



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 RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2015

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.

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This announcement, for which the directors of Advanced Card Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* For identification only

HIGHLIGHTS

- Revenue of the Group for the three months ended 31 March 2015 decreased by 25% to HK\$37.2 million.
- The Group recorded a loss for the three months ended 31 March 2015 of HK\$7.8 million.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2015 together with the comparative unaudited figures for the corresponding period in 2014.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2015

	Notes	Three months ended 31 March	
		2015 HK\$'000	2014 HK\$'000
Revenue	2	37,213	49,822
Cost of sales and services provided		(18,016)	(19,162)
Gross profit		19,197	30,660
Other income and gains		166	130
Selling and distribution costs		(5,965)	(4,834)
Research and development expenses		(9,976)	(8,998)
Administrative expenses		(11,228)	(9,602)
Finance costs	3	(148)	(345)
Share of results of a joint venture		(560)	–
(Loss)/Profit before income tax	4	(8,514)	7,011
Income tax credit/(expense)	5	679	(930)
(Loss)/Profit for the period, attributable to owners of the Company		(7,835)	6,081
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange (loss)/gain on translation of financial statements of foreign operations		(132)	303
Other comprehensive income for the period, net of tax		(132)	303
Total comprehensive income for the period, attributable to owners of the Company		(7,967)	6,384
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company for the period	7		
– Basic (HK cents)		(2.758)	2.141

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 2014 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 2015. 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 2015 were approved for issue by the Board on 13 May 2015.

2 REVENUE

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	37,070	49,683
Smart card related services	143	139
	37,213	49,822

3 FINANCE COSTS

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Interest charges on bank borrowings	290	345
Less: Amount capitalised into development costs	(142)	–
	148	345
Interest rate of borrowing costs capitalised	3-4%	N/A

4 (LOSS)/PROFIT BEFORE INCOME TAX

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

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Amortisation of intangible assets		
– Included in research and development expenses	2,416	2,216
– Included in administrative expenses	209	–
Amount recognised in profit or loss	2,625	2,216
Depreciation of plant and equipment	988	1,121

5 INCOME TAX (CREDIT)/EXPENSE

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Current tax		
Hong Kong profits tax		
– Provision for current period	8	342
Philippines Income Tax		
– Provision for current period	146	527
– Over-provision in respect of prior years	–	(86)
	146	441
Other overseas tax	285	147
	439	930
Deferred tax	(1,118)	–
Total income tax (credit)/expense	(679)	930

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the period.

Philippines Income Tax has been provided at 30% (2014: 30%) on the estimated taxable income or 2% (2014: 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 ("the PRC") is calculated at the prevailing tax rates based on existing legislation, interpretations and practices in respect thereof. Logyi Limited, a subsidiary of the Company, 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 2014 and followed by half-deduction in 2015.

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

6 DIVIDENDS

The Company had not declared or paid any dividends for the three months ended 31 March 2015 (2014: Nil).

7 (LOSSES)/EARNINGS PER SHARE

The calculation of basic loss per share (2014: basic earnings per share) for the three months ended 31 March 2015 is based on the loss attributable to owners of the Company of HK\$7,835,000 (2014: profit attributable to owners of the Company of HK\$6,081,000) and the weighted average of 284,058,000 (2014: 284,058,000) ordinary shares in issue during the period.

Diluted losses per share (2014: diluted earnings per share) is not presented as there is no dilutive potential ordinary share during the period.

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 2014	17,955	4,496	1,706	41,703	5,681	71,541
Profit for the period	-	-	-	6,081	-	6,081
Other comprehensive income						
- Exchange gain on translation of financial statements of foreign operations	-	-	303	-	-	303
Total comprehensive income for the period	-	-	303	6,081	-	6,384
Balance as at 31 March 2014	17,955	4,496	2,009	47,784	5,681	77,925
Balance as at 1 January 2015	17,955	4,496	1,147	59,402	5,681	88,681
Loss for the period	-	-	-	(7,835)	-	(7,835)
Other comprehensive income						
- Exchange loss on translation of financial statements of foreign operations	-	-	(132)	-	-	(132)
Total comprehensive income for the period	-	-	(132)	(7,835)	-	(7,967)
Balance as at 31 March 2015	17,955	4,496	1,015	51,567	5,681	80,714

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 quarter ended 31 March 2015.

Financial Review

The sales revenue decreased by 25% from HK\$49.8 million to HK\$37.2 million and the gross profit decreased by 37% to HK\$19.2 million in the first quarter from the corresponding figures in last year. The decrease in revenue was mainly due to delay in product deliveries from the Group’s subcontractors due to a late Chinese New Year Holiday in 2015 and a temporary labour shortage in factories located in Guangdong Province of the People’s Republic of China after the Chinese New Year Holiday and which resulted in the delay of the Group’s onward sales of such products to its customers. Originally, the Group had budgeted for and expected an increase in sales of hardware in the first quarter of 2015 as compared to the corresponding period in 2014. However, as a result of the late Chinese New Year Holiday and temporary labour shortage afterwards, sub-contracting factories of the Group located in the Guangdong Province were unable to complete production on or before 31 March 2015 for many sales orders originally targeted to be delivered in March 2015. The aforesaid labour shortage was the first time the Group and its subcontractors experienced with such significant impact to the Group’s first quarter results.

The Group’s gross profit margin dropped from 62% in the first quarter of 2014 to 52% in the first quarter of 2015. In addition to the decrease in revenue as a result of the temporary labour shortage as described above, the fall in gross margin was because of a higher proportion of sales of automatic fare collection (“AFC”) software, which generally has higher gross profit margin, being recorded in the corresponding period in 2014. Gross profit margin of 52% for the three months ended 31 March 2015 is higher than the average gross profit margin for the year 2014.

Total operating expenses increased by 15% to HK\$27.3 million from HK\$23.8 million in the corresponding period in 2014, and were mainly attributed to the increase in staff cost and increase in legal and professional fees. ACS continued to expand the work force in research and development in order to speed up the development work of its products, which led to the increase in staff cost. Since the Group has submitted its application on transfer listing from GEM to main board of the Stock Exchange, legal and professional fees were incurred in the first quarter of 2015, which amounted to approximately HK\$1.0 million.

In addition, the Group recorded a loss of HK\$0.6 million due to share of results of a joint venture, namely Goldpac ACS Technologies Inc., which was newly established in late 2014 and is currently in its early phases of development.

As a combined result of the decrease in revenue, decrease in gross profit margin, increase in operating expenses and share of loss of a joint venture, the Group recorded a loss for the period amounted to HK\$7.8 million, while a profit for the period of HK\$6.1 million was recorded in the corresponding period in 2014.

Dividend

The Board did not declare an interim dividend in respect of the three months ended 31 March 2015. 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 Company has been listed on GEM since 10 November 2003. Backed by its track record for the past three years, the Group has submitted a formal application to the Stock Exchange for the proposed transfer of its listing from GEM to the main board of the Stock Exchange.

Products and Services Launched

Incremental Improvements to Products and Expanded Product Lines

The Group is expanding its product lines to meet the demands of the payment industry. Certain existing devices are undergoing international payment certifications, spurred by the increasing popularity of bank card and prepaid card payment, which in turn leads to financial institutions and third-party payment service providers to aggressively implement payment terminal networks.

Based on its existing products, the Group has developed five individual smart card reader modules in contact and contactless interfaces. They are grouped into a new product line, named as Smart Card Reader Module, which is ideal for embedded systems such as automated teller machines, kiosks, gaming machines, and so forth. The Group expects to release the reader modules commercially in third quarter of 2015. Details of each product are as follows:

- ACM1252U-Y3 – a USB NFC reader module with a detachable antenna board supports all three NFC modes (card reader/writer, card emulation, and peer-to-peer communication). It may be incorporated with a Class A, ISO 7816-compliant secure access module (“SAM”) slot upon request.
- ACM1281U-C7 – a USB contactless reader module with a Class A, ISO 7816-compliant SAM slot, an integrated (on-board) antenna, and extended APDU support. It reads/writes ISO 14443 Parts 1-4 Type A and B cards, and MIFARE® Classic series.
- ACM1281S-C7 – a USB serial contactless reader module with Class A, ISO 7816-compliant SAM slot, an integrated (on-board) antenna, and extended APDU support. It reads/writes ISO 14443 Parts 1-4 Type A and B cards, and MIFARE® Classic series.
- ACM38U-Y3 – a contact smart card reader module compliant with CCID (Chip Card Interface Device). It supports ISO7816 Class A, B and C smart cards and compatible with different PC environments and mobile devices running on the Android™ platform, versions 3.1 and above.
- ACM38U-Y6 – a USB contact smart card reader module with SAM slot support. Since card authentication is done via the SAM interface, ACM38U-Y6 adds another layer of security for applications.

The Group is preparing to launch ACR890, an all-in-one POS terminal that combines contact, contactless, and magnetic stripe technologies. In the coming quarters, it will also launch ACR3901U-S1, a new contact smart card reader for mobile devices. ACR3901U-S1 will feature a Bluetooth Smart interface, to eliminate the need for a physical connection between mobile devices and the card reader, without compromising energy efficiency.

Events

In the first quarter of 2015, the Group exhibited its business offerings in the following events:

1. Smart Card Alliance Payments Summit 2015
2. Open Identification and Payments Summit 2015
3. Retail Tech Japan 2015
4. Daming Wuzhou & ACS Customer Conference

The Group was also speaker in Open Identification and Payments Summit 2015, in keeping with its goals for thought leadership. The Daming Wuzhou & ACS Customer Conference, which attracted operators or transportation and city smart card companies from tens of cities in the PRC, formally marked the Group's entry into China's AFC solutions market.

Delays in deliveries

The Group experienced delays in deliveries from its subcontractors mainly due to the timing of the Chinese New Year in 2015 in late February and the temporary labour shortage for its subcontractors after the Chinese New Year holiday. As a consequence, the Group's onward sales of such products to its customers did not occur as expected during the three months ended 31 March 2015. The Group has existing arrangements in place to source from multiple selected and qualified subcontractors. To the Company's knowledge, based on information from its subcontractors, labour supply returned to normal levels by the beginning of April 2015. In addition, the Group has not received any cancellation of customer orders, nor being required to pay any compensation to its customers for such delays.

Prospects

For the coming years, the confidence of the Group is reinforced by various advantages that bode well for its prospects: an experienced management team, a strong research and development and technical support team, a reputation in the industry as a reliable supplier, and a track record of flexibility and speed in terms of adapting products to meet customer requirements. Through these advantages, the Group has managed to cultivate a broad and global customer base, and a reliable global network of business partners.

In addition to the competitive advantages retained by the Group, it has also prepared a growth strategy that prescribes the following:

Retain leadership in the PC-linked readers market

Certifications pertaining to identification and information technology security will be a target for PC-linked readers. Strategic partnerships for the development and manufacture of customized PC-linked readers will be expanded. Emerging markets will be explored, and the Group's presence in Africa and South America will be maintained. Finally, the Group's strong R&D capability will be leveraged upon to provide PC-linked readers for e-government service projects worldwide, especially those concerning e-ID cards, social insurance, taxation clearance, and e-health.

Develop new products for the payment industry

While smart cards and smart card readers have long been cash cows for the Group, the payment industry – payment terminals to be specific – has become a new growth driver for the Group. As mentioned earlier, the Group is increasing certifications for its diverse range of payment devices, and introducing new product lines that may also be aimed at the payment industry.

Explore the end-to-end solutions market

The Group has already entered into the end-to-end solutions market with e-PLUS Tap to Pay, a smart card-based prepaid and loyalty solution for SM Prime Holdings Inc. ("SM"), one of the largest mall developer, operator, and retail companies in the Philippines. The Group is planning to replicate the e-PLUS business model to other Southeast Asian countries. In addition to prepaid and loyalty solutions, the Group will also explore end-to-end solutions for other applications, such as access control, network security, and so forth.

Drive the AFC business

The Group has developed a strong network throughout its history, with suppliers, customers, and other partners from all over the world. The Group plans to continue to develop and leverage this existing network, exploring new countries and regions to promote our newer solutions businesses, including AFC solutions, payment solutions, loyalty solutions, as well as other electronic purse and related solutions.

Successful deployments of our solutions in previously unserved or underserved markets provide us with useful experiences to improve our existing offerings. The Group also gains valuable knowledge that assists our exploration in other newer regions.

Liquidity and Financial Resources

At all times the Group maintains a healthy liquidity position. As at 31 March 2015, the Group's cash and cash equivalents amounted to HK\$27.3 million (31 December 2014: HK\$35.6 million). The bank borrowings of the Group amounted to HK\$31.8 million (31 December 2014: HK\$35.3 million). The gearing ratio, being the total interest bearing debts over the total equity, as at 31 March 2015 was 0.29 (31 December 2014: 0.30).

The current ratio, being the ratio of current assets to current liabilities, was 1.89 (31 December 2014: 1.95). Net asset value as at 31 March 2015 was HK\$109.1 million (31 December 2014: HK\$117.1 million).

Exposure to Exchange Rate Fluctuations

The assets, liabilities and transactions of the Group are primarily denominated in HK\$, Euros (“EUR”), Philippine Pesos (“PHP”), US\$, and Renminbi (“RMB”). The Group considers that exchange risk arising from US\$ and RMB does not have significant financial impact to the Group. When appropriate, hedging instruments including forward contracts would be used according to relevant policy and procedures of the Group to manage the currency risk exposure on EUR and PHP.

As at 31 March 2015, the Group had outstanding foreign exchange forward contracts with notional amounts of EUR1,300,000 (31 December 2014: EUR610,000) and the fair value gains relating to such foreign exchange forward contracts amounted to approximately HK\$682,000 (31 December 2014: HK\$153,000). The contracts were entered to manage the currency risk exposure in relation to the operation of the Group.

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 2015.

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), Ms. Kaung Cheng Xi Dawn and Mr. Lo Kar Chun, 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 this announcement and has provided advice and comments thereon.

By order of the Board
Advanced Card Systems Holdings Limited
TSUI Kam Ling
Chairman

Hong Kong, 13 May 2015

As at the date of this announcement, the Board comprises 4 executive directors, namely Ms. Tsui Kam Ling, Mr. Wong Chi Ho, Mr. Wong Chi Kit and Mr. Tan Keng Boon; and 3 independent non-executive directors, Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, SBS, JP and Mr. Yim Kai Pung.

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.