



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

Card & Reader Technologies



Interim Report 2016

* For identification only

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 2016 together with the comparative unaudited figures for the corresponding period in 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Unaudited Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Revenue	3	57,731	106,920
Cost of sales		(28,801)	(53,215)
Gross profit		28,930	53,705
Other income		153	10,367
Selling and distribution costs		(8,060)	(10,707)
Research and development expenses		(21,377)	(20,898)
Administrative expenses		(20,995)	(21,009)
(Loss)/profit from operations		(21,349)	11,458
Finance costs	4	(529)	(347)
Share of results of a joint venture		(734)	(636)
(Loss)/profit before taxation	4	(22,612)	10,475
Income tax	5	2,749	(1,121)
(Loss)/profit for the period, attributable to the equity shareholders of the Company		(19,863)	9,354
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange differences on translation of financial statements of foreign operations		(371)	(227)
Other comprehensive income for the period, net of tax		(371)	(227)
Total comprehensive income for the period, attributable to equity shareholders of the Company		(20,234)	9,127
(Losses)/earnings per share	6		
– Basic (HK cents)		(6.993)	3.293
– Diluted (HK cents)		(6.993)	3.293

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Non-current assets			
Plant and equipment	7	5,283	6,295
Intangible assets		47,865	47,248
Goodwill		1,972	1,972
Interest in a joint venture		1,255	2,008
Prepayment for available-for-sale securities	11(a)	377	377
Deferred tax assets		3,154	489
		59,906	58,389
Current assets			
Inventories		43,036	34,548
Trade and other receivables	8	43,886	78,480
Held-to-maturity financial assets		912	730
Current tax recoverable		2,728	2,517
Cash and cash equivalents		29,225	38,941
		119,787	155,216
Current liabilities			
Trade and other payables	9	26,698	35,384
Bank loans and overdraft		42,255	43,591
Current tax payable		1,042	1,142
		69,995	80,117
Net current assets		49,792	75,099
Total assets less current liabilities		109,698	133,488
Non-current liabilities			
Defined benefit obligations		912	814
Deferred tax liabilities		1,011	1,824
		1,923	2,638
NET ASSETS		107,775	130,850
CAPITAL AND RESERVES			
Share capital	10(b)	28,406	28,406
Reserves		79,369	102,444
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		107,775	130,850

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	2,285	13,449
Net cash used in investing activities	(7,092)	(12,506)
Net cash generated from/(used in) financing activities	4,223	(606)
Net (decrease)/increase in cash and cash equivalents	(584)	337
Cash and cash equivalents at 1 January	29,805	35,671
Effect of foreign exchange rates changes	4	9
Cash and cash equivalents at 30 June	29,225	36,017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	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 2015	28,406	17,955	4,496	-	1,147	65,083	117,087
Charges in equity for the period							
Profit for the period	-	-	-	-	-	9,354	9,354
Other comprehensive income							
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(227)	-	(227)
Total comprehensive income	-	-	-	-	(227)	9,354	9,127
Final dividend approved in respect of the previous year	-	-	-	-	-	(5,681)	(5,681)
Balance at 30 June 2015	28,406	17,955	4,496	-	920	68,756	120,533
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

* These reserve accounts comprise the consolidated reserves of HK\$79,369,000 (30 June 2015: HK\$92,127,000) in the consolidated statement of financial position as at 30 June 2016.

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 12 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 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 2015 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 2015 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 the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company.

Annual Improvements to HKFRSs 2012-2014 Cycle

Amendments to HKAS1, *Disclosure initiative*

Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*

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	
	2016	2015
	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	55,928	102,197
Smart card related services	1,803	4,723
	57,731	106,920

(b) Segment reporting

The Group manages its businesses by business operations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified only one operating segment, i.e. the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services.

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Revenue from external customers and reportable segment revenue	57,731	106,920
(Loss)/profit		
Reportable segment (loss)/profit	(21,334)	3,110
Share of results of a joint venture	(734)	(636)
Unallocated corporate income	-	10,140
Unallocated corporate expenses	(544)	(2,139)
Consolidated (loss)/profit before taxation	(22,612)	10,475
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	172,477	208,399
Interest in a joint venture	1,255	2,008
Deferred tax assets	4,685	489
Current tax recoverable	2,728	2,517
Unallocated corporate assets	79	192
Consolidated total assets	181,224	213,605

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 noncurrent 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 long term prepayment.

	Revenue from external customers		Specified Non-current assets	
	Six months ended		30 June	31 December
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
People's Republic of China ("PRC"), including Hong Kong and Macau (county of domicile)	9,069	17,229	54,646	54,882
United States	4,728	8,589	10	17
Italy	8,318	22,397	-	-
Republic of the Philippines	6,657	11,803	2,009	2,772
Other countries	28,959	46,902	87	229
	48,662	89,691	2,106	3,018
	57,731	106,920	56,752	57,900

4 (LOSS)/PROFIT BEFORE INCOME TAX

(a) Finance Costs

	Six months ended	
	30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and other borrowings	736	612
Less: interest expense capitalised into development costs*	(207)	(265)
	529	347

* The borrowing costs have been capitalised at a rate of 3% to 4% per annum (2015: 3% to 4%).

(b) Other items

	Six months ended	
	30 June	
	2016	2015
	HK\$'000	HK\$'000
(Loss)/profit before taxation is arrived at after charging/(crediting):		
Amortisation of intangible assets		
– Included in research and development expenses	5,557	4,856
– Included in administrative expenses	423	425
Amount recognised in profit or loss	5,980	5,281
Depreciation of plant and equipment	698	1,994
Bad debt written off	3,113	–
Termination and redundancy payments to staff	3,108	–
Write down of inventories	510	238
Receipt of insurance claim (note)	–	(10,140)

Note: On 22 May 2015, the Company received USD1,313,234 from its insurer, out of which USD1,300,000 (equivalent to HK\$10,140,000) is the payment of insurance claim under the life insurance policy for the late Mr. Wong Yiu Chu.

5 INCOME TAX

	Six months ended	
	30 June	
	2016	2015
	HK\$'000	HK\$'000
Current tax		
Hong Kong profits tax		
– Provision for current year	–	959
– (Over)/under-provision in respect of prior years	(436)	53
	(436)	1,012
Philippines Income Tax		
– Provision for current year	1,002	56
Other jurisdictions	165	293
	731	1,361
Deferred taxation	(3,480)	(240)
	(2,749)	1,121

The provision for Hong Kong Profits Tax for the period is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits.

The provision for Philippines Income Tax for the period is calculated at 30% (2015: 30%) of the estimated taxable income or 2% (2015: 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 (LOSSES)/EARNINGS PER SHARE

(a) **Basic (losses)/earnings per share**

The calculation of basic losses per share (2015: basic earnings per share) for the six months ended 30 June 2016 is based on loss attributable to ordinary equity shareholders of the Company of HK\$19,863,000 (2015: profit of HK\$9,354,000) and the weighted average of 284,058,000 (2015: 284,058,000) ordinary shares in issue during the period.

(b) **Diluted (losses)/earnings per share**

Diluted (losses)/earnings per share for the six months ended 30 June 2016 and 2015 are the same as the basic (losses)/earnings per share as there are no dilutive potential ordinary shares.

7 PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of plant and equipment with a cost of HK\$655,000 (2015: HK\$1,479,000), which primarily consists of Computer and office equipment, leasehold improvements and Moulds amounting to HK\$217,000, HK\$38,000 and HK\$290,000 (2015: HK\$518,000, HK\$483,000 and HK\$341,000) 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 (2015: HK\$6,000), resulting in a loss on disposal of HK\$837,000 (2015: gain on disposal of HK\$36,000).

8 TRADE AND OTHER RECEIVABLES

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade receivables	37,468	73,030
Less: Allowance for doubtful debts	(630)	(630)
	36,838	72,400
Deposits and prepayments	3,768	3,230
Amount due from a joint venture	2,682	1,025
Other receivables	659	1,886
Less: Allowance for doubtful debts	(61)	(61)
	43,886	78,480

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 2016 HK\$'000	31 December 2015 HK\$'000
Within 1 month	7,350	36,407
1 to 2 months	4,193	13,447
2 to 3 months	571	1,667
3 to 12 months	18,645	18,094
Over 1 year	6,079	2,785
	36,838	72,400

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 2016 HK\$'000	31 December 2015 HK\$'000
Trade payables	12,407	24,171
Accruals and deposits received	14,291	11,213
	26,698	35,384

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Within 1 month	7,707	11,003
1 to 3 months	3,426	12,422
3 to 12 months	974	436
Over 1 year	300	310
	12,407	24,171

10 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividend

- (i) Dividends payable to equity shareholders attributable to the interim period. The Company has not declared any dividend for the six month ended 30 June 2016 (2015: 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 2016 HK\$'000	2015 HK\$'000
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Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 1.0 HK cent per share (2015: 2.0 HK cents per share)	2,841	5,681
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(b) **Share Capital**

Authorised and issued share capital

	30 June 2016		31 December 2015	
	Number of shares	Amount HK\$'000	Number of shares	Amount 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 and 30 June/ 31 December	284,058	28,406	284,058	28,406

11 COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2016 not provided for in the financial statements were as follows:

	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
Contracted for	811	843

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 2016, a deposit of HK\$377,000 (31 December 2015: 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 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
Within 1 year	1,348	3,028
After 1 year but within 5 years	-	197
	1,348	3,225

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	
	2016	2015
	HK\$'000	HK\$'000
Short-term employee benefits	3,283	3,856
Post-employment benefits	62	63
	<u>3,345</u>	<u>3,919</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the unaudited consolidated financial results of the Group (thereafter referred to as "ACS" or the "Group") for the six months ended 30 June 2016 ("the Interim Period").

FINANCIAL REVIEW

Revenue for the Interim Period decreased by 46% from HK\$106.9 million in the corresponding period of 2015 to HK\$57.7 million. The significant decrease in revenue was due to postponement of placement of orders by clients in the first half of 2016 as a result of global economy downturn. Considering orders on hand for second half of 2016 and seasonality of the industry, management is optimistic of an improvement in revenue for second half of 2016 comparing with the Interim Period.

The Group's gross profit dropped by 46% to HK\$28.9 million for the Interim Period as a result of the decrease in revenue. The gross profit margin of the Group for the Interim Period is 50%, similar to gross profit margin in 2015.

There was a receipt of benefit amounted to US\$1.3 million (equivalent to HK\$10.1 million) under life insurance policy for the late Mr. Wong Yiu Chu in the corresponding period of 2015 as disclosed in the Company's announcements dated 14 and 26 May 2015, the amount was one-off in nature that no such other income was recorded in the Interim Period.

Total operating expenses decreased from HK\$52.6 million in the corresponding period of 2015 to HK\$50.4 million for the Interim Period. The amount included a non-recurring loss of HK\$4.4 million, which included HK\$3.2 million incurred up to 30 June 2016 and further provision of approximately HK\$1.2 million, as a result of the internal restructuring of the Group as disclosed in the Company's announcement dated 11 May 2016. The loss on restructuring mainly comprised of termination and redundancy payments to staff of HK\$3.1 million and a disposal loss on plant and equipment of HK\$0.7 million. Despite the loss on restructuring, total operating expenses for the Interim Period was only HK\$46.0 million, decreased by 13% compared with the corresponding period of 2015. The decrease was mainly attributed to the decrease in staff cost of HK\$4.1 million as a result of the decrease in headcount.

In addition, the Group recorded a loss of HK\$0.7 million due to share of losses of a joint venture, Goldpac ACS Technologies Inc. (“GATI”). GATI just commenced operation in January 2016 that it was not in full operating scale during the Interim Period and resulting in a loss.

The Group recorded a loss before taxation of HK\$22.6 million for the Interim Period, or a loss before taxation of HK\$18.2 million if excluding the HK\$4.4 million loss on restructuring, while the Group recorded a profit before taxation of HK\$0.4 million if excluding the HK\$10.1 million insurance benefit for the corresponding period of 2015. The Group recorded a loss for the Interim Period because of the decrease in revenue and gross profit as a result of the global economy downturn. Considering the expected improvement in revenue and completion of restructuring, the management is looking forward to a better operating result for second half of 2016 compared with the Interim Period.

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 undertook measures to boost efficiency, explore new markets and projects, and strengthen vital relationships with different stakeholders. Specific actions pertaining to these measures are going to be discussed in further details below.

Ongoing Projects and Existing Products

The Group continues to provide smart cards and smart card readers, particularly for e-government and e-payment. It retains its leadership in the PC-linked reader markets, having released ACR39U, its next generation PC-linked smart card reader, also its card processing speed is one of the fastest to date. With the Group’s release of contact and contactless smart card reader modules, it has also been able to present a new offering to the smart card reader and NFC markets.



The Group has also continued to provide smart cards and smart card-related services to SM Prime Holdings, Inc. in the Philippines. In addition to providing an end-to-end solution for loyalty and payment, the Group has provided end-to-end support for event ticketing and transportation services, which are slowly becoming smart card-based.

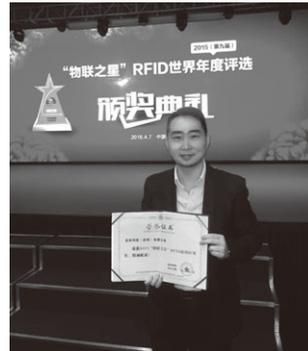
The Group has also discontinued its biometric reader line, as part of its drive towards greater productivity and efficiency. In reallocating resources from this product line to more promising ones, such as development of devices for payment and transport applications, the Group also moves towards realizing its efforts to explore new markets.

In previous years, the Group had already developed expertise in the Automatic Fare Collection (“AFC”) and smart card market. In January 2016, TaptoPay Limited (“TaptoPay”), a wholly owned subsidiary of the Group, signed a five year contract with a major consortium in the Philippines to be system integrator and technology provider for a new AFC project. Through this project, TaptoPay is helping to extend the functionality and application of the transportation fare card used in Manila’s metro, namely beep card. From being used solely in trains, the fare card is slowly being accepted in buses. Plans are underway for card acceptance in convenience stores, other transport systems, and retail establishments. TaptoPay is responsible for hardware installation, bus management system development, and support, among others. As the government-mandated transportation card is rolled out to buses throughout the country, the Group will generate more demand for its technologies and services. The Group is also able to use its own branding components in installed hardware, providing the Group with an avenue to raise awareness about its products.

In the Interim Period, the Group also completed intelligent transportation systems (“ITS”) in the emerging economic hub of Cebu City, The Philippines. This project is instrumental to facilitating mobility and the flow of trade by connecting three cities of Metropolitan Cebu. Aside from enabling automatic fare collection, the project enables other functions such as fleet management, transaction clearing, and so forth.



Beep card project in Manila, The Philippines



RFID Successful Application Award

In May 2016, the Group also officially received recognition in the form of the RFID Successful Application Award during China’s IOT Excellence Awards. The award was for the Group’s electronic toll collection (“ETC”) card mobile top up solution for China toll road operators. ETC is an electronic payment system widely promoted to ease the traffic jams in highways. The solution allows ETC users who are in Beijing, Anhui and Zhejiang to top up ETC cards at any time and any place with mobile devices and ACS’s mobile card readers, thus eliminating the need for queuing up to reload cards at specified time and place. ETC was further extended to Shandong and Tianjian in the PRC, which will further increase demand of ACS’s mobile card readers and will generate revenue in future.

The award is not only recognition of the Group’s achievement on the solution of AFC, but also a confirmation on the Group’s development direction of ITS. These ongoing AFC and ITS projects will contribute revenue to the Group in the remaining of 2016 and beyond.

The Group also concluded the plan for restructuring and expects it to be completed by September 2016. The Group's restructuring plan covered operation structure in all of its offices. This entailed the offloading of low-performing assets and, as mentioned earlier, certain low-margin product lines. The plan is expected to be completed successfully because the Group has extensive professional technologies and profound knowledge base, all of which reduced the labor-intensiveness of its operations. In the long run, the restructuring is expected to enhance greater productivity and cost-effectiveness across all operations and generate positive return to the Group.

Events

During the Interim Period, the Group participated in the Smart Card Alliance 2016 Payments Summit to gather knowledge, strengthen its network and share its expertise. Nevertheless, the Group will continue to play an active part in industry activities. In fact, the Group had been designated as a Center of Excellence by the Smart Card Alliance in the past year, in recognition of its participation in pushing for the growth of the smart card industry.

With its efforts to focus on high-benefit projects and activities, its efforts to capture new clients and markets, and streamline its offerings and operations, the Group targets a better performance in the second half of 2016.

PROSPECTS

Smart Card and NFC Technologies

The Group had already established expertise in smart cards and NFC. With different initiatives around the world to replace magnetic technologies with smart card-based and NFC systems, the Group anticipates greater demand for its earlier and newly launched products and services.

AFC/ITS Projects

In previous years, the Group had already developed expertise in the AFC and smart card market. This is a favourable starting point for branching out further into the ITS market. With its AFC projects worldwide, the Group has already established a foothold in the market.

With a compound annual growth rate of 10% to 15%, the ITS market opens up plenty of possibilities for the Group. Along with the Group's horizontal expansion of expertise (e.g. engaging further in system software development), the Group also intends to expand vertically. It will take on projects that will prove its strength in other technological aspects of transport aside from AFC, such as fleet management and tracking, and so forth.

EMV and Financial System Technologies

In 2015, numerous products of the group were slated to undergo international certification. Among them are banking and non-banking point-of-sale ("POS") terminals and ACOSJ, a Java-based EMV payment card operating system.

These measures are in anticipation of further demand from the payment and financial services markets, and in line with the Group's drive to explore new markets and projects.

The ACOSJ is due to receive its China PBOC certification in the second half of 2016, and worldwide recognized Visa and MasterCard certifications thereafter. Given the growing market for EMV bank cards, ACOSJ is a timely addition to the Group's product portfolio.

Worldwide shipments of EMV bank cards in 2015 amounted to USD2.06 billion, up by 34% from 2014. The ACOSJ series will enable the Group to further penetrate the EMV bank card market.

The Group is also exerting efforts towards launching ACR900 in 2016. ACR900 is an all-in-one banking POS terminal designed for payments using bank-issued cards. It supports ISO 7816 (Class A, B and C); MCU cards (T=0 and T=1); ISO 14443 cards (Class A and B); and MIFARE cards. It is EMVCo L1 and EMVCo L2 compliant, in addition to being compliant with various major and international certifications. It is also undergoing PCI PTS 4.1 certification, to bolster its competitiveness in terms of security.

In 2015, the industry saw the US migrating towards EMV at full-speed. In 2016, it is expected to leapfrog from magnetic stripe to contactless technologies, another development that presents business opportunities for the Group. Worldwide, one-third of card-present transactions already use EMV.

These mean demand not only for EMV cards like ACOSJ, but also demand for EMV terminals such as ACR900, and the Group's other existing devices. The wide variety of the Group's devices in this regard positions it to better capture a wide market share.

Together, the Group's advances in smart card-based, NFC, EMV and ITS technologies present growth potential. Its actions in 2015 and the first half of 2016 are geared towards greater penetration in the EMV and transportation markets. With its technology base, knowledge base, and portfolio of projects, the Group expects to be able to make greater achievements towards realizing its prospects in the aforementioned markets.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2016, the Group's cash and cash equivalents amounted to HK\$29.2 million (31 December 2015: HK\$38.9 million). The bank borrowings of the Group amounted to HK\$42.3 million (31 December 2015: HK\$43.6 million). The gearing ratio, being the total interest bearing debts over the total equity, as at 30 June 2016 was 0.39 (31 December 2015: 0.33).

The current ratio, being the ratio of current assets to current liabilities, was 1.71 (31 December 2015: 1.94). Net asset value as at 30 June 2016 was HK\$107.8 million (31 December 2015: HK\$130.9 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\$2.3 million (2015: HK\$13.4 million). The decrease in the net cash inflow in operating activities was largely due to the Group recorded a loss before taxation during the Interim Period. Significant sales was made in last quarter of 2015 and most of respective receivables was already received during the Interim Period that trade and other receivables decreased from HK\$78.5 million to HK\$43.9 million, therefore, the Group recorded a cash inflow from operating activities for the Interim Period despite there is a loss before taxation. The Group recorded net cash outflow in investing activities of HK\$7.1 million (2015: HK\$12.5 million) for the Interim Period, the amount mainly included payment for research and development cost capitalised, decrease in net cash outflow was because there was a consideration of HK\$3.1 million paid for a business acquisition in March and June 2015. The Group recorded net cash inflow in financing activities of HK\$4.2 million (2015: outflow of HK\$0.6 million) for the Interim Period, an inflow was recorded as a result of the additional bank loans drawn down during the Interim Period.

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\$, Euros (“EUR”), Philippine Pesos (“PHP”), 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 on RMB, EUR and PHP. The Group’s foreign exchange hedging policy and procedures are as follows:

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.

The Group’s foreign exchange hedging is overseen by two designated executive Directors, who are assisted by the Financial Controller of the Group and the Senior Vice President of Sales and Marketing of the Group.

The Group would enter into forward contracts in the event that:

- (i) the Group’s currency risk exposure is considered to be significant; or
- (ii) notwithstanding that the currency risk exposure is not considered to be significant, it is considered to be prudent and/or reasonable to do so to manage and/or further reduce the Group’s currency risk exposure.

As at 30 June 2016, the Group had no outstanding foreign exchange forward contracts (31 December 2015: notional amount of EUR300,000).

PLEDGE OF ASSETS

As at 30 June 2016, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2016, the Company had outstanding corporate guarantee of HK\$82.6 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its two main subsidiaries. As at 30 June 2016, the Group had available banking facilities approximately HK\$71.8 million and of which HK\$29.5 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 2016, the Group had 228 full time employees. Staff costs recognised in profit or loss amounted to HK\$28.7 million (2015: HK\$29.7 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the interests and short positions of the directors and chief executives 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 of Hong Kong Limited (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 Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange (the "Model Code") or as otherwise notified to the Company 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
						30 June 2016
<i>Executive Directors</i>						
Ms. Tsui Kam Ling	113,612,122	-	-	-	113,612,122	40.00%
Mr. Wong Chi Ho	26,343,252	-	-	-	26,343,252	9.27%
Mr. Wong Chi Kit (Note 2)	26,203,200	8,144,000	-	-	34,347,200	12.09%
<i>Independent Non-executive Director</i>						
Mr. Lo Kar Chun, SBS, JP	400,000	-	-	-	400,000	0.14%

Notes:

- The share are registered under the name of the directors who are the beneficial owners.
- 26,203,000 shares are held by Mr. Wong Chi Kit personally and 8,144,000 shares are held by his wife, Ms. Chan Angelica Sheung Ying, personally. Mr. Wong Chi Kit is taken to be interested in shares held by Ms. Chan Angelica Sheung Ying under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 30 June 2016, 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code or as otherwise notified to the Company.

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

As at 30 June 2016, so far as is known to the directors or chief executives of the Company, the following shareholders (excluding directors and chief executives of the Company) had interests and short positions of 5% or more in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Long position in ordinary shares of HK\$0.10 each					Percentage
	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares held	of the Company's issued share capital as at 30 June 2016
Ms. Chan Angelica Sheung Ying (Note 1)	8,144,000	26,203,200	-	-	34,347,200	12.09%

Notes:

1. 8,144,000 shares are held by Ms. Chan Angelica Sheung Ying personally and 26,203,200 shares are held by her husband, Mr. Wong Chi Kit, personally, who are also the beneficial owners. Ms. Chan Angelica Sheung Ying is taken to be interested in shares held by Mr. Wong Chi Kit under the SFO.

Save as disclosed above, as at 30 June 2016 and to the best knowledge of the directors and chief executives of the Company, 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 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.

Throughout the six months ended 30 June 2016, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

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.

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 of directors (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), Ms. Kaung Cheng Xi Dawn and Mr. Lo Kar Chun, SBS, JP.

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

Hong Kong, 12 August 2016