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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2011

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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 three months ended 31 March 2011 decreased by 11% to HK$20.8 million from the first quarter of 2010.
- Gross profit of the Group for the three months ended 31 March 2011 decreased by 12% to HK$10.9 million from the first quarter of 2010.
- Net loss after income tax of the Group for the three months ended 31 March 2011 amounted to HK$0.9 million while net profit after income tax for the first quarter of 2010 amounted to HK$1.2 million.
- As at 31 March 2011, the current ratio was 2.3 while the gearing ratio was 0.19.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively, "ACS" or the "Group") for the three months ended 31 March 2011 together with the comparative unaudited figures for the corresponding period in 2010.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2011

		Three months ended 31 March	
	Notes	**2011**	2010
		HK$'000	*HK$'000*
Revenue	2	**20,751**	23,234
Cost of sales		**(9,830)**	(10,822)
Gross profit		**10,921**	12,412
Other income		**9**	88
Administrative expenses		**(5,088)**	(4,905)
Research and development expenses		**(4,098)**	(3,291)
Selling and distribution costs		**(2,452)**	(2,585)
Finance costs	3	**(164)**	(82)
(Loss)/Profit before income tax	4	**(872)**	1,637
Income tax expense	5	**(36)**	(402)
(Loss)/Profit for the period		**(908)**	1,235
Other comprehensive income			
Exchange gain/(loss) on translation of financial statements of foreign operations		**50**	(6)
Other comprehensive income		**50**	(6)
Total comprehensive income for the period		**(858)**	1,229
(Loss)/Earnings per share for (loss)/profit attributable to the owners of the Company during the period	7		
Basic		**HK(0.321) cents**	HK0.437 cents
Diluted		**N/A**	HK0.436 cents

Notes:

1 BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("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 "GEM Listing Rules").

The accounting policies adopted in the 2010 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2011. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the three months ended 31 March 2011 were approved for issue by the board of directors on 6 May 2011.

2 REVENUE

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

	Three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	**20,324**	23,197
Smart card related services	**427**	37
	20,751	23,234

3 FINANCE COSTS

	Three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Interest charges on bank borrowings		
– wholly repayable within five years	**63**	14
Bank charges	**101**	68
	164	82

4 (LOSS)/PROFIT BEFORE INCOME TAX

	Three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
(Loss)/Profit before income tax is arrived at after charging:		
Amortisation of development costs	**565**	552
Depreciation	**740**	626

5 INCOME TAX EXPENSE

No Hong Kong profits tax was provided in the financial statements for the three months ended 31 March 2011 as the companies within the Group did not derive any assessable profit in Hong Kong. Hong Kong profits tax for the three months ended 31 March 2010 has been provided at the rate of 16.5% on the estimated assessable profit for the period.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% (2010: 2%) on gross income incurred in the Philippines during the period. No provision for overseas tax in other locations including the Peoples' Republic of China, Canada and Germany has been made as no assessable profits arose from the operations in these locations or had unused tax losses brought forward to offset against the current period's assessable profit (2010: Nil).

	Three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Current tax		
– Hong Kong	**—**	368
– Overseas	**36**	34
	36	402

6 DIVIDENDS

The Company had not declared or paid any dividends for the three months ended 31 March 2011 (2010: Nil).

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share (2010: basic earnings per share) is based on the loss attributable to owners of the Company of HK$908,000 (2010: profit attributable to owners of the Company of HK$1,235,000) and the weighted average 283,161,000 (2010: 282,600,000) ordinary shares in issue during the period.

Diluted loss per share for the three months ended 31 March 2011 was not presented because the impact of the exercise of the share options were anti-dilutive. The calculation of diluted earnings per share for the three months ended 31 March 2010 is based on the profit attributable to owners of the Company of HK$1,235,000 and the weighted average 283,398,000 ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months ended 31 March 2010 is calculated based on the weighted average 282,600,000 ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average 798,000 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

8 RESERVES

	Share premium *HK$'000*	Merger reserve *HK$'000*	Translation reserve *HK$'000*	(Accumulated losses)/ Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance at 1 January 2010	17,835	4,496	69	2,136	3,109	27,645
Profit for the period	—	—	—	1,235	—	1,235
Other comprehensive income - Exchange loss on translation of financial statements of foreign operations	—	—	(6)	—	—	(6)
Total comprehensive income for the period	—	—	(6)	1,235	—	1,229
Balance at 31 March 2010	17,835	4,496	63	3,371	3,109	28,874
Balance at 1 January 2011	17,829	4,496	229	6,570	—	29,124
Loss for the period	—	—	—	(908)	—	(908)
Other comprehensive income - Exchange gain on translation of financial statements of foreign operations	—	—	50	—	—	50
Total comprehensive income for the period	—	—	50	(908)	—	(858)
Balance at 31 March 2011	**17,829**	**4,496**	**279**	**5,662**	**—**	**28,266**

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the Group's unaudited consolidated financial results for the quarter ended 31 March 2011.

FINANCIAL REVIEW

The sales decreased by 11% to HK$20.8 million in the first quarter of 2011 compared with the corresponding figure in the first quarter a year ago.

The sales in Europe amounted to HK$11.3 million in the first quarter, at the same level as the corresponding figure last year. Sales increased by 11% in Asia Pacific. The sales in the Americas decreased by 72%. The percentage of sales in the Americas to the total sales continued to remain small historically. In the first quarter of 2010, there was a big order of PC-linked smart card readers from a customer in Brazil for use in big government projects. In these projects, the readers with the smart cards were used by the commercial firms in the country to report tax return online. These orders were fulfilled in 2010 and in the first quarter of 2011, there was no delivery. Hence the big drop in the first quarter resulted.

	Three months ended 31 March		
	2011	2010	Change
	HK$'000	*HK$'000*	
Europe	**11,337**	11,343	-0%
Asia Pacific	**6,565**	5,921	+11%
Middle East and Africa	**1,483**	1,103	+34%
The Americas	**1,366**	4,867	-72%
	20,751	23,234	-11%

The gross profit dropped by HK$1.5 million primarily owing to the decrease in sales. The total operating expenses increased by HK$0.9 million to HK$11.8 million in the first quarter from HK$10.9 million in the same quarter last year. The increase resulted mainly from the increase in headcount with the headcount at 243 at 31 March 2011 versus 188 at 31 March 2010. Increased headcount resulted in higher staff costs plus the associated costs such as office space, travelling, depreciation from equipment deployed, etc. The net loss for the period amounted to HK$0.9 million compared with net profit of HK$1.2 million in the same period last year.

DIVIDEND

The Board does not declare an interim dividend in respect of the three months ended 31 March 2011. The declaration, payment, and amount of future dividends will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial conditions, and such other factors as the Board may consider important.

BUSINESS REVIEW

In the first quarter ended 31 March 2011, ACS faced new challenges owing to its wide range of products and the complexity of some products being developed and put into pilot production. Thus the fulfillment of orders were delayed considerably. The Group has been gradually solving such problems. Improvements have been made as of the date of this report. It is expected that by the end of the second quarter of 2011, the situation will be in better control and the business will not be as affected as in the first quarter of 2011.

ACS continued to increase its work force in order to cope with the increased complexity of the products and the challenges in production, subcontracting and logistics. At 31 March 2011, the total headcount was 243 versus the figure of 216 at 31 December 2010. The Group organized more formal training for its staff, especially for newly enrolled personnel. With the expanded staff, the Group began to experience the benefit of economies of scale. Over fifty training sessions were held in the first quarter with trainers mostly internal ACS staff members but also externally invited speakers.

In the first quarter of 2011, ACS launched ACR101 SIMicro which accepts contact smart card, contactless smart card and micro-SD card to enrich its product portfolio in the ACR100 series of flash drive integrated with smart card reader. The device is a USB token that combines a smart card reader and a MicroSD memory card slot. The ACR101 SIMicro is designed to access SIM-sized smart cards and provide secure data and application storage for various smart card applications.

In recent years, flash memory has been replacing CDs and floppy disks as data storage medium. With their compact sizes and larger memory capacities, flash memory devices like USB sticks and memory cards provide users with convenience and expandability in data storage. One drawback in using this medium for storing important files is its vulnerability to security threats when the device is connected to a computer. However, combining smart card technology and flash memory into a single device can provide the latter with its needed protection from security breaches.

Another product which ACS launched in the first quarter is the new AET65 smart card reader with fingerprint sensor. The device is used to enhance the security in accessing the PC and the network. The use of biometrics to identify a person is considered one of the methods to achieve the highest security. The finger print template of the authentic user is stored in the smart card. To access the PC or 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.

In the first quarter, the Group witnessed more opportunities in selling its smart card readers and terminals for use in automatic fare collection systems. Some big providers of total automatic fare collection systems decided to adopt ACS products into their solutions. These products included in-bus terminals ("bus validators"), portable as well as desk-top terminals for loading money into contactless smart cards used for paying fare, and PC-linked readers for micro-payment made at home using the same fare card. Also our contactless readers are being used in automatic teller machines and transit gates used in automatic fare collection systems for mass transit.

In the first quarter, the Group participated in two trade shows in Japan and Hong Kong respectively with a booth set up there and with speeches given by its delegates in one of the shows.

PROSPECTS

The challenges in raw material acquisition, manufacturing subcontracting and logistics affected our business in the first quarter of 2011. The allocation of the work force heavily on emerging and more sophisticated products and services diluted our resources in the existing products. Thus the Group business was affected in the first quarter. The Group expects that such problems could be gradually resolved and the situation will be better in the second quarter of 2011. The target of the Group is to reach substantial upgraded operations system and improved support from contract manufacturers by the end of the year 2011.

At the same time, the Group is witnessing new opportunities as the emerging products and services aroused great interest in the market in the first quarter of 2011 and the opportunities are expected to turn into good sales orders in the second half of 2011. Management remains optimistic on the performance of the Group in the rest of 2011 and in the subsequent years.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains a healthy liquidity position. As at 31 March 2011, the Group's cash and cash equivalents amounted to HK$10.5 million (31 March 2010: HK$18.0 million). The bank borrowings of the Group amounted to HK$11.0 million (31 March 2010: Nil). The gearing ratio, being the total interest bearing debts over the total equity, at 31 March 2011 was 0.19 (31 March 2010: zero).

The current ratio, being the ratio of current assets to current liabilities, was 2.3 (31 March 2010: 3.9). Net asset value as at 31 March 2011 was HK$56.6 million (31 March 2010: HK$57.1 million).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group during the period.

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the three months ended 31 March 2011.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the three months ended 31 March 2011.

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

Hong Kong, 6 May 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.

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