



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



Interim Report

2014

* 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 3 executive directors, namely Mr. Wong Yiu Chu, Denny, Mr. Tan Keng Boon and Ms. Tsui Kam Ling, Alice; and 3 independent non-executive directors, Mr. Wong Yick Man, Francis, Mr. Lo Kar Chun, Nicky, SBS, JP and Mr. Yim Kai Pung.

HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2014 increased by 29% to HK\$111.3 million.
- Gross profit of the Group for the six months ended 30 June 2014 increased by 17% to HK\$59.0 million.
- Profit for the period of the Group for the six months ended 30 June 2014 increased by 29% to HK\$11.5 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 2014 together with the comparative unaudited figures for the corresponding periods in 2013.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2014

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	61,504	49,107	111,326	86,374
Cost of sales and services provided		(33,146)	(22,829)	(52,308)	(35,780)
Gross profit		28,358	26,278	59,018	50,594
Other income and gains		182	116	312	331
Selling and distribution costs		(5,253)	(5,020)	(10,087)	(9,361)
Research and development expenses		(8,600)	(6,590)	(17,598)	(14,047)
Administrative expenses		(7,957)	(8,408)	(17,559)	(16,465)
Finance costs	4	(332)	(173)	(677)	(336)
Profit before income tax	5	6,398	6,203	13,409	10,716
Income tax expense	6	(995)	(1,645)	(1,925)	(1,816)
Profit for the period, attributable to owners of the Company		5,403	4,558	11,484	8,900
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss					
– Exchange (loss)/gain on translation of financial statements of foreign operations		(716)	415	(413)	451
Item that will not be reclassified subsequently to profit or loss					
– Remeasurement of defined benefit obligations		–	(14)	–	22
Other comprehensive income for the period, net of tax		(716)	401	(413)	473
Total comprehensive income for the period, attributable to owners of the Company		4,687	4,959	11,071	9,373
Earnings per share for profit attributable to owners of the Company during the period	8				
– Basic (HK cents)		1.902	1.605	4.043	3.133
– Diluted (HK cents)		1.902	1.605	4.043	3.133

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	9	7,503	7,238
Intangible assets		38,715	32,260
Goodwill	16(c)	1,946	-
Non-current prepayment	14(a)	372	-
Deferred tax assets		445	593
		48,981	40,091
Current assets			
Inventories		51,080	44,094
Trade and other receivables, prepayments and deposits paid	10	53,243	31,784
Held-to-maturity financial assets		71	71
Cash and cash equivalents		30,118	48,614
		134,512	124,563
Current liabilities			
Trade payables, accruals and deposits received	11	45,329	26,566
Bank borrowings, secured		29,360	36,341
Current tax liabilities		1,477	1,028
		76,166	63,935
Net current assets		58,346	60,628
Total assets less current liabilities		107,327	100,719
Non-current liabilities			
Deferred tax liabilities		1,681	511
Defined benefit obligations		309	261
		1,990	772
Net assets		105,337	99,947
EQUITY ATTRIBUTABLE TO COMPANY'S OWNERS			
Share capital	12	28,406	28,406
Reserves	13	76,931	71,541
Total equity		105,337	99,947

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	5,607	13,310
Net cash used in investing activities	(10,605)	(7,387)
Net cash (used in)/generated from financing activities	(13,339)	1,664
Net (decrease)/increase in cash and cash equivalents	(18,337)	7,587
Cash and cash equivalents at 1 January	48,614	34,223
Effect of foreign exchange rates changes, on cash held	(159)	(177)
Cash and cash equivalents at 30 June	30,118	41,633

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	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 2013	28,406	17,955	4,496	886	24,070	4,261	80,074
2012 dividend approved	-	-	-	-	-	(4,261)	(4,261)
Transactions with owners	-	-	-	-	-	(4,261)	(4,261)
Profit for the period	-	-	-	-	8,900	-	8,900
Other comprehensive income							
- Exchange gain on translation of financial statements of foreign operations	-	-	-	451	-	-	451
- Remeasurement of defined benefit obligations	-	-	-	-	22	-	22
Total comprehensive income for the period	-	-	-	451	8,922	-	9,373
Balance as at 30 June 2013	28,406	17,955	4,496	1,337	32,992	-	85,186
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

* These reserve accounts comprise the consolidated reserves of HK\$76,931,000 (30 June 2013: HK\$56,780,000) in the consolidated statement of financial position as at 30 June 2014.

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 2013 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 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 2014. 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 2014 were approved for issue by the Board on 12 August 2014.

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	
	2014	2013
	HK\$'000	HK\$'000
Revenue from external customers and reportable segment revenue	111,326	86,374
Reportable segment profit	13,931	11,194
Unallocated corporate expenses	(522)	(478)
Consolidated profit before income tax	13,409	10,716
	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
Reportable segment assets	182,602	163,859
Deferred tax assets	445	593
Unallocated corporate assets	446	202
Consolidated assets	183,493	164,654

The following table set out information about the geographical location of (i) the Group's customers and (ii) the Group's plant and equipment and intangible assets ("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, and the location of the operation to which they are allocated, in the case of 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 2014	31 December 2013
	2014	2013		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China ("PRC"), including Hong Kong and Macau (domicile)*	7,715	11,058	44,428	37,494
Foreign countries				
- Italy	14,595	17,035	-	-
- United States	15,964	13,031	39	46
- Republic of the Philippines	39,346	17,029	695	619
- Other countries	33,706	28,221	1,056	1,339
	103,611	75,316	1,790	2,004
	111,326	86,374	46,218	39,498

* 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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of smart card products, software and hardware	61,492	44,592	108,447	73,367
Smart card related services	12	4,515	2,879	13,007
	61,504	49,107	111,326	86,374

4 FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charges on bank borrowings, repayable on demand or wholly within five years	332	173	677	336

5 PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of development costs*	2,365	1,878	4,581	3,282
Depreciation of plant and equipment	1,047	1,211	2,168	2,441

* Included in research and development expenses in profit or loss

6 INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong profit tax				
– Provision for current year	928	1,486	1,270	1,486
Philippines Income Tax				
– Provision for current year	33	159	560	330
– Over-provision in respect of prior years	(5)	–	(91)	–
	28	159	469	330
Other overseas tax	(161)	–	(14)	–
	795	1,645	1,725	1,816
Deferred tax	200	–	200	–
	995	1,645	1,925	1,816

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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 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 both 2013 and 2014.

Tax on other jurisdictions including Japan has been provided on the estimated assessable profits, if any, for the year at the rate 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 2013 had been approved by the shareholders at the annual general meeting and was subsequently paid on 4 June 2014.

The company had not declared any dividends for the three months and six months ended 30 June 2014.

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2014 respectively is based on profit attributable to owners of the Company of HK\$5,403,000 (2013: HK\$4,558,000) and HK\$11,484,000 (2013: HK\$8,900,000) and the weighted average of 284,058,000 (2013: 284,058,000) and 284,058,000 (2013: 284,058,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2014 respectively is based on profit attributable to owners of the Company of HK\$5,403,000 (2013: HK\$4,558,000) and HK\$11,484,000 (2013: HK\$8,900,000) and the weighted average of 284,058,000 (2013: 284,058,000) and 284,058,000 (2013: 284,059,000) ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months and six months ended 30 June 2014 respectively is calculated based on the weighted average of 284,058,000 (2013: 284,058,000) and 284,058,000 (2013: 284,058,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of nil (2013: nil) and nil (2013: 1,000) ordinary shares deemed to be issued at no consideration as if all the Company's outstanding share options had been exercised.

9 PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired items of plant and equipment in aggregate amounts of HK\$2,528,000, which primarily consists of Computer and office equipment and Moulds amounting to HK\$1,423,000 and HK\$737,000 respectively.

10 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Trade receivables	45,546	27,571
Less: Provision for impairment losses	(239)	(239)
Trade receivables – net	45,307	27,332
Other receivables, prepayments and deposits paid	8,002	4,518
Less: Provision for impairment losses	(66)	(66)
	53,243	31,784

Customers are generally granted credit terms of 7 to 90 days (2013: 7 to 100) days. Based on invoice date, ageing analysis of the Group's trade receivables (net of provision for impairment loss) is as follows:

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
0–30 days	16,290	15,437
31–60 days	11,868	2,943
61–90 days	1,280	26
91–365 days	13,954	7,022
Over 365 days	1,915	1,904
	45,307	27,332

11 TRADE PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Trade payables	18,829	11,841
Accruals and deposits received	26,500	14,725
	45,329	26,566

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

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
0-30 days	9,616	8,661
31-60 days	6,940	2,640
61-90 days	1,771	323
91-365 days	319	52
Over 365 days	183	165
	18,829	11,841

12 SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 31 December 2013 and 30 June 2014	1,000,000	100,000
<i>Issued and fully paid:</i>		
At 31 December 2013 and 30 June 2014	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, capital commitments outstanding but not provided for in the interim financial report are as follows:

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Authorised but not contracted for	-	-
Contracted for	869	-

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 2014, the group paid deposit of RMB300,000 (equivalent to approximately HK\$372,000), which was included in "Non-current payment", and the remaining RMB700,000 (equivalent to approximately HK\$869,000) 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 five years (2013: one to five years). None of the leases include contingent rentals.

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

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Within one year	2,135	2,540
In the second to fifth years, inclusive	173	442
	2,308	2,982

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	
	2014 HK\$'000	2013 HK\$'000
Salaries and other short-term employee benefits	3,841	3,700
Retirement benefits costs	53	54
	3,894	3,754

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.

- (a) In June 2014, the Group entered into two agreements with independent third parties to purchase certain business assets from Shenzhen Daming Wuzhou City Smart Card Technology Company Limited (“Daming Wuzhou”) (referred to as the “Daming Wuzhou Acquisition”) for a total cash consideration of RMB5,300,000 (equivalent to approximately HK\$6,577,000), the acquisition was completed on 19 June 2014.

The principal activities of Daming Wuzhou are the development and provision of products and solutions for automatic revenue collection in the PRC. The Daming Wuzhou Acquisition represented an opportunity to expand the Group’s automatic revenue collection business in the PRC. The fair values of the identifiable assets and liabilities of Daming Wuzhou as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	<i>HK\$’000</i>
Plant and equipment	46
Intangible assets	4,393
Inventories	1,933
Trade and other receivables, prepayments and deposits paid	2,629
Cash and cash equivalents	267
Trade payables, accruals and deposits received	(3,527)
Deferred tax liabilities	(1,110)
Net assets	4,631
Goodwill	1,946
Satisfied by:	
Purchase consideration:	
– Cash	6,577

The intangible assets comprised technical know-how and customer relations which fair value are HK\$1,923,000 and HK\$2,470,000 respectively at acquisition date.

The receivables acquired principally comprised trade receivables. Fair value of trade and other receivables of HK\$2,629,000 had gross contractual amounts of HK\$5,300,000 and the best estimate at acquisition date of the contractual cash flows not expected to be collected is HK\$2,671,000.

Since the date of the acquisition to 30 June 2014, Daming Wuzhou contributed revenue and loss after tax of HK\$98,000 and HK\$50,000 respectively. Had the Daming Wuzhou Acquisition taken place at the beginning of 2014, there would have been no significant impact on the Group’s revenue and profit for the six months ended 30 June 2014.

(b) Acquisition-related costs

The Group incurred acquisition-related costs of HK\$411,000 relating to external legal fees and other professional fees. The legal and professional fees have been included in “administrative expenses” of the Group’s consolidated statement of comprehensive income.

(c) Goodwill arising on acquisition

Goodwill arose in Daming Wuzhou Acquisition because the cost included amounts in relation to the benefit of future market development in the PRC, assembled workforce and expected synergies. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria of identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

(d) Guarantee

In June 2014, ACS Technologies (Shenzhen) Limited (“ACS Shenzhen”), a subsidiary of the Group, Mr. Wong Yiu Chu, a director of the Company, and shareholders of Daming Wuzhou entered into a guarantee agreement in respect of some of the obligations of ACS Shenzhen. During the period of 18 months from the completion date, which can be extended to 24 months subject to completion of transfer of business assets, if there are any economic, legal, labour or tax disputes of Daming Wuzhou (the “Liabilities”) due to the transfer of business assets, Mr. Wong Yiu Chu shall be jointly liable for the Liabilities in the event of non-fulfillment of ACS Shenzhen of its obligations with respect to the Liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside with the unaudited consolidated financial results of the Group (hereafter referred to as “ACS” or the “Group”) for the three months and six months ended 30 June 2014 (“the Interim Period”).

FINANCIAL REVIEW

The sales revenue and profit for the period increased by 25.2% (from HK\$49.1 million to HK\$61.5 million) and 18.5% (from HK\$4.6 million to HK\$5.4 million) respectively in the second quarter from the corresponding figures in last year. For the Interim Period, the sales revenue increased by 28.9% to HK\$111.3 million, the gross profit increased by 16.7% to HK\$59 million and the net profit increased by 29.0% to HK\$11.5 million from HK\$8.9 million.

The total sales increased by 28.9% in the Interim Period compared with of 2013 while the sales in four regions changed as shown in the following table. There may be some fluctuations of sales in different regions as sizable projects may have turned into sales revenue in one region while in another region, the orders of goods from other big projects may have been fulfilled prior to the accounting period. The remarkable growth in the Asia Pacific region was primarily owing to the delivery of solution businesses such as payment, loyalty and online movie ticketing system. The growth in Americas region was owing to the continual growth of the Automatic Fare Collection (“AFC”) businesses in large projects. The decrease in Middle East and Africa region was owing to a delay in some projects in Africa.

	Three months ended			Six months ended		
	30 June		Change	30 June		Change
	2014	2013		2014	2013	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Asia Pacific	37,853	18,363	106%	57,670	35,063	64%
Europe	15,172	22,444	-32%	33,410	33,763	-1%
The Americas	6,948	6,313	10%	18,221	14,204	28%
Middle East and Africa	1,531	1,987	-23%	2,025	3,344	-39%
	61,504	49,107	25%	111,326	86,374	29%

Since ACS sells its products and services to over 100 countries in the world, the total sales amount is usually not seriously affected by temporary economic weaknesses from one region. Likewise, ACS continues to introduce new products to the market and the decline of the sales of one product line owing to maturity is often compensated by the increase in sales of an emerging line.

Total expenses increased by 13.5% to HK\$45.2 million from HK\$39.9 million as we continued to expand the work force and increase the activities in engineering, sales and marketing and operations in order to speed up the development work of our products, to promote and sell them and to smooth out the operations.

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

ACS participated in multiple exhibitions and conferences in 2014 with the aims to meet with business partners, learn market trends, showcase new product offerings and share knowledge. Here is a list of exhibitions and conferences we attended as exhibitor and/or keynote speakers around the world:

- 1) Smart Card Alliance SCA 2014 Payments Summit
- 2) Cards & Payments Asia 2014
- 3) China International Smart Cards, RFID and IOT Exhibition 2014
- 4) NFC Solutions Summit 2014
- 5) Cardware 2014: Payment and Digital ID Insights
- 6) 10th Anniversary Celebration of HSPD-12 (Homeland Security Presidential Directive 12)

PROSPECTS

In the past years, ACS has leveraged its own in house technologies, ranging from smart card, smart card reader, bus validator, security and backend knowledge, to enter into the AFC solution business. ACS believes the AFC solution business has a good potential to fuel the growth of the company. ACS has been deploying the AFC solutions in various countries. In order to speed up the expansion, especially for the PRC market, ACS has acquired certain business assets of Daming Wuzhou, who is one of the major AFC suppliers in PRC. Daming Wuzhou has deployed its AFC solutions in tens of cities in PRC. ACS can leverage the customer network of Daming Wuzhou and supply the state of the art AFC solution business and other applications to the PRC market.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2014, the Group's cash and cash equivalents amounted to HK\$30.1 million (31 December 2013: HK\$48.6 million) and most of its cash was in bank accounts. The bank borrowings of the Group amounted to HK\$29.4 million (31 December 2013: HK\$36.3 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, being the total interest bearing debts over the total equity, at 30 June 2014 was 0.28 (31 December 2013: 0.36). Net asset value as at 30 June 2014 was HK\$105.3 million (31 December 2013: HK\$99.9 million).

The Group's equity capital, bank borrowings, together with the cash generated from operating activities, has been applied to fund its working capital and other operational needs. During the Interim Period, the Group recorded net cash inflow in operating activities of HK\$5.6 million (2013: HK\$13.3 million). The decrease in the net cash inflow in operating activities was largely due to longer settlement period on trade receivables during the Interim Period. The Group recorded net cash outflow in investing activities of HK\$10.6 million (2013: HK\$7.4 million) for the Interim Period, increase in net cash outflow was largely due the increase in research and development cost and consideration paid for Daming Wuzhou Acquisition. The Group recorded net cash outflow in financing activities of HK\$13.3 million (2013: inflow of HK\$1.7 million) for the Interim Period, changes was due to the repayment of bank loan during the Interim Period, while the Group obtained several new bank loan in the same period of 2013.

ACQUISITIONS AND INVESTMENTS

In June 2014, the Group announced that it entered into two agreements with independent third parties to purchase certain business assets from 深圳市大明五洲城市一卡通科技有限公司 (Shenzhen Daming Wuzhou City Smart Card Technology Company Limited*) and such acquisition has been completed.

* For identification only

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in HK\$, Euro dollars (“EURO”), Philippine Pesos (“PHP”), US\$ and Renminbi (“RMB”). The Group considers that exchange risk arising from US\$ and RMB does not have significant financial impact to the Group. When appropriate, hedging instruments including forward contracts would be used to manage the foreign exchange exposure on EURO and PHP.

PLEDGE OF ASSETS

As at 30 June 2014, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

As at 30 June 2014, the Company had outstanding corporate guarantee of HK\$80.6 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its main subsidiary. As at 30 June 2014, the Group had available banking facilities approximately HK\$61.4 million and of which HK\$32.0 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 2014, the Group had 355 full time employees. Staff costs recognised in profit or loss amounted to HK\$26.7 million (corresponding period in 2013: HK\$22.3 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 2014, 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:

Name of director	Long position in ordinary shares of HK\$0.10 each					Percentage of the Company's issued share capital as at 30 June 2014
	Personal interests (Note 1)	Family interests	Corporate interests	Other interests	Total number of shares held	
Mr. Wong Yiu Chu, Denny (Note 2)	80,768,000	55,754,522	-	-	136,522,522	48.06%
Ms. Tsui Kam Ling, Alice (Note 3)	55,754,522	80,768,000	-	-	136,522,522	48.06%
Mr. Lo Kar Chun, Nicky, SBS, JP	400,000	-	-	-	400,000	0.14%
Mr. Tan Keng Boon	157,893	-	-	-	157,893	0.06%

Notes:

- The shares are registered under the names of the directors who are the beneficial owners.
- 80,768,000 shares are held by Mr. Wong Yiu Chu, Denny personally and 55,754,522 shares are held by his wife, Ms. Tsui Kam Ling, Alice personally. Mr. Wong Yiu Chu, Denny is taken to be interested in the shares held by Ms. Tsui Kam Ling, Alice under the SFO.
- 55,754,522 shares are held by Ms. Tsui Kam Ling, Alice personally and 80,768,000 shares are held by her husband, Mr. Wong Yiu Chu, Denny personally. Ms. Tsui Kam Ling, Alice is taken to be interested in the shares held by Mr. Wong Yiu Chu, Denny under the SFO.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 30 June 2014, 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

Save as the interests disclosed under the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has not been notified of any interests in the Company's issued shares as at 30 June 2014 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at 30 June 2014 and to the best knowledge of the directors, 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.

The 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. Mr. Wong Yiu Chu, Denny was appointed as the chairman and chief executive officer of the Company. The roles of chairman and chief executive officer were not separated. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that his appointment being both the chairman and chief executive officer is beneficial to the business prospects of the Company.

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), Mr. Wong Yick Man, Francis and Mr. Lo Kar Chun, Nicky, 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
WONG Yiu Chu, Denny
Chairman

Hong Kong, 12 August 2014