



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 2013

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

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* For identification only

HIGHLIGHTS

- Revenue of the Group for the nine months ended 30 September 2013 increased by 23% to HK\$141.3 million from the first three quarters of 2012.
- Net profit after income tax of the Group for the nine months ended 30 September 2013 increased by 53% to HK\$17.3 million from the first three quarters of 2012.

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 nine months ended 30 September 2013 together with the comparative unaudited figures for the corresponding periods in 2012.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2013

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Revenue	2	54,948	42,145	141,322	114,925
Cost of sales and services provided		(19,550)	(20,897)	(55,330)	(53,454)
Gross profit		35,398	21,248	85,992	61,471
Other income and gains		340	101	671	219
Selling and distribution costs		(5,269)	(3,143)	(14,630)	(9,171)
Research and development expenses		(10,603)	(5,260)	(24,650)	(16,202)
Administrative expenses		(9,409)	(7,404)	(25,874)	(21,542)
Finance costs	3	(214)	(75)	(550)	(244)
Profit before income tax	4	10,243	5,467	20,959	14,531
Income tax expense	5	(1,820)	(1,374)	(3,636)	(3,237)
Profit for the period, attributable to owners of the Company		8,423	4,093	17,323	11,294
Other comprehensive income					
Exchange gain/(loss) on translation of financial statements of foreign operations		208	29	659	(28)
Remeasurement of defined benefit obligations		1	–	23	–
Other comprehensive income for the period		209	29	682	(28)
Total comprehensive income for the period, attributable to owners of the Company		8,632	4,122	18,005	11,266
Earnings per share for profit attributable to owners of the Company for the period	7				
– Basic (HK cents)		2.965	1.445	6.098	3.988
– Diluted (HK cents)		2.965	1.443	6.098	3.984

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 2012 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 2013. 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 nine months ended 30 September 2013 were approved for issue by the Board on 11 November 2013.

2 REVENUE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sale of smart card products, software and hardware	46,589	41,932	119,956	112,093
Smart card related services	8,359	213	21,366	2,832
	54,948	42,145	141,322	114,925

3 FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Interest charges on bank borrowings, repayable on demand or wholly within five years	214	75	550	244

4 PROFIT BEFORE INCOME TAX

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

	Three months ended 30 September 2013		Nine months ended 30 September 2013	
	HK\$'000	2012 HK\$'000	HK\$'000	2012 HK\$'000
Amortisation of development costs*	2,157	946	5,439	2,780
Depreciation of plant and equipment	1,210	1,157	3,651	3,342

* Included in research and development expenses in profit or loss

5 INCOME TAX EXPENSE

	Three months ended 30 September 2013		Nine months ended 30 September 2013	
	HK\$'000	2012 HK\$'000	HK\$'000	2012 HK\$'000
Current tax				
Hong Kong profits tax				
– Provision for current period	1,771	1,307	3,257	3,311
– Over-provision in respect of prior year	–	–	–	(12)
	1,771	1,307	3,257	3,299
Philippines Income Tax				
– Provision for current period	49	61	379	70
– Under/(Over) provision in respect of prior years	–	6	–	(132)
	49	67	379	(62)
	1,820	1,374	3,636	3,237

Hong Kong profits tax for the nine months ended 30 September 2013 has been provided at the rate of 16.5% (2012: 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 the People's Republic of China, Japan 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 (2012: Nil).

6 DIVIDENDS

A dividend of HK\$1.5 cents per share amounting to approximately HK\$4,261,000 for the year ended 31 December 2012 had been approved by the shareholders at the annual general meeting and was subsequently paid on 4 June 2013.

The Company had not declared or paid any dividends for the three months and nine months ended 30 September 2013 (2012: Nil).

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and nine months ended 30 September 2013 respectively is based on profit attributable to owners of the Company of HK\$8,423,000 (2012: HK\$4,093,000) and HK\$17,323,000 (2012: HK\$11,294,000) and the weighted average of 284,058,000 (2012: 283,259,000) and 284,058,000 (2012: 283,194,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2013 respectively is based on profit attributable to owners of the Company of HK\$8,423,000 (2012: HK\$4,093,000) and HK\$17,323,000 (2012: HK\$11,294,000) and the weighted average of 284,058,000 (2012: 283,601,000) and 284,059,000 (2012: 283,512,000) 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 nine months ended 30 September 2013 respectively is calculated based on the weighted average of 284,058,000 (2012: 283,259,000) and 284,058,000 (2012: 283,194,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of nil (2012: 342,000) and 1,000 (2012: 318,000) 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 2012	17,829	4,496	635	11,689	-	34,649
Issue of shares upon exercise of share options	126	-	-	-	-	126
Transactions with owners	126	-	-	-	-	126
Profit for the period	-	-	-	11,294	-	11,294
Other comprehensive income						
- Exchange loss on translation of financial statements of foreign operations	-	-	(28)	-	-	(28)
Total comprehensive income for the period	-	-	(28)	11,294	-	11,266
Balance as at 30 September 2012	17,955	4,496	607	22,983	-	46,041
Balance as at 1 January 2013	17,955	4,496	886	24,070	4,261	51,668
2012 dividend approved	-	-	-	-	(4,261)	(4,261)
Transactions with owners	-	-	-	-	(4,261)	(4,261)
Profit for the period	-	-	-	17,323	-	17,323
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	-	-	659	-	-	659
- Remeasurement of defined benefit obligations	-	-	-	23	-	23
Total comprehensive income for the period	-	-	659	17,346	-	18,005
Balance as at 30 September 2013	17,955	4,496	1,545	41,416	-	65,412

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 (thereafter referred to as “ACS” or the “Group”) for the three months and nine months ended 30 September 2013.

FINANCIAL REVIEW

Comparing the third quarter ended 30 September 2013 with the third quarter last year, the sales revenue increased by 30% to HK\$54.9 million from HK\$42.1 million. The gross profit increased by 67% to HK\$35.4 million. The three main types of operating costs, i.e. administrative expenses, research and development expenses, and selling and distribution costs increased respectively by 27%, 102% and 68% to HK\$9.4 million, HK\$10.6 million and HK\$5.3 million. The net profit after tax for the third quarter ended 30 September 2013 increased by 106% to HK\$8.4 million, from HK\$4.1 million for the third quarter ended 30 September 2012.

Comparing the first nine months of 2013 with the first nine months of 2012, ACS recorded 23% increase in sales revenue to HK\$141.3 million and 40% increase in gross profit to HK\$86.0 million. This is mainly due to the overwhelming success of our more advanced in-housed developed technologies, which in turn attracted market leading solution providers into the ACS client base. These technologies included the state-of-the-art bus validators and the automatic fare collection and customer loyalty software.

	Three months ended			Nine months ended		
	30 September		Change	30 September		Change
	2013	2012		2013	2012	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Asia Pacific	21,676	12,083	79%	56,739	30,091	89%
Europe	12,254	16,254	-25%	46,017	41,402	11%
The Americas	19,875	11,770	69%	34,079	33,450	2%
Middle East and Africa	1,143	2,038	-44%	4,487	9,982	-55%
	54,948	42,145	30%	141,322	114,925	23%

Sales breakdown by region shows significant increase in the Asia Pacific. Substantial sales were made to the Asia Pacific in this quarter of our payment solutions. This resulted in an overall growth of 89% in the region in the first nine months. Slight growths were also recorded in Europe and The Americas on a nine-month basis. Sales dropped 55% on a nine-month basis in Middle East and Africa. An overall growth of 30% and 23% can be observed on a three-month and a nine-month basis. There may be wide fluctuations in the sales among the different regions depending on the time of fulfillment of relatively big orders in one region or another. Since ACS has a wide geographical coverage, the total sales in all regions tend to be more stable.

The three main types of operating costs totaled HK\$65.2 million this year representing 39% increase from HK\$46.9 million last year. The main reason of the increase was the rise in research and development expenses. Specifically, ACS has placed emphasized efforts into developing new products and solutions to support the future growth of the company.

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2013. 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 been investing more resources in research and development to improve products and solutions and in selling and distributions to reach out to customers. As a result, the Group is seeing improved sales. In the third quarter ended 30 September 2013, the Group released a few new products.

1. ACR1283L VisualVantage Standalone Contactless Reader, which is ideal for payment customer loyalty programs and time and attendance systems;
2. Mobile Device Card Readers – ACR38U PocketMate II and ACR31 Swipe, which are suitable for mobile smart card and magnetic card applications.

One example of the use cases was that the Group's ACR89 was selected to help streamline the Labor-Related Processes in a Middle Eastern Country. It enables a web-based e-government application that simplifies all labor-related management and processes between companies and the government.

PROSPECTS

With 18 years of experience in the hardware, software and application business in the smart card industry, the Group has been developing more and more sophisticated products and solutions in order to expand the business. In particular, the Group invested in the automatic fare collection payment solution business, which can improve the gross margin of the Group and future growth of the Group. A lot of the developing countries are exploring electronic payment systems for their public transportation. The Group is in a very strong position to support such systems with its inhouse technology. A healthy growth of business is expected by strengthening our smart card reader and terminal products and by providing automated fare collection solutions.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains a healthy liquidity position. As at 30 September 2013, the Group's cash and cash equivalents amounted to HK\$50.0 million (31 December 2012: HK\$34.2 million). The bank borrowings of the Group amounted to HK\$20.4 million (31 December 2012: HK\$14.2 million). The gearing ratio, being the total interest bearing debts over the total equity, at 30 September 2013 was 0.22 (31 December 2012: 0.18).

The current ratio, being the ratio of current assets to current liabilities, was 1.86 (31 December 2012: 1.90). Net asset value as at 30 September 2013 was HK\$93.8 million (31 December 2012: HK\$80.1 million).

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 2013.

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 nine months ended 30 September 2013.

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

Hong Kong, 11 November 2013

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.

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