
LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Tsui Kam Ling (*Chairman*)

Mr. Wong Chi Ho (*Co-Chief Executive Officer*)

Mr. Wong Chi Kit (*Co-Chief Executive Officer*)

Independent Non-executive Directors:

Ms. Kaung Cheng Xi Dawn

Mr. Lo Kar Chun, *SBS, JP*

Mr. Yim Kai Pung

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

*Head Office and Principal Place
of Business:*

Units 2010–2013, 20th Floor

Chevalier Commercial Centre

8 Wang Hoi Road

Kowloon Bay

Hong Kong

1 March 2017

To the Offer Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
FORTUNE (HK) SECURITIES LIMITED
ON BEHALF OF
HNA ECOTECH PIONEER ACQUISITION
TO ACQUIRE ALL THE ISSUED SHARES OF
ADVANCED CARD SYSTEMS HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED
BY HNA ECOTECH PIONEER ACQUISITION AND PARTIES
ACTING IN CONCERT WITH IT)**

INTRODUCTION

References are made to the Joint Announcement.

On 12 January 2017, the Offeror and the Company jointly announced that on 9 January 2017 (after trading hours), the Vendors and the Offeror entered into the Sale and Purchase Agreement,

* *For identification purpose only*

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pursuant to which the Vendors have conditionally agreed to sell and the Offeror has conditionally agreed to purchase an aggregate of 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total cash consideration of HK\$521,815,910 (being approximately HK\$2.66 per Share).

Immediately after Completion which took place on 13 January 2017 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in 196,171,395 Shares, representing approximately 61.39% of the entire issued share capital of the Company. Accordingly, the Offeror was required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror or parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code.

As set out in the “Letter from Fortune Securities”, Fortune Securities is making the Offer for and on behalf of the Offeror.

Pursuant to Rule 2.1 of the Takeovers Code, an independent board committee, comprising all the independent non-executive Directors, namely Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, *SBS, JP* and Mr. Yim Kai Pung, has been established by the Company to make a recommendation to the Offer Shareholders in connection with the Offer. Each of the independent non-executive Directors has no direct or indirect interest in the Offer other than Mr. Lo Kar Chun, *SBS, JP* who is interested in 450,000 Shares, representing approximately 0.14% of the entire issued share capital of the Company as at the Latest Practicable Date. Save for the aforesaid interest of Mr. Lo Kar Chun, *SBS, JP* in the Shares, the independent non-executive Directors do not have any conflict of interest in respect of the Offer. The board of Directors considers that the members of the Independent Board Committee are therefore independent and able to consider the terms of the Offer and make recommendation to the Offer Shareholders.

The Independent Board Committee has approved the appointment of Gram Capital to advise the Independent Board Committee, which in turn will make a recommendation to the Offer Shareholders in respect of the Offer. The full text of the letter from Gram Capital to the Independent Board Committee is set out in the “Letter from Gram Capital” of this Composite Document.

The purpose of this Composite Document is to provide you with, among other things, information relating to the Company and the Offer, the recommendation of the Independent Board Committee to the Offer Shareholders and the recommendation from Independent Financial Adviser to the Independent Board Committee in relation to the Offer.

THE OFFER

As set out in the “Letter from Fortune Securities” contained in this Composite Document, Fortune Securities is making the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share HK\$2.66 in cash

The offer price of HK\$2.66 for each Share under the Offer is equal to the purchase price per Sale Share (rounded up to the nearest cent) acquired by the Offeror under the Sale and Purchase Agreement. The Offer is extended to all the Offer Shareholders in accordance with the Takeovers Code.

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As at the Latest Practicable Date, there were 319,564,892 Shares in issue.

Further details of the Offer including but not limited to the terms and conditions and the procedures for acceptance and settlement are set out in the “Letter from Fortune Securities”, Appendix I to this Composite Document and the accompanying Form(s) of Acceptance and Transfer.

INFORMATION OF THE GROUP

The Group is 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 and solutions business, which currently includes automatic fare collection solutions and intelligent transportation systems solutions.

Your attention is drawn to Appendices II and VI to this Composite Document which contain further financial and general information of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company immediately prior to Completion and as at the Latest Practicable Date:

| | Immediately prior to Completion | | As at the Latest Practicable Date | |
|--|------------------------------------|--|--------------------------------------|--|
| | <i>Number of Shares</i> | <i>Approximate % of issued share capital</i> | <i>Number of Shares</i> | <i>Approximate % of issued share capital</i> |
| The Offeror and parties acting in concert with it | – | – | 196,171,395 | 61.39 |
| Vendors | | | | |
| Ms. Tsui Kam Ling | 127,813,637 | 40.00 | – | – |
| Mr. Wong Chi Ho | 29,717,158 | 9.30 | – | – |
| Mr. Wong Chi Kit | 29,478,600 | 9.22 | – | – |
| Ms. Chan Angelica Sheung Ying | <u>9,162,000</u> | <u>2.87</u> | <u>–</u> | <u>–</u> |
| Sub-total | 196,171,395 | 61.39 | 196,171,395 | 61.39 |
| Mr. Lo Kar Chun, <i>SBS, JP</i> (<i>Note</i>) | 450,000 | 0.14 | 450,000 | 0.14 |
| Other Shareholders | <u>122,943,497</u> | <u>38.47</u> | <u>122,943,497</u> | <u>38.47</u> |
| Total | <u><u>319,564,892</u></u> | <u><u>100.00</u></u> | <u><u>319,564,892</u></u> | <u><u>100.00</u></u> |

Note: Mr. Lo Kar Chun, *SBS, JP* is an independent non-executive Director.

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FINANCIAL INFORMATION OF THE GROUP

The following table is a summary of certain audited consolidated financial information of the Group for the two financial years ended 31 December 2015 as extracted from the annual report of the Company for the year ended 31 December 2015 and certain unaudited consolidated financial information of the Group for the six months ended 30 June 2016 as extracted from the interim report of the Company for the six months ended 30 June 2016:

| | Year ended 31 December | | Six months ended |
|--|------------------------|----------------|------------------|
| | 2014 | 2015 | 30 June |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (audited) | (audited) | (unaudited) |
| Revenue | 246,323 | 234,526 | 57,731 |
| Gross profit | 121,857 | 116,239 | 28,930 |
| Profit/(Loss) before taxation | 26,579 | 22,251 | (22,612) |
| Profit/(Loss) for the year/period | <u>23,724</u> | <u>20,304</u> | <u>(19,863)</u> |
| | | | |
| | As at 31 December | | As at |
| | 2014 | 2015 | 30 June |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (audited) | (audited) | (unaudited) |
| Consolidated net asset value attributable to the owners of the Company | <u>117,087</u> | <u>130,850</u> | <u>107,775</u> |

INTENTIONS OF THE OFFEROR REGARDING THE GROUP

Please refer to the section headed "Intentions of the Offeror regarding the Group" in the "Letter from Fortune Securities" for detailed information on the Offeror's intention on the business and management of the Group.

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MAINTAINING THE LISTING STATUS AND PUBLIC FLOAT OF THE COMPANY

As mentioned in the “Letter from Fortune Securities”, it is the intention of the Offeror to maintain the listing of the Shares on the Stock Exchange following the close of the Offer.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public at all times, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) that there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

If the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules is not satisfied following the close of the Offer, the Company will undertake to the Stock Exchange to take appropriate steps with a view to ensuring that sufficient public float of the Shares will be restored.

RECOMMENDATION

Offer Shareholders are advised to read the recommendation of the Independent Board Committee set out in “Letter from the Independent Board Committee” and the advice of Gram Capital set out in “Letter from Gram Capital” contained in this Composite Document before deciding on the actions to be taken on the Offer.

ADDITIONAL INFORMATION

Your attention is also drawn to the “Letter from Fortune Securities” and the additional information contained in the appendices to this Composite Document and the accompanying Form(s) of Acceptance and Transfer.

Yours faithfully,
For and on behalf of the Board
Advanced Card Systems Holdings Limited

A handwritten signature in black ink, appearing to read "A. Tsui".

Tsui Kam Ling
Director