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 2012

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 only*

HIGHLIGHTS

- Revenue of the Group for the nine months ended 30 September 2012 increased by 64% to HK$114.9 million from the first three quarters of 2011.
- Gross profit of the Group for the nine months ended 30 September 2012 increased by 73% to HK$61.5 million from the first three quarters of 2011.
- Net profit after income tax for the nine months ended 30 September 2012 amounted to HK$11.3 million compared with a net loss of HK$1.6 million in the first three quarters a year ago.
- As at 30 September 2012, the current ratio was 1.81 while the gearing ratio was 0.15.

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 2012 together with the comparative unaudited figures for the corresponding periods in 2011.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2012

	Notes	**Three months ended 30 September**		**Nine months ended 30 September**	
		2012	2011	**2012**	2011
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	2	**42,145**	19,795	**114,925**	69,894
Cost of sales and services provided		**(20,897)**	(8,842)	**(53,454)**	(34,374)
Gross profit		**21,248**	10,953	**61,471**	35,520
Other income and gains		**101**	39	**219**	105
Selling and distribution costs		**(3,143)**	(2,361)	**(9,171)**	(7,350)
Research and development expenses		**(5,260)**	(4,657)	**(16,202)**	(13,001)
Administrative expenses		**(7,404)**	(6,026)	**(21,542)**	(16,668)
Finance costs	3	**(75)**	(97)	**(244)**	(245)
Profit/(Loss) before income tax	4	**5,467**	(2,149)	**14,531**	(1,639)
Income tax (expense)/credit	5	**(1,374)**	192	**(3,237)**	5
Profit/(Loss) for the period, attributable to owners of the Company		**4,093**	(1,957)	**11,294**	(1,634)
Other comprehensive income					
Exchange gain/(loss) on translation of financial statements of foreign operations		**29**	139	**(28)**	267
Other comprehensive income for the period		**29**	139	**(28)**	267
Total comprehensive income for the period, attributable to owners of the Company		**4,122**	(1,818)	**11,266**	(1,367)
Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company during the period	7				
– Basic (HK cents)		**1.445**	(0.691)	**3.988**	(0.577)
– Diluted (HK cents)		**1.443**	N/A	**3.984**	N/A

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").

Save as disclosed below, the accounting policies adopted in the 2011 annual financial statements have been consistently applied to these financial statements.

In the current period, the Group has applied 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 2012. 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.

During the current period, the Group has early adopted HKAS 19 (2011) "Employee Benefits", which is effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". This change may result in more plans being classified as long-term employee benefit plans that will need to be accounted for in a similar way to defined benefit plans. HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs. This could lead to later recognition of voluntary termination benefits in some cases. The amendments will generally be applied retrospectively with two exceptions. The early adoption of HKAS 19 (2011) had no material impact to the Group.

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 2012 were approved for issue by the Board on 2 November 2012.

2 REVENUE

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

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sale of smart card products, software and hardware	**41,932**	19,317	**112,093**	68,881
Smart card related services	**213**	478	**2,832**	1,013
	42,145	19,795	**114,925**	69,894

3 FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest charges on bank borrowings, repayable on demand or wholly within five years	**75**	97	**244**	245

4 PROFIT/(LOSS) BEFORE INCOME TAX

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

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amortisation of development costs*	**946**	514	**2,780**	1,619
Depreciation of plant and equipment	**1,157**	950	**3,342**	2,466

* Included in research and development expenses in profit or loss

5 INCOME TAX EXPENSE/(CREDIT)

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax				
Hong Kong profits tax				
– Provision for current period	**1,307**	(226)	**3,311**	–
– Over-provision in respect of prior year	**–**	–	**(12)**	–
	1,307	(226)	**3,299**	–
Philippines Income Tax				
– Provision for current period	**61**	34	**70**	98
– Under/(Over)-provision in respect of prior years	**6**	–	**(132)**	(103)
	67	34	**(62)**	(5)
	1,374	(192)	**3,237**	(5)

Hong Kong profits tax for the nine months ended 30 September 2012 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 nine months ended 30 September 2011 as the companies within the Group did not derive any assessable profits in Hong Kong.

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 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 (2011: Nil).

6 DIVIDENDS

The Company had not declared or paid any dividends for the three months and nine months ended 30 September 2012 (2011: Nil).

7 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share (2011: basic loss per share) for the three months and nine months ended 30 September 2012 respectively is based on profit attributable to owners of the Company of HK$4,093,000 (2011: loss attributable to owners of the Company of HK$1,957,000) and HK$11,294,000 (2011: loss attributable to owners of the Company of HK$1,634,000) and the weighted average of 283,259,000 (2011: 283,161,000) and 283,194,000 (2011: 283,161,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2012 respectively is based on profit attributable to owners of the Company of HK$4,093,000 and HK$11,294,000 and the weighted average of 283,601,000 and 283,512,000 ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares. 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 was anti-dilutive.

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 2012 respectively is calculated based on the weighted average of 283,259,000 and 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 342,000 and 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*	Total *HK$'000*
Balance as 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 as at 30 September 2011	17,829	4,496	496	4,936	27,757
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**

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.

9 COMPARATIVES

The Group previously disclosed bank charges within finance costs. Depending on its nature, this amount was now included in relevant expenses on the consolidated statement of comprehensive income as a fairer presentation of the results of the period.

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 2012.

FINANCIAL REVIEW

Comparing the third quarter ended 30 September 2012 with the third quarter last year, the sales revenue increased by 113% to HK$42.1 million from HK$19.8 million. The gross profit increased by 94% to HK$21.2 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%, 13% and 33% to HK$7.4 million, HK$5.3 million and HK$3.1 million. The bottom line increased to positive HK$4.1 million.

Comparing the first nine months of 2012 with the first nine months of 2011, ACS recorded 64% increase in sales revenue to HK$114.9 million and 73% increase in gross profit to HK$61.5 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.

	Three months ended 30 September			**Nine months ended 30 September**		
	2012	2011	Change	**2012**	2011	Change
	HK$'000	*HK$'000*		***HK$'000***	*HK$'000*	
Europe	**16,254**	6,250	+160%	**41,402**	33,531	+23%
The Americas	**11,770**	1,741	+576%	**33,450**	4,901	+583%
Asia Pacific	**12,083**	10,355	+17%	**30,091**	23,736	+27%
Middle East and Africa	**2,038**	1,449	+41%	**9,982**	7,726	+29%
	42,145	19,795	+113%	**114,925**	69,894	+64%

Sales breakdown by region shows significant increase in the Americas. Substantial sales were made to the USA in this quarter of our Automatic Fare Collection Readers. This resulted in an overall growth of 583% in the region in the first nine months. Considerable growths were also recorded in Europe both on a three-month and a nine-month basis primarily owing to continual increases in sales from our extensive distribution channels across Europe. Overall, growth can be observed across all regions, with Asia Pacific gaining a fair 17% increase compared to 2011 figures, and Middle East and Africa at a respectable growth of 41% on a three-month basis.

The three main types of operating costs totalled HK$46.9 million this year representing 27% increase from HK$37.0 million last year. The main reason of the increase was the rise in selling and distribution efforts around the world. Specifically, ACS has placed emphasised efforts into extending the reach of their business development and sales team, seen in the establishment of overseas offices and the hiring of new overseas staff and consultants. Additionally or consequently, many interesting projects are being discovered around the world, necessitating frequent and extended visits abroad.

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2012. 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

Since the year 2005, ACS has been placing increasing efforts into the research, development and production of sophisticated terminals with 32-bit micro-processors. These terminals are commonly found in physical access control, national security, health programs, payment terminals for public transportation and micro-payment in retail outlets.

Whilst these products are complex and therefore challenging in terms of development and production, ACS continued to overcome obstacles in the forms of strong competitors and demanding clients, and has introduced quality sophisticated new readers and devices into the market year after year. In this quarter of 2012, appreciation for ACS products and services came in the form of large orders from old and new clients that have been attracted by the guaranteed quality and competitive pricing of ACS.

Meanwhile, the development team of ACS has continued to improve the quality and enhance the functionality of 8-bit reader range. With an experienced and dedicated sales and support team, sales have also continued to generate great profits.

ACS is also seeing a good start in terms of sales of the ACS Transport Fare Collection Solution, including end-to-end solution, frontend devices, backend software and security system. On one hand ACS is accumulating valuable in-the-field experience, and on the other hand our high-quality and competitive offerings have gained us reputation as a respectable enabler of better public transportation for the masses.

The headcount of ACS remained steady, with only a major increase in the past year. The overall headcounts were 171, 216, 248 and 256 at 31 December 2009, 2010, 2011 and 30 September 2012 respectively. With a steady headcount whilst increasing sales, a sharp rise in net profit can be observed. This growth in productivity can be derived from ACS's previous efforts in strengthening its operations team and improving its IT system in the past 2 years.

PROSPECTS

For nearly two decades, ACS has been mastering and amassing technical expertise in security, smart card operating system, smart card readers and terminals, web-based software and automatic fare collection. ACS has combined such knowledge, and with the continual emphasis on quality, developed an inventive product range that has formed the foundation of its success. This firmly positioned ACS as one of the leaders in the industry.

In the last quarter of 2012, products and solutions eagerly awaited by the market will be released. In particular, the ACR123 Contactless Payment Terminal, in response to the booming market for MasterCard PayPass and Visa PayWave contactless payment applications, will be available at the end of the year. ACS is one of the few companies in the world with the ability to certify against the rigorous standards of EMV.

Additionally, the emergence of Android has also brought with it new and exciting opportunities, especially in the form of performing smart card-based transactions through an individual's smartphone or tablet. In response to this, a range of ACS Smart Card Readers can already work with Android devices, enhancing the security and convenience of Android devices, whether used in banking, government services, healthcare, transportation or others.

Despite an economic downturn in many countries, the public's interest in Automatic Fare Collection in Transportation has increased, with awareness reaching to more remote countries. Many transport operators have begun to realise the benefits of such a system, and are actively seeking solutions from established solution providers.

With new projects in countries spanning 3 continents, ACS is expanding its flexible offering to parts of the world where the need for such a solution is high but high-quality and competitive solution providers are limited. Delightful opportunities are arising and ACS will continue to act as a preferred solution provider for many unique public transport operators.

By anticipating and embracing new trends, and leveraging what is a large, varied and strong foundation of technical expertise, we are able to continually expand our product portfolio in a dynamic and sustainable way. Together with a brilliant workforce to cultivate and support existing and new customers, healthy profit can be expected.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains a healthy liquidity position. As at 30 September 2012, the Group's cash and cash equivalents amounted to HK$25.0 million (31 December 2011: HK$22.3 million). The bank borrowings of the Group amounted to HK$10.9 million (31 December 2011: HK$8.3 million). The gearing ratio, being the total interest bearing debts over the total equity, at 30 September 2012 was 0.15 (31 December 2011: 0.13).

The current ratio, being the ratio of current assets to current liabilities, was 1.81 (31 December 2011: 1.72). Net asset value as at 30 September 2012 was HK$74.4 million (31 December 2011: HK$63.0 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 2012.

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 2012.

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

Hong Kong, 2 November 2012

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

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