



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8210



INTERIM REPORT 2009

**For identification only*

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This document, for which the directors of Advanced Card Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date of this document, the Board comprises 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon and Mr. Wong Yick Man, Francis.

HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2009 decreased by 5% to HK\$38.3 million from the first half year of 2008.
- Gross profit of the Group for the six months ended 30 June 2009 increased by 7% to HK\$21.3 million from the first half year of 2008.
- Profit before income tax decreased by 12% to HK\$4.4 million for the six months ended 30 June 2009 from HK\$5.0 million in the first half year of 2008.
- Net profit after income tax decreased by 30% to HK\$3.5 million for the six months ended 30 June 2009 from HK\$5.0 million in the first half year of 2008.
- As at 30 June 2009, the cash at banks and on hand of the Group amounted to HK\$15.6 million and there were no borrowings from banks.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, “ACS” or the “Group”) for the six months ended 30 June 2009.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2009

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2009	2008	2009	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	22,834	25,820	38,256	40,451
Cost of sales		(10,761)	(13,816)	(16,962)	(20,578)
Gross profit		12,073	12,004	21,294	19,873
Other income		23	36	30	94
Other net income		—	18	—	24
Administrative expenses		(3,731)	(3,595)	(7,645)	(6,598)
Research and development expenses		(2,962)	(2,650)	(5,765)	(4,936)
Selling and distribution costs		(1,556)	(1,789)	(3,352)	(3,289)
Operating profit		3,847	4,024	4,562	5,168
Finance costs		(66)	(88)	(144)	(153)
Profit before income tax	5	3,781	3,936	4,418	5,015
Income tax expense	6	(699)	—	(929)	—
Profit for the period		3,082	3,936	3,489	5,015
Profit attributable to the owners of the Company		3,082	3,936	3,489	5,015
Earnings per share for profit attributable to the owners of the Company during the period	8				
Basic		HK1.094 cents	HK1.397 cents	HK1.238 cents	HK1.780 cents
Diluted		HK1.090 cents	HK1.390 cents	HK1.234 cents	HK1.772 cents

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2009

	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	3,082	3,936	3,489	5,015
Other comprehensive income:				
Exchange differences on translating foreign operations	41	8	42	36
Total comprehensive income for the period	3,123	3,944	3,531	5,051
Total comprehensive income for the period attributable to the owners of the Company	3,123	3,944	3,531	5,051

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	<i>Notes</i>	Unaudited 30 June 2009 HK\$'000	Audited 31 December 2008 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9	4,609	3,540
Development costs		9,311	9,238
		13,920	12,778
Current assets			
Inventories		14,189	12,129
Trade and other receivables, deposits paid and prepayments	10	14,279	9,607
Held-to-maturity financial assets		21	19
Pledged bank deposits		—	897
Cash and cash equivalents		15,588	22,724
		44,077	45,376
Current liabilities			
Trade payables, deposits received and accruals	11	8,875	10,927
Provision for taxation		1,775	1,157
		10,650	12,084
Net current assets		33,427	33,292
Total assets less current liabilities		47,347	46,070
Non-current liabilities			
Deferred tax liabilities		258	258
Net assets		47,089	45,812
EQUITY ATTRIBUTABLE TO THE COMPANY'S OWNERS			
Share capital	12	28,180	28,180
Reserves	13	18,909	17,632
Total equity		47,089	45,812

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in) / generated from operating activities	(2,618)	4,392
Net cash used in investing activities	(2,161)	(2,623)
Net cash used in financing activities	(2,399)	(1,280)
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Net (decrease) / increase in cash and cash equivalents	(7,178)	489
Cash and cash equivalents at 1 January	22,724	11,771
Effect of foreign exchange rates, net	42	36
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Cash and cash equivalents at 30 June	15,588	12,296
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UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	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 losses <i>HK\$'000</i>	Proposed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008	28,180	23,206	4,496	50	(19,787)	1,127	37,272
Total comprehensive income for the period	—	—	—	36	5,015	—	5,051
2007 Dividend paid	—	—	—	—	—	(1,127)	(1,127)
At 30 June 2008	28,180	23,206	4,496	86	(14,772)	—	41,196
At 1 January 2009	28,180	20,952	4,496	13	(10,083)	2,254	45,812
Total comprehensive income for the period	—	—	—	42	3,489	—	3,531
2008 Dividend paid	—	—	—	—	—	(2,254)	(2,254)
At 30 June 2009	28,180	20,952*	4,496*	55*	(6,594)*	—*	47,089

* The aggregate amount of the above balances of HK\$18,909,000 represented the reserves in the consolidated statement of financial position.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

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

The interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies adopted in the 2008 annual financial statements have been consistently applied to these financial statements except for the adoption of certain new and amended Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (“Ints”) issued by the HKICPA as disclosed in note 2 to these interim financial statements.

The interim financial statements are unaudited but have been reviewed by the audit committee of the Company. The interim financial statements for the six months ended 30 June 2009 were approved for issue by the board of directors on 14 August 2009.

2 ADOPTION OF NEW OR AMENDED HKFRSs

In the current period, the Group has applied, for the first time, the following new and amended HKFRSs (the “new HKFRSs”) issued by the HKICPA, which are relevant and effective for the Group’s financial statements for the annual period beginning on 1 January 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation
Various - Annual Improvements to HKFRSs 2008	

Other than as noted below, 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) Presentation of Financial Statements

The adoption of HKAS 1 (Revised) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these 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, for example exchange differences on translating foreign operations. HKAS 1 (Revised) 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.

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 are 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.

3 REVENUE

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and income from provision of services rendered. Revenue recognised during the period is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	22,546	25,693	36,479	39,947
Smart card related services	288	127	1,777	504
	22,834	25,820	38,256	40,451

4 SEGMENT INFORMATION

During the period, the Group was principally engaged into two main operating segments:

- development, sale and distribution of smart card products, software and hardware;
- provision of smart card related services.

Six months ended 30 June 2009

	Development, sale and distribution of smart card products, software and hardware <i>HK\$'000</i>	Provision of smart card related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	36,479	1,777	38,256
Segment results and operating profit	3,386	1,176	4,562
Finance costs			(144)
Profit before income tax			4,418
Income tax expense			(929)
Profit for the period			3,489
Capital expenditure	3,065	—	3,065
Depreciation and amortisation	1,917	—	1,917
Non-cash expenses other than depreciation and amortisation	285	—	285

Six months ended 30 June 2008

	Development, sale and distribution of smart card products, software and hardware <i>HK\$'000</i>	Provision of smart card related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	39,947	504	40,451
Segment results and operating profit	4,777	391	5,168
Finance costs			(153)
Profit before income tax			5,015
Income tax expense			—
Profit for the period			5,015
Capital expenditure	2,720	—	2,720
Depreciation and amortisation	1,897	—	1,897
Non-cash expenses other than depreciation and amortisation	222	—	222

Over 90% of the segment assets and liabilities are attributable to the segment of “Development, sale and distribution of smart card products, software and hardware” and, accordingly, no segmental analysis of the Group’s assets and liabilities is presented.

5 **PROFIT BEFORE INCOME TAX**

	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before income tax is arrived at after charging:				
5.1 Finance costs:				
Interest on bank borrowings wholly repayable within five years	6	27	19	41
Bank charges	60	61	125	112
	66	88	144	153
5.2 Other items:				
Amortisation of development costs	497	607	979	1,221
Depreciation	501	358	938	676

6 **INCOME TAX EXPENSE**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2009. No provision for Hong Kong profits tax was made during the six months ended 30 June 2008 as a subsidiary of the Group had losses brought forward from previous years to offset against its assessable profits for the six months ended 30 June 2008 and the Company and other subsidiaries had sustained losses for taxation purposes.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% on gross income incurred in the Philippines during the period (2008: Nil). 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 (2008: Nil).

	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax – tax for the period				
- Hong Kong	675	—	877	—
- Overseas	24	—	52	—
	699	—	929	—

7 DIVIDENDS

A dividend of HK0.8 cents per share amounting to approximately HK\$2,254,000 for the year ended 31 December 2008 had been approved by the shareholders at the annual general meeting and was subsequently paid on 18 May 2009.

The Company had not declared any dividends for the three months and six months ended 30 June 2009 (2008: Nil).

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

The calculations of the basic and diluted earnings per share are based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Profit for the period for the purposes of calculating basic and diluted earnings per share	3,082	3,936	3,489	5,015
	Three months ended 30 June		Six months ended 30 June	
	2009 '000	2008 '000	2009 '000	2008 '000
Number of shares				
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	281,800	281,800	281,800	281,800
Effect of dilutive potential ordinary shares relating to outstanding share options	1,082	1,293	1,050	1,210
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	282,882	283,093	282,850	283,010

9 PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer and office equipment HK\$'000	Moulds HK\$'000	Total HK\$'000
At 1 January 2008					
Cost	831	565	3,798	1,774	6,968
Accumulated depreciation	(195)	(292)	(2,643)	(1,258)	(4,388)
Net book amount	636	273	1,155	516	2,580
Six months ended 30 June 2008					
Opening net book amount	636	273	1,155	516	2,580
Additions	289	120	693	230	1,332
Disposal	—	(2)	(1)	—	(3)
Depreciation	(161)	(57)	(319)	(139)	(676)
Closing net book amount	764	334	1,528	607	3,233
At 30 June 2008					
Cost	1,099	670	4,469	2,004	8,242
Accumulated depreciation	(335)	(336)	(2,941)	(1,397)	(5,009)
Net book amount	764	334	1,528	607	3,233
At 1 January 2009					
Cost	1,214	756	5,096	2,150	9,216
Accumulated depreciation	(545)	(397)	(3,199)	(1,535)	(5,676)
Net book amount	669	359	1,897	615	3,540
Six months ended					
30 June 2009					
Opening net book amount	669	359	1,897	615	3,540
Additions	38	40	607	1,328	2,013
Disposal	—	—	(6)	—	(6)
Depreciation	(238)	(73)	(396)	(231)	(938)
Closing net book amount	469	326	2,102	1,712	4,609
At 30 June 2009					
Cost	1,252	790	5,655	3,478	11,175
Accumulated depreciation	(783)	(464)	(3,553)	(1,766)	(6,566)
Net book amount	469	326	2,102	1,712	4,609

10 TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Trade receivables - net	12,293	7,970
Other receivables, deposits paid and prepayments	1,986	1,637
	14,279	9,607

Customers are generally granted credit terms of 30 to 60 days. The ageing analysis of net trade receivables, based on invoice dates, was as follows:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
0 - 30 days	7,325	3,821
31 - 60 days	3,237	3,357
61 - 90 days	722	569
Over 90 days	1,009	223
	12,293	7,970

11 TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Trade payables	5,684	6,429
Deposits received and accruals	3,191	4,498
	8,875	10,927

The ageing analysis of trade payables, based on invoice dates, was as follows:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
0 - 30 days	3,708	3,506
31 - 60 days	1,751	2,663
61 - 90 days	40	—
Over 90 days	185	260
	5,684	6,429

12 SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 31 December 2008 and 30 June 2009	1,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 31 December 2008 and 30 June 2009	281,800	28,180

13 RESERVES

The amount of the Group's reserves and the movements therein for the current and prior periods are presented in the unaudited consolidated statement of changes in equity on page 6 of the financial statements.

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

14 OPERATING LEASE COMMITMENTS

At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Within one year	1,803	2,002
In the second to fifth years, inclusive	317	1,046
	<hr/> 2,120 <hr/>	<hr/> 3,048 <hr/>

The Group leases a number of land and buildings under operating leases. These leases typically run for an initial period of one to three years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

15 MATERIAL RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Key management personnel remuneration		
- Salaries and other short-term employee benefits	2,895	1,688
- Retirement benefits costs	48	24
	<hr/> 2,943 <hr/>	<hr/> 1,712 <hr/>

At 30 June 2009, the Company has given corporate guarantees in respect of one of its wholly owned subsidiary to the extent of HK\$3,000,000 (30 June 2008: HK\$6,000,000) for certain banking facilities granted, which remained unused as at 30 June 2008 and 2009.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in accordance with the terms mutually agreed between the Group and the related parties.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the unaudited consolidated financial results of the Group (hereafter referred to as “ACS” or the “Group”) for the period ended 30 June 2009.

FINANCIAL REVIEW

The sales revenue decreased by 5% in the first half of 2009 to HK\$38.3 million from the corresponding figure last year of HK\$40.5 million. The gross profit increased by 7% owing to higher gross profit margin at 56% in the current period as compared with 49% in the corresponding period last year.

The total expenses increased by 13% to HK\$16.9 million primarily owing to the increase in headcount (from 101 at 30 June 2008 to 148 at 30 June 2009). The expansion was across three main operating regions, including Hong Kong, Mainland China and the Philippines with more rapid expansion in the latter two regions. During the general economic downturn in the world, and likewise in Asia, ACS took the opportunities to enroll talents as there was a greater pool of quality applicants. Furthermore the management of ACS believes that an expanded workforce is required to help ACS speed up its product development and secure business opportunities.

As the increase in expenses in absolute amount was higher than that in gross profit, the net profit before tax decreased by 12% to HK\$4.4 million.

	Six months ended		Change
	2009	2008	
	HK\$'000	HK\$'000	
Revenue	38,256	40,451	-5%
Cost of sales	(16,962)	(20,578)	-18%
Gross profit	21,294	19,873	+7%
Other income and net income	30	118	-75%
Expenses	(16,906)	(14,976)	+13%
Profit before income tax	4,418	5,015	-12%
Income tax expense	(929)	—	N/A
Profit for the period	3,489	5,015	-30%

The sales revenue breakdown by product line indicates that the sales revenue of smart cards increased 9% in current period as compared with the corresponding figure last year. The sales revenue of smart card readers decreased by 12%. The increase in sales revenue of smart card related services by 253% was mainly owing to the design fee earned from the services of designing a smart card reader integrated with a finger print scanner for a global company based in USA. As a result of the different rates of changes of sales revenue, smart cards accounted for 20% of the total sales of all products and services in the current period versus 18% in the corresponding period last year.

	Six months ended		
	30 June		
	2009	2008	Change
	HK\$'000	HK\$'000	
Smart cards	7,808	7,192	+9%
Smart card readers	28,671	32,755	-12%
Smart card related services	1,777	504	+253%
	38,256	40,451	-5%

The sales revenue breakdown by region shows that Europe accounted for 46% of the total sales revenue in the six months ended 30 June 2009 while it accounted for 60% in the corresponding period last year. The relatively higher rate of increase for the American market resulted mainly from the design fee earned from a USA global company. Sales contribution by Asia Pacific is expected to rise substantially in the second half of 2009, with anticipated successful sales to the China market.

	Six months ended		
	30 June		
	2009	2008	Change
	HK\$'000	HK\$'000	
Europe	17,656	24,175	-27%
Asia Pacific	10,145	9,417	+8%
The Americas	6,619	3,641	+82%
Middle East and Africa	3,836	3,218	+19%
	38,256	40,451	-5%

DIVIDEND

The Board does not declare an interim dividend in respect of the six months ended 30 June 2009. The declaration, payment, and amount of future dividends will be decided by the Board and will depend upon, among other things, ACS's results of operations, capital requirements, cash flows, general financial condition, and such other factors as the Board may consider important.

BUSINESS REVIEW

In the first half year of 2009, because of the expanded workforce especially the engineering workforce, ACS was pushing forward faster the development of products. ACS launched the following products during the period:

(1) ACR83 – PINeasay Software Development Kit

ACR83 PINeasay Smart Card Reader is a USB reader with a keypad and LC display. Supporting Secure PIN Entry (SPE) - the user entering the PIN on the embedded keypad - ACR83 allows authentication to be carried out securely within the device. It is suitable for applications such as home banking, digital signature & identification as well as computer and network access control. With cards and sample software code available on top of the ACR83 reader itself, the software development kit assists programmers to develop applications using the ACR83 devices.



(2) eH880 – Health card reader

ACS launched its eH880 Secure Smart Card Terminal (eH880) and its Software Development Kit (SDK) for the world e-Health market.

A digitalized system for managing information provides the obvious benefits of reduced storage space, pen and paper costs and margin of human error as well as increased search capabilities and added data security. While most industries have taken advantage of digitization since years ago, the health-care sector is finally welcoming this change. ACS firmly believes that the trend for health data will continue to go digital. It has been investing in the research and development in readers and cards tailored to the use in the e-health card programs for the world, and the eH880 is the fruit of such tremendous efforts.



The eH880 is a feature-rich secure smart card terminal dedicated to the multiscard-based electronic healthcare programs. This innovative device is capable of facilitating secure mutual authentication between two parties, for example, between doctors and patients.

Also ACS was actively developing the following products which are planned to be launched in the third quarter of 2009:

(1) ACR122T – the Token Version of ACR122U

ACR122U is the world's first NFC (Near Field Communication) Card Reader compliant to Microsoft's Integrated Circuit(s) Cards Interface Devices Standard. The ACR122T is specially designed for mobile applications. Its compact and extractable USB plug design is highly portable and easy to use, making it suitable for integration into fast-paced environments. It is ideal for a wide range of NFC applications, such as secure computer log-on with corresponding contactless cards or NFC tags in public places like coffee shops or public libraries, balance-checking and reloading of an e-Purse, and online payment.



(2) ACOS6 – Multi-application and purse card operating system

ACOS6 is specifically designed to address the requirements of multiple applications and multiple e-purses with secure access hierarchy of multiple levels. For example, a smart card system operator can use the same ACOS6 card for e-government services, accessing campus facilities, payment at retail shops and even for loyalty programs. The product was officially launched in July 2009.



While ACS is actively developing its new products, the sales revenue of its existing products is sustaining ACS with its expanded workforce in a profitable state. ACS obtained orders from and made shipments of its flag-ship product, the PC-linked readers model ACR38U, to customers all over the world. Also since China is gradually adopting global standards of such PC-linked readers, ACS is finally getting relatively large orders from China.

Another key product contributing to the sales in the period was ACR100 range of products. ACS100 is a smart card reader in a token form integrated with a flash memory chip. The smart card inserted in the reader secures the data and program stored in the flash.

The third substantial contributor to the business in the first half year of 2009 was by the smart cards with triple-DES encryption. Sizeable volumes of goods were sent to a customer for tax clearance card. The government provides the card to tax payers to track their tax payment records.

During the first half year of 2009, ACS participated in a total of 6 trade shows in Europe and Asia Pacific as part of ACS's continuing efforts in brand name promotion.

PROSPECTS

Even though ACS's sales revenue decreased by 5% in the first half year of 2009 versus the sales revenue in the corresponding period last year, the second quarter sales revenue of HK\$22.8 million represented 48% increase over the first quarter sales of HK\$15.4 million.

Despite the global economic uncertainties, the business of ACS remains steady. With the recruitment of well qualified personnel, ACS is well positioned to take advantage of the market revival. The management is optimistic of the prospect of ACS in the coming years owing to its promising new products, a large base of customers and a stronger workforce.

LIQUIDITY AND FINANCIAL RESOURCES

At all times ACS maintains an adequate liquidity position. As at 30 June 2009, ACS's cash at banks and on hand amounted to HK\$15.6 million (30 June 2008: HK\$14.3 million including pledged bank deposits of HK\$2.0 million). The HK\$2.0 million pledged bank deposits at 30 June 2008 were to secure bank credit lines. At 30 June 2009, the credit lines offered by the banks were not utilised (30 June 2008: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 4.1 (30 June 2008: 2.9). Net asset value as at 30 June 2009 was HK\$47.1 million (30 June 2008: HK\$41.2 million).

CAPITAL STRUCTURE

ACS'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 30 June 2009, ACS did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (30 June 2008: zero). ACS keeps most of its cash in Hong Kong dollars and United States dollars in bank accounts.

INVESTMENTS

During the first six months, ACS did not make any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

ACS did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2009.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of ACS are primarily denominated in Hong Kong dollars or United States dollars and the exchange rates between such currencies have been stable during the review period. There is no significant exposure to foreign exchange rate fluctuations. No hedging or other alternatives have been implemented during the period.

PLEDGE OF ASSETS

As at 30 June 2009, ACS did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2009, the Company had outstanding corporate guarantee of HK\$3 million (plus accrued interest thereon) to a bank in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, ACS did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2009, ACS had 148 full time employees. Staff costs amounted to HK\$10.3 million (corresponding period in 2008: HK\$8.4 million). Remuneration policies and packages for ACS'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.

ACS has also adopted share option schemes under which the employees of ACS may be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to ACS.

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

As at 30 June 2009, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Name of director	Long position in ordinary shares of HK\$0.10 each				Total number of shares held	Percentage of the Company's issued share capital as at 30 June 2009
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests		
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	42,114,522	—	—	122,882,522	43.61%
Ms. Tsui Kam Ling, Alice (Note 3)	42,114,522	80,768,000	—	—	122,882,522	43.61%
Mr. Tan Keng Boon	157,893	—	—	—	157,893	0.06%

Notes:

- The shares are registered under the names of the directors who are the beneficial owners.
- 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 42,114,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.
- 42,114,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 30 June 2009, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(i) Pre-IPO Share Option Plan

As at 30 June 2009, the consultant and employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2009 was HK\$0.31) with an exercise price of HK\$0.09 or HK\$0.24 per share under the Pre-IPO Share Option Plan (the "Plan") of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company.

Grantees	Date granted	Balance as at 1 January 2009	Number of share options			Balance as at 30 June 2009	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 June 2009
			Granted during the period	Exercised during the period	Lapsed during the period				
Consultant & Employee	27 October 2003	1,361,607	-	-	-	1,361,607 (Note 1, 2)	10 May 2004 to 24 July 2010	HK\$0.09	0.48%
Employees	27 October 2003	862	-	-	-	862 (Note 2)	10 May 2004 to 27 December 2010	HK\$0.09	0.01%
	27 October 2003	900,776	-	-	-	900,776 (Note 3)	10 May 2004 to 20 January 2013	HK\$0.24	0.32%
		2,263,245	-	-	-	2,263,245			

Notes:

- 1 1,201,034 share options were granted to a consultant of the Group. All other options were granted to employees of the Group.
- 2 The options vested and were exercisable since 10 May 2004, which was 6 months after the listing date of the Company.
- 3 The options vested and were exercisable in three tranches as follows:
 - (a) one-third of the options vested and were exercisable since 10 May 2004;
 - (b) a further one-third of the options vested and were exercisable since 31 December 2004; and
 - (c) the remaining one-third of the options vested and were exercisable since 31 December 2005.
- 4 No option was granted, exercised, cancelled or lapsed during the period.

(ii) Share Option Scheme

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares at 30 June 2009 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 30 June 2009
Proway Investment Limited (<i>Note 2</i>)	Beneficial owner	31,740,305 shares (L) 11.26%
Morningside CyberVentures Holdings Limited (<i>Note 2</i>)	Other	31,740,305 shares (L) 11.26%
Verrall Enterprises Holdings Limited (<i>Note 2</i>)	Other	31,740,305 shares (L) 11.26%
Madam Chan Tan Ching Fen (<i>Note 2</i>)	Other	31,740,305 shares (L) 11.26%
Mr. Tjio Kay Loen (<i>Note 3</i>)	Beneficial owner and Other	26,200,000 shares (L) 9.30%
Warren Securities Limited	Beneficial owner	14,200,000 shares (L) 5.04%

Notes:

- 1 The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the SFO) in shares.
- 2 Proway Investment Limited is wholly owned by Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly owned by Verrall Enterprises Holdings Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).
- 3 Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,800,000 shares, 1,000,000 shares and 3,000,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen), Raffles Capital Pte Limited (a company which is owned as to 56% by Mr. Tjio Kay Loen) and Farina Limited (a company which is owned as to 60% by Mr. Tjio Kay Loen) respectively. Mr. Tjio Kay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 30 June 2009 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

A.2 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules 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. Save as disclosed above, the Company has met the code provisions set out in the Code throughout the six months ended 30 June 2009.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the six months ended 30 June 2009.

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 six months ended 30 June 2009.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 14 August 2009