



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 Report 2013

** For identification only*

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This document, 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 document 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 document misleading.

As at the date of this document, 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.

HIGHLIGHTS

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

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2013 together with the comparative unaudited figures for the corresponding periods in 2012.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2013

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

NOTES:

1 BASIS OF PREPARATION

The financial statements have been prepared in Hong Kong dollars ("HK\$"), being the functional and presentation currency of the Company. All financial information presented in HK\$ has been rounded to the nearest thousands, unless otherwise stated.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted in the 2012 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2013. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

These financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the nine months ended 30 September 2013 were approved for issue by the Board on 11 November 2013.

2 REVENUE

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

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

3 FINANCE COSTS

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

4 PROFIT BEFORE INCOME TAX

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

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

* Included in research and development expenses in profit or loss

5 INCOME TAX EXPENSE

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

Hong Kong profits tax for the nine months ended 30 September 2013 has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period.

Philippines Income Tax has been provided at 30% on the estimated taxable income or 2% on gross income incurred for the period, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

No provision for income tax in other locations including the People's Republic of China, Japan and Canada has been made as no assessable profits arose from the operations in these locations or the related subsidiaries had unused tax losses brought forward to offset against the current period's assessable profits (2012: Nil).

6 DIVIDENDS

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

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

7 EARNINGS PER SHARE

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

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2013 respectively is based on profit attributable to owners of the Company of HK\$8,423,000 (2012: HK\$4,093,000) and HK\$17,323,000 (2012: HK\$11,294,000) and the weighted average of 284,058,000 (2012: 283,601,000) and 284,059,000 (2012: 283,512,000) ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months and nine months ended 30 September 2013 respectively is calculated based on the weighted average of 284,058,000 (2012: 283,259,000) and 284,058,000 (2012: 283,194,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of nil (2012: 342,000) and 1,000 (2012: 318,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

8 RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
Balance as at 1 January 2012	17,829	4,496	635	11,689	-	34,649
Issue of shares upon exercise of share options	126	-	-	-	-	126
Transactions with owners	126	-	-	-	-	126
Profit for the period	-	-	-	11,294	-	11,294
Other comprehensive income						
- Exchange loss on translation of financial statements of foreign operations	-	-	(28)	-	-	(28)
Total comprehensive income for the period	-	-	(28)	11,294	-	11,266
Balance as at 30 September 2012	17,955	4,496	607	22,983	-	46,041
Balance as at 1 January 2013	17,955	4,496	886	24,070	4,261	51,668
2012 dividend approved	-	-	-	-	(4,261)	(4,261)
Transactions with owners	-	-	-	-	(4,261)	(4,261)
Profit for the period	-	-	-	17,323	-	17,323
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	-	-	659	-	-	659
- Remeasurement of defined benefit obligations	-	-	-	23	-	23
Total comprehensive income for the period	-	-	659	17,346	-	18,005
Balance as at 30 September 2013	17,955	4,496	1,545	41,416	-	65,412

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the unaudited consolidated financial results of the Group (thereafter referred to as “ACS” or the “Group”) for the three months and nine months ended 30 September 2013.

FINANCIAL REVIEW

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

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

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

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

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

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2013. The declaration, payment, and amount of future dividends will be decided by the Board and will depend upon, among other things, the Group's results of operations, capital requirements, cash flows, general financial conditions, and such other factors as the Board may consider important.

BUSINESS REVIEW

ACS has been investing more resources in research and development to improve products and solutions and in selling and distributions to reach out to customers. As a result, the Group is seeing improved sales. In the third quarter ended 30 September 2013, the Group released a few new products.

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

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

PROSPECTS

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2013, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Name of director	Long position in ordinary shares of HK\$0.10 each				Total number of shares held	Percentage of the Company's issued share capital as at
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests		30 September 2013
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	55,738,522	-	-	136,506,522	48.06%
Ms. Tsui Kam Ling, Alice (Note 3)	55,738,522	80,768,000	-	-	136,506,522	48.06%
Mr. Tan Keng Boon	157,893	-	-	-	157,893	0.06%

Notes:

- The shares are registered under the names of the directors who are the beneficial owners.
- 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 55,738,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.
- 55,738,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 30 September 2013, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(i) PRE-IPO SHARE OPTION PLAN

The employees of the Group had the following interests in options (lapse on 20 January 2013) to subscribe for shares of the Company with an exercise price of HK\$0.24 per share under the Pre-IPO Share Option Plan (the “Plan”) of the Company. The options were unlisted. Each option gave the holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company. There was no outstanding options under the Plan as at 30 September 2013.

Grantees	Date granted	Number of share options				Balance as at 30 September 2013	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 30 September 2013
		Balance as at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period				
Employees	27 October 2003	4,259	-	-	4,259 (Note 1)	-	10 May 2004 to 20 January 2013	HK\$0.24	-
		4,259	-	-	4,259	-			

Notes:

- 1 The options lapsed upon the expiry of the options on 20 January 2013.
- 2 No option was granted, exercised or cancelled during the period.

(ii) SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 27 October 2003, the Company adopted a Share Option Scheme (the “Scheme”). As at the date of this report, no options had been granted under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraphs headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option schemes" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

In addition to the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has been notified of the following interests in the Company's issued shares as at 30 September 2013 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity	Total number of ordinary shares held	Percentage of the Company's issued share capital as at 30 September 2013
Mr. Tjio Kay Loen (Note 2)	Beneficial owner and Other	22,960,000 shares (L)	8.08%
Warren Securities Limited	Beneficial owner	14,720,000 shares (L)	5.18%

Notes:

- 1 The letter "L" stands for the shareholders' long position (within the meaning stated in the form for notification specified pursuant to the SFO) in shares.
- 2 Of these shares, 7,400,000 shares are held by Mr. Tjio Kay Loen personally, 14,720,000 shares and 840,000 shares are held by Warren Securities Limited (a company which is owned as to 30% by Mr. Tjio Kay Loen) and Farina Limited (a company which is owned as to 60% by Mr. Tjio Kay Loen) respectively. Mr. Tjio Kay Loen is taken to be interested in these shares under the SFO.

Save as disclosed above, as at 30 September 2013 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group during the period.

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the nine months ended 30 September 2013.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yu Man Woon (being the chairman of the audit committee), Dr. Yip Chak Lam, Peter and Mr. Wong Yick Man, Francis and reports to the Board. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group's unaudited results for the nine months ended 30 September 2013.

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

Hong Kong, 11 November 2013