



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 8210



First Quarterly Report

2012

First Quarterly Report

** 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.

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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 three months ended 31 March 2012 increased by 72% to HK\$35.6 million from the first quarter of 2011.
- Gross profit increased by 87% to HK\$20.4 million in current quarter from the first quarter of 2011.
- Net profit after income tax amounted to HK\$3.5 million in current quarter compared with a net loss of HK\$0.9 million in the quarter a year ago.
- As at 31 March 2012, the current ratio was 1.81 while the gearing ratio was 0.17.

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 ended 31 March 2012 together with the comparative unaudited figures for the corresponding period in 2011.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2012

	Notes	Three months ended 31 March	
		2012	2011
		HK\$'000	HK\$'000
Revenue	2	35,627	20,751
Cost of sales and services provided		(15,189)	(9,830)
Gross profit		20,438	10,921
Other income and gains		42	9
Selling and distribution costs		(2,951)	(2,499)
Research and development expenses		(5,891)	(4,100)
Administrative expenses		(7,095)	(5,140)
Finance costs	3	(78)	(63)
Profit/(Loss) before income tax	4	4,465	(872)
Income tax expense	5	(918)	(36)
Profit/(Loss) for the period, attributable to owners of the Company		3,547	(908)
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		51	50
Other comprehensive income for the period		51	50
Total comprehensive income for the period, attributable to owners of the Company		3,598	(858)
Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company during the period	7		
– Basic (HK cents)		1.253	(0.321)
– Diluted (HK cents)		1.251	N/A

NOTES:

1 BASIS OF PREPARATION

The 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 financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted in the 2011 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 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.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the three months ended 31 March 2012 were approved for issue by the board of directors on 9 May 2012.

2 REVENUE

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

	Three months ended 31 March	
	2012	2011
	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	33,829	20,324
Smart card related services	1,798	427
	35,627	20,751

3 FINANCE COSTS

	Three months ended 31 March	
	2012	2011
	HK\$'000	HK\$'000
Interest charges on bank borrowings, repayable on demand or wholly within five years	78	63

4 PROFIT/(LOSS) BEFORE INCOME TAX

The Group's profit/(loss) before income tax is arrived at after charging:

	Three months ended 31 March	
	2012	2011
	HK\$'000	HK\$'000
Amortisation of development costs*	908	565
Depreciation of plant and equipment	1,065	740

* Included in research and development expenses in profit or loss

5 INCOME TAX EXPENSE

	Three months ended 31 March	
	2012	2011
	HK\$'000	HK\$'000
Current tax		
Hong Kong profits tax		
- Provision for current period	918	—
Overseas income tax		
- Provision for current period	—	36
	918	36

Hong Kong profits tax for the three months ended 31 March 2012 has been provided at the rate of 16.5% on the estimated assessable profits for the period. No Hong Kong profits tax was provided in the financial statements for the three months ended 31 March 2011 as the companies within the Group did not derive any assessable profits in Hong Kong.

No provision for overseas income tax in other locations including the Peoples' Republic of China, Canada, Germany and Philippines has been made for the three months ended 31 March 2012 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. Overseas income tax for the three months ended 31 March 2011 refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines which has been provided at 2% on gross income incurred in the Philippines during the period.

6 DIVIDENDS

The Company had not declared or paid any dividends for the three months ended 31 March 2012 (2011: Nil).

7 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share (2011: basic loss per share) for the three months ended 31 March 2012 is based on the profit attributable to owners of the Company of HK\$3,547,000 (2011: loss attributable to owners of the Company of HK\$908,000) and the weighted average of 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 ended 31 March 2012 is based on the profit attributable to owners of the Company of HK\$3,547,000 and the weighted average of 283,439,000 ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares. Diluted loss per share for the three months ended 31 March 2011 was not presented because the impacts of the exercise of the share options were anti-dilutive.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months ended 31 March 2012 is calculated based on the weighted average of 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 278,000 ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

8 RESERVES

	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	17,829	4,496	229	6,570	29,124
Loss for the period	—	—	—	(908)	(908)
Other comprehensive income					
- exchange gain on translation of financial statements of foreign operations	—	—	50	—	50
Total comprehensive income for the period	—	—	50	(908)	(858)
Balance as at 31 March 2011	17,829	4,496	279	5,662	28,266
Balance as at 1 January 2012	17,829	4,496	635	11,689	34,649
Profit for the period	—	—	—	3,547	3,547
Other comprehensive income					
- exchange gain on translation of financial statements of foreign operations	—	—	51	—	51
Total comprehensive income for the period	—	—	51	3,547	3,598
Balance as at					
31 March 2012	17,829	4,496	686	15,236	38,247

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.

9 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 (thereafter referred to as “ACS” or the “Group”) for the quarter ended 31 March 2012.

FINANCIAL REVIEW

The Group’s sales revenue increased by 72% to HK\$35.6 million in the first quarter of 2012 ended 31 March 2012 versus the same quarter a year ago. As shown in the following table, the sales revenue grew in the Americas, Asia Pacific, and Middle East and Africa while it dropped in Europe. The Group is gradually launching more sophisticated products and services which command higher unit prices. An order of such products and services would be received if a project is successfully launched. The sales revenue resulting from such project-based business deals does not get realized as regularly as the sales revenue of smart cards and PC-linked readers. The rise or drop of sales in a region would occur owing to a launch or lack of launch of a project, and does not necessarily indicate a trend in the business prospect in the region.

	Three months ended 31 March		
	2012	2011	Change
	HK\$'000	HK\$'000	
The Americas	15,172	1,366	+1,011%
Asia Pacific	9,444	6,565	+44%
Europe	7,842	11,337	-31%
Middle East and Africa	3,169	1,483	+114%
	35,627	20,751	+72%

The gross profit grew to HK\$20.4 million by 87%, such a rate being higher than the growth rate of the sales revenue by 72%, owing to higher gross margin at 57% in current quarter versus 53% in the quarter a year ago. The more sophisticated products and services, which are taking up an increasingly bigger portion of the total sales, generated higher gross profit margins for ACS.

The selling and distribution costs increased by 18% to HK\$3.0 million primarily due to increased payroll and increase of overseas travelling expenses. The AFC (Automatic Fare Collection) business requires more face to face meetings overseas usually among people from ACS, transport companies, transport authorities and local business partners.

Of the three major categories of expenses, the research and development expenses increased at the highest rate of 44% to HK\$5.9 million. A technology-intensive company, ACS had the engineering headcount representing some two-thirds of the total headcount at 31 March 2012. The engineering workforce increased fastest in China in the last few years. ACS enrolls new engineering graduates in China every year.

The administrative expenses increased by 38% to HK\$7.1 million. Included in this item was the exchange loss of HK\$306 thousand in the current quarter compared with the gain of HK\$190 thousand in the same quarter a year ago. The sales prices are quoted mainly in three currencies, namely, US dollar, Euro and Hong Kong dollar. ACS did enter into Euro forward contracts with banks in order to minimize the Euro currency exposure.

DIVIDEND

The Board does not declare an interim dividend in respect of the three months ended 31 March 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

Since its inception in year 1995, ACS has had the same goal of developing and supplying the prime technologies in the smart card industry. It started with developing smart card operating systems and PC-linked smart card readers, and later on entered into the business of developing more sophisticated smart card terminals and complete AFC system solutions which leverage on existing technologies.

The present main business lines of the Group are (1) card operating systems, (2) PC-linked smart card readers both contact and contactless, (3) smart card terminals with pin-pads and display and (4) AFC solutions including hardware, software and security systems.

Business lines (1) and (2) have been in the Group's product portfolio since the initial years of its business. ACS constantly introduces new products in these two lines to ensure their vitality. For example, in the first quarter of 2012, ACS added into its portfolio of public key infrastructure (PKI) card operating system cards (model name ACOS5 cards), the new products of ACOS5-64 and CryptoMate64. The ACOS5-64 card has a higher memory size and presents higher security than its predecessor, the ACOS5 card. CryptoMate64 is a USB token form of device with the ACOS5-64 smart card chip embedded. These products are to secure access to the Internet.

Business lines (3) and (4) demand more engineering resources and in the initial years of developing these lines, the profits generated from lines (1) and (2) were applied to support these lines. ACS made great technological advancements in business lines (3) and (4). In particular, ACS has put a lot of resources in line (4) and is providing AFC solutions to the world with successes either directly to transport operators or through partnerships with local companies. Additionally, the emergence of line (4) is significant as it changes ACS's status of being a hardware provider to its current status of being a hardware provider with software capabilities. ACS is able to enhance, expand and customize its AFC solutions faster than most of the other AFC solution providers known to us owing to its hardware and software capabilities.

While our hardware (lines 1, 2, 3) expertise helps with the development of AFC solutions (line 4), the reverse is true. Since a lot of the in-house developed hardware (cards, readers and terminals) are being applied in AFC solutions, ACS has been able to have a better understanding of the hardware from the perspective of a solution provider. There have been numerous suggestions on improvements on the features, usability, quality of the hardware because of our new experience in the applications domain of AFC.

PROSPECTS

ACS has acquired a wide range of prime technologies in the smart card industry. It has also developed a large base of customers worldwide, initially reached through selling PC-linked smart card readers and smart card operating systems. ACS is gradually entering into market segments of bigger size and has made successes in capturing market shares in these segments. It combines the talents mainly located in Hong Kong, the mainland of China and the Philippines to develop its technologies, do the sales and marketing work and serve customers all over the world. In short, it has built a good foundation for sustainable business growth.

The management of ACS expects an acceleration of growths in its sales revenue and profit in the future several years on annual basis while quarterly fluctuations are possible owing to the timing of launching of one big project or another.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains a healthy liquidity position. As at 31 March 2012, the Group's cash and cash equivalents amounted to HK\$16.7 million (31 March 2011: HK\$10.5 million). The bank borrowings of the Group amounted to HK\$11.5 million (31 March 2011: HK\$11.0 million). The gearing ratio, being the total interest bearing debts over the total equity, at 31 March 2012 was 0.17 (31 March 2011: 0.19).

The current ratio, being the ratio of current assets to current liabilities, was 1.81 (31 March 2011: 2.31). Net asset value as at 31 March 2012 was HK\$66.6 million (31 March 2011: HK\$56.6 million).

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

As at 31 March 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 31 March 2012
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests			
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	49,498,522	—	—	130,266,522	46.00%	
Ms. Tsui Kam Ling, Alice (Note 3)	49,498,522	80,768,000	—	—	130,266,522	46.00%	
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 49,498,522 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.
- 49,498,522 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 31 March 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 31 March 2012, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 30 March 2012 was HK\$0.365) 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 31 March 2012	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 March 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 31 March 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 31 March 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 31 March 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the three months ended 31 March 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 of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the three months ended 31 March 2012.

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

Hong Kong, 9 May 2012