



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 2014

* 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, Mr. Wong Yick Man, Francis, Mr. Lo Kar Chun, Nicky, SBS, JP and Mr. Yim Kai Pung.

HIGHLIGHTS

- Revenue of the Group for the nine months ended 30 September 2014 increased by 23% to HK\$173.2 million.
- Gross profit of the Group for the nine months ended 30 September 2014 increased by 4% to HK\$89.0 million.
- Profit for the period of the Group for the nine months ended 30 September 2014 increased by 4% to HK\$18.1 million.

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 2014 together with the comparative unaudited figures for the corresponding periods in 2013.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2014

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue	2	61,830	54,948	173,156	141,322
Cost of sales and services provided		(31,818)	(19,550)	(84,126)	(55,330)
Gross profit		30,012	35,398	89,030	85,992
Other income and gains		444	340	756	671
Selling and distribution costs		(5,539)	(5,269)	(15,626)	(14,630)
Research and development expenses		(8,129)	(10,603)	(25,727)	(24,650)
Administrative expenses		(8,852)	(9,409)	(26,411)	(25,874)
Finance costs	3	(326)	(214)	(1,003)	(550)
Profit before income tax	4	7,610	10,243	21,019	20,959
Income tax expense	5	(1,018)	(1,820)	(2,943)	(3,636)
Profit for the period, attributable to owners of the Company		6,592	8,423	18,076	17,323
Other comprehensive income					
<i>Item that may be reclassified subsequently to profit or loss</i>					
– Exchange gain/(loss) on translation of financial statements of foreign operations		191	208	(222)	659
<i>Item that will not be reclassified subsequently to profit or loss</i>					
– Remeasurement of defined benefit obligations		–	1	–	23
Other comprehensive income for the period, net of tax		191	209	(222)	682
Total comprehensive income for the period, attributable to owners of the Company		6,783	8,632	17,854	18,005
Earnings per share for profit attributable to owners of the Company for the period	7				
– Basic (HK cents)		2.321	2.965	6.363	6.098
– Diluted (HK cents)		2.321	2.965	6.363	6.098

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 2013 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 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 2014. 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 2014 were approved for issue by the Board on 12 November 2014.

2 REVENUE

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

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	61,727	54,609	172,902	140,626
Smart card related services	103	339	254	696
	61,830	54,948	173,156	141,322

3 FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charges on bank borrowings, repayable on demand or wholly within five years	326	214	1,003	550

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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of development costs*	2,333	2,157	6,914	5,439
Amortisation of intangible assets	209	-	209	-
Depreciation of plant and equipment	1,121	1,210	3,289	3,651

* Included in research and development expenses in profit or loss

5 INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong profits tax				
- Provision for current period	950	1,771	2,220	3,257
Philippines Income Tax				
- Provision for current period	92	49	652	379
- Over-provision in respect of prior years	-	-	(91)	-
	92	49	561	379
Other overseas tax	92	-	78	-
	1,134	1,820	2,859	3,636
Deferred tax	(116)	-	84	-
	1,018	1,820	2,943	3,636

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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.

Taxation for subsidiaries operating in the People's Republic of China is calculated at the prevailing tax rates based on existing legislation, interpretations and practices in respect thereof. Logyi Limited is entitled to Two years exemption and three years half-deduction tax holiday policy started from 2013, accordingly, it is exempted from Enterprise Income Tax in both 2013 and 2014.

Tax on other jurisdictions including Japan has been provided on the estimated assessable profits, if any, for the year at the rate prevailing in the countries in which the Group operates.

6 DIVIDENDS

A dividend of HK\$2.0 cents per share amounting to approximately HK\$5,681,000 for the year ended 31 December 2013 had been approved by the shareholders at the annual general meeting and was subsequently paid on 4 June 2014.

The Company had not declared or paid any dividends for the three months and nine months ended 30 September 2014 (2013: Nil).

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and nine months ended 30 September 2014 respectively is based on profit attributable to owners of the Company of HK\$6,592,000 (2013: HK\$8,423,000) and HK\$18,076,000 (2013: HK\$17,323,000) and the weighted average of 284,058,000 (2013: 284,058,000) and 284,058,000 (2013: 284,058,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2014 respectively is based on profit attributable to owners of the Company of HK\$6,592,000 (2013: HK\$8,423,000) and HK\$18,076,000 (2013: HK\$17,323,000) and the weighted average of 284,058,000 (2013: 284,058,000) and 284,058,000 (2013: 284,059,000) 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 2014 respectively is calculated based on the weighted average of 284,058,000 (2013: 284,058,000) and 284,058,000 (2013: 284,058,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of nil (2013: nil) and nil (2013: 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 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
Balance as at 1 January 2014	17,955	4,496	1,706	41,703	5,681	71,541
2013 dividend approved	-	-	-	-	(5,681)	(5,681)
Transactions with owners	-	-	-	-	(5,681)	(5,681)
Profit for the period	-	-	-	18,076	-	18,076
Other comprehensive income						
- Exchange loss on translation of financial statements of foreign operations	-	-	(222)	-	-	(222)
Total comprehensive income for the period	-	-	(222)	18,076	-	17,854
Balance as at 30 September 2014	17,955	4,496	1,484	59,779	-	83,714

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 three months and nine months ended 30 September 2014.

FINANCIAL REVIEW

The sales revenue increased by 12.5% from HK\$54.9 million to HK\$61.8 million while the gross profit decreased by 15.0% to HK\$30.0 million in the third quarter from the corresponding figures in last year. The change in gross profit margin was due to the changes in product mix in the third quarter. For the nine months ended 30 September 2014, the sales revenue increased by 22.5% to HK\$173.2 million, the gross profit increased by 3.5% to HK\$89.0 million and the net profit increased by 4.3% to HK\$18.1 million from HK\$17.3 million.

The total sales increased by 22.5% for the first nine months of 2014 compared with of 2013 while the sales in four regions changed as shown in the following table. There may be some fluctuations of sales in different regions as sizable projects may have turned into sales revenue in one region while in another region, the orders of goods from other big projects may have been fulfilled prior to the accounting period. The remarkable growth in the Asia Pacific region was primarily owing to the delivery of solution businesses such as payment, loyalty and online movie ticketing system. The growth in Europe was due to the increased orders of hardware sales.

	Three months ended			Nine months ended		
	30 September		Change	30 September		Change
	2014	2013		2014	2013	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Asia Pacific	30,821	21,676	42%	88,491	56,739	56%
Europe	16,751	12,254	37%	50,161	46,017	9%
The Americas	12,916	19,875	-35%	31,137	34,079	-9%
Middle East and Africa	1,342	1,143	17%	3,367	4,487	-25%
	61,830	54,948	13%	173,156	141,322	23%

Since ACS sells its products and services to over 100 countries in the world, the total sales amount is usually not seriously affected by temporary economic weaknesses from one region. Likewise, ACS continues to introduce new products to the market and the decline of the sales of one product line owing to maturity is often compensated by the increase in sales of an emerging line.

Total operating expenses increased by 4.0% to HK\$67.8 million from HK\$65.2 million as we continued to expand the work force and increase the activities in engineering, sales and marketing and operations in order to speed up the development work of our products, to promote and sell them and to smooth out the operations.

DIVIDEND

The Board does not declare an interim dividend in respect of the nine months ended 30 September 2014. 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

In 2014, ACS participated in multiple exhibitions and conferences around the world to meet with business partners, learn about market trends, showcase new product offerings and share knowledge with other members of the industry. In 2014 Q3, we attended the 10th Anniversary Celebration of HSPD-12, IOTE 2014, China International Financial Exhibition 2014 and NFC Bootcamp 2014, as sponsor, exhibitor and/or speaker.

Through its presence in industry events, ACS is also able to establish thought leadership and strengthen its ties with valuable partners. ACS is now being recognized as a company capable of helping lead the industry to further growth. In the past quarter, ACS was elected as a member of the Steering Committees for Health and Human Services Council and Access Control Council of U.S. Smart Card Alliance.

New Product Launches in Q3, 2014



ACS launched two new readers for SIM-sized smart cards: ACR39T-A1, a PC-linked reader, and ACR39T-A3, a mobile card reader. These new product launches are part of ACS's continuing response to the rising demand for compact devices that can facilitate on-the-go transactions.

Both readers support ISO 7816 SIM-sized smart cards, GSM 11.11-compliant cards, various memory cards, and microprocessor cards with T=0 and T=1 protocol. Upon request, both devices can also support micro-SIM-sized cards. These ultra-portable devices are compliant and certified with major international standards, including CE, FCC, RoHS and WHQL, and have a read/write speed of 600 Kbps.

The ACR39T-A1 is PC/SC and CCID-compliant, and is therefore easily integrated into Windows®, Linux and Mac environments. It also works with mobile devices running on Android™ 3.1 and above. Even at a mere 8.5 grams, the ACR39T-A1 is still powerful enough to support e-government, e-banking and e-payment, e-healthcare, public key infrastructure (PKI), network security, access control, and loyalty applications.

Meanwhile, the ACR39T-A3 has a micro-USB OTG interface, and supports mobile devices running on Android 3.1 and above. This 7.9-gram device is suitable for mobile banking and payment, e-healthcare, and loyalty applications.

ACS Among Forbes Asia's Best Under a Billion 2014

ACS has been chosen as one of Forbes Asia's Best Under a Billion companies in 2014. This is the second time that ACS has been included in the list, the first being in 2010.

The unranked list is comprised of 200 top-performing Asia-Pacific companies, selected from a pool of 17,000 publicly listed companies with revenues between USD 5 million and USD 1 billion. According to Forbes, eligible companies must not only be profitable; they must also be consistently growing, and with modest indebtedness. Candidates must also be free from major legal trouble and questionable accounting or management practices.

In the past three years, ACS has consistently exceeded its own sales targets resulting in steady profit growth. ACS's sales revenue in 2013 was historically the highest ever achieved. An annual customer satisfaction survey among ACS clients shows that as of 2014, clients regard their relationship with the company as very good (on a five-point scale ranging from very poor, neutral, good to very good) – which ACS attributes to the trust established between itself and partners, and the simplicity and transparency characterizing ACS business contracts.

“The Best Under a Billion List is not a compilation of top performers in the technology industry. Rather, it is a list that covers all industries, such as manufacturing, construction, software and so forth,” says Denny Wong, founder and CEO of ACS. “We are proud to be part of the list that is screened based not only on profits, but overall excellence, including evidence of integrity. ACS will strive to maintain a standard of excellence in all aspects of our business.”

PROSPECTS

Since the acquisition of business assets from 深圳市大明五洲城市一卡通科技有限公司 (Shenzhen Daming Wuzhou City Smart Card Technology Company Limited) (“DMWZ”), ACS has been integrating DMWZ's talents, technologies and sales channels into its own system. Through this integration, there have been better economies of scale leading to cost reductions and a deeper understanding of the Chinese Automatic Fare Collection (“AFC”) markets. ACS is now poised for much better access to targeted AFC customers in China, ready to provide this market a wider range of products and applications.

ACS has also been expanding its payment and loyalty system project with the largest mall developer in the Philippines. Since the project's launch last year, more than one million cards have been issued. The project is rapidly being rolled out to different businesses in 48 malls, including cinemas, snack outlets, department stores, supermarkets, food courts, bowling alleys, skating rinks, mini-theme parks and parking facilities, etc. ACS will expand this business model to other business partners in order to develop solution business on top of hardware business.

LIQUIDITY AND FINANCIAL RESOURCES

At all times the Group maintains a healthy liquidity position. As at 30 September 2014, the Group's cash and cash equivalents amounted to HK\$42.6 million (31 December 2013: HK\$48.6 million). The bank borrowings of the Group amounted to HK\$36.1 million (31 December 2013: HK\$36.3 million). The gearing ratio, being the total interest bearing debts over the total equity, at 30 September 2014 was 0.32 (31 December 2013: 0.36).

* For identification only

The current ratio, being the ratio of current assets to current liabilities, was 1.74 (31 December 2013: 1.95). Net asset value as at 30 September 2014 was HK\$112.1 million (31 December 2013: HK\$99.9 million).

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

As at 30 September 2014, 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 2014		
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	56,074,522	-	-	136,842,522	48.17%	
Ms. Tsui Kam Ling, Alice (Note 3)	56,074,522	80,768,000	-	-	136,842,522	48.17%	
Mr. Lo Kar Chun, Nicky, SBS, JP	400,000	-	-	-	400,000	0.14%	
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 56,074,522 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.
- 56,074,522 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 2014, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

Save as 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 not been notified of any interests in the Company's issued shares as at 30 September 2014 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at 30 September 2014 and to the best knowledge of the directors, there was no person 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 2014.

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. Yim Kai Pung (being the chairman of the audit committee), Mr. Wong Yick Man, Francis and Mr. Lo Kar Chun, Nicky, SBS, JP 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 2014.

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

Hong Kong, 12 November 2014