



## **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 2010**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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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 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 2010 decreased by 11% to HK\$93.7 million from the year ended 31 December 2009.
- Gross profit of the Group for the year ended 31 December 2010 decreased by 3% to HK\$50.6 million from the year ended 31 December 2009.
- Net profit after income tax of the Group for the year ended 31 December 2010 decreased by 64% to HK\$4.4 million from HK\$12.2 million in 2009.

## 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") for the year ended 31 December 2010 together with the comparative figures for the corresponding period in 2009 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Revenue	5	93,729	104,963
Cost of sales		(43,086)	(52,521)
<b>Gross profit</b>		<b>50,643</b>	<b>52,442</b>
Other income	6	211	181
Administrative expenses		(19,952)	(15,852)
Research and development expenses		(13,857)	(13,473)
Selling and distribution costs		(10,393)	(7,595)
Finance costs	7	(441)	(299)
<b>Profit before income tax</b>	8	<b>6,211</b>	<b>15,404</b>
Income tax expense	9	(1,777)	(3,185)
<b>Profit for the year</b>		<b>4,434</b>	<b>12,219</b>
<b>Other comprehensive income</b>			
Exchange gain on translation of financial statements of foreign operations		160	56
<b>Other comprehensive income</b>		<b>160</b>	<b>56</b>
<b>Total comprehensive income for the year</b>		<b>4,594</b>	<b>12,275</b>
<b>Earnings per share for profit attributable to the owners of the Company during the year</b>	11		
Basic		HK1.57 cents	HK4.34 cents
Diluted		HK1.56 cents	HK4.32 cents

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Plant and equipment		6,918	5,620
Development costs		15,166	9,945
		<b>22,084</b>	<b>15,565</b>
<b>Current assets</b>			
Inventories		26,708	17,882
Trade and other receivables, deposits paid and prepayments	12	17,197	19,481
Held-to-maturity financial assets		36	20
Tax recoverable		393	—
Cash and cash equivalents		15,323	23,810
		<b>59,657</b>	<b>61,193</b>
<b>Current liabilities</b>			
Trade payables, deposits received and accruals	13	13,609	19,462
Bank borrowings		10,051	—
Provision for taxation		—	827
		<b>23,660</b>	<b>20,289</b>
<b>Net current assets</b>		<b>35,997</b>	<b>40,904</b>
<b>Total assets less current liabilities</b>		<b>58,081</b>	<b>56,469</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		641	564
<b>Net assets</b>		<b>57,440</b>	<b>55,905</b>
<b>EQUITY</b>			
Share capital		28,316	28,260
Reserves		29,124	27,645
<b>Total equity</b>		<b>57,440</b>	<b>55,905</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	(Accumulated loss)/ Retained profits <i>HK\$'000</i>	Proposed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2009	28,180	20,952	4,496	13	(10,083)	2,254	45,812
2008 dividends approved (Note 10)	—	—	—	—	—	(2,254)	(2,254)
Issue of shares upon exercise of share options	80	(8)	—	—	—	—	72
Transactions with owners	80	(8)	—	—	—	(2,254)	(2,182)
Profit for the year	—	—	—	—	12,219	—	12,219
<b>Other comprehensive income</b>							
– Exchange gain on translation of financial statements of foreign operations	—	—	—	56	—	—	56
Total comprehensive income for the year	—	—	—	56	12,219	—	12,275
2009 dividends proposed (Note 10)	—	(3,109)	—	—	—	3,109	—
Balance at 31 December 2009	28,260	17,835	4,496	69	2,136	3,109	55,905

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	(Accumulated loss)/ Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
Balance at 1 January 2010	28,260	17,835	4,496	69	2,136	3,109	55,905
2009 dividends approved (Note 10)	—	—	—	—	—	(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
<b>Other comprehensive income</b>							
– Exchange gain on translation of financial statements of foreign operations	—	—	—	160	—	—	160
Total comprehensive income for the year	—	—	—	160	4,434	—	4,594
Balance at 31 December 2010	28,316	17,829	4,496	229	6,570	—	57,440

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. 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 and its subsidiaries (collectively referred to as the "Group" hereinafter) include the development, sale and distribution of smart card products, software and hardware and the provision of smart card related services to its customers. The Group's operations are based in Hong Kong and People's Republic of China (the "PRC"). 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 the GEM of the Stock Exchange.

The financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 25 March 2011.

## 2. ADOPTION OF NEW OR REVISED HKFRSs

### (a) Adoption of new/ revised HKFRSs - effective 1 January 2010

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 2010:

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as explained below, the adoption of these new HKFRSs has no significant impact on the Group's financial statements.

#### *HK Interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

As at 31 December 2010, a bank loan (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK\$4,300,000 has been classified as current liabilities. The application of HK Interpretation 5 has had no impact on the reported profit or loss for the current and prior years nor the financial position as at 31 December 2009.

**(b) New/revised HKFRSs that have been issued but are not yet effective**

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>2&amp;3</sup>
Amendments to HKAS 32	Classification of Rights Issues <sup>1</sup>
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement <sup>3</sup>
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets <sup>4</sup>
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets <sup>5</sup>
HKFRS 9	Financial Instruments <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2013



The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

### **3. CHANGE IN ACCOUNTING POLICY**

The cost of the Group's inventories was determined using first-in, first out method, and comprises raw materials, supplies, purchased goods and all expenses directly attributable to the manufacturing process as well as suitable portions of the related overheads at 31 December 2009.

During the year, the Group changed its accounting policy in its inventory valuation and the cost of inventories is determined using weighted average cost method. The Group considers that a weighted-average unit cost can be applied to the units in the ending inventory so that it better smoothes out differences in price changes in a reporting period. Subsequent to the change in accounting policy, management believes that using the weighted average cost results in more relevant presentation of the Group's performance for the reporting period.

In accordance with HKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, change in accounting policy has been accounted for retrospectively.

The unit cost of inventory did not have material fluctuation during the years ended 31 December 2009 and 2010. Accordingly, the change in accounting policy has had no material effect on the consolidated statement of financial position as at 1 January 2009, 31 December 2009 and 2010, and the comparative figures have not been restated and the third statement of financial position as at 1 January 2009 is not presented.

#### 4. SEGMENT INFORMATION

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

	2010 <i>HK\$'000</i>
<b>Revenue</b>	
From external customers	93,729
<b>Reportable segment revenue</b>	<b>93,729</b>
Bank interest expenses	112
Bank interest income	(15)
Depreciation and amortisation of non-financial assets	4,873
Loss on disposals of plant and equipment	3
Research and development expenses	13,857
Write-back of provision for inventories	(30)
<b>Reportable segment assets</b>	<b>81,183</b>
Additions to non-current segment assets during the year	11,395
<b>Reportable segment liabilities</b>	<b>23,407</b>
	2009 <i>HK\$'000</i>
<b>Revenue</b>	
From external customers	104,963
<b>Reportable segment revenue</b>	<b>104,963</b>
Bad debts written off	4
Bank interest expenses	35
Bank interest income	(14)
Depreciation and amortisation of non-financial assets	4,103
Loss on disposals of plant and equipment	25
Research and development expenses	13,473
Write-back of provision for inventories	(34)
<b>Reportable segment assets</b>	<b>76,556</b>
Additions to non-current segment assets during the year	6,916
<b>Reportable segment liabilities</b>	<b>19,205</b>

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Reportable segment profit</b>	<b>7,644</b>	16,715
Finance costs	(441)	(299)
Unallocated corporate expenses	(992)	(1,012)
<b>Profit before income tax</b>	<b>6,211</b>	15,404

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Reportable segment assets	81,183	76,556
Tax recoverable	393	—
Other corporate assets	165	202
<b>Group assets</b>	<b>81,741</b>	76,758

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Reportable segment liabilities	23,407	19,205
Deferred tax liabilities	641	564
Other corporate liabilities	253	1,084
<b>Group liabilities</b>	<b>24,301</b>	20,853

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 operation in Hong Kong, and therefore, Hong Kong is considered as the Group's country of domicile for the purpose of the disclosure as required by HKFRS 8 "Operating Segments".

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

	Revenue from external customers	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Middle East and Africa	7,969	7,029
The Americas	14,609	13,570
Asia Pacific	28,651	33,120
Europe	42,500	51,244
<b>Total</b>	<b>93,729</b>	<b>104,963</b>

For the year ended 31 December 2010, the Group's revenues from external customers attributed to Italy and PRC accounted for approximately HK\$17,961,000 and HK\$9,631,000 respectively. The Group's revenues from external customers attributed to other countries accounted for less than 10% of the Group's revenue each.

For the year ended 31 December 2009, the Group's revenues from external customers attributed to Italy, PRC and Spain accounted for approximately HK\$15,509,000, HK\$13,862,000 and HK\$13,061,000 respectively. The Group's revenues from external customers attributed to other countries accounted for less than 10% of the Group's revenue each.

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

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

For the year ended 31 December 2010, one customer with whom transactions has exceeded 10% of the Group's revenue. Total revenue from this one customer accounted for 19% of the Group's revenue for the year. As at 31 December 2010, total trade receivables due from this one customer accounted for 27% of such balance.

For the year ended 31 December 2009, two customers with whom transactions of each has exceeded 10% of the Group's revenue. Total revenue from these two customers accounted for 15% and 12% of the Group's revenue for the year respectively. As at 31 December 2009, total trade receivables due from these two customers accounted for 27% and 14% of such balance respectively.

## 5. REVENUE

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Sale of smart card products, software and hardware	91,575	102,748
Smart card related services	2,154	2,215
Total	93,729	104,963

## 6. OTHER INCOME

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Forfeiture of deposits	7	18
Interest income	15	14
Research and development service fee income	143	129
Sundry income	46	20
Total	211	181

## 7. FINANCE COSTS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest charges on bank borrowings		
– wholly repayable within five years	112	35
Bank charges	329	264
Total	441	299

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the year ended 31 December 2010, the interest on term loans which contain a repayment on demand clause amounted to HK\$68,000 (2009: Nil).

## 8. PROFIT BEFORE INCOME TAX

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit before income tax is arrived at after charging/(crediting):		
Amortisation of development costs	2,103	2,041
Auditors' remuneration	338	307
Bad debts written off	—	4
Cost of inventories recognised as expense, including	42,057	51,204
– Write-back of provision for inventories	(30)	(34)
Depreciation	2,770	2,062
Loss on disposals of plant and equipment	3	25
	<hr/>	<hr/>
Operating lease charges on land and buildings	2,891	2,306
Less: Amount included in research and development costs	(133)	(108)
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	2,758	2,198
	<hr/>	<hr/>
Total research and development expenses	19,078	14,180
Add: Amortisation of development costs	2,103	2,041
Less: Amount capitalised as development costs	(7,324)	(2,748)
	<hr/>	<hr/>
Research and development expenses charged to profit or loss	13,857	13,473
	<hr/>	<hr/>

## 9. 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 year.

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 year. No provision for overseas tax in other locations including PRC, Canada and Germany has been made as no assessable profits arose from the operations in these locations or had unused tax losses brought forward to offset against the current year's assessable profit (2009: Nil).

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Current tax</b>		
– Hong Kong		
Current year	1,570	2,796
Over provision in previous years	—	(22)
	<u>1,570</u>	<u>2,774</u>
– Overseas		
Current year	129	102
Under provision in previous years	1	3
	<u>130</u>	<u>105</u>
	<u>1,700</u>	<u>2,879</u>
<b>Deferred tax</b>		
Current year	77	306
<b>Total income tax expense</b>	<u><u>1,777</u></u>	<u><u>3,185</u></u>

## 10. DIVIDENDS

### (a) Dividends attributable to the year:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Proposed dividend (2009: HK1.1 cents per ordinary share)	—	3,109

The proposed dividend after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of share premium for the year ended 31 December 2009.

### (b) Dividends attributable to the previous financial year, approved and paid during the year:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Dividend in respect of the previous financial year, of HK1.1 cents per ordinary share (2009: HK0.8 cents)	<u>3,109</u>	<u>2,254</u>

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$4,434,000 (2009: HK\$12,219,000) and the weighted average 282,866,000 (2009: 281,840,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK\$4,434,000 (2009: HK\$12,219,000) and the weighted average 283,509,000 (2009: 282,964,000) 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 282,866,000 (2009: 281,840,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average 643,000 (2009: 1,124,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

## 12. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade receivables	14,509	17,096
Deposits paid	1,013	718
Prepayments	956	1,208
Other receivables	719	459
	<hr/>	<hr/>
	17,197	19,481

The directors of the Company consider that the fair values of trade and other receivables, deposits paid and prepayments which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
0 - 30 days	8,370	8,911
31 - 60 days	3,327	3,808
61 - 90 days	131	3,169
Over 90 days	2,681	1,208
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	14,509	17,096



Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. As at 31 December 2010 and 2009, no allowance for impairment loss was made.

At each reporting date the Group reviews receivables for evidence of impairment on both an individual and collective basis. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised.

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

### 13. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade payables	7,774	13,123
Deposits received	1,821	2,213
Accruals	4,014	4,126
	<b>13,609</b>	<b>19,462</b>

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
0 - 30 days	4,094	4,957
31 - 60 days	2,964	5,717
61 - 90 days	631	1,533
Over 90 days	85	916
	<b>7,774</b>	<b>13,123</b>

All deposits received and accruals are expected to be settled within one year from the reporting date.

All amounts are short term and hence the carrying values of the Group's trade payables, deposits received and accruals are considered to be a reasonable approximation of fair value.

## **SCOPE OF WORK OF BDO LIMITED**

The figures in respect of the Annual Results Announcement (“Announcement”) of the Company for the year ended 31 December 2010 have been agreed by the Company’s auditors, BDO Limited, to the amounts set out in the Company’s 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 Announcement.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

The Group’s sales revenue in year 2010 decreased by 11% to HK\$93.7 million from HK\$105.0 million in 2009. The Group sells its products to over 100 countries in the world and these countries are grouped into four regions. Europe and Asia Pacific recorded drops in sales and the other two regions showed increases.

Europe has been the biggest region accounting for 45% of the total sales in 2010 and 49% in 2009. The three countries that continued to account for the biggest sales in Europe were Belgium, Italy and Spain. Other countries relatively more important to ACS were Poland, Turkey and Russia. Fewer shipments were made in 2010 to Italy and Spain partially accounting for the reduced sales in 2010 in Europe.

During the year, six hundred thousand smart cards with proprietary operating system was made to a developing country in Asia for use as “Emigrant clearance cards” for the government to monitor their citizens leaving and entering their country to work abroad. This represents a new application of the Group’s smart cards and could imply an opportunity for the Group to sell to other countries.

Sales increase was recorded in the Americas region with the main growth in Latin America where our smart card readers were used in the government and the private sectors with one major use for the taxation card project in Brazil where the government requires tax payers to report tax return online using a smart card and reader to prove identity.

The sales in the Middle East and Africa region, considered an emerging region for ACS types of product, also increased. It is expected that the growth in these regions will accelerate in 2011.

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	Change
Europe	42,500	51,244	-17%
Asia Pacific	28,651	33,120	-13%
The Americas	14,609	13,570	+8%
Middle East and Africa	7,969	7,029	+13%
	<b>93,729</b>	104,963	-11%

Gross profit decreased by a smaller percentage of 3% to HK\$50.6 million in 2010 from HK\$52.4 million in 2009 owing to higher gross profit margin in 2010. It is the Group's policy to invest heavily in research and development. With new state-of-the-art products liked by customers, the Group managed to increase its gross profit margin to 54% in 2010 versus 50% in 2009.

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	Change
Revenue	93,729	104,963	-11%
Cost of sales	<b>(43,086)</b>	(52,521)	-18%
Gross profit	50,643	52,442	-3%
Gross profit margin	54%	50%	
Other income	211	181	+17%
Administrative expenses	<b>(19,952)</b>	(15,852)	+26%
Research and development expenses	<b>(13,857)</b>	(13,473)	+3%
Selling and distribution costs	<b>(10,393)</b>	(7,595)	+37%
Finance costs	<b>(441)</b>	(299)	+47%
Total expenses	<b>(44,643)</b>	(37,219)	+20%
Profit before income tax	6,211	15,404	-60%
Income tax expense	<b>(1,777)</b>	(3,185)	-44%
Profit for the year	<b>4,434</b>	12,219	-64%

In 2010, the Group continued to expand its work force in Hong Kong, Guangdong and the Philippines and brought the headcount to 216 at 31 December 2010 from 171 a year ago. An increased headcount caused increases not only in salary and benefits costs but also in accompanying costs such as office space, equipment deployed, travelling, etc. The total expenses increased to HK\$44.6 million in 2010 from HK\$37.2 million in 2009. With the drop in gross profit amount and increase in total expenses, the profit before income tax dropped by 60% to HK\$6.2 million and the profit after income tax dropped by 64% to HK\$4.4 million.

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	Change
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Plant and equipment	6,918	5,620	+23%
Development costs	15,166	9,945	+52%
	<b>22,084</b>	<b>15,565</b>	<b>+42%</b>
<b>Current assets</b>			
Inventories	26,708	17,882	+49%
Trade receivables	14,509	17,096	-15%
Other receivables, deposits paid and prepayments	2,688	2,385	+13%
Held-to-maturity financial assets	36	20	+80%
Tax recoverable	393	—	N/A
Cash and cash equivalents	15,323	23,810	-36%
	<b>59,657</b>	<b>61,193</b>	<b>-3%</b>
<b>Current liabilities</b>			
Trade payables, deposits received and accruals	13,609	19,462	-30%
Bank borrowings	10,051	—	N/A
Provision for taxation	—	827	-100%
	<b>23,660</b>	<b>20,289</b>	<b>+17%</b>
<b>Net current assets</b>	<b>35,997</b>	<b>40,904</b>	<b>-12%</b>
<b>Total assets less current liabilities</b>	<b>58,081</b>	<b>56,469</b>	<b>+3%</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	641	564	+14%
<b>Net assets</b>	<b>57,440</b>	<b>55,905</b>	<b>+3%</b>
<b>EQUITY</b>			
Share capital	28,316	28,260	+0%
Reserves	29,124	27,645	+5%
<b>Total equity</b>	<b>57,440</b>	<b>55,905</b>	<b>+3%</b>

Plant and equipment increased 23% mainly owing to the headcount increase with the corresponding increase in PC, furniture and fixture, and equipment used for research and development.

Development costs increased 52% owing to the expanded engineering work force and the resulting bigger payroll and other costs.

Inventory level rose by 49% along with the needs to carry out more pilot runs of new products. The enhanced ERP would enable the Group to conduct more efficient order placing and stock keeping.

The amount of trade receivables dropped by 15% to HK\$14.5 million, not much different from the rate of the sales drop (by 11%). Historically, ACS has had a good record of debt collection and the amount of bad debt has been minimal.

The drop of trade payables, deposits received and accruals by 30% to HK\$13.6 million did not mean major changes in payment terms. It indicates that the purchasing and the subsequent retirement of the trade payables may fluctuate.

The Group took advantage of the low interest environment and the relaxed credit market by making more active use of banking facilities made available to them to pay down the payables and to fund the expenditures on research and development. Relative to the past approach of only applying internal resources to support its operations, the Group believes that proper gearing could magnify return to shareholders equity and to build long term banking relationships. As such, a term loan and other banking facilities were arranged and drawn down. Despite the resultant changes in the statement of financial position components with lower calculated current ratio (from 3.0 to 2.5) and higher debt/equity ratio (from 0.37 to 0.42), the available un-utilized credit facilities, the good asset quality, the strong potential for growth and the likelihood to maintain the present level of gross profit manager would ensure its liquidity under acceptable leverage.

## **DIVIDEND**

The board of directors (the "Board") does not recommend the payment of a dividend in respect of the year ended 31 December 2010 (2009: HK1.1 cents per share). 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 strategy**

The Group's business strategy is continually to develop smart card operating systems, smart card readers and terminals as well as smart card based solutions, particularly automatic fare collection solutions for public transportation systems.

Since the inception of its business, ACS has had a mission to be a technology-intensive company. Smart cards and the readers to read them and write on them are used primarily for identification, authentication, payment and other purposes where either money or security are the main elements. Quality and compliance to international standards are two main requirements by serious customers. ACS emphasizes on meeting these important requirements.

Public awards and customer satisfaction survey results constantly reflect the achievements of the Group in satisfying customer and attaining high quality.

ACS places equal importance to the compliance to industry standard. There are certain international standards that are important to the smart card industry, such as the PC/SC (personal computer - smart card) standard initiated by Microsoft for PC-linked smart card readers or EMV (Europay, Mastercard and Visa) standard for various smart card readers. The Group always attempts to become one of the world's pioneers to attain such compliances for its core products.

There are also national standards established by some countries, especially countries with a big market of smart cards. The main countries having national standards are China, USA, Germany and Japan.

The Group has been attempting to get its core products certified against these national standards also. Such certifications usually take time to achieve owing to language barriers, accessibility to information and samples as well as high certification costs. The Group succeeded in getting some of its core products certified against some of these national standards including the FIPS (Federal Information Processing Standard) primarily for the USA market, the PBOC (The People's Republic of China) standard and the German BSI ("Federal Office for Information Security" in English) standard and is expanding its horizons.

The Group has its main offices in Hong Kong being its headquarters location, Manila and Guangdong with the strengths of these offices combined to maximize the Group's productivity to undertake research development, sales and marketing, technical support services and operations work.

The Group continued also to develop a web-based enterprise management solution called "Enterprise Collaboration Platform" for internal use and for the commercial market. A trial launch of this program for the commercial market was made in 2010. It was later found that the marketing cost could be high. Thus the management decided to concentrate on developing the program for internal use first and would consider to make a full commercial launch when resources are more available.

## **Awards**

The Group's smart card terminal designed for medical card applications, model eH880, 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 honored the Certificate of Merit.

In addition, 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.

## **Main products introduced to the market in 2010**

### ***Smart card compliant to PBOC2.0 standard (ACOS10)***

The Group launched in December 2010 the dual interface smart card with contact and contactless functions using one single chip in the card. It is in compliance with the PBOC2.0 (The People's Bank of China version 2.0) ED/EP (Electronic Debit/ Electronic Purse) standard.

PBOC2.0 is a national standard in China, and is very similar to EMV2000. ACOS10 was accredited with the PBOC2.0 certification after passing a series of stringent tests including electrical, mechanical, reliability and, secure command and transaction testing.

ACOS10 EDEP is propelled by the ACOS10 Card Operating System, which is compliant with ISO7816 parts 1-4 and allows users to write multiple applications in one card.

ACOS10 is capable of doing various transactions:

- Credit load
- Credit unload
- Purchase
- Cash withdrawal
- Overdraw limit update
- Balance inquiry
- Transaction log review

In short, the ACOS10 EDEP card is to be used by banks for payment solutions. It can be used as an electronic purse for, say, public transportation and can be used as an ATM card. Money can be drawn from the user's saving account online and placed in the card.

### ***Smart card used as security access model (ACOS6)***

In January 2011, a card operating system for contact smart cards, Model ACOS6, to be used as a security access module (SAM) was launched by the Group. While a micro-processor card has intelligence to challenge a smart card terminal to verify if the latter is legitimate by virtue of the micro-processor intelligence and the operating system inside, the SAM card to be inserted into a smart card terminal gives the intelligence to the terminal to challenge the card to verify if the card is legitimate. To develop the operating system of a SAM card requires in-depth knowledge of the card software. The Group's achievement to develop the SAM card is a milestone in the technology advancement of ACS in card operating system development.

### ***PC-linked smart card reader compliant to FIPS standard (ACR3801)***

The USA market is one of the biggest markets of PC-linked smart card readers. The biggest user is the Department of Defense (DoD), which often requires such readers to be compliant to the FIPS (Federal Information Processing Standard) standard. A new reader compliant to the FIPS standard was officially launched to the market in winter 2010.

### ***ACR1281 German market (ACR1281)***

In its strategy to provide smart card readers in compliance with the national standards of nations of big market size, ACS managed to get its contactless reader, ACR1281, to be in compliance with the German BSI ("Federal Office for Information Security" in English) standard. The reader is to support and write on the German ID card. Germany started to issue smart cards with a contactless smart card chip in November 2010.

### ***Physical access control device***

The physical access control device developed for a global company in physical access control solution was launched to the market. It is a terminal to be mounted at the doors of buildings. Its several versions include functions to support contactless cards, pin entries, finger print scanning, etc. Pilot productions were completed in year 2010 and the customer is launching the devices together with their back end software as total solutions to the world market.

### ***Portable POS terminal supporting contactless cards (ACR880)***

In March 2010, ACR880, considered to be a portable version of the eH880 launched in the previous year, was launched to the market.

The Group had allocated a large amount of engineering resources to cope with the challenges to perfect the device and to meet multiple goals of supporting a wide range of contact and contactless cards for reasonably long operating distances, to comply with electro-magnetic interface standards, EMV standards, low power consumption feature and faultless GPRS support.



### ***Smart card reader with liquid crystal display (ACR122L)***

In December 2010, the Group launched to the market ACR122L, a contactless reader with a liquid crystal display. The device is to be connected to a point of sales terminal to accept contactless cards primarily for payment use. It caters for retail merchants to accept transit cards for non-transit uses. Contactless cards are gaining worldwide popularity in being used to pay fares for public transportation and to make small payments in retail outlets.

### ***One-Time Password (OTP) generator (APG8202)***

The Group launched in October 2010, an OTP generator, APG8202, compliant to Mastercard and Visa standards. It is a compact, standalone, low-cost, handheld smart card device that contains a numeric keypad and a display. It can be used in a variety of payment and banking applications as well as used to ensure secure access to the network for firms and institutes.

To operate the device, the cardholder inserts the EMV payment card (e.g. a smart card based credit card, something you have) into the device and enters the PIN (something you know) using the device keyboard. A dynamic one-time password is generated and shown on the display. The cardholder can enter this password into the PC to enhance security and perform such acts as placing an order on the telephone, making payments or performing e-banking on the Internet.

### ***Contact smart card reader integrated with a finger print scanner (AET65)***

At the end of year 2010, ACS was performing its pilot production runs of a contact smart card reader integrated with a swipe finger print scanner, the AET65. The reader is meant for the logical access control market. There are various tools to improve the security of access to the PC and to the Internet. The use of biometrics to identify a person is considered one of the methods to achieve the highest security. The finger print of the authentic user is stored in the smart card. To access the Internet, the user will swipe his finger on the finger print sensor. The finger print template thus captured will be compared with the template stored in the card. When the two templates match, the holder of the card is taken as the legitimate holder. ACS has an existing model of AET63 which has similar functions but uses a full-sized finger print scanner. The swipe scanner owing to the smaller silicon chip permits a lower cost of AET65 compared with the cost of AET63 and presents a new market which accepts lower costing.

### **Main products being developed in 2010**

#### ***Smart card operating system used in debit/credit card (ACOS11 PBOC 2.0 DC)***

At the end of 2010, ACS was developing this card operating system for smart cards which are to be used in debit and credit cards in China. This card operating system is to follow the PBOC 2.0 standard by The People's Republic of China. It is the Chinese version of the EMV (Europay, Mastercard and Visa) 2.0 standard commonly used outside China. The Chinese government has a plan to have all the credit cards (now using magnetic strip cards) issued in China to use smart card chips by the end of year 2015. This card operating system is meant to be used in such smart card based credit cards.

#### ***PC-linked reader for contact smart card (ACR39)***

The ACR39 is the successor of the Group's very successful ACR38U product line and acts as a new generation PC-linked reader with a higher speed. ACR39 has improved features such as a higher speed in operation and has programmable software capability (i.e. upgrading the firmware in a simple process by using a PC rather than by resorting to the cumbersome work in the factory), serial interface on top of USB interface, etc.

#### ***PC-linked reader for contact smart card with a new form factor (ACR38U-N1)***

At 31 December 2010, ACS was completing the development of a small-sized reader to accept the ISO7816 sized card (with the dimension of a standard credit card). It can be plugged into the PC using the USB plug and is much more portable than the standard version of PC-linked reader with a full-size casing and a cable.

#### ***PC-linked reader with multiple card slots (ACR33U)***

ACS was completing the development of the ACR33 reader for the target market of "social security card" application in China. The reader has two card slots accepting standard-sized smart cards, e.g. a patient card and a medical professional card. It has three SAM (secure access model) slots inside to accept SIM-sized smart cards (with the size of the SIM card commonly used in mobile phones) provided by organizers of the social security systems. The reader can be used in other countries.

#### ***Dual interface smart card reader (ACR1281)***

At the end of 2010, ACS was launching a new model of smart card reader to support contactless cards: ACR1281. The reader was certified in August 2010, to be compliant with the qPBOC (quick People's Bank of China) standard, a standard for contactless payment with the debit/credit application process adjusted and optimized to meet the faster transaction speed requirement in micropayment. The accreditation opens up opportunities to the Group to serve the banking market in China.

#### ***Portable smart card terminal to support contact smart card (ACR89)***

ACS was developing a portable terminal to accept contact smart cards, ACR89. The reader represents a stronger version of its predecessor ACR88. The ACR89 has two standard ISO7816 sized slots to accept standard-sized contact smart cards and three SAM card slots to accept SIM-sized cards. It uses a cost effective 32-bit micro-processor and has also a printer. There are two more planned stages of development with contactless card support in Stage 2 and finger print scanner support in Stage 3. The product could be used in smart card applications requiring a portable device. One prime application is micro-payment.

#### ***Flash drive integrated with micro-SD card reader. (ACR101)***

ACS was developing a pocket-size device with SIM-sized card slot accepting contact smart card, contactless smart card and micro-SD card to expand its product portfolio.

The reader has an extractable USB plug to be inserted into the PC and the device has the function of the popular flash drive but at the same time by accepting a smart card embedded into its slot, it can protect the security of the data stored in the SD card of flash.

***Contactless smart card reader integrated with a finger print scanner (AET62).***

At 31 December 2010, ACS was also completing the development and pilot production of the contactless card version of Model AET62. The functions of AET62 and AET65 are essentially the same except that AET62 accepts a contactless smart card and AET65 accepts a contact smart card.

**Attending trade shows and other promotion activities**

In 2010, the Group attended ten trade shows in the world including one in Macao, three in Hong Kong, one in the mainland of China, one in Singapore, one in Japan, two in Africa and one in Europe. The Group's delegates gave speeches at various trade shows. These occasions presented the opportunities for them to learn about the market, spread our presence, meet old customers and develop new business relationships.

Other marketing activities include having interviews by and press releases in the public media, advertising in magazines, developing product websites, issuing newsletters, etc. ACS had its 15th anniversary in 2010 and held a banquet for celebration in Hong Kong for staff members, customers, suppliers and other business partners. The Group also utilized the occasion to express its appreciation to business associates for their support and to update them with the latest development of the Group.

**PROSPECTS**

In the five year period to the end of year 2010, ACS was deeply engaged in product research and development of a range of products which are more sophisticated than the PC-linked contact smart card readers and proprietary card operating systems that fall into the two main product lines in the first ten years of the business of ACS. ACS also developed its automatic fare collection solution applications. These products and applications are more challenging to develop, to produce and to ensure quality of. The Group coped with a lot of such challenges and obstacles and proved its capability to include these products and services into its offering.

While serving customers of various sizes all over the world, ACS exerted substantial efforts to serve several global customers located in the USA, Europe and Japan, some of them with annual sales of well over US\$10 billion. These companies are extremely demanding in product features, industry standard compliance and quality. It takes a long time to perfect the products developed with their specification. In almost of all the projects, ACS has remained to be the owners of the intellectual properties. Among the more sophisticated products developed for these global companies were a physical access control terminal designed for a company in USA, a bus validator for deducting fare for a leading automatic fare collection solution provider in USA and a POS (point of sale) terminal for a global company in Japan.

The lengthy development cycles demanded more than expected engineering resources, and owing to the delayed launching of products, the sales dropped by 11% in 2010 after growing for five years up to year 2009.

With more sophisticated products launched, with the production and logistics improved and with continuous strengthened customer relationships, the Group is witnessing new business opportunities emerging. The management expects a revival of the sales momentum starting the second half of 2011. The annual gross profit margin was at 53%, 50%, 46%, 50% and 54% for the five years up to year 2010. There is no reason to expect a substantial drop in gross profit margin for 2011 and 2012, and so with revived sales revenue and the increased productivity of the staff members in particular the engineering team which was expanded fast in the last two or three years, the bottom line is expected to rise again.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

At all times the Group maintains a healthy liquidity position. As at 31 December 2010, the Group's cash and cash equivalents amounted to HK\$15.3 million (2009: HK\$23.8 million). The Group keeps most of its cash in Hong Kong dollars ("HK\$"), Euro, United States dollars ("US\$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK\$10.1 million (2009: Nil). The bank borrowings are denominated in HK\$ and US\$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 31 December 2010 was 0.17 (2009: zero).

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 2.5 (2009: 3.0). Net asset value as at the year end date was HK\$57.4 million (2009: HK\$55.9 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 2010.

## **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**

The assets, liabilities and transactions of the Group are primarily denominated in HK\$, Euro, US\$ and RMB. As HK\$ is pegged to US\$, 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 2010, the Group did not pledge any of its assets.

## **CONTINGENT LIABILITIES**

As at 31 December 2010, the Company had outstanding corporate guarantee of HK\$18 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 2010, the Group had 216 full time employees. Staff costs amounted to HK\$26.1 million (2009: HK\$23.5 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 met once with the external auditors to review the effectiveness of the internal control systems and the Group's audited results for the year ended 31 December 2010.

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

Hong Kong, 25 March 2011

*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.*