



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
2012

Interim Report

** For identification only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This 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 2012 increased by 45% to HK\$72.8 million from the first half year of 2011.
- Gross profit of the Group for the six months ended 30 June 2012 increased by 64% to HK\$40.2 million from the first half year of 2011.
- Net profit after income tax of the Group for the six months ended 30 June 2012 increased by 2,129% to HK\$7.2 million from the first half year of 2011.
- As at 30 June 2012, the current ratio was 1.89 while the gearing ratio was 0.16.

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 2012 together with the comparative unaudited figures for the corresponding periods in 2011.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2012

	Notes	Three months ended 30 June		Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	3	37,153	29,348	72,780	50,099
Cost of sales and services provided		(17,368)	(15,702)	(32,557)	(25,532)
Gross profit		19,785	13,646	40,223	24,567
Other income and gains		76	57	118	66
Selling and distribution costs		(3,077)	(2,490)	(6,028)	(4,989)
Research and development expenses		(5,051)	(4,244)	(10,942)	(8,344)
Administrative expenses		(7,043)	(5,502)	(14,138)	(10,642)
Finance costs	4	(91)	(85)	(169)	(148)
Profit before income tax	5	4,599	1,382	9,064	510
Income tax expense	6	(945)	(151)	(1,863)	(187)
Profit for the period, attributable to owners of the Company		3,654	1,231	7,201	323
Other comprehensive income					
Exchange (loss)/gain on translation of financial statements of foreign operations		(108)	78	(57)	128
Other comprehensive income for the period		(108)	78	(57)	128
Total comprehensive income for the period, attributable to owners of the Company		3,546	1,309	7,144	451
Earnings per share for profit attributable to owners of the Company during the period	8				
- Basic (HK cents)		1.290	0.435	2.543	0.114
- Diluted (HK cents)		1.289	0.434	2.540	0.114

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	Unaudited 30 June 2012 HK\$'000	Audited 31 December 2011 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9	9,686	9,719
Development costs		25,461	22,141
		35,147	31,860
Current assets			
Inventories		39,714	36,845
Trade and other receivables, prepayments and deposits paid	10	20,603	17,010
Held-to-maturity financial assets		36	36
Cash and cash equivalents		15,697	22,267
		76,050	76,158
Current liabilities			
Trade payables, accruals and deposits received	11	26,792	35,158
Bank borrowings, secured		11,163	8,285
Current tax liabilities		2,233	710
		40,188	44,153
Net current assets		35,862	32,005
Total assets less current liabilities		71,009	63,865
Non-current liabilities			
Deferred tax liabilities		900	900
Net assets		70,109	62,965
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	12	28,316	28,316
Reserves	13	41,793	34,649
Total equity		70,109	62,965

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Unaudited	
	Six months ended	
	30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(1,954)	3,011
Net cash used in investing activities	(7,310)	(5,777)
Net cash generated from financing activities	2,709	2,781
Net (decrease)/increase in cash and cash equivalents	(6,555)	15
Cash and cash equivalents at 1 January	22,267	15,323
Effect of foreign exchange rate changes, on cash held	(15)	128
Cash and cash equivalents at 30 June	15,697	15,466

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital <i>HK\$'000</i>	Share premium* <i>HK\$'000</i>	Merger reserve* <i>HK\$'000</i>	Translation reserve* <i>HK\$'000</i>	Retained profits* <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as 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 as at 30 June 2011	28,316	17,829	4,496	357	6,893	57,891
Balance as at 1 January 2012	28,316	17,829	4,496	635	11,689	62,965
Profit for the period	-	-	-	-	7,201	7,201
Other comprehensive income - exchange loss on translation of financial statements of foreign operations	-	-	-	(57)	-	(57)
Total comprehensive income for the period	-	-	-	(57)	7,201	7,144
Balance as at 30 June 2012	28,316	17,829	4,496	578	18,890	70,109

* These reserve accounts comprise the consolidated reserves of HK\$41,793,000 (30 June 2011: HK\$29,575,000) in the consolidated statement of financial position as at 30 June 2012.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The interim financial statements have been prepared in Hong Kong dollars (“HK\$”), being the functional and presentation currency of the Company. All financial information presented in HK\$ has been rounded to the nearest thousands, unless otherwise stated.

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 (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.

Save as disclosed below, the accounting policies adopted in the 2011 annual financial statements have been consistently applied to these financial statements.

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 2012. 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.

During the current period, the Group has early adopted HKAS 19 (2011) “Employee Benefits”, which is effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group’s net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term “due to be settled”. This change may result in more plans being classified as long-term employee benefit plans that will need to be accounted for in a similar way to defined benefit plans. HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs. This could lead to later recognition of voluntary termination benefits in some cases. The amendments will generally be applied retrospectively with two exceptions. The early adoption of HKAS 19 (2011) had no material impact to the Group.

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 2012 were approved for issue by the Board on 8 August 2012.

2 **SEGMENT INFORMATION**

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

	Six months ended	
	30 June	
	2012	2011
	HK\$'000	HK\$'000
Revenue from external customers and reportable segment revenue	72,780	50,099
Reportable segment profit	9,550	964
Unallocated corporate expenses	(486)	(454)
Consolidated profit before income tax	9,064	510
	30 June	31 December
	2012	2011
	HK\$'000	HK\$'000
Reportable segment assets	111,123	107,953
Unallocated corporate assets	74	65
Consolidated assets	111,197	108,018

Geographical location of customers is based on the location at which the customers are resided. Geographical location of non-current assets is based on the physical location of the asset, in the case of plant and equipment, and the location of the operation to which they are allocated, in the case of development costs. The Group's revenue from external customers and non-current assets is divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	Six months ended			
	30 June		30 June	31 December
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China ("PRC"), including Hong Kong and Macau (domicile) [*]	7,762	6,160	33,436	31,430
Foreign countries				
– United States	19,605	1,806	7	–
– Italy	11,214	16,519	–	–
– Other countries	34,199	25,614	1,704	430
	65,018	43,939	1,711	430
	72,780	50,099	35,147	31,860

^{*} The Company is an investment holding company incorporated in the Cayman Islands where the Group does not have any activities. The Group has the majority of its operations in the PRC, and therefore, PRC is considered as the Group's country of domicile for the purpose of disclosures as required by HKFRS 8 "Operating Segments".

3 REVENUE

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

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	36,332	29,240	70,161	49,564
Smart card related services	821	108	2,619	535
	37,153	29,348	72,780	50,099

4 FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charges on bank borrowings, repayable on demand or wholly within five years	91	85	169	148

5 PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of development costs*	926	540	1,834	1,105
Depreciation of plant and equipment	1,120	776	2,185	1,516

* Included in research and development expenses in profit or loss

6 INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong profits tax				
- Provision for current period	1,086	226	2,004	226
- Over-provision in respect of prior year	(12)	-	(12)	-
	1,074	226	1,992	226
Philippines Income Tax				
- Provision for current period	9	28	9	64
- Over-provision in respect of prior year	(138)	(103)	(138)	(103)
	(129)	(75)	(129)	(39)
	945	151	1,863	187

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the period.

Philippines Income Tax has been provided at 30% on the estimated taxable income or 2% on gross income incurred for the period, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

No provision for income tax in other locations including PRC and Canada has been made as no assessable profits arose from the operations in these locations or the related subsidiaries had unused tax losses brought forward to offset against the current period's assessable profits (2011: Nil).

7 DIVIDENDS

The Company had not declared or paid any dividends for the three months and six months ended 30 June 2012 (2011: Nil).

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2012 respectively is based on profit attributable to owners of the Company of HK\$3,654,000 (2011: HK\$1,231,000) and HK\$7,201,000 (2011: HK\$323,000) and the weighted average of 283,161,000 (2011: 283,161,000) and 283,161,000 (2011: 283,161,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2012 respectively is based on profit attributable to owners of the Company of HK\$3,654,000 (2011: HK\$1,231,000) and HK\$7,201,000 (2011: HK\$323,000) and the weighted average of 283,477,000 (2011: 283,452,000) and 283,459,000 (2011: 283,479,000) 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 2012 respectively is calculated based on the weighted average of 283,161,000 (2011: 283,161,000) and 283,161,000 (2011: 283,161,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of 316,000 (2011: 291,000) and 298,000 (2011: 318,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

9 PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer and office equipment HK\$'000	Mould HK\$'000	Total HK\$'000
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 carrying amount	383	374	3,725	2,436	6,918
Six months ended 30 June 2011					
Opening net carrying 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 carrying 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 carrying amount	388	354	4,093	2,367	7,202
At 1 January 2012					
Cost	1,883	1,194	12,301	8,022	23,400
Accumulated depreciation	(1,556)	(895)	(6,892)	(4,338)	(13,681)
Net carrying amount	327	299	5,409	3,684	9,719
Six months ended 30 June 2012					
Opening net carrying amount	327	299	5,409	3,684	9,719
Additions	762	101	767	535	2,165
Depreciation	(151)	(86)	(1,124)	(824)	(2,185)
Exchange difference	(8)	(1)	(4)	-	(13)
Closing net carrying amount	930	313	5,048	3,395	9,686
At 30 June 2012					
Cost	2,556	1,291	13,033	8,557	25,437
Accumulated depreciation	(1,626)	(978)	(7,985)	(5,162)	(15,751)
Net carrying amount	930	313	5,048	3,395	9,686

10 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Trade receivables	16,487	14,241
Other receivables, prepayments and deposits paid	4,116	2,769
	20,603	17,010

Customers are generally granted credit terms of 14 to 60 (2011: 14 to 100) days. Based on invoice dates, ageing analysis of the Group's trade receivables is as follows:

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
0-30 days	9,301	9,944
31-60 days	2,584	2,332
61-90 days	681	677
91-365 days	3,765	1,133
Over 365 days	156	155
	16,487	14,241

11 TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Trade payables	12,294	9,518
Accruals and deposits received	14,498	25,640
	26,792	35,158

Based on invoice dates, ageing analysis of the Group's trade payables is as follows:

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
0-30 days	7,382	4,340
31-60 days	3,846	4,517
61-90 days	932	503
91-365 days	76	112
Over 365 days	58	46
	12,294	9,518

12 SHARE CAPITAL

	Number of shares '000	HK\$'000
<u>Ordinary shares of HK\$0.10 each</u>		
<i>Authorised:</i>		
At 31 December 2011 and 30 June 2012	1,000,000	100,000
<i>Issued and fully paid:</i>		
At 31 December 2011 and 30 June 2012	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 4 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 in a prior year.

14 OPERATING LEASE COMMITMENTS

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to five years (2011: one to five years). None of the leases include contingent rentals.

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

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Within one year	2,068	2,245
In the second to fifth years, inclusive	1,193	1,064
	3,261	3,309

15 RELATED PARTY TRANSACTIONS

Key management of the Group are members of the Board and senior management. Key management personnel remuneration of the Group is as follows:

	Six months ended	
	30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term employee benefits	3,348	3,172
Retirement benefits costs	50	48
	3,398	3,220

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group does not have other material transactions with related parties during the period.

16 COMPARATIVES

The Group previously disclosed bank charges within finance costs. Depending on its nature, this amount was now included in relevant expenses on the consolidated statement of comprehensive income as a fairer presentation of the results of the period.

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 three months and six months ended 30 June 2012.

FINANCIAL REVIEW

Both the sales revenue and the net profit increased in the second quarter ended 30 June 2012 from the corresponding figures in the first quarter of the same year. On a six month, year-to-year basis, the sales revenue increased by 45% to HK\$72.8 million, the gross profit by 64% to HK\$40.2 million and the net profit more substantially to HK\$7.2 million from HK\$0.3 million.

The total sales increased by 45% in the first half year of 2012 compared to the first half year of 2011 while the sales in three regions increased as shown in the following table. There may be some fluctuations of sales in different regions as sizable projects may have turned into sales revenue in one region while in another region, the orders of goods from other big projects may have been fulfilled prior to the accounting period. The remarkable growth in the Americas region was primarily owing to the delivery of payment terminals for automatic fare collection.

	Three months ended			Six months ended		
	30 June		Change	30 June		Change
	2012	2011		2012	2011	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Europe	17,306	15,944	+9%	25,148	27,281	-8%
The Americas	6,508	1,794	+263%	21,680	3,160	+586%
Asia Pacific	8,564	6,816	+26%	18,008	13,381	+35%
Middle East and Africa	4,775	4,794	-0%	7,944	6,277	+27%
	37,153	29,348	+27%	72,780	50,099	+45%

Since ACS sells its products and services to over 100 countries in the world, the total sales amount is usually not seriously affected by temporary economic weaknesses in one region. Likewise, ACS continues to introduce new products to the market and the decline of the sales of one product line due to product maturity is often compensated by an increase in sales of an emerging line.

Total expenses increased by 30% as we continued to expand the work force and increase the activities in engineering, sales and marketing and operations in order to speed up the development work of our products, to promote and sell them and to smooth out the operations.

The net profit before income tax increased to HK\$9.1 million from HK\$0.5 million. After tax deductions, net profit was HK\$7.2 million the first half year of 2012, compared to the corresponding figure of HK\$0.3 million the same period last year.

DIVIDEND

The Board does not declare an interim dividend in respect of the six months ended 30 June 2012. 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 has four main business lines. In every one of these lines, ACS constantly devotes resources in enhancing the existing products and developing new products. In the first half of 2012, ACS launched several products to the market. Details of the products are published in ACS's website (www.acs.com.hk). Here is a summary.

(1) Card Operating Systems (COS):



ACS5-64



CryptoMate64

ACS introduced two new smart card products: ACS5-64, a Public Key Infrastructure (PKI) operating system, and CryptoMate64, a USB token type of product with the chip embedded for secure access control to the Internet. Despite its portable and lightweight design, CryptoMate64 provides one of the strongest authentication solutions in the market.

(2) PC-linked smart card readers (both contact and contactless):



ACR100 SIMFlash II



ACR33U-A1 SmartDuo

ACS introduced to the market ACR100 SIMFlash II, which combines smart card reader, memory storage and contactless card capabilities in a single device. The new features of this product, compared to its predecessors, include an embedded Mifare chip that allows the reader to act as a contactless card for use in various contactless operations such as physical access control, and the reader's USB plug can be retracted.

ACS also launched ACR33U-A1 SmartDuo, a device featuring an ingenious design for two full-sized smart cards and three SAM cards. The SmartDuo provides a quick, secured and cost-effective way to implement various smart card applications.

- (3) Smart card terminals with pin-pads and display:



ACR89

ACS launched the new ACR89 Handheld Smart Card Reader which features a liquid crystal display, PIN-pad, dual smart card slots, 3 SAM card slots, as well as optional thermal printer and contactless card support. ACR89 replaces its predecessor ACR88 and remains to be a price-competitive product.

- (4) Automatic fare collection (AFC) solutions including hardware, software and security systems:



ACR300 Bus Validator



ACR320 Bus Validator

The Group promotes the business in the name of TaptoPay Ltd. (TaptoPay). In promoting its solution to the market, TaptoPay focuses on developing countries with large populations. Operating in these countries usually poses special challenges that are rare in developed countries. For example, there are plenty of retail outlet chains in big cities of developed countries that serve as convenient top-up (i.e. reloading money to the commuter smart card) locations for commuters. However, big cities in developing countries lack these. To adapt, the Group continues to explore alternative top-up methods and constantly expands the features of its AFC solutions to meet different customer requirements.

The Group has spent years in developing Teczo, an Enterprise Collaboration Platform software aiming to improve staff members of corporations to store information, communicate and collaborate. As a cloud-based platform, Teczo provides the foundations for knowledge management, customer relationship management, project management and more in an extremely user-friendly interface. The Group plans to promote the software to the commercial market when financial and other resources permit. Presently, the Teczo development team focuses on enhancing and expanding the software for internal use. The program vastly enhances the productivity of the Group.

PROSPECTS

In the 17 years after its establishment in 1995, ACS has acquired a wide range of prime technologies in the smart card industry. During the first ten years when nearly all of the ACS's staff were based in Hong Kong, electronic engineering and computer science were among the most favourite studies of local college students. The trend has changed in recent years, however, in that fewer students would pursue after a career in engineering, and there are even fewer number of students interested in research and development. In spite of this, ACS fully recognizes the importance of human resources in its future development, and would no doubt exert its best efforts to attract, enroll and retain engineering and science college graduates with high potentials and interest in doing research and development work.

Over the years, ACS has successfully combined the talents located in Hong Kong, the Mainland of China and the Philippines to develop its technologies, to do sales and marketing work, and to serve customers all over the world. The internally developed Teczo program has greatly facilitated their collaboration.

Having established solid relationships with customers from over 100 countries in the world, ACS continuously enhances and expands its technologies, and launches to the market more and more sophisticated products and services to meet the ever-increasing customer demand. Momentum has been built, and management is confident that an upward growth trend in revenue and profitability can be maintained in some years to come.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2012, the Group's cash and cash equivalents amounted to HK\$15.7 million (31 December 2011: HK\$22.3 million). The Group keeps most of its cash in Hong Kong dollars ("HK\$"), Euro dollars ("EURO"), United States dollars ("US\$") and Renminbi ("RMB") in bank accounts. The bank borrowings of the Group amounted to HK\$11.2 million (31 December 2011: HK\$8.3 million). The bank borrowings are denominated in HK\$ and US\$, interest bearing at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 30 June 2012 was 0.16 (31 December 2011: 0.13).

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 1.89 (31 December 2011: 1.72). Net asset value as at 30 June 2012 was HK\$70.1 million (31 December 2011: HK\$63.0 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 2012.

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 2012, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2012, 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 2012, the Group had 258 full time employees. Staff costs recognised in profit or loss amounted to HK\$18.0 million (corresponding period in 2011: HK\$14.8 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

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

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

As at 30 June 2012, 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 2012
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests		
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	51,266,522	-	-	132,034,522	46.63%
Ms. Tsui Kam Ling, Alice (Note 3)	51,266,522	80,768,000	-	-	132,034,522	46.63%
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 51,266,522 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.
- 51,266,522 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 2012, 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 2012, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 29 June 2012 was HK\$0.375) 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 30 June 2012	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 June 2012
		Balance as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period				
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 as at 30 June 2012 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 2012
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 2012 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.

CORPORATE GOVERNANCE

Save as disclosed below, the Company has complied with code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2012.

The provision A.2 of the Code 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.

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 2012.

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. 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 2012.

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

Hong Kong, 8 August 2012