



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 2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET
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(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

- Total revenue of the Group for the nine months ended 30 September 2010 decreased by 4% to HK\$64.2 million from the first three quarters of 2009, owing to 21% drop in revenue in Europe even though sales increased in the other regions.
- Gross profit of the Group for the nine months ended 30 September 2010 increased by 3% to HK\$35.2 million from the first three quarters of 2009.
- Net profit after income tax of the Group for the nine months ended 30 September 2010 decreased by 60% to HK\$2.4 million from the first three quarters of 2009.
- The current ratio was 3.7 while the gearing ratio was 0.14.
- In 2010, the Company was included in Forbes Asia's "Best Under a Billion" list (for companies with sales between US\$5 million and US\$1 billion) as one of Asia Pacific's top 200 listed companies.

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 2010 together with the comparative unaudited figures for the corresponding periods in 2009.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2010

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue	2	20,775	28,385	64,198	66,641
Cost of sales		(9,189)	(15,671)	(29,018)	(32,633)
Gross profit		11,586	12,714	35,180	34,008
Other income		22	56	178	86
Administrative expenses		(4,841)	(3,979)	(14,410)	(11,624)
Research and development expenses		(3,500)	(3,739)	(10,035)	(9,504)
Selling and distribution costs		(2,257)	(1,820)	(7,385)	(5,172)
Finance costs	3	(136)	(65)	(296)	(209)
Profit before income tax	4	874	3,167	3,232	7,585
Income tax expense	5	(364)	(740)	(868)	(1,669)
Profit for the period		510	2,427	2,364	5,916
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		73	11	57	53
Other comprehensive income		73	11	57	53
Total comprehensive income for the period		583	2,438	2,421	5,969
Earnings per share for profit attributable to the owners of the Company during the period	7				
Basic		HK0.180 cents	HK0.861 cents	HK0.836 cents	HK2.099 cents
Diluted		HK0.180 cents	HK0.858 cents	HK0.834 cents	HK2.091 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 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”), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The accounting policies adopted in the 2009 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 2010. 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 2010 were approved for issue by the board of directors on 5 November 2010.

2 REVENUE

Revenue from the Group’s principal activities recognised during the period is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sale of smart card products, software and hardware	20,161	28,186	63,433	64,665
Smart card related services	614	199	765	1,976
	20,775	28,385	64,198	66,641

3 FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Interest charges on bank loans				
- wholly repayable				
within five years	39	5	61	24
Bank charges	97	60	235	185
	136	65	296	209

4 PROFIT BEFORE INCOME TAX

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax is arrived at after charging/(crediting):				
Amortisation of development costs	480	487	1,556	1,466
Depreciation	725	548	2,050	1,486
Net foreign exchange loss/(gain)	65	(15)	1,318	22

5 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the period.

Overseas tax refers to the Minimum Corporate Income Tax ("MCIT") in the Philippines. MCIT has been provided at 2% (2009: 2%) on gross income incurred in the Philippines during the period. 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 (2009: Nil).

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax				
- Hong Kong	331	714	770	1,591
- Overseas	33	26	98	78
	364	740	868	1,669

6 DIVIDENDS

A dividend of HK1.1 cents per share amounting to approximately HK\$3,109,000 for the year ended 31 December 2009 had been approved by the shareholders at the annual general meeting and was subsequently paid on 18 May 2010.

The Company had not declared any dividends for the three months and nine months ended 30 September 2010 (2009: Nil).

7 EARNINGS PER SHARE

The calculation of basic 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 (2009: HK\$2,427,000) and HK\$2,364,000 (2009: HK\$5,916,000) and the weighted average 283,094,000 (2009: 281,800,000) and 282,767,000 (2009: 281,800,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2010 respectively is based on the profit attributable to owners of the Company of HK\$510,000 (2009: HK\$2,427,000) and HK\$2,364,000 (2009: HK\$5,916,000) and the weighted average 283,537,000 (2009: 282,999,000) and 283,513,000 (2009: 282,906,000) 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 (2009: 281,800,000) and 282,767,000 (2009: 281,800,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average 443,000 (2009: 1,199,000) and 746,000 (2009: 1,106,000) 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>	(Accumulated losses)/ Retained profits <i>HK\$'000</i>	Proposed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2009	20,952	4,496	13	(10,083)	2,254	17,632
2008 dividends approved	—	—	—	—	(2,254)	(2,254)
Transactions with owners	20,952	4,496	13	(10,083)	—	15,378
Profit for the period	—	—	—	5,916	—	5,916
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	—	—	53	—	—	53
Total comprehensive income for the period	—	—	53	5,916	—	5,969
Balance at 30 September 2009	20,952	4,496	66	(4,167)	—	21,347
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	17,829	4,496	69	2,136	—	24,530
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

Merger reserve of the Group represents the 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 Company and its subsidiaries (hereafter referred to as the “Group” or as “ACS”) for the nine months ended 30 September 2010 (“current period”).

FINANCIAL REVIEW

The sales revenue decreased by 4% in the first nine months of 2010 to HK\$64.2 million compared with the figure of HK\$66.6 million in the corresponding months of 2009. The gross profit increased by 3% to HK\$35.2 million in the current period, from HK\$34.0 million in the corresponding period of 2009. The increase in gross profit was owing to the higher gross profit margin in the current period at 54.8% versus 51.0% in the same period last year. This increase in gross profit by HK\$1.2 million was exceeded by the increase in overhead expenses and the profit before income tax dropped to HK\$3.2 million in the current period from HK\$7.6 million previously.

The three major items of overhead expenses, namely, the administrative expenses, research and development expenses and selling and distribution costs increased to HK\$31.8 million in the current period compared with HK\$26.3 million last year. The increase by HK\$5.5 million or by 21% period to period resulted primarily from the increase in headcount. Headcount (full time permanent employees) increased by 30.4% from 161 as at 30 September 2009 to 210 as at 30 September 2010.

The sales in the three months ended 30 September 2010 dropped by 27% compared with the corresponding figure last year. One reason of drop was the weak Euro. The Euro-US Dollar conversion rate dropped to below 1.2 in June 2010 comparing the rate of around 1.5 in December 2009. On a nine month basis, the sales increased in three regions and dropped only in the Europe region. The poor performance in Europe affected the overall results as Europe accounted for substantial percentages of the total sales of the Group (42% in the first nine months of 2010 and 51% in the same period of 2009).

	Three months ended			Nine months ended		
	30 September		Change	30 September		Change
	2010	2009		2010	2009	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Europe	8,807	16,429	-46%	26,995	34,085	-21%
Asia Pacific	6,299	7,757	-19%	20,547	17,902	+15%
The Americas	2,955	2,768	+7%	10,555	9,387	+12%
Middle East and Africa	2,714	1,431	+90%	6,101	5,267	+16%
	20,775	28,385	-27%	64,198	66,641	-4%

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2010. 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

The Group's business is to develop smart card operating systems, smart card readers and terminals, and smart card based solutions, particularly automatic fare collection solutions for public transportations. In the first ten years after ACS had been established in 1995, ACS focused on developing PC-linked smart card readers and smart card operating systems. In the last years, these product lines have been generating handsome profits for ACS. All these products use 8-bit microprocessors. While continuing to enhance existing products and to develop new products using 8-bit microprocessors, in 2005, ACS started developing much sophisticated readers and terminals using 32-bit micro-processors. These terminals are intended for physical access control, for supporting national health card programs and for being used as payment terminals for public transportation and micro-payment in retail outlets.

We found that these products are much more challenging to develop, to manufacture and to ensure quality of. The time required to come up with a highly sellable smart card terminal was longer than we had expected. Since the market of these products is expectedly bigger, there are also stronger competitors. Despite this, we have the confidence and the determination to be a leading supplier of some of such terminals in the world. Owing to the new business undertakings, in the years 2008, 2009 and year to date 2010, we increased the speed of enrolling people. The overall headcounts were 83, 127, 171 and 210 at 31 December 2007, 2008, 2009 and 30 September 2010 respectively. With expanded headcount while still endeavoring to perfect our new products for commercialization, the net profit was affected.

PROSPECTS

Even though our net profit figure decreased in the first nine months of 2010, our persistence to excel in product development and in achieving high levels of customer satisfaction paved the way for us to attain higher growth rate in sales and in profits in 2011 and the years to come.

In 2010, ACS was included in Forbes Asia's "Best Under a Billion" list as one of Asia Pacific's top 200 small and mid size listed companies. Selection criteria being profitability, growth, modest indebtedness and future prospects, ACS was chosen by Forbes out of a universe of nearly 13,000 Asia-Pacific companies with actively traded shares and sales between US\$5 million and US\$1 billion. ACS is one of only two Hong Kong-based Technology Hardware & Equipment firms to be included in this prestigious list.

We started in the third quarter to make delivery of the physical access control devices which were developed for a global company that is the world's leading supplier of physical access control solutions. The delivery is in small scale at this stage as the customer itself is undertaking initial pilot projects.

Also, we are receiving initial orders of our bus validators from a global company which is the world's leading supplier of automatic payment solutions.

Moreover, we are also making good progress on the automatic fare collection business. In most cases, we worked with partners in different countries rather than offering our solutions alone. The solution was developed by the Group based on a range of technologies developed over the last fifteen years including card operating systems, encryption, payment terminals and various types of software. The automatic fare collection solutions including the provision of bus validators, desktop payment terminals, portable payment terminals and contactless cards with our operating systems will be our engines of growth in the coming years.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains a healthy liquidity position. As at 30 September 2010, the Group's cash at banks and on hand amounted to HK\$11.1 million (30 September 2009: HK\$17.4 million).

The current ratio, being the ratio of current assets to current liabilities, was 3.7 (30 September 2009: 2.8). Net asset value as at 30 September 2010 was HK\$55.3 million (30 September 2009: HK\$49.5 million). As at 30 September 2010, the Group has bank borrowings of HK\$7.5 million and, accordingly, the gearing ratio, being the total interest bearing debts over the total equity, was 0.14 (30 September 2009: zero).

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 2010.

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 2010.

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

Hong Kong, 5 November 2010

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.