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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)

(Stock Code: 2086)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2015 decreased by 5% to HK\$235 million from the year ended 31 December 2014.
- Profit of the Group for the year ended 31 December 2015 decreased by 14% to HK\$20 million from the year ended 31 December 2014.
- The board of directors of the Company has recommended the payment of a final dividend of HK1.0 cent (2014: HK2.0 cents) per ordinary share for the year ended 31 December 2015.

RESULTS

The board of directors (the “Board”) of Advanced Card Systems Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015 together with the comparative figures for the corresponding period in 2014.

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
Revenue	3	234,526	246,323
Cost of sales		<u>(118,287)</u>	<u>(124,466)</u>
Gross profit		116,239	121,857
Other income	4	11,052	1,392
Selling and distribution costs		(19,120)	(20,712)
Research and development expenses		(42,090)	(37,895)
Administrative expenses		<u>(41,688)</u>	<u>(37,246)</u>
Profit from operations		24,393	27,396
Finance costs	5(a)	(784)	(612)
Share of results of a joint venture		<u>(1,358)</u>	<u>(205)</u>
Profit before taxation	5	22,251	26,579
Income tax	6	<u>(1,947)</u>	<u>(2,855)</u>
Profit for the year attributable to the equity shareholders of the Company		<u>20,304</u>	<u>23,724</u>
Earnings per share	8		
Basic		7.148 cents	8.352 cents
Diluted		<u>7.148 cents</u>	<u>8.352 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 31 December 2015 (Expressed in Hong Kong dollars)

	<i>Note</i>	2015 \$'000	2014 \$'000
Profit for the year		20,304	23,724
Other comprehensive income for the year (after tax)			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit obligations		(32)	(344)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		<u>(828)</u>	<u>(559)</u>
Total comprehensive income for the year		<u>19,444</u>	<u>22,821</u>
Attributable to:			
Equity shareholders of the Company		<u>19,444</u>	<u>22,821</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
Non-current assets			
Plant and equipment	9	6,295	7,763
Intangible assets	10	47,248	42,875
Goodwill		1,972	1,972
Interest in a joint venture		2,008	2,512
Prepayment for available-for-sale securities		377	377
Deferred tax assets		489	915
		<u>58,389</u>	<u>56,414</u>
Current assets			
Inventories		34,548	40,118
Trade and other receivables	11	78,480	54,129
Held-to-maturity financial assets		730	69
Current tax recoverable		2,517	986
Cash and cash equivalents		38,941	35,671
		<u>155,216</u>	<u>130,973</u>
Current liabilities			
Trade and other payables	12	35,384	30,819
Bank loans and overdrafts		43,591	35,336
Current tax payable		1,142	1,758
		<u>80,117</u>	<u>67,913</u>
Net current assets		<u>75,099</u>	<u>63,060</u>
Total assets less current liabilities		<u>133,488</u>	<u>119,474</u>
Non-current liabilities			
Defined benefit obligations		814	737
Deferred tax liabilities		1,824	1,650
		<u>2,638</u>	<u>2,387</u>
NET ASSETS		<u>130,850</u>	<u>117,087</u>
CAPITAL AND RESERVES			
Share capital		28,406	28,406
Reserves		102,444	88,681
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>130,850</u>	<u>117,087</u>

NOTES

1. GENERAL INFORMATION

Advanced Card Systems Holding Limited (the “Company”) was incorporated in Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business is located at Units 2010–2013, 20th Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in a joint venture.

2. BASIS OF PREPARATION

These financial statements have been presented in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to HKFRSs 2010–2012 Cycle*
- *Annual Improvements to HKFRSs 2011–2013 Cycle*

The adoption of the above amendments does not have any significant impact on these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services.

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

	2015	2014
	\$'000	\$'000
Sale of smart card products, software and hardware	232,874	245,529
Smart card related services	1,652	794
	<u>234,526</u>	<u>246,323</u>

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. During 2015 and 2014, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2015	2014
	\$'000	\$'000
Customer A *	40,384	31,329
Customer B *	4,906	1,208
Customer C	33,487	51,367
	<u>33,487</u>	<u>51,367</u>

* Customers A and B are known to the Group to be under common control.

(b) Segment reporting

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

(i) *Segment results, assets and liabilities*

For the purposes of assessing segment performance, the Group's senior executive management monitors the results, assets and liabilities attributable to the reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of interests in a joint venture, deferred tax assets, current tax recoverable and other corporate assets. Segment liabilities include trade and other payables and net defined benefit retirement obligation attributable to the operating activities of the segment and bank loans managed directly by the segment with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segment with reference to sales generated by the segment and the expenses incurred by the segment or which otherwise arise from the depreciation or amortisation of assets attributable to the segment.

	2015	2014
	\$'000	\$'000
Revenue from external customers and reportable segment revenue	234,526	246,323
(ii) Reconciliations of reportable segment profit, assets and liabilities		
	2015	2014
	\$'000	\$'000
Profit		
Reportable segment profit from operations	27,801	28,202
Share of results of a joint venture	(1,358)	(205)
Unallocated corporate expenses	(4,192)	(1,418)
Consolidated profit before taxation	22,251	26,579
Assets		
Reportable segment assets	208,399	182,650
Interests in a joint venture	2,008	2,512
Deferred tax assets	489	915
Current tax recoverable	2,517	986
Unallocated corporate assets	192	324
Consolidated total assets	213,605	187,387
Liabilities		
Reportable segment liabilities	79,454	66,609
Deferred tax liabilities	1,824	1,650
Current tax payable	1,142	1,758
Unallocated corporate liabilities	335	283
Consolidated total liabilities	82,755	70,300

(iii) **Geographic information**

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

	Revenue from external customers		Specified non-current assets	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
The People's Republic of China ("PRC"), including Hong Kong and Macau (country of domicile)	41,832	29,707	54,882	51,377
The United States of America ("US")	22,842	32,572	17	31
Italy	40,392	31,346	–	–
Republic of the Philippines	34,590	52,927	2,772	3,321
Other countries	94,870	99,771	229	770
	192,694	216,616	3,018	4,122
	234,526	246,323	57,900	55,499

4. OTHER INCOME

	2015 \$'000	2014 \$'000
Income from benefits under a life insurance policy (<i>note</i>)	10,140	–
Interest income	67	213
Sundry income	845	1,179
	11,052	1,392

Note: The Company received a payment of benefit from its insurer under the life insurance policy for the passing away of a former director of the Company on 22 May 2015.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2015	2014
	\$'000	\$'000
(a) Finance costs:		
Interest on bank loans and other borrowings	1,360	1,339
Less: Interest expense capitalised into development costs*	(576)	(727)
	784	612

* The borrowing costs have been capitalised at a rate of 3% to 4% per annum (2014: 3% to 4%).

	2015	2014
	\$'000	\$'000
(b) Staff costs:		
Contributions to defined contribution retirement plans	3,913	3,194
Net expenses recognised in respect of defined benefit retirement plans	213	114
Total retirement costs	4,126	3,308
Salaries, wages and other benefits	64,903	64,857
	69,029	68,165
Less: Amount capitalised into development costs	(12,922)	(12,966)
	56,107	55,199
	2015	2014
	\$'000	\$'000

(c) Other items

Amortisation of intangible assets	10,964	9,735
Depreciation	3,885	4,369
(Reversal of)/provision for impairment losses		
– trade and other receivables	(55)	446
– intangible assets	189	–
Auditors' remuneration		
– audit services	996	616
– other services	71	–
Operating lease charges: minimum lease payments	5,937	4,504
Net (gain)/loss on disposal of plant and equipment	(37)	19
Net foreign exchange loss	1,739	2,433
Cost of inventories	116,190	122,705

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

	2015 \$'000	2014 \$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	30	2,541
(Over)/under-provision in respect of prior years	(57)	28
	<u>(27)</u>	<u>2,569</u>
Current tax – Philippines Income Tax		
Provision for the year	1,168	628
Over-provision in respect of prior years	–	(86)
	<u>1,168</u>	<u>542</u>
Current tax – Other jurisdictions		
Provision for the year	210	117
Over-provision in respect of prior years	–	(192)
	<u>210</u>	<u>(75)</u>
Deferred tax		
Origination and reversal of temporary differences	<u>596</u>	<u>(181)</u>
	<u>1,947</u>	<u>2,855</u>

Notes:

- (i) The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year.
- (ii) The provision for Philippines Income Tax for 2015 is calculated at 30% (2014: 30%) of the estimated taxable income or 2% (2014: 2%) on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.
- (iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:
 - (a) Logyi Limited ("Logyi")

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

- (b) ACS Technologies (Shenzhen) Limited (“ACS Shenzhen”)

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

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

7. DIVIDENDS

- (i) **Dividends payable to equity shareholders of the Company attributable to the year**

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Final dividend proposed after the end of the reporting period of 1.0 cent per ordinary share (2014: 2.0 cents per ordinary share)	2,841	5,681

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

- (ii) **Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year**

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.0 cents per ordinary share (2014: 2.0 cents per ordinary share)	5,681	5,681

The final approved and paid during the year is based on the total number of issued shares at the date of Annual General Meeting.

8. EARNINGS PER SHARE

- (a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$20,304,000 (2014: \$23,724,000) and the weighted average of 284,058,000 ordinary shares (2014: 284,058,000 ordinary shares) in issue during the year.

- (b) **Diluted earnings per share**

Diluted earnings per share for the year ended 31 December 2015 and 2014 are the same as the basic earnings per share as there are no dilutive potential ordinary shares.

9. PLANT AND EQUIPMENT

During the year ended 31 December 2015, the Group acquired items of plant and equipment in aggregate of \$2,521,000 (2014: \$5,009,000), which primarily consisted of leasehold improvements, furniture and fixtures, computer and office equipment and mould amounted to \$690,000 (2014: \$67,000), \$228,000 (2014: 67,000), \$581,000 (2014: \$2,512,000) and \$1,022,000 (2014: \$1,396,000) respectively.

10. INTANGIBLE ASSETS

For the year ended 31 December 2015, additions to intangible assets amounting to \$15,526,000 comprised development costs.

11. TRADE AND OTHER RECEIVABLES

	2015	2014
	\$'000	\$'000
Trade receivables	73,030	47,089
Less: Allowance for doubtful debts	(630)	(685)
	72,400	46,404
Prepayments	1,317	1,792
Deposits paid	1,913	1,510
Amount due from a joint venture	1,025	1,189
Other receivables	1,886	3,298
Less: Allowance for doubtful debts	(61)	(64)
	78,480	54,129

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is \$614,000 (2014: \$1,065,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) **Ageing analysis**

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

	2015	2014
	\$'000	\$'000
Within 1 month	36,407	24,199
1 to 2 months	13,447	10,283
2 to 3 months	1,667	1,528
3 to 12 months	18,094	9,743
Over 1 year	2,785	651
	72,400	46,404

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

(b) **Impairment of trade and other receivables**

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	Trade receivables		Other receivables	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
At 1 January	685	239	64	66
Exchange adjustments	–	–	(3)	(2)
(Reversal of)/provision for impairment losses	(55)	446	–	–
At 31 December	630	685	61	64

At 31 December 2015, the Group's trade receivables of \$630,000 (2014: \$685,000) and other receivables of \$61,000 (2014: \$64,000) were individually determined to be impaired. The individually impaired receivables are related to customers and other debtors that were in financial difficulties and management assessed that the balances from these debtors are irrecoverable. The Group does not hold any collateral over these balances.

12. TRADE AND OTHER PAYABLES

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Trade payables	24,171	14,981
Accruals	9,475	8,206
Deposits received	1,738	4,487
Consideration payables in connection with business combination	–	3,145
	<u>35,384</u>	<u>30,819</u>

All of the trade and other payables are expected to be settled within one year.

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

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Within 1 month	11,003	8,401
1 to 3 months	12,422	6,082
3 months to 1 year	436	141
Over 1 year	310	357
	<u>24,171</u>	<u>14,981</u>

13. COMMITMENTS

Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Contracted for	<u>843</u>	<u>881</u>

In June 2014, the Group entered into an agreement with an independent third party to acquire 10% equity interests of Zigong Yandou Smart Card Information Technology Company Limited for a consideration of RMB1,000,000. As at 31 December 2015, a deposit of \$377,000 (2014: \$377,000) was paid by the Group which was included in “Prepayment for available-for-sale securities” within non-current assets.

DIVIDEND

The Board has recommended the payment of a final dividend of HK1.0 cent (2014: HK2.0 cents) per share, totalling of HK\$2.8 million, for the year ended 31 December 2015. Subject to approval by the shareholders at the forthcoming annual general meeting on Friday, 20 May 2016, the final dividend will be paid on or about Friday, 17 June 2016 to shareholders whose names appear on the register of members of the Company on Monday, 30 May 2016.

The declaration, payment, and amount of future dividend 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 condition and such other factors as the Board may consider important.

CLOSURE OF REGISTER OF MEMBERS

(i) Entitlement to Attend and Vote at the 2016 Annual General Meeting

The register of members will be closed from Monday, 16 May 2016 to Friday, 20 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance of annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 13 May 2016.

(ii) Entitlement to the Proposed Final Dividend

The register of members will be closed from Friday, 27 May 2016 to Monday, 30 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 26 May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2015, the Group's revenue slightly decreased by 5% to HK\$235 million (2014: HK\$246 million). The gross profit and profit for the year amounted to HK\$116 million (2014: HK\$122 million) and HK\$20 million (2014: HK\$24 million) respectively, which dropped by 5% and 14% respectively compared with 2014. The basic earnings per share for the year was HK7.148 cents (2014: HK8.352 cents).

Revenue

The Group's sales revenue for the year ended 31 December 2015 decreased by 5% compared to the previous year. The decrease in revenue is mainly due to the project cycle of solution business. Several significant projects were completed by the end of 2014, such as installation of kiosks and turnstiles in cinemas and Mall of Asia Arena in Manila under SM Prime Holdings, Inc. Therefore, the Group had only recorded minimal income from its solution business before June 2015. The Group has obtained orders for, and started working on some new projects, such as Cebu Bus Rapid Transit Project (the "Cebu BRT") (please refer to page 20 for details of the project), starting from June 2015. Although some of the software and hardware of these new projects were already delivered and were recognised as revenue of the Group in 2015, total revenue contributed by solution business decreased when compared with 2014 as these new projects were not yet completed as at 31 December 2015 and will continue to contribute revenue to the Group in 2016.

The decrease in total revenue of the year of HK\$11 million was mainly due to the decrease in revenue in the first quarter of 2015, which amounted to around HK\$13 million. As disclosed in the Company's announcements dated 16 April 2015, in the first quarter of 2015, many orders could not be delivered as expected due to the late Chinese New Year and the temporary labour shortage of subcontractors after the Chinese New Year holiday. Revenue of the Group for the remaining quarters in 2015 was maintained at a similar level as 2014. Although the global economy downturn affected many customers in the smart card industries, the Group continued to seize market opportunities with its current competitive advantages such as high quality of products and services, ongoing launching of new products, comprehensive product range, extensive experience in customised solution, being one-stop supplier for both hardware and software, etc., to maintain its sales of smart card and smart card readers.

Maintain Stable Profitability

The Group maintained its gross profit margin at around 50% in both 2015 and 2014 (2015: 50%, 2014: 49%). Gross profit for 2015 slightly decreased by 5% compared to the previous year (2015: HK\$116 million, 2014: HK\$122 million) as a result of the decrease in revenue. Even the selling prices of some products were adjusted downward during 2015 in order to maintain the market share or to build up market share of new products, the Group successfully lowered the material costs to maintain its gross profit margin by bulk purchasing from suppliers and revision of bills of materials from time to time.

Payment of Life Insurance Benefit

Payment of benefit amounting to US\$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 for the year ended 31 December 2015.

Transfer Listing Expenses and Cost Control

Total expenses for 2015 increased by 7% compared to the previous year (2015: HK\$103 million; 2014: HK\$96 million). This increase was mainly attributable to the professional fees and donation in relation to the transfer of listing from the Growth Enterprise Market ("GEM") to main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which amounted to approximately HK\$3 million in total, resulting in an increase in administrative expenses of the Group. Since the Company has submitted its application for the transfer of listing in March 2015 and has commenced its trading on the main board on 29 September 2015, many one-time expenses were incurred for the year ended 31 December 2015, which included legal fees, professional fees paid to the financial advisor and the auditor, and donation to The Community Chest of Hong Kong for drawing stock code of the Company from the special ballot pool.

Apart from the above, the increase in expenses in 2015 was also contributed by the increase in staff costs (2015: HK\$56 million; 2014: HK\$55 million), office rental expenses (2015: HK\$6 million; 2014: HK\$5 million) and amortisation of intangible assets (2015: HK\$11 million; 2014: HK\$10 million), these increments resulted in the increase in research and development expenses and administrative expenses. In 2014, the Group continued to expand the work force in research and development in order to speed up the development work of its products and also completed a business acquisition. As a result of the above, the Group's headcount significantly increased from 289 staff at 31 December 2013 to 365 staff at 31 December 2014 and further increased to 380 staff at 31 March 2015. Several rental agreements were renewed in late 2014 and early 2015 with an increase in monthly rental; together with additional office unit rented after the completion of the business acquisition, the office rental expenses increased in 2015. As disclosed in the Company's announcements dated 18 September 2015, the Group implemented several cost control measures to reduce its operating expenses, which included freezing and reducing headcount to control staff costs and to improve efficiency; and the termination of rental agreements of several office units due to the decrease in headcount of certain offices. Although the Group successfully lowered its staff costs and office rental expenses starting from the third quarter of 2015, the increase in expenses in the first half of 2015 still resulted in the overall increase in total spending during 2015.

The amortisation of intangible assets increased from HK\$10 million in 2014 to HK\$11 million in 2015 as a result of the launching of new products during 2015, and the effect of full year amortisation of intangible assets recognised through the business acquisition in June 2014.

Share of Results of a Joint Venture

In addition, the Group shared losses of HK\$1,358k (2014: HK\$205k) from a joint venture, namely Goldpac ACS Technologies Inc (“GATI”). The joint venture was established in late 2014, it was still in start up stage and had not generated any revenue in 2015. GATI has commenced operation in 2016 and the details of which are set out in page 21.

Statement of Financial Position

The inventories decreased from HK\$40 million as at 31 December 2014 to HK\$35 million as at 31 December 2015. The decrease was a combined result of the decrease in customisation product orders for the coming quarter and the improvement in inventory management.

The trade and other receivables increased significantly from HK\$54 million as at 31 December 2014 to HK\$78 million as at 31 December 2015, which was mainly attributable to the increase in trade receivables by HK\$26 million. Sales in the fourth quarter of 2015 increased significantly compared with the corresponding period of 2014 (2015: HK\$84 million; 2014: HK\$73 million). As customers are generally granted credit terms of 7 to 90 days, the increase in revenue in the fourth quarter directly affected trade receivables as at 31 December 2015. In addition, for sales of software and project income from solution business, respective payment terms are determined by individual contracts and some of them are longer than 90 days, which also resulted in the increase in trade receivables.

The trade and other payables increased from HK\$31 million as at 31 December 2014 to HK\$35 million as at 31 December 2015. The increase was mainly attributable to the increase in trade payables by HK\$9 million, which is in line with the increase in purchase and subcontracting charges in the fourth quarter of 2015 compared with the corresponding period of 2014 (2015: HK\$35 million; 2014: HK\$26 million). Credit terms of 0 to 60 days are generally granted by the suppliers, therefore the increase in purchase and subcontracting charges in the fourth quarter directly affected trade payables as at 31 December 2015.

BUSINESS REVIEW

The last quarter of 2015 was marked by global economic downturn. The business climate in the smart card and smart card reader market was relatively conservative compared with prior years. It was in the middle of this environment that the Group celebrated its 20th anniversary. While it had to celebrate its 20th year amidst challenges, the Group has taken measures to improve its efficiency, gain better access to capital, explore new markets and projects, and strengthen vital relationships with different stakeholders.

Trusted Relationships with Distributors, Suppliers and Subcontractors

To strengthen vital relationships with different stakeholders, the Group nurtures longstanding relationships with trusted distributors, suppliers and subcontractors. The Group has been working with trusted suppliers and subcontractors for years to secure stable, timely and quality supply and subcontracting work.

The Group continues to provide quality products, backed by major and international certifications, to maintain trusted relationships with customers and also distributors. In addition, the Group's existing products and projects have continued to receive recognition from award-giving bodies. The quality of the Group's products is complemented by high level of service and comprehensive marketing efforts. The Group conducted a global survey in 2015 among its top clients in terms of sales volume, measuring satisfaction with its products, services, personnel, and so forth. 92% of the Group's top customers described their overall satisfaction level with the Group as "good" to "very good", which is 4 to 5 in a five-point scale. Starting from 2007, the Group surveys its high-volume clients annually, and the characterisation of customers of their overall satisfaction level with the Group as "good" to "very good" has been consistent for the past nine years. The Group has built up a reliable global distribution network with its trusted distributors by providing high quality and customised products.

Late Chinese New Year and the Temporary Labour Shortage

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\$13 million to HK\$37 million (2014: HK\$50 million) and the Group recorded a net loss of HK\$8 million (2014: a net profit of HK\$6 million) for the first quarter of 2015.

Workforce Streamlining

To improve efficiency, the Group streamlined its workforce by reducing its headcount from 365 staff as at 31 December 2014 to 291 staff as at 31 December 2015. Development and maintenance of the Group's products and services are no longer as human capital-intensive as they used to be, since the Group has built up a strong knowledge base in past years. Streamlining has been a cost-saving measure for the Group, one that has also compelled it to adopt more conservative approaches to manpower acquisition and project management.

Listing on Main Board of the Stock Exchange

To gain better access to capital, the Company applied to transfer of listing from GEM to the main board of the Stock Exchange. On 29 September 2015, shares of the Company has commenced its trading on the main board. Following the successful transfer of listing, the Group expects a raised profile among investors and customers and greater ease in developing business and obtaining other benefits.

New Products and Services

To explore new markets, the Group formally launched following new ventures and projects in 2015:

ACR3901U-S1 Bluetooth Smart Card Reader

The Group launched the ACR3901U-S1 Bluetooth Contact Card Reader. The ACR3901U-S1 works with mobile devices to support contact smart cards, even without a physical connection to any terminal.

ACR3901U-S1 works with devices running on Android™ 4.3 or higher, iOS 6.0 or higher, Windows 8 or higher and MAC OS. It supports ISO 7816 Class A, B, and C smart cards, most memory cards and microprocessor cards with T=0 or T=1 protocol. This compact mobile card reader is powered by a rechargeable Lithium-ion battery, which makes it suitable for use anywhere.

Devices supporting Bluetooth Smart® (also known as Bluetooth Low Energy or BLE), like ACR3901U-S1, are suited not only for conventional applications such as file exchange and entertainment, but also for health and fitness, security, etc. BLE enables running off a tiny battery for extended periods and has a communication range similar to Bluetooth Classic. The Bluetooth Special Interest Group estimates that BLE-supporting smartphones will exceed 90 percent by the end of 2018.

Aside from its BLE interface, ACR3901U-S1 also has a USB Interface, which enables PC-linked operations and device charging. A built-in switch will help the user toggle between PC-linked and charging modes. It is also USB firmware upgradeable, ensuring that the user can easily keep pace with fast-changing technology scenarios.

Intelligent Transportation System (“ITS”) solutions

The Group has generated revenue from providing ITS solutions such as system integration services within the transportation and electronic-purse ecosystems. One of the new projects for the Group’s ITS business is the Cebu BRT project. In 2015, the Group initiated the first phase of this project. It is the first bus rapid transits system in the Philippines, connecting three key cities in Cebu, an emerging economic hub in the country. It aims to deliver resource-efficient and comprehensive mass transport services, leverage on contactless technology to maximise convenience for commuters and enable analytics, fleet management and other strategic benefits for the transport operator. In the latter part of 2015, initial stations were established and hardware were installed for a number of the buses to be used in the system. In January 2016, the Cebu BRT has already started to serve customers and the Group is collaborating with the local government of Cebu to finalise routes and lanes and establish more stations.

EMV bank card personalization services

The Group has also entered the EMV bank card personalisation business. In 2014, GATI, a joint venture company, was set up in the Philippines. GATI is a joint venture among the Group and two other independent third parties, aiming to supply EMV bank card personalisation services for banks in the Philippines. In 2015, GATI's personalisation center in the Philippines was able to achieve Visa and Master Card accreditation. The personalisation center was fully operational as at 31 December 2015 and is undergoing People's Bank of China ("PBOC") certification. In 2016, GATI secured one of the largest banks in the Philippines as a client. EMV bank card personalisation is a new venture for the Group. The Philippines presents a ready market, because as early as 2013, Bangko Sentral ng Pilipinas has required all cards issued and card-accepting devices to be EMV-compliant by 1 January 2017, among other requirements.

Events

The Group remains active in industry activities. Below are a few of the industry events we have participated during 2015:

Smart Card Alliance Payments Summit 2015

Retail Tech Japan 2015

Cards and Payments Asia 2015

Smart Card Alliance Government Conference 2015

Cards and Payments Philippines 2015

NFC Solutions Summit 2015

Aside from promoting its products, the Group maintains leadership activities. Due to its "outstanding contributions in the form of organisation-wide leadership of time, talent and resources across a wide mix of Alliance activities," the Smart Card Alliance in the US has designated Advanced Card Systems Limited, a wholly owned subsidiary of the Group, as a Center of Excellence in 2015, recognising its efforts to establish thought leadership and help actively map the direction of the smart card industry.

Continuity in Management

In March 2015, the Group's founder, Mr. Wong Yiu Chu, passed away. While Mr. Wong will be missed by the Group, his successors are supported by an experienced management team, majority of whom have been with the Group for more than ten years. The familiarity of the Group's management team not only with the smart card industry, but also with the Group's values and history, are expected to lend a sense of continuity into the Group's future direction.

PROSPECTS

Apart from retaining leadership in the PC-linked readers market and continuing to make use of its technological expertise, experience, and connections to expand the End-to-End solution market, the Group actively prepared itself to enter into payment market by developing new products for the payment industry. The Group considers payment terminals and Java card will be a new growth driver of the Group in future.

Entry into the Electronic Funds Transfer Point of Sales (“EFT-POS”) Terminal Market

The Group aims to enter the EFT-POS terminal market in 2016. In past years, the Group had launched non-EFT-POS terminals such as ACR890 which is used for applications other than bank cards payment. More than a decade of experience in developing and selling related technologies has built up the Group’s technical knowledge base for EFT-POS development and helped it cultivate a base of potential customers for its own EFT-POS terminals. This technical knowledge base extends to related technologies, certifications and security mechanisms. The Group’s existing devices have been certified for EMV Co Levels 1 and 2, PayPass, payWave and PBOC certification. The Group also possesses expertise in key management systems, a security component that will be essential to EFT-POS terminal development.

The Group is optimistic about its entry into the EFT-POS terminal market. The market is fast-growing that according to 2015 The Nilson Report, it has experienced a 32% growth to total shipment of over 30 million units in 2014. Furthermore, the Group enjoys many competitive advantages in this promising market. Aside from its experience in technology development and certification, the Group enjoys a favourable reputation as a developer of quality technologies and has key relationships to mitigate the risk of entering the market.

Entry into the Java Card Market

The Group is developing a cryptographic smart card operating system solution that is powered by Java and compliant with Global Platform Card specifications, namely ACOSJ series. ACOSJ series provides a secure platform for the development of many value-adding applets, including e-banking, e-payment, loyalty, e-government and public key infrastructure. It is the first smart card operating system developed by the Group which can be applied for EMV bank card payments. ACOSJ series has a fast read/write speed, is highly durable and can house multiple highly secure applications. It comes in contact, contactless and dual interface options. It is listed in the Global Platform website as one of the products to present a successful test report from a Global Platform-qualified laboratory.

ACOSJ series is equipped with powerful cryptographic capabilities. These functionalities enhance the security and performance of cryptographic operations and data management. Both are essential for fulfilling the security requirements of smart card applications.

ACOSJ series employs AES, DES/3DES, RSA and ECC support. ACOSJ series is either certified or compliant with the following standards: Java Card 3.0.4 Classic, Global Platform 2.2.1, PBOC 3.0, CC EAL5+ (chip level) and EMV Co (chip level).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2015, the Group's cash and cash equivalents amounted to HK\$39 million (31 December 2014: HK\$36 million). The bank borrowings of the Group amounted to HK\$44 million as at 31 December 2015 (31 December 2014: HK\$35 million), which are denominated in Hong Kong dollars ("HK\$") and United States dollars ("US\$"), interest bearing at floating rates and repayable within five years. The gearing ratio as at 31 December 2015, being the total interest bearing debts over the total equity, was 0.33 (31 December 2014: 0.30). Net asset value as at 31 December 2015 was HK\$131 million (31 December 2014: HK\$117 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 year 2015, the Group recorded net cash inflow in operating activities of HK\$25 million (2014: HK\$22 million) with no significant changes noted, as the Group maintained stable profit from operations excluding depreciation and amortisation (2015: HK\$15 million, 2014: HK\$14 million). The Group recorded net cash outflow in investing activities of HK\$22 million (2014: HK\$26 million) during 2015. Decrease in net cash outflow was due to the decrease in capital expenditure on fixed assets (HK\$2 million) and decrease in capital contribution to a joint venture (HK\$3 million). The Group recorded net cash outflow in financing activities of HK\$8 million in 2015 (2014: HK\$8 million) without significant changes noted. In both 2014 and 2015, the Group recorded a net repayment of bank loans of around HK\$1 million. As at 31 December 2015, net cash and cash equivalents in the consolidated cash flow statement amounted to HK\$30 million as the Group recorded an unsecured bank overdraft amounted to HK\$9 million.

DISPOSALS AND ACQUISITIONS

During the year ended 31 December 2015, the Group did not have any material disposals or investments of subsidiaries and affiliated companies.

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 31 December 2015, the Group had outstanding foreign exchange forward contracts with notional amount of EUR300,000 (31 December 2014: EUR610,000) and the fair value gains relating to such foreign exchange forward contracts amounted to approximately HK\$45,000 (31 December 2014: HK\$153,000). The contracts were entered into to manage the currency risk exposure in relation to the operations of the Group.

PLEDGE OF ASSETS

As at 31 December 2015, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 31 December 2015, the Company had outstanding corporate guarantee of HK\$73 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its major subsidiaries. As at 31 December 2015, the Group had available banking facilities of approximately HK\$56 million and of which HK\$21 million had not been utilized. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group had 291 full time employees. Staff costs recognised in profit or loss amounted to HK\$56 million (2014: HK\$55 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' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors of the Company have any interests in a business which competes or may compete with the business of the Group during the year.

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

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

CORPORATE GOVERNANCE

For the period from 1 January 2015 to 28 September 2015, the day before the Company transferred its listing from GEM to the main board of the Stock Exchange, the Company applied the Corporate Governance Code (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. Save as disclosed below, the Directors are of the opinion that the Company complied with the code provisions of the Code from 1 January 2015 to 28 September 2015.

Mr. Wong Yiu Chu was the Chairman and Chief Executive Officer of the Company up to 24 March 2015. On 24 March 2015, Mr. Wong Yiu Chu was re-designated as non-executive director of the Company and resigned as the Chairman of the Board and the Chief Executive Officer of the Company due to health reason. The roles of Chairman and Chief Executive Officer were not separated for the period from 1 January 2015 to 24 March 2015. The Board considered that this structure did not impair the balance of power and authority between the Board and the management of the Company. The Board also believed that appointment of Mr. Wong Yiu Chu being both the Chairman and Chief Executive Officer was beneficial to the business prospects of the Company.

On 24 March 2015, 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 Co-Chief Executive Officer of the Group. As such, the roles of chairman and chief executive officer were separated with effect from 24 March 2015 and the Company has complied with the 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.

Starting from 29 September 2015, the day the Company transferred its listing from GEM to the main board of the Stock Exchange, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange. The Directors are of the opinion that the Company has complied with the code provisions set out in the CG Code from 29 September 2015 to 31 December 2015.

Details of the Company's corporate governance principles and processes will be available in the 2015 Annual Report.

The Audit Committee of the Board, consisting of three independent non-executive directors, has reviewed the 2015 financial statements with the management and the Group's external auditors and recommended its adoption by the Board.

ANNUAL REPORT AND FURTHER INFORMATION

A copy of this announcement can be found on the Company's website (www.acs.com.hk) and the Stock Exchange's website (www.hkexnews.hk). The 2015 Annual Report will be made available on the respective website of the Company and the Stock Exchange on or about 7 April 2016.

CHANGE OF REGISTERED OFFICE ADDRESS IN CAYMAN ISLANDS

The Board of the Company announces that the registered office address of the Company in Cayman Islands has been changed to P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

Hong Kong, 22 March 2016

As at the date of this announcement, 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.