



Advanced Card Systems Holdings Limited

龍傑智能卡控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 8210



Card & Reader Technologies

Interim Report

2015

* For identification only

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This document, for which the directors of Advanced Card Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

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

HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2015 decreased by 4% to HK\$106.9 million.
- Gross profit of the Group for the six months ended 30 June 2015 decreased by 9% to HK\$53.7 million.
- Profit for the period of the Group for the six months ended 30 June 2015 decreased by 19% to HK\$9.4 million.

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 three months and six months ended 30 June 2015 together with the comparative unaudited figures for the corresponding periods in 2014.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2015

	Notes	Three months ended 30 June		Six months ended 30 June	
		2015	2014	2015	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	69,707	61,504	106,920	111,326
Cost of sales and services provided		(35,199)	(33,146)	(53,215)	(52,308)
Gross profit		34,508	28,358	53,705	59,018
Other income and gains		10,201	182	10,367	312
Selling and distribution costs		(4,742)	(5,253)	(10,707)	(10,087)
Research and development expenses		(10,922)	(8,600)	(20,898)	(17,598)
Administrative expenses		(9,781)	(7,957)	(21,009)	(17,559)
Finance costs	4	(199)	(332)	(347)	(677)
Share of results of a joint venture		(76)	-	(636)	-
Profit before income tax	5	18,989	6,398	10,475	13,409
Income tax expense	6	(1,800)	(995)	(1,121)	(1,925)
Profit for the period, attributable to owners of the Company		17,189	5,403	9,354	11,484
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss					
– Exchange loss on translation of financial statements of foreign operations		(95)	(716)	(227)	(413)
Other comprehensive income for the period, net of tax		(95)	(716)	(227)	(413)
Total comprehensive income for the period, attributable to owners of the Company		17,094	4,687	9,127	11,071
Earnings per share for profit attributable to owners of the Company during the period					
– Basic (HK cents)	8	6.051	1.902	3.293	4.043

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	Unaudited 30 June 2015 HK\$'000	Audited 31 December 2014 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9	7,232	7,763
Intangible assets		45,546	42,875
Goodwill		1,972	1,972
Interest in a joint venture		1,896	2,512
Prepayment	14(a)	377	377
Deferred tax assets		943	915
		57,966	56,414
Current assets			
Inventories		45,513	40,118
Trade and other receivables, prepayments and deposits paid	10	53,094	54,129
Held-to-maturity financial assets		70	69
Current tax assets		953	986
Cash and cash equivalents		36,017	35,671
		135,647	130,973
Current liabilities			
Trade payables, accruals and deposits received	11	28,964	30,819
Bank borrowings, secured		41,023	35,336
Current tax liabilities		901	1,758
		70,888	67,913
Net current assets		64,759	63,060
Total assets less current liabilities		122,725	119,474
Non-current liabilities			
Deferred tax liabilities		1,438	1,650
Defined benefit obligations		754	737
		2,192	2,387
Net assets		120,533	117,087
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	12	28,406	28,406
Reserves	13	92,127	88,681
Total equity		120,533	117,087

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Unaudited	
	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	13,449	5,607
Net cash used in investing activities	(12,506)	(10,605)
Net cash used in financing activities	(606)	(13,339)
Net increase/(decrease) in cash and cash equivalents	337	(18,337)
Cash and cash equivalents at 1 January	35,671	48,614
Effect of foreign exchange rates changes, on cash held	9	(159)
Cash and cash equivalents at 30 June	36,017	30,118

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Share capital HK\$'000	Share premium* HK\$'000	Merger reserve* HK\$'000	Translation reserve* HK\$'000	Retained profits* HK\$'000	Proposed dividend* HK\$'000	Total HK\$'000
Balance as at 1 January 2014	28,406	17,955	4,496	1,706	41,703	5,681	99,947
2013 dividend approved	-	-	-	-	-	(5,681)	(5,681)
Transactions with owners	-	-	-	-	-	(5,681)	(5,681)
Profit for the period	-	-	-	-	11,484	-	11,484
Other comprehensive income							
- Exchange loss on translation of financial statements of foreign operations	-	-	-	(413)	-	-	(413)
Total comprehensive income for the period	-	-	-	(413)	11,484	-	11,071
Balance as at 30 June 2014	28,406	17,955	4,496	1,293	53,187	-	105,337
Balance as at 1 January 2015	28,406	17,955	4,496	1,147	59,402	5,681	117,087
2014 dividend approved	-	-	-	-	-	(5,681)	(5,681)
Transactions with owners	-	-	-	-	-	(5,681)	(5,681)
Profit for the period	-	-	-	-	9,354	-	9,354
Other comprehensive income							
- Exchange loss on translation of financial statements of foreign operations	-	-	-	(227)	-	-	(227)
Total comprehensive income for the period	-	-	-	(227)	-	-	(227)
Balance as at 30 June 2015	28,406	17,955	4,496	920	68,756	-	120,533

* These reserve accounts comprise the consolidated reserves of HK\$92,127,000 (30 June 2014: HK\$76,931,000) in the consolidated statement of financial position as at 30 June 2015.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The interim financial statements have been prepared in Hong Kong dollars (“HK\$”), being the functional and presentation currency of the Company. All financial information presented in HK\$ has been rounded to the nearest thousands, unless otherwise stated.

The interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. The interim financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”).

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgments, 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.

The accounting policies adopted in the 2014 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2015. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The interim financial statements are unaudited but have been reviewed by the audit committee of the Company. The financial statements for the six months ended 30 June 2015 were approved for issue by the Board on 12 August 2015.

2 SEGMENT INFORMATION

The executive directors have identified the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services as the only business component in internal reporting for their decisions about resources allocation and performance review.

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Revenue from external customers and reportable segment revenue	106,920	111,326
Reportable segment profit	3,110	13,931
Share of results of a joint venture	(636)	–
Unallocated corporate income	10,140	–
Unallocated corporate expenses	(2,139)	(522)
Consolidated profit before income tax	10,475	13,409
	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Reportable segment assets	189,660	182,650
Interests in a joint venture	1,896	2,512
Deferred tax assets	943	915
Current tax assets	953	986
Unallocated corporate assets	161	324
Consolidated assets	193,613	187,387

The following table set out information about the geographical location of (i) the Group's customers and (ii) the Group's plant and equipment, goodwill, intangible assets and interests in a joint venture ("specified non-current assets"). Geographical location of customers is based on the location at which the customers are resided. Geographical location of specified non-current assets is based on the physical location of the assets, in the case of plant and equipment, the location of the operations, in the case of interest in a joint venture and the location of the operations to which they are allocated, in the case of goodwill and intangible assets. The Group's revenue from external customers and specified non-current assets is divided into the following geographical areas:

	Revenue from external customers		Specified Non-current assets	
	Six months ended		30 June	
	2015	2014	2015	31 December 2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China ("PRC"), including Hong Kong and Macau (domicile)*	17,229	7,715	53,507	51,000
Foreign countries				
– United States	8,589	15,964	24	31
– Italy	22,397	14,595	–	–
– Republic of the Philippines	11,803	39,346	2,629	3,321
– Other countries	46,902	33,706	486	770
	89,691	103,611	3,139	4,122
	106,920	111,326	56,646	55,122

* The Company is an investment holding company incorporated in the Cayman Islands where the Group does not have any activities. The Group has the majority of its operations in the PRC, including Hong Kong, and therefore, PRC is considered as the Group's country of domicile for the purpose of disclosures as required by HKFRS 8 "Operating Segments".

3 REVENUE

Revenue, which is also the Group's turnover, represents:

	Three months ended		Six months ended	
	30 June		30 June	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	65,127	61,492	102,197	108,447
Smart card related services	4,580	12	4,723	2,879
	69,707	61,504	106,920	111,326

4 **FINANCE COSTS**

	Three months ended		Six months ended	
	30 June		30 June	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charges on bank borrowings	322	332	612	677
Less: Amount capitalised into development costs	(123)	-	(265)	-
	199	332	347	677
Interest rate of borrowing costs capitalised	3-4%	N/A	3-4%	N/A

5 **PROFIT BEFORE INCOME TAX**

	Three months ended		Six months ended	
	30 June		30 June	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group's profit before income tax is arrived at after charging:				
Amortisation of intangible assets				
- Included in research and development expenses	2,440	2,365	4,856	4,581
- Included in administrative expenses	216	-	425	-
Amount recognised in profit or loss	2,656	2,365	5,281	4,581
Depreciation of plant and equipment and after crediting:	1,006	1,047	1,994	2,168
Receipt of insurance claim (note)	10,140	-	10,140	-

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.

6 **INCOME TAX EXPENSE**

	Three months ended		Six months ended	
	30 June		30 June	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong profit tax				
- Provision for current year	951	928	959	1,270
- Over-provision in respect of prior years	53	-	53	-
	1,004	928	1,012	1,270
Philippines Income Tax				
- Provision for current year	(90)	33	56	560
- Over-provision in respect of prior years	-	(5)	-	(91)
	(90)	28	56	469
Other overseas tax	8	(161)	293	(14)
	922	795	1,361	1,725
Deferred tax	878	200	(240)	200
	1,800	995	1,121	1,925

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

Philippines Income Tax has been provided at 30% on the estimated taxable income or 2% on gross income incurred for the period, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

Taxation for subsidiaries operating in the PRC is calculated at the prevailing tax rates based on existing legislation, interpretations and practices in respect thereof. Logyi Limited, a subsidiary of the Company, is entitled to two years exemption and three years half-deduction tax holiday policy started from 2013, accordingly, it is exempted from Enterprise Income Tax in 2014 and followed by half-deduction in 2015.

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

7 DIVIDENDS

A dividend of HK2.0 cents per share amounting to approximately HK\$5,681,000 for the year ended 31 December 2014 had been approved by the shareholders at the annual general meeting and was subsequently paid on 20 May 2015.

The company had not declared any dividends for the three months and six months ended 30 June 2015.

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2015 respectively is based on profit attributable to owners of the Company of HK\$17,189,000 (2014: HK\$5,403,000) and HK\$9,354,000 (2014: HK\$11,484,000) and the weighted average of 284,058,000 (2014: 284,058,000) and 284,058,000 (2014: 284,058,000) ordinary shares in issue during the period.

Diluted earnings per share is not presented as there is no dilutive potential ordinary share during the period.

9 PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group acquired items of plant and equipment in aggregate amounts of HK\$1,479,000, which primarily consists of Computer and office equipment, leasehold improvements and Moulds amounting to HK\$518,000, HK\$483,000 and HK\$341,000 respectively.

10 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
Trade receivables	45,212	47,089
Less: Provision for impairment losses	(614)	(685)
Trade receivables – net	44,598	46,404
Other receivables, prepayments and deposits paid	7,415	6,623
Amount due from a joint venture	1,145	1,166
Less: Provision for impairment losses	(64)	(64)
	53,094	54,129

Customers are generally granted credit terms of 7 to 90 days (2014: 7 to 90) days. Based on invoice date, ageing analysis of the Group's trade receivables (net of provision for impairment loss) is as follows:

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
0-30 days	24,646	24,199
31-60 days	12,444	10,283
61-90 days	1,611	1,528
91-365 days	3,738	9,743
Over 365 days	2,159	651
	44,598	46,404

11 TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
Trade payables	19,692	14,981
Accruals and deposits received	9,272	12,693
Consideration payables in connection with business combination	-	3,145
	28,964	30,819

Based on invoice dates, ageing analysis of the Group's trade payables is as follows:

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
0-30 days	8,349	8,401
31-60 days	7,142	5,694
61-90 days	3,219	388
91-365 days	501	141
Over 365 days	481	357
	19,692	14,981

12 SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 31 December 2014 and 30 June 2015	1,000,000	100,000
<i>Issued and fully paid:</i>		
At 31 December 2014 and 30 June 2015	284,058	28,406

13 RESERVES

The amount of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on page 5 of the financial statement.

Merger reserve of the Group represents reserve of a subsidiary that have been capitalised as a result of a share-for-share exchange in a prior year.

14 COMMITMENTS

(a) Capital Commitments

At the reporting date, the commitments in respect of capital expenditures are as follows:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Contracted but not provided for in respect of acquisition of an investment to be classified under available-for-sale financial assets	881	881

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 (equivalent to approximately HK\$1,241,000). At 30 June 2015, the group paid deposit of RMB300,000 (equivalent to approximately HK\$377,000), which was included in "Prepayment" within non-current assets, and the remaining RMB700,000 (equivalent to approximately HK\$881,000) was included in "Capital Commitments".

(b) Operating Lease Commitments

The Group leases a number of properties under operating lease arrangements. Leases are negotiated for terms of one to three years (2014: one to three years). None of the leases include contingent rentals.

At the reporting date, the total future minimum lease payments under non-cancellable operating leases for land and buildings are payable as follows:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Within one year	4,290	3,663
In the second to fifth years, inclusive	1,207	2,091
	5,497	5,754

15 RELATED PARTY TRANSACTIONS

Key management of the Group are members of the Board and senior management. Key management personnel remuneration of the Group is as follows:

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	3,856	3,841
Retirement benefits costs	63	53
	3,919	3,894

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group does not have other material transactions with related parties during the period.

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 three months and six months ended 30 June 2015 (“the Interim Period”).

FINANCIAL REVIEW

Revenue for the quarter ended 30 June 2015 amounted to HK\$69.7 million, which increased by HK\$8.2 million, or 13%, compared with the corresponding period of 2014. The increase was mainly attributed to the increase in sales of readers and some new projects under the Group’s solutions business. Apart from Automatic Fare Collection (“AFC”) solutions, the Group has also generated revenue from providing other Intelligent Transportation System (“ITS”) solutions as well as System Integration services within the transportation and electronic-purse ecosystems.

As a result of the late Chinese New Year in 2015 and the temporary labour shortage of subcontractors after the Chinese New Year holiday, the Group’s onward sales of products to its customers did not occur as expected during the quarter ended 31 March 2015. Consequently, revenue dropped by HK\$12.6 million to HK\$37.2 million for the first quarter of 2015. Substantial majority of orders that could not be delivered in the first quarter have already been delivered in the second quarter and resulted in increase in sales of readers in the second quarter.

Revenue for the Interim Period slightly decreased by 4% 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 Group's gross profit dropped by HK\$5.3 million to HK\$53.7 million for the Interim Period as a combined result of the decrease in revenue and the decrease in gross profit margin. The gross profit margin of the Group is mainly determined by the sales mix during the period. For the Interim Period, the Group delivered fewer solutions projects such as AFC solutions compared to the corresponding period in 2014, and these solutions projects usually result in a higher gross profit margin than the sales of other products. As the result, the gross profit margin for Interim Period is 50%, which is comparable but slightly lower than the gross profit margin of 53% for the corresponding period in 2014, and similar to the gross profit margin of 49% for the whole year of 2014.

Payment of benefit amounting to USD 1,300,000 (equivalent to HK\$10,140,000) under the life insurance policy for the late Mr. Wong Yiu Chu, who was a non-executive Director and the Honorary Chairman of the Board prior to his passing away, was received on 22 May 2015, as disclosed in the Company's announcements dated 14 and 26 May 2015. The amount was recorded as other income and gains for the Interim Period.

Total operating expenses increased by 16% to HK\$52.6 million from HK\$45.2 million in the corresponding period in 2014, and were mainly attributed to increase in staff costs, as well as legal and professional fees. Staff cost increased by HK\$3.0 million was mainly due to the increase in headcount after the acquisition of 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) ("Daming Wuzhou") and the expansion of research and development team in other offices. Since the Group has submitted its application for transfer of listing from GEM to Main Board of the Hong Kong Stock Exchange, one-time legal and professional fees were incurred in the Interim Period, amounting to approximately HK\$1.3 million.

In addition, the Group recorded a loss of HK\$0.6 million due to 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 phases of development.

The Group recorded a profit before taxation of HK\$10.5 million for the Interim Period, or a profit before taxation of HK\$0.4 million if excluding the HK\$10.1 million insurance benefit. The profit before taxation excluding the insurance benefit decreased by HK\$13.0 million compared with corresponding period of 2014 was mainly due to the decrease in gross profit of HK\$5.3 million and an increase in total operating expenses of approximately HK\$7.4 million.

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

The Group will be celebrating its 20th anniversary in 2015. Approaching this remarkable landmark, the Group has launched a number of promising products and services, actively promoted its businesses, expanded the scope of its solutions businesses, and gained important recognition across different regions.

* For identification only

Products and Services Launched

ACR890 All-In-One Mobile Smart Card Terminal and Software Development Kit



ACR890 All-In-One Mobile Smart Card Terminal combines magnetic stripe, contact, and contactless technologies. This terminal is designed to help companies that are transitioning from one technology to another (e.g. magnetic stripe to contactless), or combining different interfaces for their applications.

ACR890 accommodates organizations with different technological standards by supporting ISO 7816-compliant Class A, B, and C cards; ISO 14443-compliant Type A and B cards; MIFARE Classic Cards; FeliCa Cards; and ISO 7811 Tracks 1, 2, and 3 magnetic stripe cards. Its contactless support makes it ideal for mass-market applications, such as transport, loyalty, and payment. Its contact interface

makes it suited for e-government applications, while its magnetic stripe support makes it applicable for loyalty and e-purse applications.

ACR890 also combines wireless data communication, firmware-upgradeability, and highly interactive user interface features (high-resolution color display, touch screen LCD, audio speaker and built-in thermal printer).

It can use different connectivity types (GPRS/3G, Wi-Fi, USB, and serial ports) to communicate with other external devices within a network. The ACR890 is standalone and handheld, making it primarily a field-based device. However, its different connectivity types make it also suitable for office-based operations.

ACR890 is compliant with CE, FCC, and RoHS2. A Software Development Kit that contains a standalone device demo, a simulation of a bus fare application, and device setting configurations, is also available.

Promotions and Events

Promoting electronic-purse and AFC solutions in the PRC

During the Daming Wuzhou & ACS Customer Conference in the first half of 2015, the Group formally introduced its senior management and research and development teams to potential customers and business partners in the PRC. This event was aimed towards improving relationships with China customers of the Group's electronic-purse and AFC solutions businesses, and to initiate cooperation opportunities.

Expansion of Scope of Businesses

Apart from the recent establishment of a JV that helps expand the Group's businesses to include EMV products and services, such as EMV bank card personalization services, the Group is also and continues to be active in the payments industry, by providing payment-related hardware as well as payment-related applications and software.

The Group's electronic-purse solutions have seen successful implementations in the forms of AFC systems as well as Loyalty Solutions, as seen in the Group's combined effort with SM Group of the Philippines to launch a multi-purpose payment and loyalty card.

Apart from the AFC and revenue collection solutions of ITS, the Group is also providing other ITS solutions as well as System Integration services – within the transportation and electronic-purse ecosystems.

Other Events

In the second quarter of 2015, the Group promoted its technologies in the following events:

1. Smart Card Alliance Government Conference 2015
2. China International Smart Cards, RFID and IOT Exhibition 2015
3. Cards & Payments Asia 2015

In addition to being an exhibitor, the Group was a speaker in this event, delivering a talk about what makes EMV migration a smart course of action for the banking sector.

The Group considers speaking opportunities as another way of establishing thought leadership in the industry, in addition to its participation in the activities of industry associations. An example of such participation is the Group's steering committee membership in the Smart Card Alliance's Councils for Health and Human Services, and Access Control. As member of the Steering Committee for both Industry Councils, the Group is involved in setting strategy and direction, as well as approving activities and deliverables to grow these two key sectors.

Awards and Recognition

The Group's projects and solutions continue to receive recognition. The following awards were announced in the first half of 2015:

Best Mobile Payment Product Experience Prize for ACR35 NFC MobileMate Card Reader (ACR35)

The Best Mobile Payment Product Experience Prize was conferred under the Golden Pine Awards, a program sponsored by the government of the People's Republic of China to showcase the most outstanding mobile payment products, as determined by a roster of experts.

The Group's winning product, ACR35 NFC MobileMate Card Reader, interacts with mobile devices via the standard 3.5 mm audio jack interface. It may be integrated into mobile environments running on iOS (versions 5.0 and above) and Android (versions 2.0 and above). It delivers NFC reader functionality and mobility, by enabling mobile devices without built-in NFC to support NFC and contactless applications. This card reader supports hi-coercivity and low-coercivity magnetic stripe cards conforming to ISO 7810/ISO 7811 specifications, ISO 14443 Type A and B cards, MIFARE cards, FeliCa cards, and ISO/IEC 18092 NFC tags.

To secure transactions, ACR35 is capable of utilizing DUKPT key management system and AES-128 encryption algorithm. ACR35 is suitable for mobile banking, mobile payment, e-healthcare, and loyalty applications.

ACR35 was selected from a pool of more than 30 entries.

Best Loyalty Programme for SM Group's e-PLUS Tap to Pay (the Philippines)



The Best Loyalty Programme Award was conferred under Smart Awards Asia, which aims to recognize excellence in the smart card, payment, and retail industries. As mentioned previously, e-PLUS is a loyalty, payment, and AFC system developed based on NFC technology for SM Prime.

In April 2015, the same project was also shortlisted under the loyalty category of Contactless and Mobile Awards, a UK-based, Visa-sponsored awards program recognizing organizations that have done the most to embrace and implement NFC technology.

In the past year, this project gathered more distinctions, including: Best Contactless Payments Project in Payments Awards 2014; Silver Award for International Payments Benefitting Merchants in the 2014 IVIE Awards; and Coolest MIFARE Application in Use from the 2014 MIFARE Awards.

The Group considers these recognitions as validation of the competitiveness of its technologies, and its capability to coordinate effectively with clients to deliver complex solutions.

Innovative Product Award of 2015 for ACR35

The Innovative Product Award of 2015 is the second industry-level award that ACR35 has received this year, after receiving the Best Mobile Payment Product Experience Prize in Golden Pine Awards. It is conferred under the Golden Ant Awards.

The awards program is organized by the National Golden Card Project, which aims to foster the development of smart card-related businesses in China. The Golden Ant Award is the highest award under the National Golden Card project. It recognizes smart card-related enterprises and research institutions for “their innovative spirit in the deployment and application of smart card projects; for advancing informatization and industrialization; and for giving rise to practical products and excellent achievements.”

This is the third time that the Group has been included in the list, the other two years being in 2010 and 2014. This year, the Best Under a Billion list comprises the 200 top-performing companies among 17,000 of Asia Pacific's publicly traded firms, with revenues between USD5 million and USD1 billion. The companies in the list have been the most profitable, both for the most recent fiscal year, and over the last three fiscal years. They produce the strongest average return on investments held over a five-year period. Best Under a Billion companies also have less debt compared to other companies, and have exhibited consistent growth. Companies with accounting, management, ownership or legal troubles were excluded, along with companies that have been trading for less than a year, or trading thinly.

In the list of 200 selected companies, the Group is one of 10 companies from Hong Kong, and one of only two representing Hong Kong technology sector.

PROSPECTS

A profit before taxation of around HK\$0.4 million for the Interim Period was recorded if excluding the HK\$10.1 million insurance benefit. The decrease in profit is mainly due to decrease in gross profit margin as a result of difference in sales mix, increase in operating expenses mainly attributed to increase in staff cost and legal and professional fee and share of losses of a joint venture. For the decrease in gross profit margin, as business of ACS is order-driven and involves product customisations, the Group's gross profit margin will tend to fluctuate for a given short period. However, the Group has maintained a relatively stable margin on a half year basis and the gross profit margin for the Interim Period 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 its operating expenses. Thus, the Directors consider such decrease in profit before taxation does not represent a fundamental deterioration in the Group's business prospect. The Group remains committed to the following growth strategies:

Retain Leadership in the PC-linked Readers Market

The Group continues to pursue its target of acquiring certifications pertaining to identification and information technology security.

The Group intends to expand strategic partnerships for the development and manufacture of customized PC-linked readers, to explore emerging markets, and to provide PC-linked readers for e-government service projects worldwide.

Develop New Products for the Payment Industry

The Group considers payment terminals to be a new growth driver. As such, the Group is developing new products that may be aimed at the payment industry. One such product is the ACR890, which was launched in the second quarter of 2015.

The Group is also obtaining more certifications for some of its existing payment devices, thereby increasing our competitiveness in the payment market.

Drive the AFC Business

The Group is actively deploying new AFC solutions, such as payment solutions for buses and other transportation, across the globe. Apart from deploying new AFC solutions, the Group also spends effort in expanding its solutions coverage, from a single transportation operator or transportation mode to multiple operators and transportation modes. For example, expanding the system coverage from 1 bus operator to multiple bus operators as well as railway operators.

Explore the End-to-End Solutions Market

With successful implementations of various electronic-purse including AFC systems, the Group continues to make use of its technological expertise, experience, and connections to expand to other applications and solutions. For example, AFC solutions allow us to explore the ITS solutions market. The Group is preparing for upcoming projects where apart from AFC systems, other systems such as Passenger Information Display systems and Fleet Management systems will also be expected to be integrated. These projects are often more than a decade or two long, and provide a recurring stream of income.

Additionally, the Group is also leveraging its electronic-purse experiences to explore related markets, for example Loyalty systems. The Group continues to be a technology partner for e-PLUS, an end-to-end electronic-purse payment and loyalty solution for SM Group of the Philippines. The Group intends to replicate the e-PLUS business model in other Southeast Asian countries.

Apart from the aforementioned solutions and system integration work in payment and transportation ecosystems, the Group also intends to explore end-to-end solutions focused on applications for access control, security, identity, and so forth. Partnered with a system integrator, the Group has developed a solution that leverages on Bluetooth Smart® technology to eliminate passwords for access control. This is one of many possible applications we may explore based on our existing resources.

The Group continues to build on and reinforce a foundation started 20 years ago, with technical knowledge and project experiences that cover a multitude of applications, as well as customer and partnership connections spanning over 100 countries.

This broad foundation, started with a technical focus on security, allows us to be flexible and explore multiple markets, and in doing so further widens our foundation for further exploration. We are optimistic that this broad and flexible foundation will allow us to further penetrate smart card-related markets, payment markets, as well as electronic-purse solutions, AFC and ITS markets.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2015, the Group's cash and cash equivalents amounted to HK\$36.0 million (31 December 2014: HK\$35.6 million). The bank borrowings of the Group amounted to HK\$41.0 million (31 December 2014: HK\$35.3 million). The gearing ratio, being the total interest bearing debts over the total equity, as at 30 June 2015 was 0.34 (31 December 2014: 0.30).

The current ratio, being the ratio of current assets to current liabilities, was 1.91 (31 December 2014: 1.95). Net asset value as at 30 June 2015 was HK\$120.5 million (31 December 2014: HK\$117.1 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\$13.4 million (2014: HK\$5.6 million). The increase in the net cash inflow in operating activities was largely due to the receipt of HK\$10.1 million insurance benefit under the life insurance policy for the late Mr. Wong Yiu Chu during the Interim Period. The Group recorded net cash outflow in investing activities of HK\$12.5 million (2014: HK\$10.6 million) for the Interim Period, the amount mainly included payment for purchase of fixed assets and research and development cost capitalised, increase in net cash outflow was due the increase in consideration paid for acquisition of Daming Wuzhou. The Group recorded net cash outflow in financing activities of HK\$0.6 million (2014: HK\$13.3 million) for the Interim Period, decrease in outflow was due to the additional bank loan 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 2015, the Group had outstanding foreign exchange forward contracts with notional amount of EUR570,000 (31 December 2014: EUR610,000) and the fair value gains relating to such foreign exchange forward contracts amounted to approximately HK\$75,000 (31 December 2014: HK\$153,000). The contracts were entered to manage the currency risk exposure in relation to the operation of the Group.

PLEDGE OF ASSETS

As at 30 June 2015, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2015, the Company had outstanding corporate guarantee of HK\$67.9 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its two main subsidiaries. As at 30 June 2015, the Group had available banking facilities approximately HK\$69.5 million and of which HK\$28.5 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 2015, the Group had 362 full time employees. Staff costs recognised in profit or loss amounted to HK\$29.7 million (corresponding period in 2014: HK\$26.7 million). Remuneration policies 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 EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2015, the interests and short positions of the directors and chief executive 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 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 required standard of dealings by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

		Long position in ordinary shares of HK\$0.10 each					Percentage of the Company's issued share capital as at 30 June 2015
Name of director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares held	
<i>Executive Directors</i>							
Ms. Tsui Kam Ling (Note 1)	Beneficial owner	56,930,522	-	-	-	56,930,522	20.04%
Mr. Wong Chi Ho (Note 1)	Beneficial owner	14,148,052	-	-	-	14,148,052	4.98%
Mr. Wong Chi Kit (Notes 1 and 2)	Beneficial owner and interest of spouse	14,088,000	8,144,000	-	-	22,232,000	7.83%
Mr. Tan Keng Boon	Beneficial owner	157,893	-	-	-	157,893	0.06%
<i>Independent Non-executive Director</i>							
Mr. Lo Kar Chun, SBS, JP	Beneficial owner	400,000	-	-	-	400,000	0.14%

Notes:

- The late Mr. Wong Yiu Chu ("Mr. Wong"), who was a non-executive director and the Honorary Chairman of the board of directors of the Company, passed away on 30 March 2015. Prior to his passing away, the late Mr. Wong held 80,768,000 shares, representing approximately 28.43% of the issued share capital of the Company. The aforesaid shareholding formed part of the estate of the late Mr. Wong (the "Estate") subsequent to the passing away of the late Mr. Wong. On 21 July 2015, according to the tenor of the will of the Estate, Ms. Tsui Kam Ling, Mr. Wong Chi Ho and Mr. Wong Chi Kit inherited and received from the Estate 56,537,600 shares, 12,115,200 shares and 12,115,200 shares, respectively, representing approximately 19.90%, 4.27% and 4.27% of the issued share capital of the Company, respectively.
- 14,088,000 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 his wife under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 30 June 2015, 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, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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 2015, so far as is known to the directors or chief executive of the Company, the following shareholders (excluding directors and chief executive 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	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares held	Percentage of the Company's issued share capital as at
							30 June 2015
Ms. Tsui Kam Ling (as administrator of the estate of Wong Yiu Chu) (Note 1)	Beneficial owner	80,768,000	-	-	-	80,768,000	28.43%
Ms. Chan Angelica Sheung Ying (Note 2)	Beneficial owner and interest of spouse	8,144,000	14,088,000	-	-	22,232,000	7.83%

Notes:

1. The late Mr. Wong, who was a non-executive director and the Honorary Chairman of the board of directors of the Company, passed away on 30 March 2015. Prior to his passing away, the late Mr. Wong held 80,768,000 shares, representing approximately 28.43% of the issued share capital of the Company. The aforesaid shareholding formed part of the Estate subsequent to the passing away of the late Mr. Wong. On 21 July 2015, according to the tenor of the will of the Estate, Ms. Tsui Kam Ling, Mr. Wong Chi Ho and Mr. Wong Chi Kit inherited and received from the Estate 56,537,600 shares, 12,115,200 shares and 12,115,200 shares, respectively, representing approximately 19.90%, 4.27% and 4.27% of the issued share capital of the Company, respectively, and the Estate ceased to hold any shares of the Company.
2. 8,144,000 shares are held by Ms. Chan Angelica Sheung Ying personally and 14,088,000 shares are held by her husband, Mr. Wong Chi Kit, personally. Ms. Chan Angelica Sheung Ying is taken to be interested in shares held by her husband under the SFO.

Save as disclosed above, as at 30 June 2015 and to the best knowledge of the directors and chief executive 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 or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group during the period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE

Save as disclosed below, the Company has complied with the Corporate Governance Code (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the Interim Period.

Code Provision A.2 of the Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The late Mr. Wong Yiu Chu acted as the chairman of the Board and chief executive officer of the Company since 3 May 2006. On 24 March 2015, the late Mr. Wong Yiu Chu resigned as the chairman of the Board and the chief executive officer of the Company and Ms. Tsui Kam Ling was appointed as the chairman of the Board and Mr. Wong Chi Ho and Mr. Wong Chi Kit were appointed as the co-chief executive officers of the Company. As such, the roles of chairman and chief executive officer were separated with effect from 24 March 2015, and the Company has complied with Code Provision A.2 of the Code from the same date.

Code Provision A.5.1 of the Code provides that the nomination committee should be chaired by the chairman of the Board or an independent non-executive director. The Company had inadvertently appointed Mr. Wong Chi Ho as the chairman of the nomination committee during the period from 24 March 2015 to 29 April 2015. Subsequently, the Company has appointed Ms. Tsui Kam Ling as the chairman of the nomination committee on 29 April 2015 and has complied with Code Provision A.5.1 of the Code from the same date.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company (“dealings rules”) on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the Interim Period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three independent non-executive directors namely, Mr. Yim Kai Pung (being the chairman of the audit committee), Ms. Kaung Cheng Xi Dawn and Mr. Lo Kar Chun, SBS, JP and reports to the Board. The primary duties are to carry out the duties of reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee has reviewed the Group’s unaudited results for the Interim Period.

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

Hong Kong, 12 August 2015