



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 2011**

**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 2011 increased by 9% to HK\$69.9 million from the first three quarters of 2010.
- Gross profit of the Group for the nine months ended 30 September 2011 increased by 1% to HK\$35.5 million from the first three quarters of 2010.
- Net loss after income tax of the Group for the nine months ended 30 September 2011 amounted to HK\$1.6 million while net profit after income tax for the first three quarters of 2010 amounted to HK\$2.4 million.
- As at 30 September 2011, the current ratio was 1.7 while the gearing ratio was 0.29.
- The book/bill ratio for the three months ended 30 September 2011 was 2.0.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2011 together with the comparative unaudited figures for the corresponding periods in 2010.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2011

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue	2	19,795	20,775	69,894	64,198
Cost of sales		(8,842)	(9,189)	(34,374)	(29,018)
Gross profit		10,953	11,586	35,520	35,180
Other income		39	22	105	178
Administrative expenses		(5,933)	(4,841)	(16,454)	(14,410)
Research and development expenses		(4,684)	(3,500)	(13,024)	(10,035)
Selling and distribution costs		(2,319)	(2,257)	(7,219)	(7,385)
Finance costs	3	(205)	(136)	(567)	(296)
(Loss)/Profit before income tax	4	(2,149)	874	(1,639)	3,232
Income tax credit/(expense)	5	192	(364)	5	(868)
(Loss)/Profit for the period		(1,957)	510	(1,634)	2,364
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		139	73	267	57
Other comprehensive income		139	73	267	57
Total comprehensive income for the period		(1,818)	583	(1,367)	2,421
(Loss)/Earnings per share for (loss)/profit attributable to the owners of the Company during the period	7				
Basic		HK(0.691) cents	HK0.180 cents	HK(0.577) cents	HK0.836 cents
Diluted		N/A	HK0.180 cents	N/A	HK0.834 cents

NOTES:

1 BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“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 2010 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 2011. 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 2011 were approved for issue by the board of directors on 10 November 2011.

2 REVENUE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sale of smart card products, software and hardware	19,317	20,161	68,881	63,433
Smart card related services	478	614	1,013	765
	19,795	20,775	69,894	64,198

3 FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Interest charges on bank borrowings - wholly repayable within five years	97	39	245	61
Bank charges	108	97	322	235
	205	136	567	296

4 **(LOSS)/PROFIT BEFORE INCOME TAX**

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/Profit before income tax is arrived at after charging:				
Amortisation of development costs	514	480	1,619	1,556
Depreciation	950	725	2,466	2,050

5 **INCOME TAX (CREDIT)/EXPENSE**

No Hong Kong profits tax was provided in the financial statements for the nine months ended 30 September 2011 as the companies within the Group did not derive any assessable profit in Hong Kong. Hong Kong profits tax for the nine months ended 30 September 2010 has been provided at the rate of 16.5% on the estimated assessable profit for the period.

Overseas tax refers to the income tax in the Philippines which has been provided at the rate of 30% on the estimated assessable profit for the nine months ended 30 September 2011. Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines for the nine months ended 30 September 2010. MCIT has been provided at 2% on gross income incurred in the Philippines during the nine months ended 30 September 2010. No provision for overseas tax in other locations including the Peoples' Republic of China, Canada and Germany has been made as no assessable profits arose from the operations in these locations or had unused tax losses brought forward to offset against the current period's assessable profit (2010: Nil).

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
- Hong Kong				
Current period	(226)	331	—	770
	(226)	331	—	770
- Overseas				
Current period	34	33	98	97
(Over)/Under provision in previous year	—	—	(103)	1
	34	33	(5)	98
	(192)	364	(5)	868

6 DIVIDENDS

The Company had not declared or paid any dividends for the three months and nine months ended 30 September 2011 (2010: Nil).

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share (2010: basic earnings per share) for the three months and nine months ended 30 September 2011 respectively is based on the loss attributable to owners of the Company of HK\$1,957,000 (2010: profit attributable to owners of the Company of HK\$510,000) and HK\$1,634,000 (2010: profit attributable to owners of the Company of HK\$2,364,000) and the weighted average 283,161,000 (2010: 283,094,000) and 283,161,000 (2010: 282,767,000) ordinary shares in issue during the period.

Diluted loss per share for the three months and nine months ended 30 September 2011 was not presented because the impact of the exercise of the share options were anti-dilutive. The calculation of diluted earnings per share for the three months and nine months ended 30 September 2010 respectively is based on the profit attributable to owners of the Company of HK\$510,000 and HK\$2,364,000 and the weighted average 283,537,000 and 283,513,000 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 2010 respectively is calculated based on the weighted average 283,094,000 and 282,767,000 ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average 443,000 and 746,000 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

8 RESERVES

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2010	17,835	4,496	69	2,136	3,109	27,645
2009 dividends approved	—	—	—	—	(3,109)	(3,109)
Issue of shares upon exercise of share options	(6)	—	—	—	—	(6)
Transactions with owners	(6)	—	—	—	(3,109)	(3,115)
Profit for the period	—	—	—	2,364	—	2,364
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	—	—	57	—	—	57
Total comprehensive income for the period	—	—	57	2,364	—	2,421
Balance at 30 September 2010	17,829	4,496	126	4,500	—	26,951
Balance at 1 January 2011	17,829	4,496	229	6,570	—	29,124
Loss for the period	—	—	—	(1,634)	—	(1,634)
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	—	—	267	—	—	267
Total comprehensive income for the period	—	—	267	(1,634)	—	(1,367)
Balance at 30 September 2011	17,829	4,496	496	4,936	—	27,757

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the unaudited consolidated financial results of the Group (thereafter referred to as “ACS” or the “Group”) for the nine month period ended 30 September 2011.

FINANCIAL REVIEW

Comparing the third quarter ended 30 September 2011 with the third quarter last year, the sales revenue dropped by 5% to HK\$19.8 million from HK\$20.8 million. The gross profit dropped by 5% to HK\$11.0 million. The three main types of operating costs, i.e. administrative expenses, research and development expenses, and selling and distribution costs increased respectively by 23%, 34% and 3% to HK\$5.9 million, HK\$4.7 million and HK\$2.3 million. The bottom line dropped to negative HK\$2.0 million.

Comparing the first nine months of 2011 with the first nine months of 2010, ACS recorded 9% increase in sales revenue to HK\$69.9 million and 1% increase in gross profit to HK\$35.5 million. The three main types of operating costs totaled HK\$36.7 million this year representing 15% increase from HK\$31.8 million last year. The main reason of the increase was the addition of head count by 20% to 251 staff members at 30 September 2011 from 210 a year ago. The bottom line dropped to negative HK\$1.6 million for this period of nine months.

Sales breakdown by region shows substantial fluctuations in the growth rates in sales both in the third quarter and in the nine months as the following figures show. Substantial sales were made to Italy and Spain in the first half year but there was no sales order of like size for shipment in Q3, 2011, partly due to recent economic weaknesses in the region. This resulted in an overall growth of 24% in Europe in the first nine months, but a drop in Q3, 2011. Growths were recorded in Asia Pacific both on a three month and a nine month basis primarily owing to relatively big sales of our NFC (Near Field Communication) readers recorded in Japan, the world’s leading country in NFC applications¹. The Americas region recorded sales drop because the large orders from Latin America fulfilled in the first nine months of 2010 were not repeated in the first nine months of 2011. The Middle East and Africa region saw growth of 27% in the first nine months. With a small base and a good potential, this region is expected to continue to grow on a long-termed basis.

¹ NFC technology allows the mobile phone to act like a card (e.g. to be used by a passenger as a contactless card to pay for a ride on a train) and like a smart card reader (e.g. for the user to read a radio frequency chip on a poster to obtain a coupon).

	Three months ended			Nine months ended		
	30 September			30 September		
	2011	2010	Change	2011	2010	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	
Europe	6,250	8,807	-29%	33,531	26,995	+24%
Asia Pacific	10,355	6,299	+64%	23,736	20,547	+16%
The Americas	1,741	2,955	-41%	4,901	10,555	-54%
Middle East and Africa	1,449	2,714	-47%	7,726	6,101	+27%
	19,795	20,775	-5%	69,894	64,198	+9%

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2011. 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 facing the challenges of producing more complex smart card terminals such as a sophisticated bus validator (the payment terminal mounted on a bus to accept e-money payment by passengers) or a portable terminal to accept contact and contactless smart cards. ACS is strengthening its operations team and improving its IT system in order to cope with these challenges which affected our business in 2011. Despite being an ISO-9001 qualified company winning a quality award from Frost & Sullivan, ACS strives to enhance its production and logistic capabilities and has every determination to make itself a world-class company.

While tackling production and IT issues, ACS is progressing with its research and development work as scheduled. In August 2011, ACS obtained for the first time in its history EMV Level II certification for a bus validator. This bus validator was certified in compliance of EMV Level I earlier this year. The credit card organizations Europay, Mastercard and Visa set the Level I standard to ensure the performance of a smart card terminal (i.e. the bus validator in this case) as a good piece of hardware and Level II to ensure that the terminal's capability to carry out a certain range of applications. Simply put, Level I certifies the hardware and Level II certifies the software capabilities. ACS is one of the very few companies in the world having a bus validator certified against such demanding standards.

In the third quarter of 2011, a Japanese customer placed its first commercial order of HK\$2.6 million to ACS, of a POS terminal to be used in Japan for delivery in Q4, 2011. In October, before the first order was fulfilled, the customer placed another order of HK\$3.9 million of the same product. The payment terminal supports magnetic striped cards and contactless smart cards. The customer is a joint venture company formed by several big Japanese companies. They have the purpose of furnishing hundreds of thousands of payment terminals in the next years to accept the payment cards for public transportation and for micro-payments in retail stores. ACS was selected as the payment terminal supplier.

Meanwhile, ACS delivered samples of a contactless card terminal ACR1283 to a leading provider of automatic fare collections solution in China which has issued more than 10 million cards for public transportation. ACR1283 are to be distributed to thousands of retail outlets in a province in China for payment and for topping up cards (adding money to card). The device will greatly enhance the customer's capability to expand the use of their fare card to the non-transit sector.

PROSPECTS

As at 30 September 2011, ACS has 160 research and development engineers representing some two-thirds of the total headcount of 251. Such a high percentage is unusual even for a technology intensive company in the smart card industry. In its sixteen years after establishment, ACS initiated and developed a wide range of technologies in security, smart card operating system, smart card readers and terminals, web-based software and automatic fare collection solutions. Particularly in the last five years, ACS has brought its technology levels to new heights.

ACS is now winning orders from big companies including the world's leaders in payment, in physical access control and in automatic fare collection solutions. A solid market position has been built. The orders received (booking) in the third quarter amounted to HK\$39.2 million comparing with the sales revenue (billing) of HK\$19.8 million. With such a high book/bill ratio of 2.0, a major recovery in the fourth quarter is expected. Also, the proportion of booking coming from Asia is getting larger and the Group's reliance on Europe which has been suffering from economic weaknesses is lessened. As the issues facing our production are progressively resolved, we could expect that the recovery will be extended to the next year.

Furthermore, with the strengthened research and development teams, ACS envisions a faster launching of products and solutions long waited for by customers. Major growths in sales revenue and in profits in 2012 can be foreseen.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains a healthy liquidity position. As at 30 September 2011, the Group's cash and cash equivalents amounted to HK\$11.1 million (30 September 2010: HK\$11.1 million). The bank borrowings of the Group amounted to HK\$16.5 million (30 September 2010: HK\$7.5 million). The gearing ratio, being the total interest bearing debts over the total equity, at 30 September 2011 was 0.29 (30 September 2010: 0.14).

The current ratio, being the ratio of current assets to current liabilities, was 1.7 (30 September 2010: 3.7). Net asset value as at 30 September 2011 was HK\$56.1 million (30 September 2010: HK\$55.3 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 2011.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the board of directors. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the nine months ended 30 September 2011.

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

Hong Kong, 10 November 2011

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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