



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

2014

* 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 4 independent non-executive directors, Dr. Yip Chak Lam, Peter, Mr. Yu Man Woon, Mr. Wong Yick Man, Francis and Mr. Lo Kar Chun, Nicky, SBS, JP.

HIGHLIGHTS

- Revenue of the Group for the three months ended 31 March 2014 increased by 34% to HK\$49.8 million from the first quarter of 2013.
- Net profit after income tax of the Group for the three months ended 31 March 2014 increased by 40% to HK\$6.1 million from the first quarter of 2013.

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 2014 together with the comparative unaudited figures for the corresponding period in 2013.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2014

| | Notes | Three months ended 31 March | |
|---|-------|-----------------------------|------------------|
| | | 2014 HK\$'000 | 2013 HK\$'000 |
| Revenue | 2 | 49,822 | 37,267 |
| Cost of sales and services provided | | (19,162) | (12,951) |
| Gross profit | | 30,660 | 24,316 |
| Other income and gains | | 130 | 215 |
| Selling and distribution costs | | (4,834) | (4,341) |
| Research and development expenses | | (8,998) | (7,457) |
| Administrative expenses | | (9,602) | (8,057) |
| Finance costs | 3 | (345) | (163) |
| Profit before income tax | 4 | 7,011 | 4,513 |
| Income tax expense | 5 | (930) | (171) |
| Profit for the period, attributable to owners of the Company | | 6,081 | 4,342 |
| Other comprehensive income | | | |
| Item that may be reclassified subsequently to profit or loss | | | |
| – Exchange gain on translation of financial statements of foreign operations | | 303 | 36 |
| Item that will not be reclassified subsequently to profit or loss | | | |
| – Remeasurement of defined benefit obligations | | - | 36 |
| Other comprehensive income for the period, net of tax | | 303 | 72 |
| Total comprehensive income for the period, attributable to owners of the Company | | 6,384 | 4,414 |
| Earnings per share for profit attributable to owners of the Company for the period | 7 | | |
| – Basic (HK cents) | | 2.141 | 1.529 |
| – Diluted (HK cents) | | 2.141 | 1.529 |

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 2013 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 2014. 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 2014 were approved for issue by the Board on 13 May 2014.

2 REVENUE

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

| | Three months ended 31 March | |
|---|-----------------------------|---------------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Sale of smart card products, software and hardware | 46,955 | 28,775 |
| Smart card related services | 2,867 | 8,492 |
| | <u>49,822</u> | <u>37,267</u> |

3 FINANCE COSTS

| | Three months ended 31 March | |
|---|-----------------------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Interest charges on bank borrowings, repayable on demand or wholly within five years | 345 | 163 |

4 PROFIT BEFORE INCOME TAX

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

| | Three months ended 31 March | |
|-------------------------------------|-----------------------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Amortisation of development costs* | 2,216 | 1,404 |
| Depreciation of plant and equipment | 1,121 | 1,230 |

* Included in research and development expenses in profit or loss

5 INCOME TAX EXPENSE

| | Three months ended 31 March | |
|--|-----------------------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| Hong Kong profits tax | | |
| – Provision for current period | 342 | – |
| Philippines Income Tax | | |
| – Provision for current period | 527 | 171 |
| – Over-provision in respect of prior years | (86) | – |
| | 441 | 171 |
| Other overseas tax | 147 | – |
| | 930 | 171 |

Hong Kong profits tax for the three months ended 31 March 2014 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 2013 as the companies within the Group did not derive any assessable profit in Hong Kong.

Philippines Income Tax has been provided at 30% (2013: 30%) on the estimated taxable income or 2% (2013: 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.

Tax on other jurisdictions including PRC has been provided on the estimated assessable profits, if any, for the period at the rates of tax prevailing in the countries in which the Group operates. PRC corporate income tax for the period has been provided at the rate of 25% (2013: 25%) on the estimated assessable profits arising in the PRC for the period.

6 DIVIDENDS

The Company had not declared or paid any dividends for the three months ended 31 March 2014 (2013: Nil).

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2014 is based on the profit attributable to owners of the Company of HK\$6,081,000 (2013: HK\$4,342,000) and the weighted average of 284,058,000 (2013: 284,058,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months ended 31 March 2014 is based on the profit attributable to owners of the Company of HK\$6,081,000 (2013: HK\$4,342,000) and the weighted average of 284,058,000 (2013: 284,059,000) 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 ended 31 March 2014 is calculated based on the weighted average of 284,058,000 (2013: 284,058,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of nil (2013: 1,000) 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 HK\$'000 | Merger reserve HK\$'000 | Translation reserve HK\$'000 | Retained profits HK\$'000 | Proposed dividend HK\$'000 | Total HK\$'000 |
|--|------------------------------|-------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------|
| Balance as at 1 January 2013 | 17,955 | 4,496 | 886 | 24,070 | 4,261 | 51,668 |
| Profit for the period | - | - | - | 4,342 | - | 4,342 |
| Other comprehensive income | | | | | | |
| - Exchange gain on translation of financial statements of foreign operations | - | - | 36 | - | - | 36 |
| - Remeasurement of defined benefit obligations | - | - | - | 36 | - | 36 |
| Total comprehensive income for the period | - | - | 36 | 4,378 | - | 4,414 |
| Balance as at 31 March 2013 | 17,955 | 4,496 | 922 | 28,448 | 4,261 | 56,082 |
| Balance as at 1 January 2014 | 17,955 | 4,496 | 1,706 | 41,703 | 5,681 | 71,541 |
| Profit for the period | - | - | - | 6,081 | - | 6,081 |
| Other comprehensive income | | | | | | |
| - Exchange gain on translation of financial statements of foreign operations | - | - | 303 | - | - | 303 |
| Total comprehensive income for the period | - | - | 303 | 6,081 | - | 6,384 |
| Balance as at 31 March 2014 | 17,955 | 4,496 | 2,009 | 47,784 | 5,681 | 77,925 |

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.

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 quarter ended 31 March 2014.

Financial Review

Comparing the first quarter ended 31 March 2014 with the first quarter last year, the sales revenue increased by 33.7% to HK\$49.8 million from HK\$37.3 million. The gross profit increased by 26.1% to HK\$30.7 million. The net profit after taxation increased by 40.1% to HK\$6.1 million.

The gross profit margin was 61.5% which is considered on the high side for our industry. ACS has invested heavily in R&D to develop advanced technologies in-house to keep a healthy gross profit margin. Also, the software content of our offerings is increasing with the result of higher overall gross profit margins.

The three main types of operating costs, namely, selling and distribution costs, research and development expenses and administrative expenses totalled HK\$23.4 million this year representing 18.0% increase from HK\$19.9 million last year. The main increases came from research and development expenses and administrative expenses due to increased headcount.

| | Three months ended 31 March | | Change |
|------------------------|-----------------------------|------------------|------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | |
| Asia Pacific | 19,817 | 16,700 | 19% |
| Europe | 18,238 | 11,319 | 61% |
| The Americas | 11,273 | 7,891 | 43% |
| Middle East and Africa | 494 | 1,357 | -64% |
| | 49,822 | 37,267 | 34% |

The sales breakdown by region shows an increase of 19% in the Asia Pacific region, 61% in Europe and 43% in The Americas, on the other hand a decrease of 64% in the Middle East and Africa. This increase in the APAC region was due to the increased orders of AFC related solutions delivered in the region. This increase in the Europe and the Americas regions were due to the increased orders of hardware sales. This decrease in the Middle East and Africa was due to decreased orders of hardware sales.

Dividend

The Board does not declare an interim dividend in respect of the three months ended 31 March 2014. 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

When providing smart card based solutions, ACS has the advantage of having its own hardware components used in the solution. For example, ACS provides payment solutions using devices in a diverse array of form factors and connection interfaces. A few examples are: the ACR123, a MasterCard Paypass and Visa Paywave payment terminal; ACR89U-A2, a handheld smart card reader with PIN-pad that offers contact and contactless support and may be equipped with a thermal printer; ACR122T, a token-sized NFC reader that supports Mifare cards, ISO 14443 Type A and B cards, and all four types of NFC tags; and the ACR31, an audio jack reader for magnetic stripe cards supporting Mobile POS (Point-of-Sales).

ACS was a Sponsor in SCA (Smart Card Alliance) 2014 Payments Summit. It was held on Feb 5 to 7, at the Grand America Hotel in Salt Lake City. The event covered EMV, mobile, and transit payments. We took the opportunity to connect with industry players and to attend talks and workshops on emerging technologies, considerations surrounding standards, approaches to payment, and strategies for different platforms.

Prospects

ACS has been building a strong foundation in its hardware business for the last 19 years. In the recent years, ACS has been spending more efforts in developing complete applications, e.g. Automatic Fare Collection Systems. By combining the technical knowhows in hardware, software and application, ACS's offerings have enhanced the competitive position of the Company and hence achieved better gross profits margins.

Liquidity and Financial Resources

At all times the Group maintains a healthy liquidity position. As at 31 March 2014, the Group's cash and cash equivalents amounted to HK\$38.6 million (31 March 2013: HK\$30.2 million). The bank borrowings of the Group amounted to HK\$32.9 million (31 March 2013: HK\$20.5 million). The gearing ratio, being the total interest bearing debts over the total equity, at 31 March 2014 was 0.31 (31 March 2013: 0.24).

The current ratio, being the ratio of current assets to current liabilities, was 2.04 (31 March 2013: 1.95). Net asset value as at 31 March 2014 was HK\$106.3 million (31 March 2013: HK\$84.5 million).

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

As at 31 March 2014, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long position in ordinary shares of HK\$0.10 each

| Name of director | Personal interests (Note 1) | Family interests | Corporate interests | Other interests | Total number of shares held | Percentage of the Company's issued share capital as at |
|--------------------------------------|--------------------------------|------------------|---------------------|-----------------|-----------------------------|--|
| | | | | | | 31 March 2014 |
| Mr. Wong Yiu Chu, Denny (Note 2) | 80,768,000 | 55,738,522 | - | - | 136,506,522 | 48.06% |
| Ms. Tsui Kam Ling, Alice (Note 3) | 55,738,522 | 80,768,000 | - | - | 136,506,522 | 48.06% |
| Mr. Lo Kar Chun, Nicky, SBS, JP | 400,000 | - | - | - | 400,000 | 0.14% |
| 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 55,738,522 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.
- 55,738,522 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 2014, 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

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Pre-IPO Share Option Plan. All the options lapsed upon the expiry of the options on 20 January 2013.

(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"). The Scheme was expired on 26 October 2013.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

Save as 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 not been notified of any interests in the Company's issued shares as at 31 March 2014 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at 31 March 2014 and to the best knowledge of the directors, there was no person 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 2014.

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 four independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter, Mr. Wong Yick Man, Francis and Mr. Lo Kar Chun, Nicky, SBS, JP 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 three months ended 31 March 2014.

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

Hong Kong, 13 May 2014