



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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

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

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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 enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

* For identification purpose only

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2013 increased by 21% to HK\$194.4 million from the year ended 31 December 2012.
- Net profit after income tax of the Group for the year ended 31 December 2013 increased by 38% to HK\$23.2 million from the year ended 31 December 2012.
- The board of directors has recommended the payment of a final dividend of HK2.0 cents (2012: HK1.5 cents) for the year ended 31 December 2013.

AUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) of the Company are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2013 together with the comparative figures for the corresponding period in 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
Revenue	4	194,360	160,855
Cost of sales and services provided		(81,340)	(74,009)
Gross profit		113,020	86,846
Other income and gains	5	975	269
Selling and distribution costs		(19,218)	(13,325)
Research and development expenses		(32,498)	(22,240)
Administrative expenses		(34,292)	(29,755)
Finance costs	6	(759)	(352)
Profit before income tax	7	27,228	21,443
Income tax expense	8	(4,025)	(4,569)
Profit for the year, attributable to owners of the Company		23,203	16,874
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange gain on translation of financial statements of foreign operations		820	251
Item that will not be reclassified subsequently to profit or loss			
– Remeasurement of defined benefit obligations		63	(232)
– Income tax relating to defined benefit obligations		48	–
Other comprehensive income for the year, net of tax		931	19
Total comprehensive income for the year, attributable to owners of the Company		24,134	16,893
Earnings per share for profit attributable to owners of the Company for the year			
– Basic (HK cents)	10	8.168	5.954
– Diluted (HK cents)		8.168	5.948

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Notes	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment		7,238	9,578
Development costs		32,260	29,311
Deferred tax assets		593	–
		40,091	38,889
Current assets			
Inventories		44,094	34,766
Trade and other receivables, prepayments and deposits paid	11	31,784	19,948
Held-to-maturity financial assets		71	38
Cash and cash equivalents		48,614	34,223
		124,563	88,975
Current liabilities			
Trade payables, accruals and deposits received	12	26,566	29,075
Bank borrowings, secured		36,341	14,218
Current tax liabilities		1,028	3,465
		63,935	46,758
Net current assets		60,628	42,217
Total assets less current liabilities		100,719	81,106
Non-current liabilities			
Deferred tax liabilities		511	729
Defined benefit obligations		261	303
		772	1,032
Net assets		99,947	80,074
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital		28,406	28,406
Reserves		71,541	51,668
Total equity		99,947	80,074

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

	Attributable to owners of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium* HK\$'000	Merger reserve* HK\$'000	Translation reserve* HK\$'000	Retained profits* HK\$'000	Proposed dividend* HK\$'000	
Balance as at 1 January 2012	28,316	17,829	4,496	635	11,689	-	62,965
Issue of shares upon exercise of share options	90	126	-	-	-	-	216
Transactions with owners	90	126	-	-	-	-	216
Profit for the year	-	-	-	-	16,874	-	16,874
Other comprehensive income							
- Exchange gain on translation of financial statements of foreign operations	-	-	-	251	-	-	251
- Remeasurement of defined benefit obligations	-	-	-	-	(232)	-	(232)
	-	-	-	251	(232)	-	19
Total comprehensive income for the year	-	-	-	251	16,642	-	16,893
2012 final dividend proposed (note 9)	-	-	-	-	(4,261)	4,261	-
Balance as at 31 December 2012 and 1 January 2013	28,406	17,955	4,496	886	24,070	4,261	80,074
Dividend approved in respect of previous year	-	-	-	-	-	(4,261)	(4,261)
Transactions with owners	-	-	-	-	-	(4,261)	(4,261)
Profit for the year	-	-	-	-	23,203	-	23,203
Other comprehensive income							
- Exchange gain on translation of financial statements of foreign operations	-	-	-	820	-	-	820
- Remeasurement of defined benefit obligations	-	-	-	-	63	-	63
- Income tax relating to defined benefit obligations	-	-	-	-	48	-	48
	-	-	-	820	111	-	931
Total comprehensive income for the year	-	-	-	820	23,314	-	24,134
2013 final dividend proposed (note 9)	-	-	-	-	(5,681)	5,681	-
Balance as at 31 December 2013	28,406	17,955	4,496	1,706	41,703	5,681	99,947

* These reserve accounts comprise the consolidated reserves of HK\$71,541,000 (2012: HK\$51,668,000) in the consolidated statement of financial position as at 31 December 2013.

NOTES

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the “Company”) was incorporated in Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is located at Units 2010-2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong. The Company’s shares are listed on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The Company and its subsidiaries are referred to as the “Group” hereinafter. The Group’s operations are based in the People’s Republic of China (the “PRC”), including Hong Kong. There were no significant changes in the nature of the Group’s principal activities during the year.

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 statement 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 GEM of the Stock Exchange.

2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2013

In the current year, the Group has applied the 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, other than HKAS 19 (2011), Employee Benefits that had been early adopted for the year ended 31 December 2012. Except as explained below, the adoption of the new HKFRSs that are effective for the year had no material impact on the Group’s financial statements.

Amendments to HKAS 1 (Revised), Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group’s presentation of other comprehensive income in these financial statements has been modified accordingly. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group’s financial position or performance.

HKFRS 10, Consolidated Financial Statements

HKFRS 10 replaces the requirements in HKAS 27 “Consolidated and Separate Financial Statements” relating to the preparation of consolidated financial statements and HK(SIC)-Int 12 “Consolidation – Special Purpose Entities”. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of Interests in Other Entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in the financial statements.

2.2 New or amended HKFRSs that have been issued but are not yet effective

At the date of authorisation of this announcement, certain new or amended HKFRSs have been issued but are not yet effective. The directors of the Company anticipate that these pronouncements will be adopted in the Group’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that have not been adopted early by the Group but expected to have impact on the Group’s accounting policies is provided below. Other new or amended HKFRSs have been issued but are not yet effective and not adopted in advance are not expected to have a material impact on the Group’s financial statements.

HKFRS 9, Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The directors are currently assessing the possible impact of the above pronouncement that have not been adopted early by the Group but are not yet in a position to state whether they would have material financial impact on the Group’s financial statements.

3. SEGMENT INFORMATION

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Revenue from external customers and reportable segment revenue	194,360	160,855
Reportable segment profit	28,257	22,470
Unallocated corporate expenses	(1,029)	(1,027)
Consolidated profit before income tax	27,228	21,443
Reportable segment assets	163,859	127,699
Deferred tax assets	593	–
Unallocated corporate assets	202	165
Consolidated assets	164,654	127,864
Reportable segment liabilities	62,885	43,339
Current tax liabilities	1,028	3,465
Deferred tax liabilities	511	729
Unallocated corporate liabilities	283	257
Consolidated liabilities	64,707	47,790
Other segment information		
Depreciation and amortisation of non-financial assets*	13,041	8,518
Impairment losses on trade receivables	2	239
Impairment losses on other receivables	66	–
Interest expense	759	352
Interest income	(419)	(68)
Research and development expenses*	32,498	22,240
Write-down of inventories	1,087	731
Additions to non-current assets	13,848	15,511

* Included in research and development expenses is amortisation of development costs of HK\$8,237,000 (2012: HK\$3,967,000), which has also been included in the depreciation and amortisation of non-financial assets as disclosed above.

The following table set out information about the geographical location of (i) the Group's customers and (ii) the Group's plant and equipment and development costs ("specified non-current assets"). Geographical location of customers is based on the location at which the customers are resided. Geographical location of specified non-current assets is based on the physical location of the assets, in the case of plant and equipment, and the location of the operation to which they are allocated, in the case of development costs. The Group's revenue from external customers and specified non-current assets is divided into the following geographical areas:

	Revenue from external customers		Specified non-current assets	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
PRC, including Hong Kong and Macau (domicile)#	24,893	18,096	37,494	36,692
Foreign countries				
– United States	35,920	40,638	46	7
– Italy	29,222	23,882	–	–
– Republic of the Philippines	27,155	1,700	619	395
– Other countries	77,170	76,539	1,339	1,795
	169,467	142,759	2,004	2,197
	194,360	160,855	39,498	38,889

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

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. During each of the years ended 31 December 2013 and 2012, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2013 HK\$'000	2012 HK\$'000
Customer A*	29,206	23,876
Customer B*	1,740	1,306
Customer C	29,093	34,052
Customer D	26,388	–

* Customers A & B are known to the Group to be under common control

4. REVENUE

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Sale of smart card products, software and hardware	194,124	157,663
Smart card related services	236	3,192
	194,360	160,855

5. OTHER INCOME AND GAINS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest income on financial assets not at fair value through profit or loss	419	68
Sundry income	556	201
	975	269

6. FINANCE COSTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest charges on bank borrowings, repayable on demand or wholly within five years	759	352

7. PROFIT BEFORE INCOME TAX

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Amortisation of development costs*	8,237	3,967
Auditors' remuneration	492	408
Cost of inventories recognised as expense, including:	80,667	72,596
– Write-down of inventories	1,087	731
Depreciation of plant and equipment	4,804	4,551
Impairment losses on trade receivables	2	239
Impairment losses on other receivables	66	–
Minimum lease payments	4,108	3,585
Less: Amount capitalised into development costs	(140)	(148)
Amount recognised in profit or loss	3,968	3,437
Net foreign exchange loss	1,411	1,211
Net loss on disposals of plant and equipment	211	1

* Included in research and development expenses in profit or loss

8. INCOME TAX EXPENSE

Income tax recognised in profit or loss

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current tax		
Hong Kong profits tax		
– Provision for current year	3,865	4,740
– Over-provision in respect of prior years	–	(8)
	3,865	4,732
Philippines Income Tax		
– Provision for current year	722	141
– Under/(Over) provision in respect of prior years	5	(133)
	727	8
Other overseas tax	196	–
	4,788	4,740
Deferred tax	(763)	(171)
	4,025	4,569

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year.

Philippines Income Tax has been provided at 30% (2012: 30%) on the estimated taxable income or 2% (2012: 2%) on gross income incurred for the year, 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 year at the rates of tax prevailing in the countries in which the Group operates. PRC corporate income tax for the year has been provided at the rate of 25% (2012: 25%) on the estimated assessable profits arising in the PRC for the year.

9. DIVIDENDS

Dividends attributable to the year:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Proposed final dividend of HK2.0 cents (2012: HK1.5 cents) per ordinary share	5,681	4,261

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date.

Dividends attributable to the previous year, approved and paid during the year:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Final dividend in respect of the previous year, approved and paid during the year of HK1.5 cents (2012: Nil) per ordinary share	4,261	–

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to owners of the Company of HK\$23,203,000 (2012: HK\$16,874,000) and weighted average of 284,058,000 (2012: 283,411,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to owners of the Company of HK\$23,203,000 (2012: HK\$16,874,000) and the weighted average of 284,059,000 (2012: 283,680,000) ordinary shares outstanding during the year, 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 is calculated based on the weighted average of 284,058,000 (2012: 283,411,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 1,000 (2012: 269,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

11. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Trade receivables	27,571	15,770
Less: Provision for impairment losses	(239)	(239)
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Trade receivables – net	27,332	15,531
Other receivables	1,240	1,956
Prepayments	1,950	1,347
Deposits paid	1,328	1,114
Less: Provision for impairment losses	(66)	–
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	31,784	19,948
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Customers are generally granted credit terms of 7 to 100 (2012: 7 to 100) days. Based on invoice date, ageing analysis of the Group's trade receivables (net of provision for impairment losses) is as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 – 30 days	15,437	10,363
31 – 60 days	2,943	2,908
61 – 90 days	26	625
91 – 365 days	7,022	438
Over 365 days	1,904	1,197
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	27,332	15,531
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At each reporting date, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2013, the Group determined trade receivables of HK\$239,000 (2012: HK\$239,000) and other receivables of HK\$66,000 (2012: Nil) as individually impaired. Based on this assessment, impairment losses of HK\$2,000 (2012: HK\$239,000) are recognised for trade receivables and HK\$66,000 (2012: Nil) are recognised for other receivables for the year ended 31 December 2013. The impaired trade and other receivables are due from customers and other debtors experiencing financial difficulties that were in default or delinquency of payments or have been past due for more than one year and have not responded to repayment demands.

Movements in the Group's provision for impairment losses of trade and other receivables are as follows:

	Trade receivables		Other receivables	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
At 1 January	239	–	–	–
Impairment losses recognised	2	239	66	–
Amount written off	(2)	–	–	–
At 31 December	239	239	66	–

12. TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Trade payables	11,841	9,730
Accruals	8,356	6,797
Deposits received	6,369	12,548
	26,566	29,075

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 – 30 days	8,661	5,596
31 – 60 days	2,640	3,072
61 – 90 days	323	883
91 – 365 days	52	142
Over 365 days	165	37
	11,841	9,730

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Company's consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

DIVIDEND

The board of directors (the "Board") has recommended the payment of a final dividend of HK2.0 cents (2012: HK1.5 cents) per share, totalling of HK\$5.7 million, for the year ended 31 December 2013. Subject to approval by the shareholders at the forthcoming annual general meeting on 21 May 2014, the final dividend will be paid on 4 June 2014 to shareholders whose names appear on the register of members of the Company on 29 May 2014.

The declaration, payment and amount of future dividend 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.

CLOSURE OF REGISTER OF MEMBERS

(i) Entitlement to Attend and Vote at the 2014 Annual General Meeting

The register of members will be closed from Friday, 16 May 2014 to Wednesday, 21 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance of annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 15 May 2014.

(ii) Entitlement to the Proposed Final Dividend

The register of members will be closed from Wednesday, 28 May 2014 to Thursday, 29 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 27 May 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's sales revenue in the year ended 31 December 2013 increased by 21% compared to the previous year (2013: HK\$194 million; 2012: HK\$161 million). The sales revenue is grouped into four regions as shown below:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	Change
Asia Pacific	73,323	43,480	+69%
Europe	68,288	57,801	+18%
The Americas	40,814	47,212	-14%
Middle East and Africa	11,935	12,362	-3%
	194,360	160,855	+21%

The Group's 2013 sales revenues increased significantly in Asia Pacific. This is due to the fast growing Automatic Fare Collection Solution business. The Europe region has also seen a healthy growth. The perceived decrease in The Americas region was due to the corresponding large figure of 2012, when sizable orders were delivered. In fact, the Group's 2013 sales revenue in The Americas was historically the second highest ever achieved in the region, behind only to 2012's figure.

The Group's 2013 gross profits increased by 30% compared to the previous year (2013: HK\$113,020k; 2012: HK\$86,846k). The Group's 2013 gross profit margin increased to 58% (2012: 54%). The increased gross profits were mainly attributed to the sales of more sophisticated smart card products and Automatic Fare Collection Solution which generally have higher gross profit margins.

The Group's 2013 total expenses increased by 32% compared to the previous year (2013: HK\$86,767k; 2012: HK\$65,672k). This increase can be attributed to the increased headcount (31 December 2013 headcount: 289; 31 December 2012 headcount: 271) as well as increased selling and distribution costs and research and development expenses owing to increased activities in sales and marketing and further strengthened research and development team.

The Group's 2013 profit for the year increased by 38% compared to the previous year (2013: HK\$23,203k; 2012: HK\$16,874k). The increase can be attributed to sizable increases in sales revenue and gross profits and controlled total expenses, made possible by our product portfolio of more sophisticated products with a higher gross profit margin, as well as a more productive staff force assisted by an improved internal IT, communication and automation system. Additionally, previous trainings and accumulated experience have also added to the staff members' increased productivity.

The inventories increased to HK\$44 million at 2013 year end from HK\$35 million a year earlier owing to increase in sales and owing to more raw materials stocked in anticipation of production in the coming months against orders that require advanced acquisition of raw materials.

In 2013, the Group arranged more bank lines in the form of term loans as we expected that there would be more business of offering smart card solutions which would require the Group to invest upfront for return in the form of future streams of revenue. Since the term loans had been drawn at 2013 year end, the bank borrowing increased to HK\$36 million versus HK\$14 million a year ago. The cash also increased to HK\$49 million from HK\$34 million. At 2013 year end, total cash still exceeded bank borrowing outstanding.

The trade and other receivables, prepayments and deposits paid increased to HK\$32 million at 2013 year end from HK\$20 million a year ago. The increase in the portion of business in offering solutions resulted in wider fluctuations in accounts receivable. From time to time, customers may make substantial deposits to the Group. At the same time, for the business of offering automatic fare collection solution, we may agree to accept a long payment term if justified by the relative low credit risks a long-termed future stream of income. Overall, we have had historically a good record in managing accounts receivable.

BUSINESS REVIEW

The Group has been investing heavily in research and development and accumulating a lot of technology expertise in many areas in-house and started seeing the benefits of improved sales. The Group has also a strong intention to expand its businesses by developing more sophisticated products with healthy gross margin in larger markets. By tapping into these new markets, the Group can enjoy new revenue streams. In particular, the Group has seen a healthy growth in its solution business.

By continually improving the internal collaboration platform and standard operating procedures, the Group has streamlined its communications across multiple office locations and improved the efficiency of the workforce. The Group also emphasizes on applying the best practice of the industry and spent resources in building a great company system.

On top of and partly due to the Group's higher productivity, the Group has been able to provide more sophisticated products. The following are some products officially launched in 2013:

Software Development Kit for ACOS7 and ACOS10 Combi Cards



The SDK's technical documents, demo application, and smart card and reader tool offer Chinese language support, in addition to English.

The ACOS7 was designed primarily to meet the requirements of the world automated fare collection (AFC) market. In keeping with the concept of the all-in-one card, the ACOS7 has a dual interface, and supports multiple e-purse and e-deposit transactions. Meanwhile, the ACOS10 Combi provides an ideal banking solution, supporting credit load and unload, purchase, withdrawal, overdraw limit updates, and transaction log reviews. Both cards have passed different certifications and complied with various industry standards. ACOS 7 is compliant with ISO 7816 Parts 1–4, ISO 14443 Parts 1–4, and the Ministry of Construction (MoC) Standard in China (which ensures that it can meet the requirements of automated fare collection or AFC, and e-payment). Meanwhile, the ACOS10 Combi Card is compliant with ISO 7816 Parts 1–4 and ISO 14443 Parts 1–4. Both cards support People's Bank of China (PBOC) e-Deposit and e-Purse payment applications.

The SDK includes tools such as ACS QuickView, PC/SC Learning Tool, ACS Script Tool 3, and the ACS Smart Card and Reader Tool. Sample codes are available in the most commonly used programming languages. Through these, developers can significantly reduce research and development time, engineering costs, and time-to-market.

Online Demo for Loyalty and e-Purse Applications



ACS launched a loyalty and e-purse application demo entitled “Online Purse and Loyalty Demo (Contact),” which may be accessed online using ACOS3 Smart Cards, and either an ACR38U Smart Card Reader or an ACR33U-A1 SmartDuo Smart Card Reader.

The demo shows how to implement point of sale (POS)-related transactions and loyalty programs with the ACOS3 and ACS’s PC-linked contact card readers. Specifically, it demonstrates how to create and replenish stored value for e-Purse cards, shop for products, and convert loyalty points to e-Purse value.

ACS will be creating more demos for other devices (e.g. for contactless cards and readers) and applications. These upcoming demos will be uploaded on <http://demo.acs.com.hk/>, a webpage solely for users to try out applications using ACS devices. The webpage and demos are both supported by latest versions of Internet Explorer, Mozilla Firefox and Google Chrome.

Demos available online will help ACS provide efficient, on-demand support. Smart card technology improves life of thousands of people in big and little ways, from keeping bank transactions safe, to shortening time spent on checkout lines. The online demo helps developers unleash the smart card potential, by providing them all the support and information we can. The more we show people how to apply smart card technology in the real world, the faster we benefit people.

Robust E-Banking Security with APG8205 Dynamic Password Generator



ACS offers the APG8205 to enhance and strengthen security in today's banking environment. Belonging to ACS's Dynamic Password Generators product line, the APG8205 provides a two-factor authentication solution that protects online banking customers and merchants alike from malicious attacks.

The APG8205 is the next-generation dynamic password generator from ACS that offers a sleeker, thinner and more modern design. Built with a clear LCD and responsive keypad, it enables user-friendly and convenient operations. Beyond its physical attributes, however, it is APG8205's strong two-level mutual authentication capability that is most noteworthy. By authenticating using two factors-something users have (a MasterCard CAP/Visa DPA card) and something users know (a PIN)-risks of fraudulent attacks like "Card-Not-Present" scenarios could be greatly mitigated, making online banking transactions much safer.

With its compliance to major banking, computing and safety standards, namely, Mastercard® Chip Authentication Program (CAP), VISA Dynamic Passcode Authentication (DPA) and EMV Level 1 Certification, APG8205 is a reader all stakeholders in the banking industry can trust.

ACR1283L VisualVantage Standalone Contactless Reader



ACS launched the ACR1283L VisualVantage Standalone Contactless Reader, in response to continued growth in the use of contactless smart cards worldwide.

The ACR1283L is the latest addition to ACS's VisualVantage Series of LCD-equipped contactless readers supporting ISO 14443 cards and Mifare variants. Applications suited to the ACR1283L include payment and customer loyalty programs, and time and attendance systems.

Supporting both PC-linked and standalone operations, the ACR1283L provides users with more benefits when implementing contactless applications such as:

Rich User Interaction – ACR1283L comes with various peripherals: two-line graphic LCD, four LEDs, buzzer and twelve-key capacitive touch keypad to enhance user experience.

Security – ACR1283L is equipped with four built-in ISO 7816-compliant secure access module (SAM) slots to boost security. ACR1283L also has an in-device AES, DES and 3DES encryption capability that adds another layer against malicious attacks associated with PCs.

Flexibility – ACR1283L can support post-deployment remote firmware update.

Mobile Card Readers



ACS has released a line of Mobile Device Card Readers. ACS currently enables mobility by housing powerful readers in the smallest form factors. It was enough years ago for users to have a reader that fits in the pocket, to be plugged into a PC. But developments in mobile devices have presented us with a new challenge. Mobile devices can now perform many functions of a PC, and many users are starting to prefer the former for the majority of their activities. By developing readers that they can use with smart phones and tablets, ACS is enabling true mobility for such users.

ACS has released two new mobile device card readers: the ACR38U PocketMate II and the ACR31 Swipe.

The *ACR38U PocketMate II* is a token-sized device that transforms into a full-sized smart card reader with a single swivel motion. It houses the ACR38 core, which has been proven to meet the requirements of highly demanding smart card applications. The ACR38U PocketMate II supports ISO7816 Class A, B and C (5V, 3V, 1.8V) cards, microprocessor cards with T=0 and T=1 protocol, and most memory cards. With its Micro USB OTG interface, it can support most smartphones and tablets in the market that run on Android™ OS. It is compliant with EN60950/IEC60950, ISO7816, CE, FCC, VCCI, PC/SC, CCID, EMV 2000 Level 1, and RoHS standards, for maximum security and versatility.

Meanwhile, the *ACR31 Swipe* is a phone jack card reader that supports high and low coercivity magnetic stripe cards and can read tracks 1 and 2 of most ISO7810 and ISO7811 – compliant cards, as well as cards compliant to JIS1 and JIS2 standards. It uses AES-128 encryption algorithm to secure transactions.

The ACR31 Swipe supports most Android and iOS devices. To show the functionalities of the ACR31 Swipe, ACS has developed the ACR31 EasySwipe application, an iOS-based demo that shows the functionalities of the ACR31 Swipe Card Reader. An Android version of the application will also be available on Google Play.

ACS will also launch a phone jack card reader that supports magnetic stripe and contactless cards, and a phone jack card reader that supports magnetic stripe and contact cards.

The following are some milestones in 2013:

ACS Solution Helps Increase Convenience and Security in SM Prepaid and Loyalty Program



ACS was chosen as the technology partner of SM Prime Holdings, Inc. (SM), one of the largest mall developer, operator and retail company with 48 shopping malls in the Philippines, for its smart card-based prepaid and loyalty solution, the e-PLUS Tap to Pay.

e-PLUS Tap to Pay is a stored value contactless smart card that embodies the all-in-one card concept. Using ACS's card and reader technologies, e-PLUS Tap to Pay Card can be used for cashless payment in SM's Cinemas, IMAX Theatres, Directors Club Cinemas, parking facilities, skating rinks, bowling, amusement centers, food courts, select food and non-food merchants in the SM Malls. Also, it is accepted for payment in select transport shuttles, and is even being deployed in some school cafeterias, bookstores and printers.

To encourage usage of the system, SM and its partner merchants and brand are offering discounts, privileges and other exclusive rewards to the e-PLUS Tap to Pay members. Part of the cardholders' privilege is convenient access to SM cinemas, as they can go straight to their theatre of choice, without falling in line at ticket booths. SM hopes to have 1 million card holders by June 2014.

ACS's ACR89 Helps Streamline Labor-Related Processes in Middle Eastern Country



ACS was chosen as the certified supplier of smart card readers for an online e-government transaction system in a Middle-Eastern country.

The ACR89 is a handheld smart card reader with PIN-pad, suited for e-government, e-banking and e-payment, e-health, transportation, and loyalty applications. It operates in both PC-linked and standalone modes to provide flexibility.

ACS's ACR89 was chosen to enable a web-based e-government application that simplifies all labor-related management and processes between companies and the government. To facilitate the use of the system, the ACR89 reader is either issued by the government directly to companies, or deployed in different service centers throughout the country for more convenient access.

Using the ACR89, companies can add or remove employees in a national registry. They can also use it to submit documents such as work permits, company licenses and labor contracts directly to the government. Through the device, they may also print receipts or access other services over the Internet, such as viewing transactions and generating reports.

To complete and authorize each transaction, a company representative needs to present an e-signature via two-factor authentication: a user simply inserts his/her national ID card, which contains an e-certificate (what he has) and inputs his/her PIN (what he knows) on the ACR89.

Through a two-factor authentication system, company data is safeguarded even after e-certificate/ID theft. The ACR89 also supports secure pin entry, which protects PIN codes from viruses and similar threats. The ACR89 also has a tamper detection switch, which will erase all data and programs in the device during intrusion.

Compared to traditional systems, a web-based system for handling labor-related management and processes requires less resources (time, paper forms, personnel, etc.), generating more savings for companies who utilize this e-government transaction system. Additionally, the overall management of labor records becomes more organized and secure, resulting in greater efficiency for both the government and the project's users.

ACS's ACR320 Ticket Validator Design Lauded in 2013 Hong Kong Awards for Industries



ACS has been awarded the Machinery and Machine Tools Design Certificate of Merit in the 2013 Hong Kong Awards for Industries (HKAI). The award recognizes ACS's ACR320 Ticket Validator, a powerful all-in-one Automatic Fare Collection (AFC) device for public transport. Simply put, it is a device to accept payment cards in buses or in the automatic gates in train systems.

ACS last received recognition in this category in 2009, when the HKAI awarded a Certificate of Merit to ACS's eH880 eHealth Smart Card Terminal. Entries are evaluated in terms of innovation, application of technology, functionality, ergonomics, cost performance, marketability, safety, and environmental impact.

Judges have noted that the ACR320 Ticket Validator ensures that “operators receive correct income, by eliminating free-riders or fraud. The product is competitive, inexpensive to build, and the operating cost is low. It has already established a market in several developing countries and has the potential to expand into other regions.”

The ACR320 Ticket Validator includes a GPS module, which enables distance-based fare collection and aids in fleet management. Supporting ISO14443 Type A & B, Mifare, and NFC-compliant cards, it is in keeping with the cashless trend, widely predicted to be the way of the future. It is also built with a strong 32-bit ARM11 processor which can complete typical transactions in 300 milliseconds (including recovery and backup).

Apart from the GPS module, it supports different connection modes for data transfer, including Wifi, 3G and Bluetooth. Dust and water-resistant, it is incorporated with over-voltage and over-current protection, card authenticity and validity checking, blacklist checking, and touchscreen capabilities.

This award proves the amount of thought that went into creating the ACR320 Ticket Validator. And the fact that we were recognized by the HKAI twice within 4 years shows how we aim to bring the best device to the market, every single time. This award has inspired us, more than ever, to develop solutions that deliver maximum value and innovation.

ACS was named as one of The Hong Kong's 100 Most Influential Brands 2013



ACS was named as one of “The Hong Kong’s 100 Most Influential Brands for 2013” by the Word Brand Laboratory.

Being selected as an influential brand is proof not only of popularity, but also of a brand’s capability to maximize shareholder value. The World Brand laboratory determines awardees through a mathematical valuation of intangible assets, including: customer loyalty, brand value, profitability, and market value. Past awardees of the distinction include internationally renowned enterprises like HSBC Hong Kong, Bank of China Hong Kong, and Cathay Pacific. Mr. Denny Wong, CEO and founder of ACS, accepted the award on behalf of ACS on Dec 27, 2013 in an award conferring ceremony (see picture).

As a worldwide leader on intangible asset valuation, the World Brand Laboratory has similarly assessed well-known brands for accounting, taxation and commercial purposes. It is also the organizer of “the World’s 500 Most Influential Brands” and “the Asia’s 500 Most Influential Brands.”

This award validates the level of quality, innovation and service that ACS constantly strives to achieve. Since ACS was established, we have fostered a corporate culture of delivering on promises and maintaining integrity – this culture constantly builds a reputation for ACS. It is the vision of ACS combine scientific spirit and Confucius thoughts to build a sustainable electronic and information technology business which is green in order to achieve the dual purposes of business growth and environmental protection. With this vision, ACS is building a reputation and a brand name.

PROSPECTS

Since the inception of the Company in 1995, the Group has been building up a wide range of advanced smart card and reader technologies in house, cultivating a strong R&D and technical support team. The Group has a competitive pricing through low cost structure, as comparing to many competitors. The Group has been viewed as a trustworthy and reliable supplier. And it was named as one of “The Hong Kong’s 100 Most Influential Brands for 2013” by the Word Brand Laboratory. Also, with the flexibility and speed in adapting products to meet customer requirements, the Group was able to capture the fast growing new markets, especially in the Automatic Fare Collection systems.

The Group was chosen as the primary technology partner of SM Prime Holdings, Inc. (SM), the largest mall developer, operator and retail company with 48 shopping malls in the Philippines, for its smart card-based prepaid and loyalty solution, the e-PLUS Tap to Pay. It was a significant milestone for the Group to enter into solution business on top of its hardware business.

Riding on the growing adoption of smartphones and tablets, the Group has released a line of mobile device card readers for the growing market.

The Group has always been seeking opportunities to expand its businesses in many countries. In 2013, a new office was opened in USA after a new office was opened in Japan in 2012. The group expects to bring in new opportunities in untapped markets, leveraging over 20 years of experience in the smart card reader industry from these two very important markets.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2013, the Group’s bank and cash balances amounted to HK\$48.6 million (2012: HK\$34.2 million). The Group keeps most of its cash in Hong Kong dollars (“HK\$”), Euros (“EURO”), Philippines Pesos (“PHP”), United States dollars (“US\$”) and Renminbi (“RMB”) in bank accounts. The bank borrowings of the Group amounted to HK\$36.3 million (2012: HK\$14.2 million). The bank borrowings are denominated in HK\$, at floating rates and repayable within five years. The gearing ratio, being the total interest bearing debts over the total equity, at 31 December 2013 was 0.36 (2012: 0.18).

The Group's equity capital, bank borrowings, together with the profit generated from operations, has been applied to fund its working capital and other operational needs. The current ratio, being the ratio of current assets to current liabilities, was 1.95 (2012: 1.90). Net asset value as at the year end date was HK\$99.9 million (2012: HK\$80.1 million).

INVESTMENTS

During the year, the Group did not make any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2013.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK\$, EURO, PHP, US\$ and RMB. As HK\$ is pegged to US\$, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates of US\$ to HK\$. In relation to the fluctuation on RMB and PHP, the Group considers that currency risk arising from RMB and PHP does not have significant financial impact to the Group as these related to the subsidiaries which operates in Mainland China and the Philippines with most of the transactions denominated and settled in RMB and PHP respectively. When appropriate, hedging instruments including forward contracts would be used to manage the foreign exchange exposure on EURO.

PLEDGE OF ASSETS

As at 31 December 2013, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 31 December 2013, the Company had outstanding corporate guarantee of HK\$74 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its main subsidiary. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, the Group had 289 full time employees. Staff costs recognised in profit or loss amounted to HK\$47.7 million (2012: HK\$38.5 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

The Group had adopted share option scheme under which the employees of the Group might be granted share options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group. The share option scheme expired on 26 October 2013.

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 year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE

During the year, the Company has applied the principles of the Corporate Governance Code (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited. The Company has complied with the code provisions of the Code except for the provision A.2 of the Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Yiu Chu, Denny was appointed as the chairman and chief executive officer of the Company. The roles of chairman and chief executive officer were not separated. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that his appointment being both the chairman and chief executive officer is beneficial to the business prospects of the Company.

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 met with the external auditor and reviewed the Group's audited results for the year ended 31 December 2013.

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

Hong Kong, 17 March 2014

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 4 independent non-executive directors, Mr. Lo Kar Chun, Nicky, SBS, JP, 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.