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 2009

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 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 enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification only*

HIGHLIGHTS

- ➢ Revenue of the Group for the year ended 31 December 2009 increased by 9% to HK$105.0 million from the year ended 31 December 2008.
- ➢ Gross profit of the Group for the year ended 31 December 2009 increased by 18% to HK$52.4 million from the year ended 31 December 2008.
- ➢ Net profit after income tax of the Group for the year ended 31 December 2009 increased by 26% to HK$12.2 million from HK$9.7 million in 2008.
- ➢ As at 31 December 2009, the cash at banks and on hand of the Group amounted to HK$23.8 million (31 December 2008: HK$23.6 million) and there was no borrowing from banks.
- ➢ The board of directors has recommended the payment of a dividend of HK1.1 cents (2008: HK0.8 cents) per share for the year ended 31 December 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 2009 together with the comparative figures for the corresponding period in 2008 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	**2009**	2008
		HK$'000	*HK$'000*
Revenue	4	**104,963**	96,094
Cost of sales		**(52,521)**	(51,625)
Gross profit		**52,442**	44,469
Other income	5	**181**	500
Administrative expenses		**(15,852)**	(14,435)
Research and development expenses		**(13,473)**	(10,419)
Selling and distribution costs		**(7,595)**	(7,198)
Finance costs	6	**(299)**	(387)
Profit before income tax	7	**15,404**	12,530
Income tax expense	8	**(3,185)**	(2,826)
Profit for the year		**12,219**	9,704
Other comprehensive income			
Exchange gain / (loss) on translation of financial statements of foreign operations		**56**	(37)
Other comprehensive income		**56**	(37)
Total comprehensive income for the year		**12,275**	9,667
Earnings per share for profit attributable to the owners of the Company during the year	10		
Basic		**HK4.34 cents**	HK3.44 cents
Diluted		**HK4.32 cents**	HK3.43 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

	Notes	**2009** *HK$'000*	2008 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment		**5,620**	3,540
Development costs		**9,945**	9,238
		15,565	12,778
Current assets			
Inventories		**17,882**	12,129
Trade and other receivables, deposits paid and prepayments	11	**19,481**	9,607
Held-to-maturity financial assets		**20**	19
Pledged time deposits		**—**	897
Cash and cash equivalents		**23,810**	22,724
		61,193	45,376
Current liabilities			
Trade payables, deposits received and accruals	12	**19,462**	10,927
Provision for taxation		**827**	1,157
		20,289	12,084
Net current assets		**40,904**	33,292
Total assets less current liabilities		**56,469**	46,070
Non-current liabilities			
Deferred tax liabilities		**564**	258
Net assets		**55,905**	45,812
EQUITY			
Share capital		**28,260**	28,180
Reserves		**27,645**	17,632
Total equity		**55,905**	45,812

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000*	Translation reserve *HK$'000*	(Accumulated losses)/ Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance at 1 January 2008	28,180	23,206	4,496	50	(19,787)	1,127	37,272
2007 dividends approved *(Note 9)*	—	—	—	—	—	(1,127)	(1,127)
Transactions with owners	28,180	23,206	4,496	50	(19,787)	—	36,145
Profit for the year	—	—	—	—	9,704	—	9,704
Other comprehensive income							
– Exchange loss on translation of financial statements of foreign operations	—	—	—	(37)	—	—	(37)
Total comprehensive income for the year	—	—	—	(37)	9,704	—	9,667
2008 dividends proposed *(Note 9)*	—	(2,254)	—	—	—	2,254	—
Balance at 31 December 2008	28,180	20,952	4,496	13	(10,083)	2,254	45,812

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	(Accumulated losses)/ Retained profits HK$'000	Proposed dividend HK$'000	Total HK$'000
Balance at 1 January 2009	28,180	20,952	4,496	13	(10,083)	2,254	45,812
2008 dividends approved *(Note 9)*	—	—	—	—	—	(2,254)	(2,254)
Issue of shares upon exercise of share options	80	(8)	—	—	—	—	72
Transactions with owners	28,260	20,944	4,496	13	(10,083)	—	43,630
Profit for the year	—	—	—	—	12,219	—	12,219
Other comprehensive income – 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 9)*	—	(3,109)	—	—	—	3,109	—
Balance at 31 December 2009	**28,260**	**17,835***	**4,496***	**69***	**2,136***	**3,109***	**55,905**

* The aggregated amount of the above balances of HK$27,645,000 (2008: HK$17,632,000) represented the reserves in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

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"), the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 19 March 2010.

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various – Annual improvements to HKFRSs 2008	

Other than as noted below, 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.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

HKAS 23 (Revised 2007) Borrowing costs

HKAS 23 (Revised 2007) requires borrowing costs incurred for the acquisition, construction or production of any qualifying asset to be capitalised during the period of time that is required to complete and prepare the asset for its intended use. In prior years, the Group recognised all the borrowing costs in expenses. Under the revised standard, borrowing costs related to acquisition, construction or production of any qualifying assets will be capitalised accordingly.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual Improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

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

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

3. 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.

	2009 *HK$'000*
Revenue	
From external customers	104,963
Reportable segment revenue	104,963
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

	2008
	HK$'000
Revenue	
From external customers	96,094
Reportable segment revenue	96,094
Bad debts written off	(53)
Bank interest expenses	117
Bank interest income	(188)
Depreciation and amortisation of non-financial assets	3,741
Impairment losses on trade receivables	(49)
Loss on disposals of plant and equipment	(56)
Research and development expenses	10,419
Write-back of provision for inventories	83

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:

	2009	2008
	HK$'000	*HK$'000*
Reportable segment profit	**16,715**	13,934
Finance costs	**(299)**	(387)
Unallocated corporate expenses	**(1,012)**	(1,017)
Profit before income tax	**15,404**	12,530

	2009	2008
	HK$'000	*HK$'000*
Reportable segment assets	**76,556**	57,956
Other corporate assets	**202**	198
Group assets	**76,758**	58,154
Reportable segment liabilities	**19,205**	10,687
Deferred tax liabilities	**564**	258
Other corporate liabilities	**1,084**	1,397
Group liabilities	**20,853**	12,342

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

	Revenue from external customers	
	2009	2008
	HK$'000	*HK$'000*
Middle East and Africa	**7,029**	7,466
The Americas	**13,570**	7,433
Asia Pacific	**33,120**	23,667
Europe	**51,244**	57,528
Total	**104,963**	96,094

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.

During 2009, two (2008: one) customers with whom transactions of each has exceeded 10% of the Group's revenue. Total revenue from these two (2008: one) customers accounted for 27% (2008: 28%) of the Group's revenue for the year. As at the reporting date, total trade receivables due from these two (2008: one) customers accounted for 41% (2008: 21%) of such balance.

4. REVENUE

The Group's principal activities are disclosed in Note 1 to the financial statements. Turnover of the Group is the revenue from these activities.

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

	2009	2008
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	**102,748**	93,998
Smart card related services	**2,215**	2,096
Total	**104,963**	96,094

5. OTHER INCOME

	2009	2008
	HK$'000	*HK$'000*
Forfeiture of deposits	**18**	37
Interest income	**14**	188
Research and development service fee income	**129**	—
Sundry income	**20**	275
	181	500

6. FINANCE COSTS

	2009 *HK$'000*	2008 *HK$'000*
Interest charges on bank loans		
– wholly repayable within five years	**35**	117
Bank charges	**264**	270
	299	387

7. PROFIT BEFORE INCOME TAX

	2009 *HK$'000*	2008 *HK$'000*
Profit before income tax is arrived at after charging/ (crediting):		
Amortisation of development costs	**2,041**	2,272
Auditors' remuneration	**307**	280
Bad debts written off	**4**	53
Cost of inventories recognised as expense, including	**51,204**	50,827
– Write-back of provision for inventories	**(34)**	(83)
Depreciation	**2,062**	1,469
Impairment losses on trade receivables	**—**	49
Loss on disposals of plant and equipment	**25**	56
Net foreign exchange loss	**32**	144
Operating lease charges on land and buildings	**2,306**	1,927
Less : Amount included in research and development costs	**(108)**	(86)
	2,198	1,841
Total research and development expenses	**14,180**	10,442
Add: Amortisation of development costs	**2,041**	2,272
Less: Amount capitalised as development costs	**(2,748)**	(2,295)
Research and development expenses charged to profit or loss	**13,473**	10,419

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 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% (2008: 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 (2008: Nil).

	2009	2008
	HK$'000	*HK$'000*
Current tax		
– Hong Kong		
Current year	**2,796**	1,715
Over provision in previous year	**(22)**	—
	2,774	1,715
– Overseas		
Current year	**102**	73
Under provision in previous year	**3**	—
	105	73
	2,879	1,788
Deferred tax		
Current year	**306**	1,038
Total income tax expense	**3,185**	2,826

9. DIVIDENDS

(a) Dividends attributable to the year:

	2009 *HK$'000*	2008 *HK$'000*
Proposed dividend of HK1.1 cents per share (2008: HK0.8 cents)	**3,109**	2,254

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 (2008: share premium) for the year ended 31 December 2009.

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

	2009 *HK$'000*	2008 *HK$'000*
Dividend in respect of the previous financial year, of HK0.8 cents per share (2008 : HK0.4 cents)	**2,254**	1,127

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$12,219,000 (2008: HK$9,704,000) and the weighted average 281,840,000 (2008: 281,800,000) 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$12,219,000 (2008: HK$9,704,000) and the weighted average 282,964,000 (2008: 282,970,000) 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 281,840,000 (2008: 281,800,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average 1,124,000 (2008: 1,170,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	2009	2008
	HK$'000	*HK$'000*
Trade receivables - net	**17,096**	7,970
Deposits paid	**718**	675
Prepayments	**1,208**	630
Other receivables	**459**	332
	19,481	9,607

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

	2009	2008
	HK$'000	*HK$'000*
0 - 30 days	**8,911**	3,821
31 - 60 days	**3,808**	3,357
61 - 90 days	**3,169**	569
Over 90 days	**1,208**	223
	17,096	7,970

12. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**13,123**	6,429
Deposits received	**2,213**	729
Accruals	**4,126**	3,769
	19,462	10,927

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

	2009	2008
	HK$'000	*HK$'000*
0 - 30 days	**4,957**	3,506
31 - 60 days	**5,717**	2,663
61 - 90 days	**1,533**	—
Over 90 days	**916**	260
	13,123	6,429

SCOPE OF WORK OF GRANT THORNTON

The figures in respect of the Annual Results Announcement ("Announcement") of the Company for the year ended 31 December 2009 have been agreed by the Company's auditors, Grant Thornton, to the amounts set out in the Company's consolidated financial statements for the year. The work performed by Grant Thornton 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 Grant Thornton on the Announcement.

DIVIDEND

The Board has recommended the payment of a dividend of HK1.1 cents (2008: HK0.8 cents) per share, totalling of HK$3.1 million, for the year ended 31 December 2009. Subject to approval by the shareholders at the forthcoming annual general meeting on 7 May 2010, the dividend will be paid on 18 May 2010 to shareholders whose names appear on the register of members of the Company on 7 May 2010.

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 3 May 2010 to Friday, 7 May 2010, both days inclusive. In order to qualify for the proposed dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 30 April 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group increased its sales revenue by 9% to HK$105.0 million in the year ended 31 December 2009 from the corresponding figure of HK$96.1 million in 2008.

The Group's customers are located in over 100 countries on different continents of the world. In 2008, the sales revenue in Europe accounted for almost 60% of the total sales. In fact Europe often leads the other continents in the adoption of smart card technologies. The ratio dropped to around 49% in 2009. Most of the big customers in Europe maintained their purchase volumes with the Group in 2009 as in 2008. A few projects that had been started in 2008 were carried to 2009 and contributed to the sales revenue in 2009. However, newly initiated projects in 2009 were not as many as 2008 and ultimately the sales revenue for Europe dropped by 11% in 2009.

The sales revenue increased in Asia Pacific and was primarily owing to the success in penetrating the Chinese market. It is expected that this region will continue to grow faster than the other regions. The increase in sales revenue in the Americas was the result of higher billing in USA and Brazil. However, the Americas accounted for only 13% of the total sales revenue in 2009. The Group is addressing particularly the USA market by getting its readers certified against the USA standards.

	2009	2008	Change
	HK$'000	*HK$'000*	
Europe	**51,244**	57,528	-11%
Asia Pacific	**33,120**	23,667	+40%
The Americas	**13,570**	7,433	+83%
Middle East and Africa	**7,029**	7,466	-6%
	104,963	96,094	+9%

The gross profit increased by 18%, a rate higher than the sales revenue increase rate, to HK$52.4 million owing to the increase in gross profit margin from 46% in 2008 to 50% in 2009. The operating expenses increased by 15% to HK$37.2 million mainly owing to an increase in headcount to 171 at 31 December 2009 from 127 a year ago. The increase in gross profit was HK$8.0 million which more than off-set the increase in operating expenses of HK$4.8 million. As a result, the net profit before tax increased by 23% to HK$15.4 million. The net profit after tax increased by 26% to HK$12.2 million.

	2009	2008	Change
	HK$'000	*HK$'000*	
Revenue	**104,963**	96,094	+9%
Cost of sales	**(52,521)**	(51,625)	+2%
Gross profit	**52,442**	44,469	+18%
Gross profit margin	**50%**	46%	
Other income	**181**	500	-64%
Administrative expenses	**(15,852)**	(14,435)	+10%
Research and development expenses	**(13,473)**	(10,419)	+29%
Selling and distribution costs	**(7,595)**	(7,198)	+6%
Finance costs	**(299)**	(387)	-23%
Total expenses	**(37,219)**	(32,439)	+15%
Profit before income tax	**15,404**	12,530	+23%
Income tax expense	**(3,185)**	(2,826)	+13%
Profit for the year	**12,219**	9,704	+26%

To meet the needs for the research and development of products which asked for a high degree of sophistication, further investments were made in plant and equipment.

The inventories and trade and other receivables, deposits paid and prepayments increased in greater proportions than the annual sales increase partially owing to the relatively high sales close to the end of Year 2009. Furthermore, the higher growth rate of inventories comparing the growth rate of sales was owing to various products entering into pilot production. Since there are requirements on minimal order quantities for the raw materials, the inventories could not be kept low even before commercial scale has been reached.

The increase in financing by business partners as reflected in the increase by almost HK$9 million in the trade payables, deposits received and accruals and the reserves of some HK$10 million provided funding to the Group and as a result the cash level was maintained at around HK$24 million level.

The Group's banking facilities were arranged for working capital and standby purposes. At the end of Year 2009, the outstanding of these banking facilities were zero.

	2009	2008	Change
	HK$'000	*HK$'000*	
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	**5,620**	3,540	+59%
Development costs	**9,945**	9,238	+8%
	15,565	12,778	+22%
Current assets			
Inventories	**17,882**	12,129	+47%
Trade and other receivables, deposits paid and prepayments	**19,481**	9,607	+103%
Held-to-maturity financial assets	**20**	19	+5%
Cash at banks and on hand	**23,810**	23,621	+1%
	61,193	45,376	+35%
Current liabilities			
Trade payables, deposits received and accruals	**19,462**	10,927	+78%
Provision for taxation	**827**	1,157	-29%
	20,289	12,084	+68%
Net current assets	**40,904**	33,292	+23%
Total assets less current liabilities	**56,469**	46,070	+23%
Non-current liabilities			
Deferred tax liabilities	**564**	258	+119%
Net assets	**55,905**	45,812	+22%
EQUITY			
Share capital	**28,260**	28,180	+0%
Reserves	**27,645**	17,632	+57%
Total equity	**55,905**	45,812	+22%

BUSINESS REVIEW

Business strategies

The Group has the mission to become a leading supplier of smart card and smart card reader technologies in the world market. The key products which the Group is supplying are primarily PC-linked products including contact-based smart card readers, contactless smart card readers, flash drive integrated with smart card readers, etc. The market of these products is primarily for "logical" access control, e.g. access control to the PC or the Internet network. Logical access control using smart cards is gaining popularity in recent years but still not widespread. Thus to grow its business, the Group should sell its products to many countries and has to participate in many projects in the world. The incubation time of such projects, especially national projects, is usually very long. To serve customers all over the world in the sales and marketing and in the technical areas would require a good amount of human resources. Effective deployment of the staff at controlled costs is vital to the success of the business.

In order to achieve effective deployment of the staff members, the Group has continued to pursue the strategy of combining the strengths of the staff members in the offices in Hong Kong, the mainland of China and the Philippines.

Good communication must be achieved for the staff members located in different places in order for them to function efficiently. About three years ago, the Group started to develop a web-based enterprise management solution program for internal use to track and manage customer relationships, product development, technical support, customer services, internal discussions, etc. This program is benefiting the management of the business substantially. The program is designed in a way that it is generic in nature and can be utilized by other companies. It is meant suitable for the commercial market.

Since the establishment of the business in 1995, it has always been the goal of the management to focus on development of hardware, namely, smart cards and smart card readers. The Group has built a base of customers located in over 100 countries in the world. Frequently, the customers are looking for total solutions using smart cards. The Group used to decline their requests as its business was strictly the provision of hardware. A few years ago, the Group decided to develop and offer one type of smart card based solution - the solution for automatic fare collection ("AFC") with the focus on fare collection of public buses. The AFC solution was built based on the Group's in-depth knowledge of smart card operating systems, smart card readers and terminals, encryption and above all management software. This AFC solution showcases our unique combination of skills and expertise and allows us to satisfy the needs and demands of customers located particularly in developing countries, who are sometimes neglected by global AFC providers who are more focused on the developed countries.

Regional focus

Since the establishment of its business in 1995, the Group has considered the world to be its market. Very early in the business, the Group began to get its smart card readers certified against international standards, such as the PCSC (Personal Computer Smart Card) standard established by an industrial body led by Microsoft and the EMV (Europay, Mastercard and Visa) standard by the credit card companies. Many countries require smart card readers to follow such international standards. However, some big countries, such as China, USA, Japan and Germany have their own standards.

In the last two to three years, the Group spent more efforts in addressing the Chinese market. China has its own standards for smart cards and readers. The Group has had some of its products certified against the Chinese standards. Also over the years, it has strengthened the relationships with its customers. The Group had some successes in securing relatively big sales orders in China for products certified against the local standards.

In 2009, the Group had certain of its smart card readers certified against the FIPS (Federal Information Processing Standard) commonly required by the USA government. It has begun to promote these certified products to the USA market.

The Japanese market has its own requirements for smart card readers and the Group will address this market starting in 2010.

Awards

The Group received the 2009 Best Practices Award "Product Quality Leadership Award for Smart Card Readers" from Frost & Sullivan. According to Frost & Sullivan, to select the Award recipient, its analyst team first tracked all products and research and development projects within the industry via interviews with market participants, end-users, distributors, and extensive secondary and technology research. After comparing and ranking different products on the industry's quality standards, ACS (Advanced Card Systems Limited) was ranked as number one ahead of other smart card reader providers and hence was awarded. The award represents customers' recognition of the Group's product quality.

Main products introduced to the market in 2009

eH880 multi-functional smart card terminal

The Group launched it multi-functional smart card terminal, Model eH880, in May 2009. The terminal has multiple slots to accept contact smart cards and contactless smart cards. It can be connected to the PC or to the Internet line directly through a LAN (Local Area Network) line.

It can be used as a health terminal to read the "health card" for patients. Access is granted to the data in the health card when both the patient's card and the professional's card are inserted. The professional's card can be one for, say, a medical doctor or for a pharmacist. Also access can be granted to the medical web-site too if needed, through the appropriate authorization.

The eH880 device can also be used as a terminal for time and attendance control where time-in and time-out are recorded by swiping a contactless card and uploaded to the Internet in real-time.

ACR122T contactless smart card reader token

The Group launched in September 2009 its ACR122T NFC (Near Field Communication) Contactless Smart Card Reader Token. The device is specially designed for mobile applications. Its compact and extractable USB plug design is highly portable and easy to use, making the device suitable for integration into fast-paced environments. The product suits a wide range of NFC applications, such as secure computer log-on with corresponding contactless cards or NFC tags in public places like a coffee shop or public library, balance-checking and reloading of an e-Purse, and online payment.

ACOS7 dual-interface smart card

The Group launched its new ACOS7 dual-interface smart card for the world transportation market. A "dual-interface" card has both a contact card and a contactless card function (with a radio-frequency antenna embedded) and can be used as an "All-in-One Card". "All-in-One Card" is a very popular concept in some cities where AFC for public transportation is implemented. It is a single smart card being used within a city both for transit and for non-transit payment. ACOS7 can be used for transportation, retail, property management, car parking, utility supply, etc.

Additionally, certified to be compliant with the Ministry of Construction (MoC) standard, a national "All-in-One Card" standard defined by the China Government, ACOS7 is catered for the AFC market in China. China is the country in the world with the largest number of smart cards in use for AFC. This Chinese standard was set based on the vast experience of MoC in involving in many "All-in-One Card" projects in China. Getting its products compliant to the Chinese standards is a business strategy of the Group.

Main products being developed in 2009

ACR880 portable terminal

At the end of 2009, the device ACR880 which can be considered as the portable version of eH880 both using a 32-bit embedded micro-processor, was about to be launched. The Group 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 electronic magnetic interface standards, EMV standards, low power consumption and faultless GPRS support. In the long process to develop the product, the engineering team acquired new know-how and built a knowledge base which can be applied in the future development of sophisticated smart card terminals.

The product can be used in various occasions where external power supply is not readily available. Examples of uses are inspection of tickets using contactless cards, paying taxi fare, reading health cards by medical practitioners outside their clinics, etc.

Contactless reader with a display

The Group is developing a contactless reader with a liquid crystal display, named ACR122L. The device is to be connected to a point of sales terminal to accept contactless cards.

It is catered for retail merchants to accept transit cards for non-transit uses. Contactless cards are getting popular to be used in the world to pay fare for public transportation such as for buses and mass transit by trains. Such transit-cards are used in some cities in the world to make micro-payments in retail outlets. The ACR122L is highly suitable for such applications.

One time password generator

The Group is developing an OTP (one time password) generator, APG8201, compliant to Mastercard standard. 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 bank applications.

To operate the device, the cardholder inserts the EMV payment card (e.g. a smart card based credit card) 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 then use this password to perform secure online transactions, e.g. placing an order on the telephone, performing e-banking, making payment on the Internet, etc.

AET65 and AET62 finger print scanner integrated with a smart card reader

The Group is also developing two new versions of semiconductor finger print readers integrated with a smart card reader. AET65 and AET62 have both a swiped finger print sensor and respectively support a contact and a contactless smart card. There are two basic types of finger print sensors. The "touch" sensor captures the finger print by the touch of a finger. The "swipe" sensor captures the finger print by the swiping of a finger. The "swipe" finger print sensor is in the form of a stripe while the "touch" senor needs a bigger area to "touch" the full finger print. Because of the smaller area of the semiconductor, the swipe sensor is cheaper. The finger print devices are for use in higher security applications. The aim to come up with the lower cost finger print devices is to address to the mass market. One possible use is for the access control to the web-based software offered as a service, or in the more modern term, as a form of "Cloud Computing" (where the users will reach the software in the cloud (Internet)).

Attending trade shows and giving speeches

In 2009, the Group participated in 8 trade shows in Europe and Asia and by setting up a booth there.

The Group delegates gave speeches and presented at various trade shows, including the <Directions for NFC and Mobile Contactless Business in 2009> in Tokyo, Japan, <Future Trends and Applications for Transport Cards> in Nanjing, China and <The 6th Railway Automatic Fare Collection Conference and Exhibition> in Chengdu, China. Furthermore, the Group also provided trainings to the lecturers and professors of University of the Philippines at Los Baños so as to help them prepare courses on smart card technologies for the students.

PROSPECTS

When the business was established in 1995, ACS set the mission to be a leading provider of smart cards and smart card readers in the world market. It took the PC-linked smart card readers to be its flagship products. The Group has now become a leading provider of PC-linked smart card readers, both contact and contactless in the world market. The PC-linked reader market has been growing but its total world market size is still limited. Thus the Group just reached the sales revenue of nine digit in HK dollar as late as in 2009. In order to keep its growth, the Group extended its geographical coverage. It has now a substantial base of customers located in over 100 countries in the world. Also in the 15 years of doing business, the Group has emphasized much on customer satisfaction by providing good quality products at competitive prices and by providing good services. The annual customer satisfaction surveys, and the quality award by Frost & Sullivan, indicated that the Group has good image in product quality and services.

In the last several years, the Group extended its product portfolio and developed much more sophisticated products. It also entered into the business of providing solutions particularly automatic fare collection solutions for public transportation. The solution was made possible by a big amount of know-how acquired since the establishment of the business. Additionally, the base of satisfied customers located widely in the world is being turned into a base of business partners in the solution business.

During the past 2 years of global financial crisis, the Group seized the opportunity by attracting and enrolling a good number of talented people and has hence achieved a better economy of scale, an important element for any viable technology business.

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

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains an adequate liquidity position. As at 31 December 2009, the Group's cash at banks and on hand amounted to HK$23.8 million (2008: HK$23.6 million including pledged time deposits of HK$0.9 million which were pledged to a bank as security for bank lines). At 31 December 2009, the previous pledges on bank deposits were all released, and the credit lines offered by the bank were not utilized (2008: Nil).

The current ratio, being the ratio of current assets to current liabilities, was 3.0 (2008: 3.8). Net asset value as at the year end date was HK$55.9 million (2008: HK$45.8 million).

CAPITAL STRUCTURE

The Group's equity capital, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. Usage of bank lines has been minimal. As at 31 December 2009, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (2008: zero). The Group keeps most of its cash in Hong Kong dollars ("HK$"), Euro, United States dollars ("US$") and Renminbi ("RMB") in bank accounts.

INVESTMENTS

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

ACQUSITIONS 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 2009.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, Euro, US$ and RMB. As HK$ is pegged to US$, accordingly the Group does not have significant exposure to risk resulting from changes in the foreign currency exchange rates of US$. In relation to the fluctuation on RMB against HK$, the Group considers that exchange risk arising from those currencies does not have significant financial impact to the Group. No hedging or other alternatives have been implemented during the year. The Group will consider hedging significant foreign currency exposure should the need arise.

PLEDGE OF ASSETS

As at 31 December 2009, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2009, the Company had outstanding corporate guarantee of HK$6 million (plus accrued interest thereon) to a bank 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 2009, the Group had 171 full time employees. Staff costs amounted to HK$23.5 million (2008: HK$18.9 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 2009.

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

Hong Kong, 19 March 2010

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.