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: 2086)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2017 increased by 32% to HK$76.3 million.
- Gross profit of the Group for the six months ended 30 June 2017 increased by 40% to HK$40.6 million.
- The Group turned around from its loss position and recorded a profit for the period of HK$877,000 (2016: loss for the period of HK$19.9 million) for the six months ended 30 June 2017.
- The Board does not declare the payment of an interim dividend for the six months ended 30 June 2017.

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 six months ended 30 June 2017 together with the comparative unaudited figures for the corresponding period in 2016.

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017 *HK$'000*	 2016 *HK$'000*
Revenue	*3*	**76,281**	57,731
Cost of sales		**(35,730)**	(28,801)
Gross profit		**40,551**	28,930
Other income		**406**	153
Selling and distribution costs		**(9,010)**	(8,060)
Research and development expenses		**(12,865)**	(21,377)
Administrative expenses		**(17,882)**	(20,995)
Profit/(loss) from operations		**1,200**	(21,349)
Finance costs	*4*	**(140)**	(529)
Share of results of a joint venture		**–**	(734)
Profit/(loss) before taxation	*4*	**1,060**	(22,612)
Income tax	*5*	**(183)**	2,749
Profit/(loss) for the period, attributable to the equity shareholders of the Company		**877**	(19,863)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange differences on translation of financial statements of foreign operations		**682**	(371)
Other comprehensive income for the period, net of tax		**682**	(371)
Total comprehensive income for the period, attributable to equity shareholders of the Company		**1,559**	(20,234)
Earnings/(losses) per share	*6*		
– Basic (HK cents) (2016: restated)		**0.274**	(6.812)
– Diluted (HK cents) (2016: restated)		**0.274**	(6.812)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	Unaudited 30 June 2017 HK$'000	Audited 31 December 2016 HK$'000
Non-current assets			
Plant and equipment	7	**4,858**	5,371
Intangible assets		**45,811**	45,263
Goodwill		**1,172**	1,172
Interest in a joint venture		**269**	209
Prepayment for available-for-sale securities	11(a)	**348**	377
Deferred tax assets		**1,405**	755
		53,863	53,147
Current assets			
Inventories		**39,649**	29,998
Trade and other receivables	8	**53,467**	56,644
Held-to-maturity financial assets		**882**	861
Current tax recoverable		**587**	593
Cash and cash equivalents		**33,660**	40,551
		128,245	128,647
Current liabilities			
Trade and other payables	9	**26,484**	19,496
Bank loans and overdraft		**5,111**	14,222
Current tax payable		**555**	31
		32,150	33,749
Net current assets		**96,095**	94,898
Total assets less current liabilities		**149,958**	148,045
Non-current liabilities			
Defined benefit obligations		**978**	864
Deferred tax liabilities		**392**	152
		1,370	1,016
NET ASSETS		**148,588**	147,029
CAPITAL AND RESERVES			
Share capital	10(b)	**31,956**	31,956
Reserves		**116,632**	115,073
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**148,588**	147,029

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Net cash generated from operating activities	**8,151**	2,285
Net cash used in investing activities	**(6,071)**	(7,092)
Net cash (used in)/generated from financing activities	**(9,279)**	4,223
Net decrease in cash and cash equivalents	**(7,199)**	(584)
Cash and cash equivalents at 1 January	**40,551**	29,805
Effect of foreign exchange rates changes	**308**	4
Cash and cash equivalents at 30 June	**33,660**	29,225

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital *HK$'000*	Share premium* *HK$'000*	Merger reserve* *HK$'000*	Unaudited Surplus reserve* *HK$'000*	Exchange reserve* *HK$'000*	Retained profits* *HK$'000*	Total *HK$'000*
Balance at 1 January 2016	28,406	17,955	4,496	1,082	319	78,592	130,850
Charges in equity for the period							
Loss for the period	–	–	–	–	–	(19,863)	(19,863)
Other comprehensive income							
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(371)	–	(371)
Total comprehensive income	–	–	–	–	(371)	(19,863)	(20,234)
Final dividend approved in respect of the previous year	–	–	–	–	–	(2,841)	(2,841)
Balance at 30 June 2016	28,406	17,955	4,496	1,082	(52)	55,888	107,775
Balance at 1 January 2017	31,956	53,383	4,496	1,331	(1,104)	56,967	147,029
Charges in equity for the period							
Profit for the period	–	–	–	–	–	877	877
Other comprehensive income							
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	682	–	682
Total comprehensive income	–	–	–	–	682	877	1,559
Appropriation to surplus reserve	–	–	–	16	–	(16)	–
Balance at 30 June 2017	31,956	53,383	4,496	1,347	(422)	57,828	148,588

* These reserve accounts comprise the consolidated reserves of HK$116,632,000 (30 June 2016: HK$79,369,000) in the consolidated statement of financial position as at 30 June 2017.

NOTES TO THE INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This interim financial report is unaudited but has been reviewed by the audit committee of the Company and it was authorised for issue on 1 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue mainly represents the invoiced value of products sold and services provided to customers, net of value added tax, returns and trade discounts. The amount of each significant category of revenue is as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Sale of smart card products, software and hardware	**75,290**	55,928
Smart card related services	**991**	1,803
	76,281	57,731

(b) Segment reporting

The Group's management assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The management considers there is only one operating segment and, accordingly, no operating segment information is presented.

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's plant and equipment, intangible assets, goodwill, interest in a joint venture and non-current prepayment ("specified non-current assets"). The geographic location of customers is based on the location at which the services were provided or the good are delivered. The geographic location of the specified non-current assets is based on the physical location of the asset, in the case of plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of the operations, in the case of interest in a joint venture and non-current prepayment.

	Revenue from external customers Six months ended 30 June		Specified Non-current assets	
			30 June	31 December
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
People's Republic of China ("PRC"), including Hong Kong and Macau (county of domicile)	**13,030**	9,069	**51,134**	50,811
United States	**9,852**	4,728	**–**	–
Italy	**2,812**	8,318	**–**	–
Republic of the Philippines	**2,861**	6,657	**1,324**	1,578
Other countries	**47,726**	28,959	**–**	3
	63,251	48,662	**1,324**	1,581
	76,281	57,731	**52,458**	52,392

4 PROFIT/(LOSS) BEFORE INCOME TAX

(a) Finance Costs

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans and other borrowings	**167**	736
Less: interest expense capitalised into development costs*	**(27)**	(207)
	140	529

* The borrowing costs have been capitalised at a rate of 3% to 4% per annum (2016: 3% to 4%).

(b) Other items

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Profit/(loss) before taxation is arrived at after charging/ (crediting):		
Amortisation of intangible assets		
– Included in research and development expenses	**4,389**	5,557
– Included in administrative expenses	**423**	423
Amount recognised in profit or loss	**4,812**	5,980
Depreciation of plant and equipment	**1,387**	698
Bad debt (reversal of)/written off	**(6)**	3,113
Termination and redundancy payments to staff	**–**	3,108
Write down of inventories	**1,105**	510

5 INCOME TAX

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
– Provision for current year	**517**	–
– Over-provision in respect of prior years	**(19)**	(436)
	498	(436)
Philippines Income Tax		
– Provision for current year	**13**	1,002
Other jurisdictions	**60**	165
	571	731
Deferred taxation	**(388)**	(3,480)
	183	(2,749)

The provision for Hong Kong Profits Tax for the period is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits.

The provision for Philippines Income Tax for the period is calculated at 30% (2016: 30%) of the estimated taxable income or 2% (2016: 2%) on gross income incurred, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

(a) Logyi Limited ("Logyi")

Logyi is granted a tax holiday of two year tax exemption followed by three year 50% tax deduction starting from 2013. As a result, Logyi was exempted from corporate income tax for 2013 and 2014, and is subject to corporate income tax at 12.5% from 2015 to 2017 and at 25% from 2018 onwards.

(b) ACS Technologies (Shenzhen) Limited ("ACS Shenzhen")

ACS Shenzhen was granted the "high-technology enterprise" status and enjoys the preferential corporate income tax rate of 15% for three years between 2015 and 2017.

Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

6 EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

The calculation of basic earnings per share (2016: basic losses per share) for the six months ended 30 June 2017 is based on profit attributable to ordinary equity shareholders of the Company of HK$877,000 (2016: loss of HK$19,863,000) and the weighted average of 319,565,000 (2016: 291,602,000 (restated)) ordinary shares in issue during the period.

Weighted average number of ordinary shares

	2017	2016
	'000	*'000*
		(restated)[#]
Issued ordinary shares at 1 January	**319,565**	284,058
Effect of rights issue	**–**	7,544
Weighted average number of ordinary shares at 30 June	**319,565**	291,602

[#] Comparative figures for the weighted average number of ordinary shares for the six months ended 30 June 2016 have been adjusted retrospectively for the effect of the rights issue completed during the year ended 31 December 2016.

(b) Diluted earnings/(losses) per share

Diluted earnings/(losses) per share for the six months ended 30 June 2017 and 2016 are the same as the basic earnings/(losses) per share as there are no dilutive potential ordinary shares.

7 PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of plant and equipment with a cost of HK$840,000 (2016: HK$655,000), which primarily consists of Computer and office equipment, leasehold improvements and Moulds amounting to HK$530,000, HK$33,000 and HK$276,000 (2016: HK$217,000, HK$38,000 and HK$290,000) respectively. Items of plant and machinery with a net book value of HK$942,000 were disposed of during the six months ended 30 June 2016, resulting in a loss on disposal of HK$837,000.

8 TRADE AND OTHER RECEIVABLES

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
Trade receivables	**43,721**	48,335
Less: Allowance for doubtful debts	**(333)**	(327)
	43,388	48,008
Prepayments	**3,136**	3,268
Deposit paid	**3,203**	1,644
Amount due from an immediate holding company	**298**	–
Amount due from a joint venture	**2,817**	2,862
Other receivables	**625**	862
	53,467	56,644

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
Within 1 month	**11,216**	17,650
1 to 2 months	**6,232**	5,647
2 to 3 months	**2,492**	2,695
3 to 12 months	**4,398**	1,090
Over 1 year	**19,050**	20,926
	43,388	48,008

Trade receivables are generally due within 7 days to 3 months from the date of billing. Trade receivables in relation to sales of software and sales under solution business are due according to respective payment terms, which may exceed 3 months.

9 TRADE AND OTHER PAYABLES

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
Trade payables	**16,095**	12,083
Accruals	**4,702**	5,623
Deposit received	**5,687**	1,790
	26,484	19,496

As of the end of the reporting period, the ageing of trade payables, based on invoice date, is as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Within 1 month	**9,126**	6,400
1 to 3 months	**5,530**	4,958
3 to 12 months	**477**	309
Over 1 year	**962**	416
	16,095	12,083

10 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividend

(i) The Company has not declared any dividend for the six month ended 30 June 2017 (2016: nil).

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of nil HK cent per share (2016: 1.0 HK cents per share)	**–**	2,841

(b) Share Capital

Authorised and issued share capital

	30 June 2017		31 December 2016	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	**1,000,000**	**100,000**	1,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January	**319,565**	**31,956**	284,058	28,406
Issue of shares under right issue	**–**	**–**	35,507	3,550
At 30 June/31 December	**319,565**	**31,956**	319,565	31,956

11 COMMITMENTS

(a) Capital commitments outstanding at 30 June 2017 not provided for in the financial statements were as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Contracted for	**812**	786

In June 2014, the Group entered into an agreement with an independent third party to acquire 10% equity interests of Zigong Yandou Smart Card Information Technology Company Limited for a consideration of RMB1,000,000. As at 30 June 2017, a deposit of HK$348,000 (31 December 2016: HK$377,000) was paid by the Group which was included in "Prepayment for available-for-sale securities" within non-current assets.

(b) At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Within 1 year	**3,678**	2,233
After 1 year but within 5 years	**6,162**	–
	9,840	2,233

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years, with an option to renew each lease upon expiry when all terms are renegotiated.

12 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors, is as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Short-term employee benefits	**3,463**	3,283
Post-employment benefits	**52**	62
	3,515	3,345

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside the unaudited consolidated financial results of the Group (thereafter referred to the "Group") for the six months ended 30 June 2017 ("the Interim Period").

FINANCIAL REVIEW

Revenue for the Interim Period grew by 32% from HK$57.7 million in the corresponding period of 2016 to HK$76.3 million. In the first half of 2016, sales performance of the Group was significantly affected by the global economic downturn and appreciation of the United States dollar ("US$") against other currencies, and many new projects or large orders that were postponed or put on hold. The Group successfully overcame these challenges, having started some new projects, and through many recurring customers placing orders in second half of 2016. These resulted in significant improvement in revenues for the Interim Period.

One of the new projects of the Group is the provision of Automatic Fare Collection ("AFC") Solutions for all buses in the Republic of Fiji ("Fiji"), which covered over 1,700 buses with an expected user count of around a million (Please refer to Business Review for details). This project already started and has contributed to revenues for the Interim Period. It will be completed by May 2018.

The Group's gross profit increased by 40% to HK$40.6 million for the Interim Period. The gross profit margin of the Group for the Interim Period is 53%, slightly improved from 49% in 2016, as a result of increase in sales of some new products with relatively higher margins.

Total operating expenses decreased from HK$50.4 million in the corresponding period of 2016 to HK$39.8 million for the Interim Period. The operating expenses for the corresponding period of 2016 included a non-recurring loss of HK$4.4 million, which was mainly comprised of termination and redundancy payments to staff and disposal loss on plant and equipment, as a result of the internal restructuring of the Group. Despite the loss from restructuring, total operating expenses for the Interim Period decreased by HK$6.2 million compared with the corresponding period of 2016. The decrease was mainly attributed to the decrease in staff cost of HK$4.9 million as a result of the decrease in headcount.

During the Interim Period, the Group actively participated in tradeshows for the smartcard industry and cooperated with business partners on product promotions in order to seize market opportunities. These resulted in an increase in selling and distribution costs.

The Group recorded a profit before taxation of HK$1.1 million for the Interim Period, while a loss before taxation of HK$22.6 million was recorded for the corresponding period of 2016. Several external factors seriously affected the operating result in 2016. However, the Group is well experienced and has a good reputation in smart card industry. Operating with a solid foundation, the Group successfully implemented a turnaround during the Interim Period and the management is optimistic about the operating result for the second half of 2017.

DIVIDEND

The Board does not declare an interim dividend in respect of the Interim Period. 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

During the Interim Period, the Group aimed at turnaround from its loss position in 2016 by actively exploring market opportunities and boosting efficiency.

AFC Project in Fiji

Apart from continuing to provide smart cards and smart card readers, particularly for e-government and e-payment, the Group actively develops the market for its solution business. During the Interim Period, TaptoPay Limited ("TaptoPay"), a wholly owned subsidiary of the Group, contracted with Vodafone Fiji Limited to be solution provider for a new AFC project in Fiji.

Under this project, TaptoPay will implement a transportation fare card to be used in Fiji for buses, its major public mode of transportation. Fiji has a population of around a million and over 1,700 buses. TaptoPay is responsible for delivering the end-to-end solution. As the project was government-mandated, after launching of the project in August 2017, it is possible the application will further extend to other modes of transportation.

Events

During the Interim Period, the Group participated in the UITP Global Public Transport Summit Montréal 2017 and some industrial events to gather knowledge, strengthen its network and share its expertise.

With its efforts to capture new clients and markets, the Group targets a better sales performance in the second half of 2017.

Efficiency in operation and R&D

After the restructuring in 2016, operation efficiency of the Group was improved. Total operating expenses decreased and revenue per employee increased. Although headcount and spending on research and development also decreased compared to the corresponding period of 2016, the Group is still maintaining a significant portion of human and financial resources towards developing new products. Instead of developing various different products, the Group changed to focus on development of new products with proven market, high potential and high returns. The change in research and development direction is expected to enhance greater effectiveness and generate positive return to the Group in the long run.

PROSPECTS

Smart Card Business

The Group is optimistic about the EFT-POS terminal market and EMV bank card market. Development focus is currently on the ACR900 EFT-POS banking terminal and further new products under ACOSJ series (please refer to 2016 Annual Report for details). The development of these new products are on schedule and the Group is preparing to launch ACR900 in 2017. The management believes that launching these new products can help the Group enter a larger market, improve returns to shareholders and allow the Group to further penetrate smart card-related businesses.

Potential New Business

With reference to the announcement of the Company dated 1 August 2017, the Group would like to develop and engage in the business of investment in and asset management of technology related business (the "Potential New Business"). The Group is currently exploring and will take relevant steps to obtain the relevant qualification(s) for it to carry on the Potential New Business, including without limitation, the licensing requirements under the Securities and Futures Ordinance (Cap. 571) of Hong Kong (if applicable).

The Board expects that the Potential New Business will enable the Group to expand its business portfolio, diversify its income source and possibly enhance its financial performance.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2017, the Group's cash and cash equivalents amounted to HK$33.7 million (31 December 2016: HK$40.6 million). The bank borrowings of the Group amounted to HK$5.1 million (31 December 2016: HK$14.2 million). The gearing ratio, being the total interest bearing debts over the total equity, as at 30 June 2017 was 0.03 (31 December 2016: 0.10).

The current ratio, being the ratio of current assets to current liabilities, was 3.99 (31 December 2016: 3.81). Net asset value as at 30 June 2017 was HK$148.6 million (31 December 2016:HK$147.0 million).

The Group's equity capital, bank borrowings, together with the cash generated from operating activities, has been applied to fund its working capital and other operational needs. During the Interim Period, the Group recorded net cash inflow in operating activities of HK$8.2 million (2016: HK$2.3 million). The increase in the net cash inflow in operating activities was due to the improvement of operating result that the Group turned around and recorded a profit before taxation during the Interim Period. The Group recorded net cash outflow in investing activities of HK$6.1 million (2016: HK$7.1 million) for the Interim Period, the amount mainly included payment for research and development cost capitalised. The Group recorded net cash outflow in financing activities of HK$9.3 million (2016: inflow of HK$4.2 million) for the Interim Period, an outflow was recorded as a result of repayment of bank loans during the Interim Period. Due to change in controlling shareholder in January 2017, several banking facilities were terminated by respective bankers, as a result, the Group repaid respective bank loans.

ACQUISITIONS AND INVESTMENTS

The Group did not have any significant investments or acquisitions during the Interim Period.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK$, Philippine Pesos, US$ and Renminbi ("RMB"). As HK$ is pegged to US$, exchange risk arising from US$ does not have significant financial impact to the Group. The Group also enters into foreign exchange hedging transactions from time to time to manage its currency risk exposure. As at 30 June 2017, no related hedge was made by the Group.

Under foreign exchange hedging policy of the Group, the Group only hedges its foreign exchange exposures in sales and purchases by entering into forward contracts. Under no circumstances would the Group enter into foreign exchange hedging transactions exceeding the aggregate amount of all trade receivables and purchase orders received from customers in the relevant foreign currency nor for speculative purposes.

PLEDGE OF ASSETS

As at 30 June 2017, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2017, the Company had outstanding corporate guarantee of HK$39 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its two main subsidiaries. As at 30 June 2017, the Group had available banking facilities approximately HK$23.6 million and of which HK$18.5 million had not been utilized. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had 196 full time employees. Staff costs recognised in profit or loss amounted to HK$20.6 million (2016: HK$28.7 million). Remuneration polices and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

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 of the Company 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.

CORPORATE GOVERNANCE

The Company is committed to building and maintaining high standards of corporate governance. Saved as disclosed below, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the Interim Period.

Rule 8.08(1)(a) to the Listing Rules provides that a listed company should meet a minimum public float requirement of 25%. On 22 March 2017, immediately after the close of the mandatory unconditional cash offer by Fortune (HK) Securities Limited on behalf of HNA EcoTech Pioneer Acquisition (the "Controlling Shareholder") to acquire all the issued shares of the Company, the Company could not satisfy the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules. An application was made to the Stock Exchange for a waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period of three months from 22 March 2017 to 21 June 2017. On 31 March 2017, the Stock Exchange has granted the Company a waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for the period from 22 March 2017 to 21 June 2017. On 21 April 2017, the Company has been informed by the Controlling Shareholder that it has disposed of 53,193,488 Shares (representing approximately 16.65% of the total issued share capital of the Company), to independent third parties, and completion of such disposal took place on 21 April 2017. As such, the minimum public float of 25% of the total issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules has been restored from the same date.

Rules 3.10(1) and 3.21 of the Listing Rules provides that a listed company should maintain a minimum of three independent non-executive directors and three members for the Audit Committee. Following the resignation of Mr. Lo Kar Chun, SBS, JP, with effect from 1 April 2017, the Board only comprised four executive directors and two independent non-executive directors. As a result, the number of independent non-executive directors fell below the minimum number required under Rules 3.10(1) of the Listing Rules. In addition, the Company is not in compliance with Rule 3.21 of the Listing Rules with regard to the composition of the audit committee. On 27 June 2017, the Company appointed Mr. Guo Dan as an independent non-executive director and member of the audit committee. As such, the Company had resume compliance with Rule 3.10(1) and Rule 3.21 of the Listing Rules from the same date.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted dealings rules regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

Having made specific enquiry of all directors of the Company, all directors of the Company confirmed that they have complied with the required standard set out in the Model Code and the dealings rules regarding Directors' securities transactions throughout the Interim Period.

AUDIT COMMITTEE

The audit committee is primarily responsible for making recommendations to the Board on the appointment, reappointment, and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review the Company's financial controls, internal controls, and risk management systems; and to review the financial statements of the Company. The audit committee has reviewed the Group's unaudited consolidated results for the Interim Period and discussed the financial related matters with the management of the Group.

The audit committee currently comprises 3 members, namely Mr. Yim Kai Pung (being the chairman of the audit committee), Mr. Guo Dan and Ms. Kaung Cheng Xi Dawn.

PUBLICATION

The interim results announcement of the Company for the Interim Period is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.acs.com.hk) respectively. The 2017 interim report will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Advanced Card Systems Holdings Limited
TONG Fu
Chairman

Hong Kong, 1 August 2017

As at the date of this announcement, the board of directors of the Company comprises five executive directors, namely Mr. Tong Fu, Mr. Wang Hao, Mr. Peng Fang, Mr. Zhang Tao and Mr. Wong Chi Ho, and three independent non-executive directors, namely Mr. Guo Dan, Ms. Kaung Cheng Xi Dawn and Mr. Yim Kai Pung.