



**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



# First 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 three months ended 31 March 2013 increased by 5% to HK\$37.3 million from the first quarter of 2012.
- Gross profit increased by 19% to HK\$24.3 million in current quarter from the first quarter of 2012.
- Net profit after income tax for the three months ended 31 March 2013 increased by 22% to HK\$4.3 million from the first quarter of 2012.
- As at 31 March 2013, the current ratio was 1.95 while the gearing ratio was 0.24.

## 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 ended 31 March 2013 together with the comparative unaudited figures for the corresponding period in 2012.

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2013

	Notes	Three months ended 31 March	
		2013 HK\$'000	2012 HK\$'000
<b>Revenue</b>	2	<b>37,267</b>	35,627
Cost of sales and services provided		<b>(12,951)</b>	(15,189)
<b>Gross profit</b>		<b>24,316</b>	20,438
Other income and gains		<b>215</b>	42
Selling and distribution costs		<b>(4,341)</b>	(2,951)
Research and development expenses		<b>(7,457)</b>	(5,891)
Administrative expenses		<b>(8,057)</b>	(7,095)
Finance costs	3	<b>(163)</b>	(78)
<b>Profit before income tax</b>	4	<b>4,513</b>	4,465
Income tax expense	5	<b>(171)</b>	(918)
<b>Profit for the period, attributable to owners of the Company</b>		<b>4,342</b>	3,547
<b>Other comprehensive income</b>			
Exchange gain on translation of financial statements of foreign operations		<b>36</b>	51
Remeasurement of defined benefit obligations		<b>36</b>	-
<b>Other comprehensive income for the period</b>		<b>72</b>	51
<b>Total comprehensive income for the period, attributable to owners of the Company</b>		<b>4,414</b>	3,598
<b>Earnings per share for profit attributable to owners of the Company for the period</b>	7		
- Basic (HK cents)		<b>1,529</b>	1,253
- Diluted (HK cents)		<b>1,529</b>	1,251

## 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 three months ended 31 March 2013 were approved for issue by the Board on 29 April 2013.

### 2 REVENUE

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

	Three months ended 31 March	
	2013	2012
	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	28,775	33,829
Smart card related services	8,492	1,798
	<u>37,267</u>	<u>35,627</u>

### 3 FINANCE COSTS

	Three months ended 31 March	
	2013	2012
	HK\$'000	HK\$'000
Interest charges on bank borrowings, repayable on demand or wholly within five years	163	78

#### 4 PROFIT BEFORE INCOME TAX

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

	<b>Three months ended 31 March</b>	
	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amortisation of development costs*	<b>1,404</b>	908
Depreciation of plant and equipment	<b>1,230</b>	1,065

\* Included in research and development expenses in profit or loss

#### 5 INCOME TAX EXPENSE

	<b>Three months ended 31 March</b>	
	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current tax</b>		
Hong Kong profits tax		
– Provision for current period	–	918
<b>Overseas tax</b>		
– Provision for current period	<b>171</b>	–
	<b>171</b>	<b>918</b>

No Hong Kong profits tax was provided in the financial statements for the three months ended 31 March 2013 as the companies within the Group did not derive any assessable profit in Hong Kong. Hong Kong profits tax for the three months ended 31 March 2012 has been provided at the rate of 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 Japan, 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 (2012: Nil).

#### 6 DIVIDENDS

The Company had not declared or paid any dividends for the three months ended 31 March 2013 (2012: Nil).

## 7 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2013 is based on the profit attributable to owners of the Company of HK\$4,342,000 (2012: HK\$3,547,000) and the weighted average of 284,058,000 (2012: 283,161,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months ended 31 March 2013 is based on the profit attributable to owners of the Company of HK\$4,342,000 (2012: HK\$3,547,000) and the weighted average of 284,059,000 (2012: 283,439,000) 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 ended 31 March 2013 is calculated based on the weighted average of 284,058,000 (2012: 283,161,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of 1,000 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
Profit for the period	-	-	-	3,547	-	3,547
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	-	-	51	-	-	51
Total comprehensive income for the period	-	-	51	3,547	-	3,598
Balance at 31 March 2012	17,829	4,496	686	15,236	-	38,247
Balance as at 1 January 2013	17,955	4,496	886	24,070	4,261	51,668
Profit for the period	-	-	-	4,342	-	4,342
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	-	-	36	-	-	36
- Remeasurement of defined benefit obligations	-	-	-	36	-	36
Total comprehensive income for the period	-	-	36	4,378	-	4,414
<b>Balance at 31 March 2013</b>	<b>17,955</b>	<b>4,496</b>	<b>922</b>	<b>28,448</b>	<b>4,261</b>	<b>56,082</b>

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 (hereafter referred to as “ACS” or the “Group”) for the quarter ended 31 March 2013.

### Financial Review

Comparing the first quarter ended 31 March 2013 with the first quarter last year, the sales revenue increased by 5% to HK\$37.3 million from HK\$35.6 million. The gross profit increased by 19% to HK\$24.3 million. The net profit after taxation increased by 22% to HK\$4.3 million.

The bigger increase in gross profit as compared to sales growth was mainly due to two reasons. Firstly, for the past few quarters we have been steadily increasing our gross profit margins. This is because we are developing increasingly more advanced technologies particularly bus validators. The advanced technologies translate to better protection from competitors and a better gross profit margin. Secondly, we are gradually shifting away from selling only hardware which comprises raw materials as its main cost. Specifically, our increasing sales of Automatic Fare Collection or AFC related solutions where hardware represents only part of our solutions resulted in higher overall gross profit margins.

The three main types of operating costs totalled HK\$19.9 million this year representing 25% increase from HK\$15.9 million last year. The main reason of the increase was the rise in selling and distribution efforts around the world. To extend the reach of our business development and sales team, we have placed efforts during the past few quarters in the establishment of overseas offices and training of overseas staff and consultants. Frequent and extended visits abroad were also made to follow up on newly discovered sales leads.

	Three months ended 31 March		Change
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	
Asia Pacific	16,700	9,444	+77%
Europe	11,319	7,842	+44%
The Americas	7,891	15,172	-48%
Middle East and Africa	1,357	3,169	-57%
	<b>37,267</b>	<b>35,627</b>	<b>+5%</b>

The sales breakdown by region shows an increase of 77% in the Asia Pacific region and 44% in Europe, and a decrease of 48% in the Americas and 57% in Middle East and Africa. This rise in the APAC region was because a few orders of AFC related cards, hardware and solutions were delivered in the region. Substantial orders are usually not as regular, thus such a rise or drop of sales in a region may not indicate a trend. While regional analysis may be useful, the focus should be on the overall size of sales.

## Dividend

The Board does not declare an interim dividend in respect of the three months ended 31 March 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

With an expanded product portfolio, ACS spent great efforts in 2013 Q1 to promote its products. Sales and marketing activities were increased including particularly more frequent customer visits and participations in trade shows. We also developed and launched tools to help customers learn and use our new products. Here is a list of examples of such activities:

SCA 2013 Payments Summit: ACS presented its payment solutions in Smart Card Alliance's (SCA) 6th annual conference on payments during February. The three day event was held in Salt Lake City, USA where EMV, NFC, mobile, open-loop and other emerging payment technologies were featured. ACS showcased its ACR31 reader (a magstrip card reader connected through the audio jack for use with tablets and smart phones), ACR123 (a contactless payment terminal for MasterCard PayPass and Visa PayWave applications), ACR89 (a smart card reader with PIN-pad enabling two-factor authentication) as well as other payment readers.



ACR31



ACR89



ACR123

NFC & Smart World 2013: ACS was an exhibitor at this NFC (Near Field Communication) event in Tokyo during March. As NFC gains popularity, ACS showcased its ACR122U NFC reader, an ISO/IEC 18092-compliant PC-linked contactless card reader/writer that supports Mifare cards, ISO 14443 A and B cards and all four types of NFC tags as well as the ACR1251U, a CCID-compliant NFC Reader that supports card read/write operations, card emulation and P2P communication.



ACR122U



ACR1251U

Software Development Kit (SDK) for ACOS7 and ACOS10: ACS launches the SDK for ACOS7 and ACOS10 Combi cards, “Combi” being an industrial term to indicate the combination of the contact and contactless functions in one card. The SDK’s technical documents, demo application, and smart card and reader tool offer Chinese language support, in addition to English. The decision to offer Chinese language support was based on the remarkable number of smart cards released in China for use in banking, transport and other areas. 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.

### **Prospects**

From 8-bit readers to 32-bit readers and from the the selling of only hardware to selling selected applications and solutions, ACS’s strong technical foundation, built upon constant heavy investments in research and development, remains to be the key factor of sustained growths.

Our emphasis in research and development since our inception has provided several key advantages we can now leverage on. Firstly, our time to develop a new product is being shortened because of the expertise gained from designing previous products. With the time-to-market reduced and with less competition, we enjoy better gross profit margins. Secondly, our ability to design more sophisticated products will be enhanced because of the knowledge gained in the past. Such products have a naturally high barrier to entry and again, with less competition, we enjoy better gross profits margins. Lastly, we are more able to vertically integrate and provide complete technology solutions for selected applications that are highly competitive and customizable because of in house expertise. The competitive and customizable technology solutions open up new markets to us – market that are much bigger than hardware-only markets – and increase our competitiveness. As a result, we have more capability to expand our sales.

With a strong foundation already in place, new markets yet to be explored and a dedicated and growing workforce, we are confident of our ability to sustain our growth in the foreseeable future.

### **Liquidity and Financial Resources**

At all times the Group maintains a healthy liquidity position. As at 31 March 2013, the Group’s cash and cash equivalents amounted to HK\$30.2 million (31 March 2012: HK\$16.7 million). The bank borrowings of the Group amounted to HK\$20.5 million (31 March 2012: HK\$11.5 million). The gearing ratio, being the total interest bearing debts over the total equity, at 31 March 2013 was 0.24 (31 March 2012: 0.17).

The current ratio, being the ratio of current assets to current liabilities, was 1.95 (31 March 2012: 1.81). Net asset value as at 31 March 2013 was HK\$84.5 million (31 March 2012: HK\$66.6 million).

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

As at 31 March 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:

### Long position in ordinary shares of HK\$0.10 each

Name of director	Personal interests (Note 1)	Family interests	Corporate interests	Other interests	Total number of shares held	Percentage of the Company's issued share capital as at
						31 March 2013
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	55,138,522	-	-	135,906,522	47.84%
Ms. Tsui Kam Ling, Alice (Note 3)	55,138,522	80,768,000	-	-	135,906,522	47.84%
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 55,138,522 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.
- 55,138,522 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 31 March 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

As at 31 March 2013, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 28 March 2013 was HK\$0.7) with an exercise price of HK\$0.24 per share under the Pre-IPO Share Option Plan (the “Plan”) of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company.

Grantees	Date granted	Number of share options				Balance as at 31 March 2013	Period during which the options are exercisable	Exercise price per share	Percentage of the Company's issued share capital as at 31 March 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:

- The options lapsed upon the expiry of the options on 20 January 2013.
- 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 31 March 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 31 March 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 31 March 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 three months ended 31 March 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 three months ended 31 March 2013.

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

Hong Kong, 29 April 2013