



## **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)**

### **THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009**

#### **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.**

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

*\* For identification only*

## **HIGHLIGHTS**

- Revenue of the Group for the nine months ended 30 September 2009 decreased by 4% to HK\$66.6 million from the first three quarters of 2008.
- Gross profit of the Group for the nine months ended 30 September 2009 increased by 6% to HK\$34.0 million from the first three quarters of 2008.
- Net profit after income tax of the Group decreased by 19% to HK\$5.9 million for the nine months ended 30 September 2009 from HK\$7.3 million in the first three quarters of 2008.
- As at 30 September 2009, the cash at banks and on hand of the Group amounted to HK\$17.4 million (30 September 2008: HK\$19.7 million) and there was no borrowing from banks.

## UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, “ACS” or the “Group”) for the three months and nine months ended 30 September 2009 together with the comparative unaudited figures for the corresponding periods in 2008.

### UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2009

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2009	2008	2009	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Revenue</b>	3	28,385	28,847	66,641	69,298
Cost of sales		(15,671)	(16,596)	(32,633)	(37,174)
Gross profit		12,714	12,251	34,008	32,124
Other income		56	356	86	450
Other net loss		—	(121)	—	(97)
Administrative expenses		(3,979)	(3,493)	(11,624)	(10,091)
Research and development expenses		(3,739)	(2,691)	(9,504)	(7,627)
Selling and distribution costs		(1,820)	(1,607)	(5,172)	(4,896)
<b>Operating profit</b>		3,232	4,695	7,794	9,863
Finance costs		(65)	(136)	(209)	(289)
<b>Profit before income tax</b>	4	3,167	4,559	7,585	9,574
Income tax expense	5	(740)	(2,273)	(1,669)	(2,273)
<b>Profit for the period</b>		2,427	2,286	5,916	7,301
<b>Profit attributable to the owners of the Company</b>		2,427	2,286	5,916	7,301
<b>Earnings per share for profit attributable to the owners of the Company during the period</b>	7				
Basic		HK0.861 cents	HK0.811 cents	HK2.099 cents	HK2.591 cents
Diluted		HK0.858 cents	HK0.808 cents	HK2.091 cents	HK2.580 cents

# UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2009

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	2,427	2,286	5,916	7,301
Other comprehensive income:				
Exchange differences on translating foreign operations	11	(12)	53	24
<b>Total comprehensive income for the period</b>	<b>2,438</b>	<b>2,274</b>	<b>5,969</b>	<b>7,325</b>
<b>Total comprehensive income for the period attributable to the owners of the Company</b>	<b>2,438</b>	<b>2,274</b>	<b>5,969</b>	<b>7,325</b>

## NOTES:

### 1 BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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”). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

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

These financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the nine months ended 30 September 2009 were approved for issue by the board of directors on 6 November 2009.

### 2 ADOPTION OF NEW OR AMENDED HKFRSs

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

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

Other than as noted below, the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

### *HKAS 1 (Revised) Presentation of Financial Statements*

The adoption of HKAS 1 (Revised) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example exchange differences on translating foreign operations. HKAS 1 (Revised) affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard.

### *HKFRS 8 Operating Segments*

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information are now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

## **3 REVENUE**

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Sale of smart card products, software and hardware	<b>28,186</b>	28,503	<b>64,665</b>	68,450
Smart card related services	<b>199</b>	344	<b>1,976</b>	848
	<b>28,385</b>	28,847	<b>66,641</b>	69,298

#### 4 PROFIT BEFORE INCOME TAX

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax is arrived at after charging:				
<b>4.1 Finance costs:</b>				
Interest on bank borrowings wholly repayable within five years	5	54	24	95
Bank charges	60	82	185	194
	65	136	209	289
<b>4.2 Other items:</b>				
Amortisation of development costs	487	536	1,466	1,757
Depreciation	548	389	1,486	1,065

#### 5 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the nine months ended 30 September 2009 and 2008.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% on gross income incurred in the Philippines during the period (2008: Nil). No provision for overseas tax in other locations including the Peoples' Republic of China, Canada and Germany has been made as no assessable profits arose from the operations in these locations (2008: Nil).

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current tax – tax for the period</b>				
- Hong Kong	714	2,273	1,591	2,273
- Overseas	26	—	78	—
	740	2,273	1,669	2,273

#### 6 DIVIDENDS

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

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

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

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period for the purposes of calculating basic and diluted earnings per share	<b>2,427</b>	<b>2,286</b>	<b>5,916</b>	<b>7,301</b>

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>

**Number of shares**

Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>281,800</b>	<b>281,800</b>	<b>281,800</b>	<b>281,800</b>
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Effect of dilutive potential ordinary shares relating to outstanding share options	<b>1,199</b>	<b>1,289</b>	<b>1,106</b>	<b>1,238</b>
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Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b>282,999</b>	<b>283,089</b>	<b>282,906</b>	<b>283,038</b>
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**8 RESERVES**

	<b>Share premium</b>	<b>Merger reserve</b>	<b>Translation reserve</b>	<b>Accumulated losses</b>	<b>Proposed dividend</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January 2008	23,206	4,496	50	(19,787)	1,127	9,092
Total comprehensive income for the period	—	—	24	7,301	—	7,325
2007 Dividend paid	—	—	—	—	(1,127)	(1,127)
At 30 September 2008	23,206	4,496	74	(12,486)	—	15,290
At 1 January 2009	20,952	4,496	13	(10,083)	2,254	17,632
Total comprehensive income for the period	—	—	53	5,916	—	5,969
2008 Dividend paid	—	—	—	—	(2,254)	(2,254)
At 30 September 2009	20,952	4,496	66	(4,167)	—	21,347

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



## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Financial Review

The sales revenue decreased by 4% in the first nine months of 2009 to HK\$66.6 million, from HK\$69.3 million in the corresponding months of 2008. Owing to the higher gross profit margin in the current period at 51% compared to last year’s figure of 46%, the gross profit in absolute amount increased to HK\$34.0 million from HK\$32.1 million.

The total expenses increased by 16% to HK\$26.5 million from HK\$22.9 million mainly owing to the increase in headcount (from 115 at 30 September 2008 to 161 at 30 September 2009). The expansion was in all of the main offices in Hong Kong, Guangdong and Manila with faster increase in the latter two places.

The sales revenue breakdown by product line indicates that the sales revenue of smart cards increased by 7% in the current period compared with the figure in the corresponding period last year. On the other hand, sales revenue of smart card readers dropped by 8%. The relatively higher increase in the revenue of smart card related services was contributed by the design fee earned from a USA-based company for which ACS designed a product.

	Three months ended			Nine months ended		
	30 September		Change	30 September		Change
	2009	2008		2009	2008	
	HK\$’000	HK\$’000		HK\$’000	HK\$’000	
Smart cards	4,405	4,243	+4%	12,213	11,435	+7%
Smart card readers	23,781	24,260	-2%	52,452	57,015	-8%
Smart card related services	199	344	-42%	1,976	848	+133%
	<b>28,385</b>	<b>28,847</b>	<b>-2%</b>	<b>66,641</b>	<b>69,298</b>	<b>-4%</b>

In the current period, the sales breakdown by region indicates that Europe accounted for 51% of the total sales in the current period (63% last year). The sales revenue decreased by 22% in this region while it increased in the other regions.

	Three months ended			Nine months ended		
	30 September		Change	30 September		Change
	2009	2008		2009	2008	
	HK\$’000	HK\$’000		HK\$’000	HK\$’000	
Europe	16,429	19,757	-17%	34,085	43,932	-22%
Asia Pacific	7,757	6,253	+24%	17,902	15,670	+14%
The Americas	2,768	1,219	+127%	9,387	4,860	+93%
Middle East and Africa	1,431	1,618	-12%	5,267	4,836	+9%
	<b>28,385</b>	<b>28,847</b>	<b>-2%</b>	<b>66,641</b>	<b>69,298</b>	<b>-4%</b>

## **Dividend**

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2009. 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 condition, and such other factors as the Board may consider important.

## **Business Review**

In the first three quarters of 2009, ACS launched four new products:

### **(1) ACR83 PINeasy Software Development Kit**

In April 2009, ACS launched the Software Development Kit (SDK) for the ACR83 PINeasy reader. The ACR83 PINeasy smart card reader is a USB reader with a keypad and liquid crystal display. Supporting Secure PIN Entry (SPE) - the user entering the PIN on the embedded keypad - ACR83 allows authentication to be carried out securely within the device. ACR83 is compliant with ISO7816 1-3 and EMV Level 1 standard, and is suitable for applications such as home banking, digital signature & identification as well as computer and network access control.

The ACR83 SDK will assist customers in developing their applications. Apart from the utility tools and technical documentations, the ACR83 SDK comes with sample codes written in different programming languages (Delphi 7, Java, Visual Basic 6, Visual C++ 6, Visual C++ 2005 (x64), Visual C # 2005 and Visual Basic .Net 2005). These sample codes demonstrate different capabilities of the ACR83 PINeasy reader and showcase how to control the reader peripherals and how the reader communicates with ISO7816 cards.

### **(2) eH880 health card reader**

In May 2009, ACS launched its eH880 Secure Smart Card Terminal.

A digitalized system for managing information provides the obvious benefits of reduced storage space, pen and paper costs and margin of human error as well as increased search capabilities and added data security. While most industries have taken advantage of digitization since years ago, the health-care sector is finally welcoming this change:

*Given its history of innovation, the health-care sector has been surprisingly reluctant to embrace information technology (IT). Whereas every other big industry has computerized with gusto since the 1980s, doctors in most parts of the world still work mainly with pen and paper. But now, in fits and starts, medicine is at long last catching up.... [It] is likely to be transformed by the introduction of electronic health records that can be turned into searchable medical databases, providing a "smart grid" for medicine that will not only improve clinical practice but also help revive drugs research. (The Economist, 18 April 2008)*

ACS firmly believes that the trend for health data will continue to go digital. ACS has been investing in the research and development in readers and cards tailored to the use in the e-health card programs for the world, and the eH880 Secure Smart Card Terminal is the fruit of such tremendous efforts.

The eH880 is a feature-rich secure smart card terminal dedicated to multiscard-based electronic healthcare programs. This innovative device is capable of facilitating secure mutual authentication between two parties, for example, between doctors and patients. It displays detailed multi-layered information from one card or both cards, and facilitates data recording and transference through both private and public network infrastructures. Built on a 32-bit processor running on embedded Linux, the eH880 provides strong third party programming flexibility to system integrators to ensure the efficiency and quality in developing customized applications.

### **(3) ACOS6 Multi-application & Purse Card (MAP Card)**

In July 2009, ACS launched its ACOS6 Multi-application & Purse Card (MAP Card).

ACOS6 is specifically designed to address the requirements of multiple applications and multiple e-purses with secure access hierarchy of multiple levels. With this powerful feature, the same ACOS6 card can be used for, say, e-government services, accessing campus facilities, payment at retail shops and even for loyalty programs. The flexibility of ACOS6 facilitates the adoption of ACOS6 cards for current and future applications and provides cost-effective solutions to developers as well as a convenient platform (single card, multiple uses) to end users.

### **(4) ACR122T - the Token Version of ACR122U**

In the third quarter of 2009, ACS launched its ACR122T NFC (Near Field Communication) Contactless Smart Card Reader Token which is the token form of the full-sized ACR122 reader. ACR122 was launched in the fourth quarter of 2007 as the world's first NFC card reader compliant to Microsoft's CCID (Circuit(s) Cards Interface Devices) standard.

The ACR122T is designed with mobile applications in mind. Its compact, highly portable and extractable USB plug design make it easy to use, and suitable for integration into fast-paced environments. It is ideal for a wide range of NFC applications, such as secure computer log-on with corresponding contactless cards or NFC tags in public places like a coffee shop or public library, balance-checking and reloading of an e-Purse, and online payment.

It has been the policy of ACS continuously to develop new products to meet the emerging needs of customers. Certain new products are enhancements of existing products while others are substantially different products even though they are within the smart card area. The health card reader eH880 mentioned above uses a 32-bit microprocessor as its core integrated circuit while the other products use an 8-bit microprocessor. A few other products using 32-bit microprocessors are forecast to be launched in the coming quarters. These new products present new challenges to ACS because they are more sophisticated to develop, manufacture and ensure quality of. However, the unit prices of 32-bit microprocessor products are more than ten times as high as those of 8-bit microprocessor products. These new products bring ACS the opportunity to grow its sales in an accelerated rate.

During the first nine months of 2009, ACS participated in a total of six trade shows in Europe and Asia Pacific. The main purposes of attending these trade shows were to introduce new products, to make ACS better known and most importantly to allow ACS staff to meet with current and potential customers. As ACS sells its products to over 100 countries, trade shows present the best venues for ACS staff to meet customers from different countries.

### **Prospects**

Even though the sales revenue decreased in the first nine months of 2009 by 4% compared with the corresponding figure of last year, the business continued to expand from one quarter to the next during the year, with the turnover in the first, second and third quarter being HK\$15.4 million, HK\$22.8 million and HK\$28.4 million respectively. Additionally, the outlook in the fourth quarter in sales volume is quite promising.

ACS took the opportunity of the economic downturn and employed proactively. The headcount roughly doubled from 83 people at 31 December 2007 to 161 people at 30 September 2009. With a stronger work force, ACS is speeding up its research and development work. It is also expanding its sales and marketing activities as well as enhancing its logistics capability. The management expects that the new products will bring additional sales while current products will continue to generate business. Thus the management is optimistic of the prospect of ACS in 2010 and the subsequent years.

### **Liquidity and Financial Resources**

At all times the Group maintains an adequate liquidity position. As at 30 September 2009, the Group's cash at banks and on hand amounted to HK\$17.4 million (30 September 2008: HK\$19.7 million including pledged bank deposits of HK\$0.9 million). The HK\$0.9 million pledged bank deposits at 30 September 2008 were to secure bank credit lines. Such pledged bank deposits had been released as at 30 September 2009. As at 30 September 2009, the credit lines offered by the bank were not utilised (30 September 2008: Nil).

The current ratio, being the ratio of current assets to current liabilities, was kept at 2.8 (30 September 2008: 2.6). Net asset value as at 30 September 2009 was HK\$49.5 million (30 September 2008: HK\$43.5 million). As at 30 September 2009, the Group did not have any borrowings and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was zero (30 September 2008: zero).

### **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 nine months ended 30 September 2009.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the nine months ended 30 September 2009.

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

Hong Kong, 6 November 2009

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

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the day of its posting.*