 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 31 March 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 31 March 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 31 March 2010 was HK\$0.460) 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	Balance as at 1 January 2010	Number of share options			Balance as at 31 March 2010	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 March 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 31 March 2010 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 31 March 2010
Proway Investment Limited (<i>Note 2</i>)	Beneficial owner	25,090,305 shares (L)	8.88%
Morningside CyberVentures Holdings Limited (<i>Note 2</i>)	Other	25,090,305 shares (L)	8.88%
Verrall Enterprises Holdings Limited (<i>Note 2</i>)	Other	25,090,305 shares (L)	8.88%
Madam Chan Tan Ching Fen (<i>Note 2</i>)	Other	25,090,305 shares (L)	8.88%
Mr. Tjio Kay Loen (<i>Note 3</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 Proway Investment Limited is wholly owned by Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly owned by Verrall Enterprises Holdings Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).
- 3 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 31 March 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.

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 three months ended 31 March 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 three months ended 31 March 2010.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 7 May 2010