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Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(GEM Stock Code: 8210)

(Main Board Stock Code: 2086)

TRANSFER OF LISTING FROM THE GROWTH ENTERPRISE MARKET TO THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Financial adviser to the Company



TRANSFER OF LISTING

Reference is made to the announcement of the Company made on 9 March 2015 in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing and the announcement of the Company made on 7 September 2015 in relation to the renewal of such application.

On 9 March 2015, an application was made by the Company to the Stock Exchange for the transfer of listing of all the Shares in issue from GEM to the Main Board. On 7 September 2015, the Company renewed such application. The Company has applied for the listing of, and permission to deal in, all Shares in issue on the Main Board by way of transfer of listing from GEM to the Main Board. The approval-in-principle has been granted by the Stock Exchange on 18 September 2015 for the Shares to be listed on the Main Board and de-listed from GEM, according to Rule 9A.09(6) of the Main Board Listing Rules.

All pre-conditions for the Transfer of Listing as set out in Rule 9A.02 of the Main Board Listing Rules have, insofar as applicable, been fulfilled in relation to the Company and the Shares.

* For identification purpose

The last day of dealings in the Shares on GEM (Stock Code: 8210) will be 25 September 2015. Dealings in the Shares on the Main Board (Stock Code: 2086) will commence at 9:00 a.m. on 29 September 2015.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer nor exchange of the existing share certificates. Currently, the Shares have a board lot size of 8,000 Shares each and are traded in Hong Kong dollars. No change will be made to the English and Chinese stock short names, the existing share certificates, the board lot size, trading currency of the Shares and the Hong Kong branch share registrar and transfer office (which is Computershare Hong Kong Investor Services Limited) of the Company in connection with the Transfer of Listing.

Reference is made to the announcement of the Company made on 9 March 2015 in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing under the transfer of listing arrangement pursuant to the relevant provisions of the GEM Listing Rules and the Main Board Listing Rules and the announcement of the Company made on 7 September 2015 in relation to the renewal of such application.

TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

On 9 March 2015, an application was made by the Company to the Stock Exchange for the transfer of listing of all the Shares in issue from GEM to the Main Board. On 7 September 2015, the Company renewed such application. The Company has applied for the listing of, and permission to deal in, all Shares in issue on the Main Board by way of transfer of listing from GEM to the Main Board. As at the date of this announcement, the Company has 284,057,682 Shares in issue.

The approval-in-principle has been granted by the Stock Exchange on 18 September 2015 for the Shares to be listed on the Main Board and de-listed from GEM, according to Rule 9A.09(6) of the Main Board Listing Rules.

All pre-conditions for the Transfer of Listing as set out in Rule 9A.02 of the Main Board Listing Rules have, insofar as applicable, been fulfilled in relation to the Company and the Shares.

REASONS FOR THE TRANSFER OF LISTING

The Directors believe that the listing of Shares on the Main Board will enhance the profile of the Group as a whole, and will improve the trading liquidity of the Shares. The Directors consider that the listing of the Shares on the Main Board will be beneficial to the future growth, financial flexibility and business development of the Company, and allow the Company to gain a wider recognition among the public and institutional and retail investors.

As at the date of this announcement, the Board does not contemplate any material change in the nature of the business activities of the Group following the Transfer of Listing.

DEALINGS IN THE SHARES ON THE MAIN BOARD

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS since 10 November 2003, the date on which the Shares were first listed on GEM. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence, and that all activities under CCASS are subject to the General Rules of the CCASS and CCASS Operational Procedures in effect from time to time.

The last day of dealings in the Shares on GEM (Stock Code: 8210) will be 25 September 2015. Dealing in the Shares on the Main Board (Stock Code: 2086) will commence at 9:00 a.m. on 29 September 2015.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer nor exchange of the existing share certificates. Currently, the Shares have a board lot size of 8,000 Shares each and are traded in Hong Kong dollars. No change will be made to the English and Chinese stock short names, the existing share certificates, the board lot size, trading currency of the Shares and the Hong Kong branch share registrar and transfer office (which is Computershare Hong Kong Investor Services Limited) of the Company in connection with the Transfer of Listing.

SHARE OPTION SCHEMES

Pre-IPO Share Option Plan

Pursuant to the resolution of the Shareholders dated 27 October 2003, the Company adopted a pre-IPO share option plan. All the options lapsed upon the expiry of the options on 20 January 2013.

Share Option Scheme

Pursuant to the resolution of the Shareholders dated 27 October 2003, the Company adopted a share option scheme. The share option scheme of the Company expired on 26 October 2013.

The Company may consider adopting a new share option scheme which will be in compliance with the Main Board Listing Rules in the future and will then make further announcement and obtain the approval of the Shareholders in accordance with the Main Board Listing Rules.

As at the date of this announcement, the Group does not have any options, warrants or similar rights or convertible equity securities in issue which will be transferred to the Main Board.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Pursuant to Rule 9A.12 of the Main Board Listing Rules, the general mandates granted to the Directors to allot and issue new Shares and repurchase Shares by the Shareholders on 29 April 2015 will continue to be valid and remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
- (c) the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing the authority given to the Directors by the relevant resolution.

COMPETING INTERESTS

As at the date of this announcement, insofar as the Directors are aware, none of the Directors, controlling shareholder and their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group.

QUARTERLY REPORTING OF FINANCIAL RESULTS

Upon the Transfer of Listing, the Company will cease the practice of quarterly reporting of its financial results and will follow the relevant requirements of the Main Board Listing Rules which include publishing its interim results and annual results within two months and three months from the end of the relevant periods or financial year end, respectively. The Board is of the view that investors and Shareholders will continue to have access to relevant information of the Company following the reporting requirements under the Main Board Listing Rules.

BUSINESS OF THE GROUP

The Company has been listed on GEM since 10 November 2003. The Group principally engaged in the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The Group's principal business activities are currently classified into four different product and service lines, namely, readers, terminals, card operating systems ("COS") and solutions business, which currently includes automatic fare collection ("AFC") solutions and intelligent transportation systems ("ITS") solutions.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for viewing on the respective websites of the Company at <http://www.acs.com.hk/> and of the Stock Exchange at <http://www.hkexnews.hk/>:

- (a) the published directors' report and annual accounts of the Company for the year ended 31 December 2014 (the "**Annual Report 2014**");
- (b) the quarterly report of the Company for the three months ended 31 March 2015 (the "**First Quarterly Report 2015**");
- (c) the interim report of the Company for the six months ended 30 June 2015 (the "**Interim Report 2015**");
- (d) the new Memorandum and Articles of Association in substitution for and to the exclusion of all the existing Memorandum and Articles of Association which will become effective from the date on which dealings in the Shares on Main Board first commence;
- (e) the circular of the Company dated 9 March 2015 in relation to, among other things, the proposals for general mandates to issue and repurchase Shares, the re-election of the retiring Directors and the adoption of new Memorandum and Articles of Association in substitution for and to the exclusion of all the existing Memorandum and Articles of Association;
- (f) the supplemental circular of the Company dated 2 April 2015 in relation to, among other things, the re-election of the retiring Directors; and
- (g) a copy of each of announcements and other corporate communications made by the Company before the date of this announcement as required under the GEM Listing Rules and the Main Board Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The Company discloses below the biographical information of each current Director and senior management member of the Company:

Executive Directors

Ms. TSUI Kam Ling

Ms. Tsui Kam Ling, aged 63, is an executive Director, the Chairman of the Board and the Chairman of the Nomination Committee. She joined the Group in September 1998, mainly responsible for supervising the sourcing of raw materials, logistics, human resources, and

finance. She was appointed as an executive Director on 23 March 2005, a member of the Nomination Committee on 30 March 2012 and the Chairman of the Board on 24 March 2015. She is also the director of several subsidiaries of the Group. Prior to joining the Group, Ms. Tsui Kam Ling was a director of Advanced Electronics Limited, a distributor of semiconductor components until 1997 when it was acquired by Future Electronics Holdings Inc. She then worked as the Administration Manager of Future Advanced Electronics Limited until September 1998. Ms. Tsui had a teaching career from 1975 to 1983. Ms. Tsui graduated from The Chinese University of Hong Kong with a Bachelor of Arts degree in October 1975. She is the mother of Mr. Wong Chi Ho and Mr. Wong Chi Kit, both are executive Directors.

Ms. Tsui Kam Ling is entitled to HK\$1,080,000 per annum (excluding any discretionary bonus payable to her), as director's emoluments, which is determined with reference to her duties and responsibilities within the Group, and the prevailing market conditions.

As at the date of this announcement, Mr. Tsui Kam Ling is interested in 113,468,122 Shares, representing 39.95% of the issued share capital of the Company, under Part XV of the SFO.

Save as disclosed above, (i) Ms. Tsui Kam Ling does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company, (ii) she has not held any directorship in other listed public companies in the last three years, and (iii) there is no other matter concerning the appointment of Ms. Tsui Kam Ling that needs to be brought to the attention of the Shareholders nor any information that needs to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Main Board Listing Rules.

Mr. WONG Chi Ho

Mr. Wong Chi Ho, aged 36, is an executive Director, a Co-Chief Executive Officer of the Company and a member of the Nomination Committee, all of which were appointed on 24 March 2015. He is also a director and the legal representative of several subsidiaries of the Group. He joined the Group in July 2013. He is involved in the development of the Group's smart card and smart card reader technologies. Mr. Wong Chi Ho has over eight years of engineering work experience in Silicon Valley, California, U.S.A., where he worked for Qualcomm Technologies, Inc., Nvidia Corporation, and Sun Microsystems Inc.. Mr. Wong Chi Ho obtained a Master of Science in Management, Science and Engineering degree from Stanford University in California, U.S.A. in January 2005 as well as Bachelor of Science in Engineering in Electrical Engineering (Summa Cum Laude) and Master of Science in Engineering in Electrical Engineering degrees from The University of Michigan at Ann Arbor in Michigan, U.S.A. in April 2001 and April 2002, respectively. Mr. Wong Chi Ho passed Level 3 of the CFA Study and Examination Program of the CFA Institute. He is a son of Ms. Tsui and the brother of Mr. Wong Chi Kit.

Mr. Wong Chi Ho is entitled to HK\$1,068,000 per annum (excluding any discretionary bonus payable to him) as director's emoluments, which is determined with reference to his duties and responsibilities within the Group, and the prevailing market conditions.

As at the date of this announcement, Mr. Wong Chi Ho is interested in 26,263,252 Shares, representing approximately 9.25% of the issued share capital of the Company, under Part XV of the SFO.

Save as disclosed above, (i) Mr. Wong Chi Ho does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company, (ii) he has not held any directorship in other listed public companies in the last three years, and (iii) there is no other matter concerning the appointment of Mr. Wong Chi Ho that needs to be brought to the attention of the Shareholders nor any information that needs to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Main Board Listing Rules.

Mr. WONG Chi Kit

Mr. Wong Chi Kit, aged 32, is an executive Director, a Co-Chief Executive Officer of the Company and a member of the Remuneration Committee, all of which were appointed on 24 March 2015. He is also a director of several subsidiaries of the Group. He joined the Group in October 2008 as the Vice President of Global Sales. Mr. Wong Chi Kit became the head of business development of the Group in 2013 and he is currently in charge of the Group's solutions business, providing e-purse, automatic fare collection, retail and loyalty, and payment solutions. Mr. Wong Chi Kit graduated with a Bachelor of Arts degree with Distinction, double majoring in Psychology and Economics from The University of Michigan at Ann Arbor in Michigan, U.S.A. in December 2004. He is a son of Ms. Tsui and the brother of Mr. Wong Chi Ho.

Mr. Wong Chi Kit is entitled to HK\$1,068,000 per annum (excluding any discretionary bonus payable to him) as director's emoluments, which is determined with reference to his duties and responsibilities within the Group, and the prevailing market conditions.

As at the date of this announcement, Mr. Wong Chi Kit is interested in 34,347,200 Shares, representing approximately 12.09% of the issued share capital of the Company, under Part XV of the SFO. Of these Shares, 26,203,200 Shares are held by Mr. Wong Chi Kit and 8,144,000 Shares are held by his spouse, Ms. Chan Angelica Sheung Ying, personally, and Mr. Wong Chi Kit is taken to be interested in the Shares held by his spouse by virtue of Part XV of the SFO.

Save as disclosed above, (i) Mr. Wong Chi Kit does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company, (ii) he has not held any directorship in other listed public companies in the last three years, and (iii) there is no other matter concerning the appointment of Mr. Wong Chi Kit that needs to be brought to the attention of the Shareholders nor any information that needs to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Main Board Listing Rules.

Mr. TAN Keng Boon

Mr. Tan Keng Boon, aged 57, joined the Group in October 1999 as a full-time consultant of ACS and has been a full-time employee and the Chief Technical Officer of ACS since May 2003 and an executive Director since 25 October 2003. He is also a director of several subsidiaries of the Group. Mr. Tan is responsible for the implementation of a technical sales and marketing programme for existing and prospective customers of ACS. He has been involved actively in defining the product development road map of ACS and leading the engineering team in the development of new products. Previously, Mr. Tan worked for Gemplus Technologies Asia Pte. Ltd. and De La Rue Systems Asia Pte Ltd., both of which were subsidiaries of established companies in the smart card industry. Mr. Tan obtained a Bachelor of Engineering degree from the National University of Singapore in June 1983.

Mr. Tan Keng Boon is entitled to S\$181,200 per annum (excluding any discretionary bonus payable to him) as director's emoluments, which is determined with reference to his duties and responsibilities within the Group, and the prevailing market conditions.

As at the date of this announcement, Mr. Tan Keng Boon is interested in 157,893 Shares, representing approximately 0.06% of the issued share capital of the Company, under Part XV of the SFO.

Save as disclosed above, (i) Mr. Tan Keng Boon does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company, (ii) he has not held any directorship in other listed public companies in the last three years, and (iii) there is no other matter concerning the appointment of Mr. Tan Keng Boon that needs to be brought to the attention of the Shareholders nor any information that needs to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Main Board Listing Rules.

Independent non-executive Directors

Mr. LO Kar Chun, SBS, JP

Mr. Lo Kar Chun, aged 63, was appointed as an independent non-executive Director on 17 March 2014. He is also a member of the Audit Committee and the Nomination Committee, and the Chairman of the Remuneration Committee.

Mr. Lo Kar Chun started his career as an Administrative Officer in the Hong Kong Government in 1974, occupying various senior positions in the Hong Kong Government during his 13 years of public service, before joining the private sector in 1987. He was the President and Chief Executive Officer in Synnex Technology International (HK) Ltd from December 1987 to December 2013 and Synnex Distributions (China) Ltd since its inception until December 2013. Mr. Lo Kar Chun is currently the Chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administration Region. He is also a member of the Exchange Fund Advisory Committee in Hong Kong. Mr. Lo obtained a Bachelor of Science General (First Class Honour) degree from The University of Hong Kong in November 1973.

Mr. Lo Kar Chun is entitled to HK\$120,000 per annum as director's emoluments, which is determined with reference to his duties and responsibilities within the Group, and the prevailing market conditions.

As at the date of this announcement, Mr. Lo Kar Chun is interested in 400,000 Shares, representing approximately 0.14% of the issued share capital of the Company, under Part XV of the SFO.

Save as disclosed above, (i) Mr. Lo Kar Chun does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company, (ii) he has not held any directorship in other listed public companies in the last three years, and (iii) there is no other matter concerning the appointment of Mr. Lo Kar Chun that needs to be brought to the attention of the Shareholders nor any information that needs to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Main Board Listing Rules.

Mr. YIM Kai Pung

Mr. Yim Kai Pung, aged 50, was appointed as an independent non-executive Director on 10 June 2014. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee.

Mr. Yim Kai Pung has extensive experience working in CPA firms providing services of audit, tax advices and capital consultancy and planning arrangements for initial public offering services. He is a Managing Director of CCTH CPA Limited. He served as an independent non-executive director of Greens Holdings Limited (Stock Code: 1318) from 2009 to 2015; an independent non-executive director of Success Universe Group Limited (formerly known as Macau Success Limited) (Stock Code: 487) from 2004 to 2012; an executive director of Heng Xin China Holdings Limited (formerly known as Tiger Tech Holdings Limited) (Stock Code: 8046) from 2006 to 2007; and an independent non-executive director of Magician Industries (Holdings) Limited (presently known as LISI Group (Holdings) Limited) (Stock Code: 526) from 2005 to 2006. Mr. Yim Kai Pung graduated from the City Polytechnic of Hong Kong with a Bachelor of Arts in Accountancy degree in November 1993. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom.

Mr. Yim Kai Pung is entitled to HK\$120,000 per annum as director's emoluments, which is determined with reference to his duties and responsibilities within the Group, and the prevailing market conditions.

As at the date of this announcement, Mr. Yim Kai Pung is not interested or deemed to have any interest or short positions in any shares, underlying shares or debentures of the Company and its associated corporations under Part XV of the SFO.

Save as disclosed above, (i) Mr. Yim Kai Pung does not have any relationship and material interest with any Director, senior management, substantial shareholder or controlling shareholder of the Company, (ii) he has not held any directorship in other listed public companies in the last three years, and (iii) there is no other matter concerning the appointment of Mr. Yim Kai Pung that needs to be brought to the attention of the Shareholders nor any information that needs to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Main Board Listing Rules.

Ms. KAUNG Cheng Xi Dawn

Ms. Kaung Cheng Xi Dawn, aged 35, was appointed as an independent non-executive Director on 24 March 2015. She is also a member of the Audit Committee and the Nomination Committees.

Ms. Kaung Cheng Xi Dawn is a Sales Director at Avery Dennison Hong Kong B.V. since September 2014. Prior to joining Avery Dennison Hong Kong B.V. as Senior Manager of Global Supply Chain in February 2013, Ms. Kaung Cheng Xi Dawn worked as an Associate with McKinsey & Company from November 2010 to January 2013. Previously, Ms. Kaung Cheng Xi Dawn worked at Dell Inc. group of companies in U.S.A. and Singapore from July 2003 to August 2008. Ms. Kaung Cheng Xi Dawn obtained her Master in Business Administration degree from Harvard University in Massachusetts, U.S.A. in May 2010. She also received her Master of Science in Management Science and Engineering degree from Stanford University in California, U.S.A. in June 2003 and her Bachelor of Science in Engineering in Industrial and Operations Engineering (Summa Cum Laude) degree from The University of Michigan at Ann Arbor in Michigan, U.S.A. in April 2002.

Ms. Kaung Cheng Xi Dawn is entitled to HK\$120,000 per annum as director's emoluments, which is determined with reference to her duties and responsibilities within the Group, and the prevailing market conditions.

As at the date of this announcement, Ms. Kaung Cheng Xi Dawn is not interested or deemed to have any interest or short positions in any shares, underlying shares or debentures of the Company and its associated corporations under Part XV of the SFO.

Save as disclosed above, (i) Ms. Kaung Cheng Xi Dawn does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company, (ii) she has not held any directorship in other listed public companies in the last three years, and (iii) there is no other matter concerning the appointment of Ms. Kaung Cheng Xi Dawn that needs to be brought to the attention of the Shareholders nor any information that needs to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Main Board Listing Rules.

Senior Management

Ms. LAI Yuen Yee

Ms. Lai Yuen Yee, aged 50, is the Executive Vice President of the Group and mainly responsible for human resources and product development. Ms. Lai Yuen Yee joined the Group in August 2000. She is also the head of the Product Marketing Department, leading a team to focus on product management and marketing functions of the Group. She worked for Orient Overseas Container Line Ltd. for 9 years, where she started to accumulate her solid experience in sales and marketing activities for container transport services. She obtained a Bachelor of Business Administration degree from the University of East Asia, Macau in September 1987.

Ms. Lai Yuen Yee has not held any directorship in other listed public companies in the last three years.

Mr. LEUNG Tin Chak Gilbert

Mr. Leung Tin Chak Gilbert, aged 40, joined the Group in January 2002 as a Technical Marketing Engineer and was mainly responsible for handling activities of respective product lines. He is the Senior Vice President of Sales and Marketing, responsible for sales and marketing duties for existing and prospective customers of ACS. He has been involved actively in promoting the products of ACS, innovating smart card technologies in the market, identifying and exploring new market opportunities. Mr. Leung Tin Chak Gilbert obtained his Bachelor of Engineering in Industrial Engineering and Engineering Management and Master of Philosophy in Industrial Engineering and Engineering Management from The Hong Kong University of Science and Technology in November 1999 and November 2001, respectively.

Mr. Leung Tin Chak Gilbert has not held any directorship in other listed public companies in the last three years.

Ms. SUEN Yu May Sammi

Ms. Suen Yu May Sammi, aged 36, joined the Group in June 2014 as the Financial Controller of the Group. Ms. Suen Yu May, Sammi is responsible for the general financial planning and management and the treasury functions. Ms. Suen Yu May Sammi has over 13 years of experience in audit, finance, and accounting management through her previous financial positions with several international accounting firms and listed companies in Hong Kong. Ms. Suen Yu May, Sammi obtained her Bachelor of Business Administration degree in Accounting from The Hong Kong University of Science and Technology in November 2001. She is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Ms. Suen Yu May Sammi has not held any directorship in other listed public companies in the last three years.

CERTAIN INFORMATION ABOUT THE GROUP

Research and development

The Group invests considerable amount of resources to and places great emphasis on research and development as it believes that technological innovation is critical to its sustained success in the smart card industry and business which the Group operates in which is characterised by rapid changes in technologies, trends in designs and customer demands.

The Group conducts research and development activities under policies driven by its management and executive, whom meet from time to time to discuss the developments in technical aspects and customer demands of the smart card industry and to evaluate business opportunities. As such, the Group will evaluate and determine the need and scope of its upcoming research and development activities to maintain its competitive edge and keep pace with rapid technological development in the industry and business which it operates in, to develop new technologies and upgrade existing technologies that address prevailing and expected changes in industry trends and customer demands and to develop and expand its offerings of products and services.

The Group incurred research and development expenditure of approximately HK\$29.4 million, HK\$35.4 million and HK\$44.5 million for the years ended 31 December 2012, 2013 and 2014, respectively, and expects to spend approximately HK\$50.6 million on its research and development activities in 2015.

The Company capitalised development costs of HK\$11.1 million, HK\$11.2 million and HK\$15.9 million in the years ended 31 December 2012, 2013 and 2014, respectively, mainly included staff cost, testing fee and certificate expenses. The amount capitalised refer to expenses which are directly attributable to the development activities which meet the requirement of being an intangible. There are 61 projects for which development costs were capitalised during the three years ended 31 December 2014. Such projects relate to the development of hardware and software for various smart card applications including card payment, mobile payment, automatic fare collection, customer loyalty and security control such as digital certificate, electronic banking authentication, identity card (such as health card, driving license and national identity card) and logical access control.

Out of the 61 projects, 41 projects were completed during the three years ended 31 December 2014 and 20 projects were still under development as of 31 December 2014, of which 17 projects are expected to complete and commence sales in 2015 and 3 projects are expected to complete by the second quarter of 2016. The total capitalised development cost of the 20 projects which were still under development as of 31 December 2014 was approximately HK\$18.4 million. These projects mainly relate to the development of hardware and software for smart card applications of card payment, automatic fare collection and customer loyalty.

Acquisition of the Business Assets of Daming Wuzhou

Brief background

As disclosed in the Company's announcements dated 16 and 20 June 2014 and notes 32 and 33 to the financial statements contained in the Annual Report 2014, the Group acquired: (a) certain business assets of Daming Wuzhou at the consideration of RMB4,000,000 and a loan of RMB1,800,000 owing by Daming Wuzhou at a consideration of RMB1,300,000, being an aggregate consideration of RMB5,300,000; and (b) 10% equity interest in Zigong Yandou at a consideration of RMB1,000,000.

Reasons for the acquisition

In recent years, the Group has been actively seeking opportunities to gain entry into emerging as well as larger markets, such as the PRC. The Group's acquisition of the business assets of Daming Wuzhou has enabled the Group to make a debut into the AFC solutions business in the PRC market, to rapidly gain market share and secure new customers and to seize such opportunities in a timely manner. In addition, the acquisition of the business assets of Daming Wuzhou enabled the Group to use proprietary technologies, such as software source code, developed by Daming Wuzhou.

As disclosed in the announcement of the Company dated 16 June 2014, the business assets acquired by the Group comprised all the assets of Daming Wuzhou which were owned by Daming Wuzhou for its business as at 1 April 2014. Such business assets comprised all the business assets of Daming Wuzhou which were identified and agreed between Daming Wuzhou and the Company as set out in the relevant business assets purchase agreement. The Company acquired all such business assets and assumed all liabilities directly related to those business assets.

The Board considers that an acquisition of the business assets of Daming Wuzhou, as opposed to the entire equity interest in Daming Wuzhou, is in the best interests of the Group as the Group would not have to assume or take on any obligations or contingent liabilities which may not have been otherwise associated with the business assets acquired or made known to the Group.

Insofar as the Group is aware, save as to certain post-completion matters such as collection of accounts receivables, Daming Wuzhou does not and will not carry on any business competing with the business associated with the business assets acquired by the Group.

Scale of operation of Daming Wuzhou

As disclosed in the Annual Report 2014, Daming Wuzhou was one of the major AFC suppliers in the PRC. Daming Wuzhou was established in 2002. Since then, Daming Wuzhou deployed its AFC solutions in more than 40 cities in the PRC. Daming Wuzhou's major revenue source in past few years was mainly attributable to sales of additional AFC readers to their existing customers for additional vehicles acquired by such customers. However, based on the Company's knowledge, Daming Wuzhou had been scaling down its research and development operations and was unwilling to commit sufficient resources to provide software and hardware upgrades to its existing customers which would be a principal source of recurring revenue for a solutions provider.

The Group saw substantial strategic benefit in acquiring Daming Wuzhou as the Group can leverage on its strong technical knowledge and industry experience to provide system upgrade and new AFC readers to customers of Daming Wuzhou. The acquisition of the business assets of Daming Wuzhou was completed on 19 June 2014, as disclosed in note 32 to the financial statements contained in the Annual Report 2014, when all the economic interest and control of the business assets acquired from Daming Wuzhou were transferred to and acquired by the Group and the acquisition was deemed completed on 19 June 2014 from the accounting perspective and accounted for as a business combination as set out in note 32 to the financial statements contained in the Annual Report 2014. The Performance Period (as defined in the Company's announcement dated 16 June 2014) of 18 months (or, if the Group exercises its right to extend, 24 months), which is expected to be completed by December 2015 (or, if the Performance Period is so extended, by June 2016), has been put in place for facilitating the transfer of legal and technical ownership of the business assets of Daming Wuzhou. The Group has been integrating the business of the assets acquired from Daming Wuzhou since the completion of the acquisition which only occurred on 19 June 2014 with the Group's existing business and, in particular, assessing how the customers of the acquired business assets may benefit from the Group's offerings of products and services with a view to broadening the customer base and expanding the geographical presence of the Group. Both the integration and the realisation of the above synergies take time. The Group already generated revenue from three new contracts with such customers for upgrading and replacing their systems and equipment in the second quarter of 2015.

The Group's solutions business

The Group began to develop its AFC software in 2010 and launched its AFC solutions business in 2012. Depending on the needs of each AFC solutions business customer, the Group provides its customers with AFC solutions, comprising hardware and software as an integrated system, and optional management and maintenance services of such integrated systems. By providing the AFC solution services to its customers, the Group is able to expand its revenue stream by offering front-end (i.e. operating systems of terminals) and back-end (i.e. clearing systems) software to its existing and potential customers in addition to the sales of hardware, including terminals, cards and other customised equipment. In addition, in certain cases and depending on customers' needs, after an AFC system is set up, the Group is able to generate ongoing service income, such as transaction fee from using the back-end services, and system maintenance fee.

The Group's AFC solutions business integrates the sales of its software and/or hardware products and/or the provision of its system management and maintenance services. Accordingly, revenue recognition of the Group's AFC solutions business is separated into sales of goods and smart card related service income, where the Company recognises revenue for its AFC solutions business upon the delivery of goods (i.e. software and/or hardware) and the provision of services (i.e. system management and maintenance services), respectively, as described in notes 2.17(a) and 2.17(b) to the financial statements contained in the Annual Report 2014. The Group does not recognise any such revenue based on the stage of development.

For the year ended 31 December 2013 and 2014, the Group generated revenue of approximately HK\$22,470,000 and HK\$37,206,000, respectively, through the provision of AFC solutions, comprising sales of AFC software, sales of AFC customised equipment and provision of AFC-related other services (e.g. system management and maintenance) but excluding sales of smart cards and smart card readers.

In the second quarter of 2015, the Group started generating revenue from providing ITS solutions and related systems integration services, which include AFC solutions, as well as system integration services within the transportation and electronic-purse ecosystem.

Net loss for the three months ended 31 March 2015

The Group recorded a net loss of HK\$7.8 million for the three months ended 31 March 2015, as compared with the net profit of HK\$6.1 million recorded for the corresponding period in 2014. The Group's business in the first quarter of 2015 was significantly affected by the late Chinese New Year in 2015 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. In addition, the Group had budgeted for and expected an increase in, and received a higher proportion of orders for, sales of hardware in the first quarter of 2015 as compared to the corresponding period in 2014. Such product mix also contributed towards a lower gross profit margin which magnified the effect of the labour shortage for the Group's first quarter results in 2015. The gross profit margin in the first quarter of 2015 was 51.6% whereas the gross profit margin for the corresponding period in 2014 was 61.5%.

The aforesaid labour shortage was the first time the Group and its subcontractors encountered causing such significant impact to the Group's first quarter results. The Company considers such labour shortage to be a result of a higher portion of workers taking vacations to return home to celebrate a late Chinese New Year who did not return to work on time after the end of scheduled vacations or did not return to work at all resulting in a significant temporary mismatch of demand and supply of labour. The Directors are of the view that the occurrence of labour shortages of such magnitude this Chinese New Year was, and in the future would be, beyond the Company's control and difficult to predict.

Labour supply returned to normal levels in April 2015 and the Group delivered substantially all such outstanding orders originally targeted to be delivered in March 2015 and recorded such sales in the second quarter of 2015. A majority of the orders which were received but outstanding in the first quarter of 2015 did not have a definitive delivery date upon acceptance of orders from customers. The preliminary delivery date was an internal arrangement set by the management and provided to customers for indicative purposes only. The Group would provide the expected delivery date to customers only after the production schedule is finalised and confirmed between the Group and its subcontractors. As a result, the Group has not received any cancellation of customer orders, nor being required to pay any compensation to its customers for such delays. Accordingly, the Directors are of the view that the Group is not expected to receive any material order cancellation or request for compensation as a result of the delayed deliveries.

The Group has historically outsourced the production of its hardware products to selected and qualified subcontractors in Guangdong Province of the PRC, each of which is accredited by ISO 9001 certification for its quality management system on areas covering the design and manufacture of products. Approximately 98.0%, 88.3% and 93.6% of the Group's total sales were attributed to products that were manufactured by the Group's sub-contractors for the financial year 2012, 2013 and 2014, respectively. The Group has existing arrangements in place to source from multiple selected and qualified subcontractors. In light of the fact that the Company has not experienced any material order cancellation or request for compensation, the Company does not expect this temporary labour shortage to have a material adverse effect on the Group's overall 2015 financial performance and therefore does not warrant any additional time, cost or resources to be incurred to qualify and engage additional subcontractors. Notwithstanding the foregoing, the Group would consider making appropriate adjustments and enhancements to its existing policies, processes and practices for production and subcontracting going forward to prevent the risk of delayed deliveries resulting from labour shortage, including, without limitation: (a) to increase its inventories before the Chinese New Year; and (b) to recommend its subcontractors to increase wages in order to attract and retain workers to meet demands for labour where necessary, provided that such adjustments and enhancements would not have any significant adverse impact to the Group's profit margins nor place any undue pressure on the Group's working capital requirements.

In addition, the extent of net loss recorded by the Group for the three months ended 31 March 2015 was also in part due to: (a) an increase in selling and distribution costs, research and development expenses and administrative expenses, which included an increase in staff costs including salaries and employee benefit expenses resulting from the increase in number of staff, in connection with the expansion of the scale of operation and the growth of the business of the Group, an increase in legal and professional fees mainly relating to the Transfer of Listing; and (b) share of losses of a joint venture, namely Goldpac ACS Technologies Inc., which was newly established in late 2014 and is currently in its early phase of development.

Recent developments

As disclosed in the Interim Report 2015, the Group's revenue for the quarter ended 30 June 2015 amounted to HK\$69.7 million, which increased by HK\$8.2 million, or 13.0%, compared with the corresponding period of 2014. Such increase was mainly attributed to the increase in sales of readers and some new projects under the Group's solutions business, which included ITS solutions. Delivery of substantial majority of orders delayed from the first quarter resulted in increase in sales of readers.

As a combined result of the above and the results for the quarter ended 31 March 2015, the Group's revenue for the six months ended 30 June 2015 slightly decreased by 4.0% from HK\$111.3 million in the corresponding period of 2014 to HK\$106.9 million. The decrease is mainly due to the project cycle of solutions business. Several significant projects were completed by the end of 2014 and the Group has obtained orders for, and started working on, some new projects in the second quarter of 2015. These projects will contribute revenue to the Group in the second half of 2015.

The Company had maintained a life insurance policy (the "**Life Insurance Policy**") with its insurer for the late Mr. Wong Yiu Chu, the then non-executive director and the honorary chairman of the Company, who passed away on 30 March 2015. On 22 May 2015, the Company received USD1,313,234 from its insurer, out of which USD1,300,000 is the payment of benefit under the Life Insurance Policy and USD13,234 is the refund of premium prepaid for the Life Insurance Policy, as disclosed in the Company's announcements dated 14 and 26 May 2015 and the Interim Report 2015. The payment of benefit under the Life Insurance Policy of USD1,300,000 (equivalent to approximately HK\$10,140,000) to the Company contributed greatly and favourably to the results of the Group for the six months ended 30 June 2015 due to the recognition of such payment as an one-off other income and gains.

The Group recorded a net profit after tax of approximately HK\$9.4 million for the six months ended 30 June 2015, inclusive of the payment from the Life Insurance Policy, compared to HK\$11.5 million for the same period in 2014.

The Group would have recorded a profit before taxation of around HK\$0.4 million for the six months ended 30 June 2015 if it excluded the payment of benefit under the Life Insurance Policy of USD1,300,000 (equivalent to approximately HK\$10,140,000).

The decrease in profit is mainly due to: (a) a decrease in gross profit margin as a result of different in sales mix; (b) an increase in operating expenses mainly attributed to increase in staff cost and operating expenses as well as legal and professional fees; and (c) the share of losses of a joint venture, namely Goldpac ACS Technologies Inc., which was newly established in late 2014 and is currently in its early phase of development. For the decrease in gross profit margin, as the Group's business is order-driven and involves product customisations, the Company's gross profit margin tends to fluctuate for a given short period. However, the Group has maintained a relatively stable margin on a half yearly basis (50% for the six months ended 30 June 2015 compared to 53% for the six months ended 30 June 2014) and the gross profit

margin for the six months ended 30 June 2015 is in line with the gross profit margin for the whole year of 2014. In addition, the Group is implementing several cost control measures to reduce our operating expenses. Such measures include the freeze and reduction of headcount to control staff costs and to improve efficiency and the termination of rental agreements of several office units at three locations due to the decrease in headcount resulting in a decrease in office space required.

The Directors, having reviewed the amount of confirmed orders and orders in advanced negotiation up to date and after considered the increasing trend in revenue in second half of the year for the past few years and the current market conditions, expect the Group's sales performance for the remaining months of 2015 will further improve. The improvement in the second half of 2015 is expected to be a combined result of the sales generated from new products launched (ACR890) and to be launched (ACR321) in 2015 and an increase in revenue contributed by the solutions business from several AFC solutions projects and ITS solutions projects.

Based on the foregoing, the Directors consider that the sustainability of the Company's business has not been and is not expected to be affected and that there is no fundamental deterioration in the Company's business prospects. The Company confirms that since 1 January 2015 and up to the date of this announcement, save as disclosed above and in the First Quarterly Report 2015 and in the Interim Report 2015, there has been no material adverse change in its financial or trading position and there has been no material decrease in sales orders.

Foreign exchange hedging

The Group, as an enterprise serving international customers, derives a substantial portion of its business in foreign currencies, the majority of which is in US\$, and the remainder of which are in EUR, RMB and PHP. As such, the Group closely monitors the movements in exchange rates of the HK\$ against these foreign currencies from time to time.

The Group's exposure to currency risk primarily arises from its overseas sales and purchases, which are in EUR, US\$ and RMB. 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.

- Having taken into account the recommendations of the senior management, the aggregate amount of all trade receivables and purchase orders received from customers in the relevant foreign currency, the status of the purchase orders received from customers and the fluctuation in exchange rates at the relevant times, the aforesaid designated executive Directors will decide whether or not the Group would enter into forward contracts. The Group would enter into forward contracts in the event that: (a) the Group’s currency risk exposure is considered to be significant (being the de facto situation referred to in note 35.2 to the financial statements contained in the Annual Report 2014); or (b) 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 31 December 2014 and 30 June 2015, the Group had outstanding foreign exchange forward contracts with notional amounts of EUR610,000 and EUR570,000, respectively, which amounts the Company confirms were not entered into due to any significant currency risk exposure but as a prudent and reasonable measure, and the fair value gains relating to such foreign exchange forward contracts amounted to approximately HK\$153,000 and HK\$75,000, respectively, which the Company considers not to have any significant financial impact to the Group.

Further, in April 2015, the Group obtained confirmation from a customer, who is one of the Group’s top five customers and the Group’s top EUR-settled customer, that settlements for all of its new orders will be made in US\$, which in effect reduces the Group’s foreign currency exposure in EUR, going forward.

DEFINITIONS

In this announcement, the following terms shall have the following meanings unless the context otherwise requires:

“associate(s)”	has the meaning ascribed to it under the Main Board Listing Rules
“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Advanced Card Systems Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 13 April 2000 and the Shares of which are listed on GEM

“controlling shareholder(s)”	has the meaning ascribed to it under the Main Board Listing Rules, and unless the context requires otherwise, refers to Ms. Tsui Kam Ling, who is entitled to control the exercise of 39.95% of the voting rights at general meetings of the Company
“Daming Wuzhou”	Shenzhen Daming Wuzhou City Smart Card Technology Company Limited* (深圳市大明五洲城市一卡通科技有限公司), a company established in the PRC with limited liability
“Director(s)”	the director(s) of the Company
“EUR”	Euro, the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group” or “ACS”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM, and for avoidance of doubt, the Main Board excludes GEM
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum and Articles of Association”	the memorandum and articles of association of the Company
“Nomination Committee”	the nomination committee of the Company
“PHP”	Philippine Peso, the lawful currency of the Republic of Philippines
“PRC”	the People’s Republic of China

“Remuneration Committee”	the remuneration committee of the Company
“RMB”	Renminbi yuan, the lawful currency of the PRC
“S\$”	Singapore dollar, the lawful currency of Singapore
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transfer of Listing”	the transfer of listing of the Shares from GEM to the Main Board
“US\$”	United States dollar, the lawful currency of the United States of America
“Zigong Yandou”	Zigong Yandou Smart Card Information Technology Company Limited* (自貢鹽都一卡通信息化有限責任公司), a company established in the PRC with limited liability

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

Hong Kong, 18 September 2015

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Main Board Listing Rules and the GEM Listing Rules 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 purpose