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 2011

* *For identification only*

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.

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 enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

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 2011 increased by 15% to HK$50.1 million from the first half year of 2010.

- Gross profit of the Group for the six months ended 30 June 2011 increased by 4% to HK$24.6 million from the first half year of 2010.

- Net profit after income tax of the Group for the six months ended 30 June 2011 decreased by 83% to HK$0.3 million from the first half year of 2010.

- As at 30 June 2011, the current ratio was 2.0 while the gearing ratio was 0.23.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2011 together with the comparative unaudited figures for the corresponding periods in 2010.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2011

	Notes	Three months ended 30 June		Six months ended 30 June	
		2011	2010	**2011**	2010
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	3	**29,348**	20,189	**50,099**	43,423
Cost of sales		**(15,702)**	(9,007)	**(25,532)**	(19,829)
Gross profit		**13,646**	11,182	**24,567**	23,594
Other income		**57**	68	**66**	156
Administrative expenses		**(5,433)**	(4,664)	**(10,521)**	(9,569)
Research and development expenses		**(4,242)**	(3,244)	**(8,340)**	(6,535)
Selling and distribution costs		**(2,448)**	(2,543)	**(4,900)**	(5,128)
Finance costs	4	**(198)**	(78)	**(362)**	(160)
Profit before income tax	5	**1,382**	721	**510**	2,358
Income tax expense	6	**(151)**	(102)	**(187)**	(504)
Profit for the period		**1,231**	619	**323**	1,854
Other comprehensive income					
Exchange gain/(loss) on translation of financial statements of foreign operations		**78**	(10)	**128**	(16)
Other comprehensive income		**78**	(10)	**128**	(16)
Total comprehensive income for the period		**1,309**	609	**451**	1,838
Earnings per share for profit attributable to the owners of the Company during the period	8				
Basic		**HK0.435 cents**	HK0.219 cents	**HK0.114 cents**	HK0.656 cents
Diluted		**HK0.434 cents**	HK0.218 cents	**HK0.114 cents**	HK0.654 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

	Notes	**Unaudited 30 June 2011 *HK$'000***	Audited 31 December 2010 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9	**7,202**	6,918
Development costs		**18,037**	15,166
		25,239	22,084
Current assets			
Inventories		**35,550**	26,708
Trade and other receivables, deposits paid and prepayments	10	**15,252**	17,197
Held-to-maturity financial assets		**36**	36
Tax recoverable		**1,000**	393
Cash and cash equivalents		**15,466**	15,323
		67,304	59,657
Current liabilities			
Trade payables, deposits received and accruals	11	**20,753**	13,609
Bank borrowings		**13,194**	10,051
Provision for taxation		**64**	—
		34,011	23,660
Net current assets		**33,293**	35,997
Total assets less current liabilities		**58,532**	58,081
Non-current liabilities			
Deferred tax liabilities		**641**	641
Net assets		**57,891**	57,440
EQUITY			
Share capital	12	**28,316**	28,316
Reserves	13	**29,575**	29,124
Total equity		**57,891**	57,440

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Unaudited Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Net cash generated from/(used in) operating activities	**3,011**	(3,676)
Net cash used in investing activities	**(5,777)**	(5,607)
Net cash generated from/(used in) financing activities	**2,781**	(3,269)
Net increase/(decrease) in cash and cash equivalents	**15**	(12,552)
Cash and cash equivalents at 1 January	**15,323**	23,810
Effect of foreign exchange rates changes	**128**	(16)
Cash and cash equivalents at 30 June	**15,466**	11,242

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*
Balance at 1 January 2010	28,260	17,835	4,496	69	2,136	3,109	55,905
2009 dividends approved	—	—	—	—	—	(3,109)	(3,109)
Transactions with owners	—	—	—	—	—	(3,109)	(3,109)
Profit for the period	—	—	—	—	1,854	—	1,854
Other comprehensive income							
- Exchange loss on translation of financial statements of foreign operations	—	—	—	(16)	—	—	(16)
Total comprehensive income for the period	—	—	—	(16)	1,854	—	1,838
Balance at 30 June 2010	28,260	17,835	4,496	53	3,990	—	54,634
Balance at 1 January 2011	28,316	17,829	4,496	229	6,570	—	57,440
Profit for the period	—	—	—	—	323	—	323
Other comprehensive income							
- Exchange gain on translation of financial statements of foreign operations	—	—	—	128	—	—	128
Total comprehensive income for the period	—	—	—	128	323	—	451
Balance at 30 June 2011	**28,316**	**17,829***	**4,496***	**357***	**6,893***	**-***	**57,891**

* The aggregated amount of the above balances of HK$29,575,000 represented the reserves in the consolidated statement of financial position.

NOTES ON 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 disclosure requirements of the Hong Kong Companies Ordinance. The interim financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

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 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.

The interim financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the six months ended 30 June 2011 were approved for issue by the board of directors on 5 August 2011.

2 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.

	Six months ended 30 June 2011 *HK$'000*
Revenue	
From external customers	**50,099**
Reportable segment revenue	**50,099**
Bank interest expenses	**148**
Bank interest income	**(7)**
Depreciation and amortisation of non-financial assets	**2,621**
Loss on disposals of plant and equipment	**8**
Research and development expenses	**8,340**
Reportable segment assets	**91,469**
Additions to non-current segment assets during the period	**5,789**
Reportable segment liabilities	**33,843**

	Six months ended 30 June 2010 HK$'000
Revenue	
From external customers	43,423
Reportable segment revenue	43,423
Bank interest expenses	22
Bank interest income	(8)
Depreciation and amortisation of non-financial assets	2,401
Loss on disposals of plant and equipment	1
Research and development expenses	6,535
Provision for inventories	25
Reportable segment assets	67,621
Additions to non-current segment assets during the period	5,601
Reportable segment liabilities	11,784

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:

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Reportable segment profit	**1,326**	2,974
Finance costs	**(362)**	(160)
Unallocated corporate expenses	**(454)**	(456)
Profit before income tax	**510**	2,358

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
Reportable segment assets	**91,469**	81,183
Tax recoverable	**1,000**	393
Other corporate assets	**74**	165
Group assets	**92,543**	81,741

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
Reportable segment liabilities	**33,843**	23,407
Deferred tax liabilities	**641**	641
Other corporate liabilities	**168**	253
Group liabilities	**34,652**	24,301

The Company is an investment holding company incorporated in Cayman Islands where the Group does not have any activities. The Group has the majority of its operation in Hong Kong, and therefore, Hong Kong is considered as the Group's country of domicile for the purpose of the disclosure as required by HKFRS 8 "Operating Segments".

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

	Revenue from external customers Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
The Americas	**3,160**	7,600
Middle East and Africa	**6,277**	3,387
Asia Pacific	**13,381**	14,248
Europe	**27,281**	18,188
Total	**50,099**	43,423

For the six months ended 30 June 2011, the Group's revenues from external customers attributed to Italy accounted for approximately HK$16,519,000. The Group's revenues from external customers attributed to other countries accounted for less than 10% of the Group's revenue each.

For the six months ended 30 June 2010, the Group's revenues from external customers attributed to Italy, the Peoples' Republic of China ("PRC") and Brazil accounted for approximately HK$8,569,000, HK$5,876,000 and HK$4,747,000 respectively. The Group's revenues from external customers attributed to other countries accounted for less than 10% of the Group's revenue each.

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

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

For the six months ended 30 June 2011, one customer with whom transactions has exceeded 10% of the Group's revenue. Total revenue from this one customer accounted for 33% of the Group's revenue for the period. As at 30 June 2011, total trade receivables due from this one customer accounted for 44% of such balance.

For the six months ended 30 June 2010, two customers with whom transactions of each has exceeded 10% of the Group's revenue. Total revenue from these two customers accounted for 20% and 10% of the Group's revenue for the period respectively. As at 30 June 2010, total trade receivables due from these two customers accounted for 18% and 0% of such balance respectively.

3 REVENUE

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

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sale of smart card products, software and hardware	**29,240**	20,075	**49,564**	43,272
Smart card related services	**108**	114	**535**	151
	29,348	20,189	**50,099**	43,423

4 FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest charges on bank borrowings – wholly repayable within five years	**85**	8	**148**	22
Bank charges	**113**	70	**214**	138
	198	78	**362**	160

5 PROFIT BEFORE INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit before income tax is arrived at after charging:				
Amortisation of development costs	**540**	524	**1,105**	1,076
Depreciation	**776**	699	**1,516**	1,325

6 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the period.

Overseas tax refers to the income tax in the Philippines which has been provided at the rate of 30% on the estimated assessable profit for the six months ended 30 June 2011. Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines for the six months ended 30 June 2010. MCIT has been provided at 2% on gross income incurred in the Philippines during the six months ended 30 June 2010. No provision for overseas tax in other locations including PRC, Canada and Germany has been made as no assessable profits arose from the operations in these locations or had unused tax losses brought forward to offset against the current period's assessable profit (2010: Nil).

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax				
– Hong Kong				
Current period	**226**	71	**226**	439
	226	71	**226**	439
– Overseas				
Current period	**28**	30	**64**	64
(Over)/Under provision in previous year	**(103)**	1	**(103)**	1
	(75)	31	**(39)**	65
	151	102	**187**	504

7 DIVIDENDS

The Company had not declared or paid any dividends for the three months and six months ended 30 June 2011 (2010: Nil).

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2011 respectively is based on the profit attributable to owners of the Company of HK$1,231,000 (2010: HK$619,000) and HK$323,000 (2010: HK$1,854,000) and the weighted average 283,161,000 (2010: 282,600,000) and 283,161,000 (2010: 282,600,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2011 respectively is based on the profit attributable to owners of the Company of HK$1,231,000 (2010: HK$619,000) and HK$323,000 (2010: HK$1,854,000) and the weighted average 283,452,000 (2010: 283,579,000) and 283,479,000 (2010: 283,502,000) 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 and six months ended 30 June 2011 respectively is calculated based on the weighted average 283,161,000 (2010: 282,600,000) and 283,161,000 (2010: 282,600,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average 291,000 (2010: 979,000) and 318,000 (2010: 902,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

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 2010					
Cost	1,272	866	6,348	4,743	13,229
Accumulated depreciation	(1,022)	(526)	(3,961)	(2,100)	(7,609)
Net book amount	250	340	2,387	2,643	5,620
Six months ended 30 June 2010					
Opening net book amount	250	340	2,387	2,643	5,620
Additions	520	184	1,289	250	2,243
Disposals	—	—	(1)	—	(1)
Depreciation	(212)	(81)	(574)	(458)	(1,325)
Closing net book amount	558	443	3,101	2,435	6,537
At 30 June 2010					
Cost	1,735	1,047	7,554	4,990	15,326
Accumulated depreciation	(1,177)	(604)	(4,453)	(2,555)	(8,789)
Net book amount	558	443	3,101	2,435	6,537
At 1 January 2011					
Cost	1,739	1,072	8,828	5,475	17,114
Accumulated depreciation	(1,356)	(698)	(5,103)	(3,039)	(10,196)
Net book amount	383	374	3,725	2,436	6,918
Six months ended 30 June 2011					
Opening net book amount	**383**	**374**	**3,725**	**2,436**	**6,918**
Additions	**90**	**76**	**1,191**	**456**	**1,813**
Disposals	**—**	**—**	**(13)**	**—**	**(13)**
Depreciation	**(85)**	**(96)**	**(810)**	**(525)**	**(1,516)**
Closing net book amount	**388**	**354**	**4,093**	**2,367**	**7,202**
At 30 June 2011					
Cost	**1,829**	**1,146**	**9,958**	**5,931**	**18,864**
Accumulated depreciation	**(1,441)**	**(792)**	**(5,865)**	**(3,564)**	**(11,662)**
Net book amount	**388**	**354**	**4,093**	**2,367**	**7,202**

10 TRADE AND OTHER RECEIVABLES, DEPOSITS PAID AND PREPAYMENTS

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
Trade receivables	**11,656**	14,509
Other receivables, deposits paid and prepayments	**3,596**	2,688
	15,252	17,197

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

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
0 - 30 days	**6,416**	8,370
31 - 60 days	**1,989**	3,327
61 - 90 days	**566**	131
Over 90 days	**2,685**	2,681
	11,656	14,509

11 TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
Trade payables	**12,846**	7,774
Deposits received and accruals	**7,907**	5,835
	20,753	13,609

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

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
0 - 30 days	**7,242**	4,094
31 - 60 days	**3,609**	2,964
61 - 90 days	**1,594**	631
Over 90 days	**401**	85
	12,846	7,774

12 SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 31 December 2010 and 30 June 2011	1,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
At 31 December 2010 and 30 June 2011	283,161	28,316

13 RESERVES

The amount of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on page 5 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

As lessee

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	30 June 2011 ***HK$'000***	31 December 2010 *HK$'000*
Within one year	**2,204**	1,636
In the second to fifth years, inclusive	**864**	1,421
	3,068	3,057

The Group leases a number of properties under operating leases. The leases run for an initial period of six months to five years, with an option to renew the lease and renegotiate 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 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties:

Key management of the Group are members of the board of directors and senior management. Key management personnel remuneration includes the following expenses:

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Key management personnel remuneration		
– Salaries and other short-term employee benefits	**3,172**	2,997
– Retirement benefits costs	**48**	48
	3,220	3,045

At 30 June 2011, the Company has given corporate guarantees to one of its wholly owned subsidiary to the extent of HK$28,000,000 (30 June 2010: HK$18,000,000) for certain banking facilities granted.

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 (thereafter referred to as "ACS" or the "Group") for the six month period ended 30 June 2011.

FINANCIAL REVIEW

The sales revenue increased by 15% in the first half year of 2011 to HK$50.1 million from HK$43.4 million in the first half year of 2010.

The gross profit increased by only 4% to HK$24.6 million owing to reduced gross profit margin in the first half of 2011 at 49% compared with 54% in the first half of last year. The lower gross profit margin was owing to a different product mix in the sales and did not represent a trend in reduction of gross profit margin. Expenses increased by 13% primarily owing to increase in headcount which was 252 at 30 June 2011 compared with 202 at 30 June 2010. The Group's total percentage increase in expenses was less than the percentage increase in headcount primarily owing to the majority of staff being employed in China and Manila rather than in Hong Kong, where average salaries are higher.

The higher total expenses drove the profit before income tax down to HK$510 thousands and the net profit after tax to HK$323 thousands in the first half year of 2011.

	Six months ended 30 June		
	2011	2010	Change
	HK$'000	*HK$'000*	
Revenue	**50,099**	43,423	+15%
Cost of sales	**(25,532)**	(19,829)	+29%
Gross profit	**24,567**	23,594	+4%
Other income	**66**	156	-58%
Expenses	**(24,123)**	(21,392)	+13%
Profit before income tax	**510**	2,358	-78%
Income tax expense	**(187)**	(504)	-63%
Profit for the period	**323**	1,854	-83%

The sales revenue increased by 45% in the second quarter of 2011 to HK$29.3 million from HK$20.2 million in the second quarter of 2010. The increase was 15% to HK$50.1 million in the first half year of 2011 from HK$43.4 million in the same period last year. This shows that the second quarter of 2011 recorded a 41% growth in sales revenue to HK$29.3 million from HK$20.8 million (HK$50.1 million minus HK$29.3 million) in the first quarter of 2011.

There are often fluctuations in sales in the different regions in the world as major projects requiring ACS products may turn into reality in one region rather than another during a certain period of time. Relatively big increases in sales were recorded in Europe and Middle East and Africa but drops were seen in The Americas and Asia Pacific regions as the following chart shows. With 50% growth in sales revenue in Europe in the first half of 2011, this region accounted for 54% of the total sales in this period up from 42% in the first half year of 2010.

	Three months ended 30 June			**Six months ended 30 June**		
	2011	2010	Change	**2011**	2010	Change
	HK$'000	*HK$'000*		***HK$'000***	*HK$'000*	
Europe	**15,944**	6,845	+133%	**27,281**	18,188	+50%
Asia Pacific	**6,816**	8,327	-18%	**13,381**	14,248	-6%
Middle East and Africa	**4,794**	2,284	+110%	**6,277**	3,387	+85%
The Americas	**1,794**	2,733	-34%	**3,160**	7,600	-58%
	29,348	20,189	+45%	**50,099**	43,423	+15%

DIVIDEND

The Board does not declare an interim dividend in respect of the six months ended 30 June 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

ACS faced challenges in the production of more complex smart card products being launched to the market, such as a bus validator, a sophisticated payment terminal mounted on a bus to read and write on the contactless smart card held by a passenger. The challenges peaked in the quarter ended 31 March 2011. Our sales were affected in that quarter.

The production challenges that a complex product like an ACR320 bus validator poses include: (1) purchases of a big variety of components at small quantities during pilot production, (2) more complex printed circuit boards with fully loaded components, and (3) a more sophisticated range of tests needed to be run to ensure quality. ACS is in the process of evaluating contract manufacturers in order to identify new ones capable of and interested in producing such complex products in small quantities to start with, and with a potential to produce in bigger volumes. Progress was made in the second quarter.

In the last years, ACS invested heavily into developing several complex products using 32-bit micro-processors. In particular, ACS engaged strong teams of talented engineers to design and customize a bus validator for a world's leading provider of automatic fare collection solutions. In this second quarter, this global company placed its first commercial order of these customized bus validators at a value over HK$10 million, for delivery in the fourth quarter of this year. Subsequent orders are being expected. ACS is procuring necessary components, gearing for the production, testing tools, and working with a contract manufacturer to do pilot production to prepare for production and delivery on a commercial scale later in the year.

PROSPECTS

The challenges in raw material procurement, manufacturing and logistics owing to more complex products affected ACS's performance in the first half year of 2011, particularly the first quarter. The management believes that such issues can be resolved gradually in the second half year of 2011 by the expanded and strengthened staff in these job duties and by an improved information technology system.

Our complex products are bringing us bigger orders in terms of dollar revenue, as the unit price of such products is many times that of a basic PC-linked smart card reader product, which still accounts for a significant percentage of the business of ACS. The management expects a satisfactory performance in the latter half of 2011 and bigger growths in 2012 and 2013.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2011, the Group's cash and cash equivalents amounted to HK$15.5 million (30 June 2010: HK$11.2 million). The Group keeps most of its cash in Hong Kong dollars ("HK$"), Euro, United States dollars ("US$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK$13.2 million (30 June 2010: Nil). The bank borrowings are denominated in HK$ and US$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 30 June 2011 was 0.23 (30 June 2010: zero).

The Group's equity capital, bank borrowings, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. The current ratio, being the ratio of current assets to current liabilities, was 2.0 (30 June 2010: 3.9). Net asset value as at 30 June 2011 was HK$57.9 million (30 June 2010: HK$54.6 million).

INVESTMENTS

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

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2011.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, Euro, US$ and RMB. As HK$ is pegged to US$, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates of US$ to HK$. In relation to the fluctuation on RMB against HK$, the Group considers that exchange risk arising from RMB does not have significant financial impact to the Group. When appropriate, hedging instruments including forward contracts would be used to manage the foreign exchange exposure on Euro.

PLEDGE OF ASSETS

As at 30 June 2011, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2011, the Company had outstanding corporate guarantee of HK$28 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Group had 252 full time employees. Staff costs amounted to HK$14.8 million (corresponding period in 2010: HK$12.1 million). Remuneration polices 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long position in ordinary shares of HK$0.10 each

Name of director	Personal interests (Note 1)	Family interests	Corporate interests	Other interests	Total number of shares held	Percentage of the Company's issued share capital as at 30 June 2011
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	46,178,522	—	—	126,946,522	44.83%
Ms. Tsui Kam Ling, Alice (Note 3)	46,178,522	80,768,000	—	—	126,946,522	44.83%
Mr. Tan Keng Boon	157,893	—	—	—	157,893	0.06%

Notes:

1 The shares are registered under the names of the directors who are the beneficial owners.

2 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 46,178,522 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.

3 46,178,522 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 2011, 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 2011, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2011 was HK$0.34) with an exercise price of 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	Number of share options: Balance as at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 30 June 2011	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 June 2011
Employees	27 October 2003	900,776	–	–	–	900,776 (Note 1)	10 May 2004 to 20 January 2013	HK$0.24	0.32%
		900,776	–	–	–	900,776			

Notes:

1 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.

2 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 2011 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 2011
Mr. Tjio Kay Loen (Note 2)	Beneficial owner and Other	24,880,000 shares (L)	8.79%
Warren Securities Limited	Beneficial owner	14,200,000 shares (L)	5.01%

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 Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,800,000 shares, 680,000 shares and 2,000,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen), Raffles Capital Pte Limited (a company which is owned as to 56% by Mr. Tjio Kay Loen) and Farina Limited (a company which is owned as to 60% by Mr. Tjio Kay Loen) respectively. Mr. Tjio Kay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 30 June 2011 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

The provision 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 2011.

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 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 six months ended 30 June 2011.

By order of the Board
WONG Yiu Chu, Denny
Chairman

Hong Kong, 5 August 2011