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 2016

RESULTS

The board of directors (the "Board") of Advanced Card Systems Holdings Limited (the "Company") are pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 together with the comparative figures for the corresponding period in 2015.

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016 (Expressed in Hong Kong dollars)

	Note	**2016**	2015
		$'000	*$'000*
Revenue	*3*	**152,284**	234,526
Cost of sales		**(78,095)**	(118,287)
Gross profit		**74,189**	116,239
Other income	*4*	**1,123**	11,052
Selling and distribution costs		**(16,705)**	(19,120)
Research and development expenses		**(36,509)**	(42,090)
Administrative expenses		**(39,926)**	(41,688)
(Loss)/profit from operations		**(17,828)**	24,393
Finance costs	*5(a)*	**(1,056)**	(784)
Share of results of a joint venture		**(1,639)**	(1,358)
(Loss)/profit before taxation	*5*	**(20,523)**	22,251
Income tax	*6*	**2,020**	(1,947)
(Loss)/profit for the year attributable to the equity shareholders of the Company		**(18,503)**	20,304
(Loss)/earnings per share	*8*		
Basic (2015: restated)		**(6.268 cents)**	6.963 cents
Diluted (2015: restated)		**(6.268 cents)**	6.963 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016 (Expressed in Hong Kong dollars)

	Note	**2016**	2015
		$'000	*$'000*
(Loss)/profit for the year		**(18,503)**	20,304
Other comprehensive income for the year (after tax)			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		**(32)**	(32)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(1,423)**	(828)
Total comprehensive income for the year		**(19,958)**	19,444
Attributable to:			
Equity shareholders of the Company		**(19,958)**	19,444

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016 (Expressed in Hong Kong dollars)

	Note	**2016** **\$'000**	2015 *\$'000*
Non-current assets			
Plant and equipment	*9*	**5,371**	6,295
Intangible assets	*10*	**45,263**	47,248
Goodwill		**1,172**	1,972
Interest in a joint venture		**209**	2,008
Prepayment for available-for-sale securities		**377**	377
Deferred tax assets		**755**	489
		53,147	58,389
Current assets			
Inventories		**29,998**	34,548
Trade and other receivables	*11*	**56,644**	78,480
Held-to-maturity financial assets		**861**	730
Current tax recoverable		**593**	2,517
Cash and cash equivalents		**40,551**	38,941
		128,647	155,216
Current liabilities			
Trade and other payables	*12*	**19,496**	35,384
Bank loans and overdrafts		**14,222**	43,591
Current tax payable		**31**	1,142
		33,749	80,117
Net current assets		**94,898**	75,099
Total assets less current liabilities		**148,045**	133,488
Non-current liabilities			
Defined benefit obligations		**864**	814
Deferred tax liabilities		**152**	1,824
		1,016	2,638
NET ASSETS		**147,029**	130,850
CAPITAL AND RESERVES			
Share capital		**31,956**	28,406
Reserves		**115,073**	102,444
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**147,029**	130,850

NOTES

1. GENERAL INFORMATION

Advanced Card Systems Holdings Limited (the "Company") was incorporated in the 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, Ugland 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 2016 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 Hong Kong Financial Reporting Standards, 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 a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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:

	2016	2015
	$'000	*$'000*
Sale of smart card products, software and hardware	**149,535**	232,874
Smart card related services	**2,749**	1,652
	152,284	234,526

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 2016 and 2015, revenue derived from these customers, including sales to entities which are known to the Group to be under common control, are as follows:

	2016	2015
	$'000	*$'000*
Customer A*	**14,288**	40,384
Customer B*	**3,804**	4,906
Customer C	**N/A**	33,487

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

(b) Segment reporting

The Group's management assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The management considers there is only one operating segment and, accordingly, no operating segment information is presented.

(i) 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, interest 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 goods 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 non-current prepayment.

	Revenue from external customers		**Specified non-current assets**	
	2016	2015	**2016**	2015
	$'000	*$'000*	***$'000***	*$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau (country of domicile)	**27,104**	41,832	**50,811**	54,882
United States	**15,533**	22,842	**–**	17
Italy	**14,301**	40,392	**–**	–
Republic of the Philippines	**11,416**	34,590	**1,578**	2,772
Other countries	**83,930**	94,870	**3**	229
	125,180	192,694	**1,581**	3,018
	152,284	234,526	**52,392**	57,900

4. OTHER INCOME

	2016	2015
	$'000	*$'000*
Income from benefits under a life insurance policy *(note)*	**–**	10,140
Interest income	**101**	67
Sundry income	**1,022**	845
	1,123	11,052

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. (LOSS)/PROFIT BEFORE TAXATION

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

	2016	2015
	$'000	*$'000*
(a) Finance costs:		
Interest on bank loans and other borrowings	**1,519**	1,360
Less: Interest expense capitalised into development costs*	**(463)**	(576)
	1,056	784

* The borrowing costs have been capitalised at a rate of 3% to 4% per annum (2015: 3% to 4%).

	2016	2015
	$'000	*$'000*
(b) Staff costs:		
Contributions to defined contribution retirement plans	**2,672**	3,913
Net expenses recognised in respect of a defined benefit retirement plan	**224**	213
Total retirement costs	**2,896**	4,126
Salaries, wages and other benefits	**54,700**	64,903
	57,596	69,029
Less: Amount capitalised into development costs	**(9,064)**	(12,922)
	48,532	56,107

	2016	2015
	$'000	*$'000*
(c) Other items:		
Amortisation of intangible assets	**11,687**	10,964
Depreciation	**2,674**	3,885
Provision for/(reversal of) impairment losses		
– trade and other receivables	**3,391**	(55)
– intangible assets	**1,961**	189
– goodwill	**800**	–
Auditors' remuneration		
– audit services	**996**	996
– other services*	**288**	71
Operating lease charges: minimum lease payments	**5,740**	5,937
Net loss/(gain) on disposal of plant and equipment	**487**	(37)
Net foreign exchange loss	**747**	1,739
Cost of inventories	**77,049**	116,190

* Of the auditors' remuneration for other services of $288,000, $280,000 was rendered for the rights issue completed during the year ended 31 December 2016 and was deducted against share premium (2015: $Nil).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	$'000	*$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	30
Over-provision in respect of prior years	**(436)**	(57)
	(436)	(27)
Current tax – Philippines Income Tax		
Provision for the year	**100**	1,168
Current tax – Other jurisdictions		
Provision for the year	**107**	210
Under-provision in respect of prior years	**165**	–
	272	210
Deferred tax		
Origination and reversal of temporary differences	**(1,956)**	596
	(2,020)	1,947

Notes:

(i) The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

(ii) The provision for Philippines Income Tax for 2016 is calculated at 30% (2015: 30%) of the estimated taxable income or 2% (2015: 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

	2016	2015
	$'000	*$'000*
Final dividend proposed after the end of the reporting period of nil cent per ordinary share (2015: 1.0 cent per ordinary share)	**–**	2,841

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

	2016	2015
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.0 cent per ordinary share (2015: 2.0 cents per ordinary share)	**2,841**	5,681

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

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of $18,503,000 (2015: profit attributable to ordinary equity shareholders of the Company of $20,304,000) and the weighted average of 295,202,000 ordinary shares (2015: 291,602,000 ordinary shares (restated)) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016	2015
	'000	*'000*
		(restated)#
Issued ordinary shares at 1 January	**284,058**	284,058
Effect of rights issue	**11,144**	7,544
Weighted average number of ordinary shares at 31 December	**295,202**	291,602

\# Comparative figures for the weighted average number of ordinary shares for the year ended 31 December 2015 have been adjusted retrospectively for the effect of the rights issue completed during the year ended 31 December 2016.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the year ended 31 December 2016 and 2015 are the same as the basic (loss)/earnings per share as there are no dilutive potential ordinary shares.

9. PLANT AND EQUIPMENT

During the year ended 31 December 2016, the Group acquired items of plant and equipment in aggregate of $2,495,000 (2015: $2,521,000), which primarily consisted of leasehold improvements, furniture and fixtures, computer and office equipment and mould amounted to $45,000 (2015: $690,000), nil (2015: $228,000), $1,217,000 (2015: $581,000) and $1,233,000 (2015: $1,022,000) respectively.

10. INTANGIBLE ASSETS

For the year ended 31 December 2016, additions to intangible assets amounting to $11,663,000 (2015: $15,526,000) comprised development costs.

11. TRADE AND OTHER RECEIVABLES

	2016	2015
	$'000	*$'000*
Trade receivables	**48,335**	73,030
Less: Allowance for doubtful debts	**(327)**	(630)
	48,008	72,400
Prepayments	**3,268**	1,317
Deposits paid	**1,644**	1,913
Amount due from a joint venture	**2,862**	1,025
Other receivables	**862**	1,886
Less: Allowance for doubtful debts	**–**	(61)
	56,644	78,480

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 $301,000 (2015: $614,000). 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:

	2016	2015
	$'000	*$'000*
Within 1 month	**17,650**	36,407
1 to 2 months	**5,647**	13,447
2 to 3 months	**2,695**	1,667
3 to 12 months	**1,090**	18,094
Over 1 year	**20,926**	2,785
	48,008	72,400

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	
	2016	2015	**2016**	2015
	$'000	*$'000*	***$'000***	*$'000*
At 1 January	**630**	685	**61**	64
Exchange adjustments	**–**	–	**–**	(3)
Provision for/(reversal of) impairment losses	**2,953**	(55)	**438**	–
Uncollectable amounts written off	**(3,256)**	–	**(499)**	–
At 31 December	**327**	630	**–**	61

At 31 December 2016, the Group's trade receivables of $327,000 (2015: $630,000) and other receivables of $Nil (2015: $61,000) 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

	2016	2015
	$'000	*$'000*
Trade payables	**12,083**	24,171
Accruals	**5,623**	9,475
Deposits received	**1,790**	1,738
	19,496	35,384

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:

	2016	2015
	$'000	*$'000*
Within 1 month	**6,400**	11,003
1 to 3 months	**4,958**	12,422
3 months to 1 year	**309**	436
Over 1 year	**416**	310
	12,083	24,171

DIVIDEND

The Board did not recommend payment of the final dividend (2015: HK1.0 cent per share, totalling of HK$2.8 million) for the year ended 31 December 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

The Company will publish the information about the date of annual general meeting and the period for closure of register of members later.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group's revenue decreased by 35% to HK$152 million (2015: HK$235 million) and resulted in a loss for the year that amounted to HK$19 million (2015: profit for the year of HK$20 million). For the first half of 2016, the Group recorded a loss for the period of HK$20 million, while for the second half of 2016, sales performance improved significantly (increased by 64% compared with first half of 2016). Result of restructuring and cost control was satisfactory such that total expenses decreased by 15% compared with the first half of 2016. In the second half of 2016, the Group turned around and recorded a profit that amounted to HK$1 million. The basic loss per share for the year was HK6.268 cents (2015: earnings of HK6.963 cents (restated)).

Revenue

The Group's sales revenue for the year ended 31 December 2016 decreased by 35% compared to the previous year. The decrease in revenue is mainly due to the global economic downturn. Many customers became cautious of significant capital spending under such an economic environment that many new projects or large orders were postponed or even put on hold.

In addition, USD appreciated against EURO and PHP in 2016, which seriously affected some of our major customers located in Europe and the Philippines. As a result, sales to the largest and top five customers dropped by 65% and 55% respectively, which is even larger than the decrease in total sales.

The decrease in total revenue for the year ended 31 December 2016 of HK$83 million was mainly due to the decrease in revenue in the first half of 2016, which amounted to around HK$49 million. Sales performance for the second half of 2016 improved significantly from HK$58 million for the first half of 2016 to HK$94 million. Although the global economic downturn affected many customers, the Group continued to seize market opportunities by investing in research and development of new products, including new smart card-related products for banking and payment sectors. The launching of these new products in 2017 may bring positive impact to our sales of these product lines.

Maintain Stable Margin

The Group maintained its gross profit margin at around 50% in both 2016 and 2015 (2016: 49%, 2015: 50%). Gross profit for 2016 decreased by 36% compared to the previous year (2016: HK$74 million, 2015: HK$116 million) as a result of the decrease in revenue.

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 of directors (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 one-off in nature that no such other income was recorded for the year ended 31 December 2016.

Restructuring and Impairment

Total expenses for 2016 decreased by 9% compared to the previous year (2016: HK$93 million; 2015: HK$103 million). Such decrease is the combined result of restructuring and cost control. Decrease in expenses mainly contributed by the decrease in staff costs (2016: HK$49 million; 2015: HK$56 million), resulted in decreased research and development expenses. In 2016, the Group was restructured to consolidate certain research and development functions to Shenzhen from other locations (the "Restructuring"), to enhance operations and improve efficiency. The Restructuring was completed in 2016 and successfully lowered staff cost and office overheads for 2016.

In addition, in 2015, the Group incurred approximately HK$3 million in professional fees and donations in relation to the transfer listing from GEM to the main board of the Stock Exchange. Such expenses were non-recurring and no such administrative expenses were recorded for the year ended 31 December 2016. Selling and distribution costs also decreased in 2016 as a result of the decrease in sales.

Impairment loss on trade and other receivables and intangible assets amounting to HK$3 million and HK$2 million was recognised for the year ended 31 December 2016. Significant impairment on trade receivables was provided in June 2016 upon the Restructuring, because some low-margin projects were terminated due to resource reallocation, and management considered outstanding balances for these projects unlikely to be recovered. Impairment for intangible assets was mainly for development costs, as some existing models will be replaced by new models, and management expected sales of these existing models will not be enough to cover their carrying value. Thus, provision for impairment was made accordingly.

Statement of Financial Position

Plant and equipment and intangible assets decreased from HK$6 million and HK$47 million as at 31 December 2015, to HK$5 million and HK$45 million as at 31 December 2016, respectively. The decrease was a combined result of the impairment and depreciation or amortisation.

The inventories decreased from HK$35 million as at 31 December 2015 to HK$30 million as at 31 December 2016. Due to the decrease in large orders, management intentionally controlled inventory balances during 2016 by avoiding stocking up on parts and finished goods.

Trade and other receivables decreased significantly from HK$78 million as at 31 December 2015 to HK$57 million as at 31 December 2016. The decrease was mainly attributable to the decrease in trade receivables by HK$24 million, which is in line with the decrease in sales.

Trade and other payables decreased from HK$35 million as at 31 December 2015 to HK$19 million as at 31 December 2016. This was mainly attributable to the decrease in trade payable by HK$12 million as a result of the decrease in purchases and subcontracting charges, as reflected in cost of sales.

Bank loans and overdrafts decreased from HK$44 million as at 31 December 2015 to HK$14 million as at 31 December 2016. The Company conducted a rights issue during 2016 and received net proceeds of HK$39 million. In addition, the Group generated over HK$11 million cash from operating activities in 2016, and this surplus cash was used to repay some bank loans during 2016 in order to reduce finance cost.

BUSINESS REVIEW

In 2016, the global economic environment was uncertain. Economists have described global demand for products and services as subdued, and predict recovery in 2017 to be similarly moderate, which affected the Group's sales in 2016. In response to these circumstances, the Group has pursued measures to be able to weather continued downturn, and continued pursuing business growth. Among measures undertaken by the Group are: the Restructuring and the development of new products for promising markets.

Global Economic Downturn

Global economic growth slowed to 3.1% in 2016, marking the seventh year of moderate growth since the world economy emerged from recession. Infrastructure investment, for example, which covers key Group market segments like transportation, energy, and connectivity (among others), is facing a global shortfall of USD1 trillion against demand of USD3.7 trillion. This downturn has especially affected developed economies, such as those in Europe and the United States.

Furthermore, economic downturn was compounded by volatile political conditions, which have affected regions where the Group holds strategic accounts. In 2016, the European Union experienced Brexit, and the US underwent its presidential elections, slowing down a number of projects. The Philippines similarly underwent its national elections, putting on pause projects with the public sector.

Present economic circumstances were reflected in the Group's sales in 2016. However, the Group has reasons for optimism. Aside from recent focus among key governments away from budget deficits and towards economic recovery, studies have shown that infrastructure investment, which, as mentioned, covers key Group market segments, is proving not only to be attractive but inevitable. Public sectors are expected to start paying more attention to fundamentals such as better communications, connectivity and efficiency solutions, in the name of recovery. Persistently low interest rates, while not a guarantee, also provide an incentive for private organisations to resume taking on projects that will require the Group's technologies. The Group has also determined specific markets ripe for entry, to be discussed in the Prospects section of this document.

Restructuring

The Restructuring was initiated in the second quarter of 2016 and completed in the last quarter of 2016. The Group closed its office in Guangzhou and considerably scaled down office operations in Zhuhai. The Restructuring involved the departure of staff and the termination of lease agreements. As a result of the Restructuring, the Group recorded a non-recurring loss of approximately HK$4 million for the year ended 31 December 2016, including termination and redundancy payments to staff of approximately HK$3 million, and disposal loss on plant and equipment of approximately HK$1 million.

50 headcount was reduced as a result of the Restructuring. As at 31 December 2016, the Group had 190 employees, over 50% of them are in Engineering. The Restructuring resulted in increased overall efficiency and increased productivity per head. The Group has equipped its personnel for challenges arising from this measure through, among other things, knowledge-sharing and training – consistent features of the Group's workplaces prior to and after the Restructuring.

On a related note to the Restructuring, the Group has also shifted its focus to higher potential projects. For example, it has shifted support and development resources in greater favor of larger or higher-margin projects and terminated support to some small projects. The Group also decreased product lines to shift development resources towards a more optimal mix after careful study.

Development of New Products for Promising Markets

The Group is developing new products, not only to serve its existing markets, but also to make inroads into new ones. These new markets will be described further in the Prospects section of this document. Marking its entry into new markets, the Group has released new devices across its different product lines.

Smart Cards and Smart Card Operating Systems – ACOSJ Java Card

In 2015, the Group reported development of the ACOSJ series, in line with its entry into the Java card market. In 2016, the ACOS Java Card was launched. The ACOS Java Card or ACOSJ provides a secure platform for rapid application development of many value-adding applets, including e-banking, e-payment, loyalty, e-government, and public key infrastructure (PKI). It has a fast read/write speed, is highly durable, and can house multiple secure applications. It comes in contact, contactless and dual interface options.

It is certified compliant with GlobalPlatform specifications, in addition to its compliance with various other major international standards: Java Card 3.0.4 Classic, Mapping Guidelines v1.0.1, CC EAL5+ (chip level), EMVCo (chip level). ACOSJ is also undergoing certification to be more competitive for banking applications.

Mobile Card Readers-ACR1255U-J1 Secure Bluetooth® NFC Smart Card Reader

ACR1255U-J1 combines 13.56 MHz contactless technology and Bluetooth® Smart (also known as Bluetooth® Low Energy or BLE) connectivity, to facilitate contactless transactions without a physical connection to a terminal.

ACR1255U-J1 was designed to cater to the recent shift of users from the desktop to the mobile platform. Using Bluetooth® wireless technology, ACR1255U-J1 can connect to devices running on Android™ 4.3 and above, iOS 5.0 and above, Windows® operating system, and Mac OS®. The highly portable ACR1255U-J1 supports ISO 14443 Type A and B smart cards, MIFARE, FeliCa, and ISO 18092-compliant NFC tags and devices which is more convenient for applications of access control, e-Purse and loyalty.

This Bluetooth® Smart device runs off a compact and rechargeable Lithium-ion battery for extended periods, and still has a communication range similar to classic Bluetooth®. Aside from its Bluetooth® Smart interface, this mobile card reader also has a USB 2.0 full speed interface in PC-linked mode. It is USB firmware upgradeable, making it easily adaptable to evolving technology scenarios.

Rights Issue

The Company conducted a rights issue during 2016 in order to increase the capital base of the Group and strengthen the financial position of the Group in the face of the global economic downturn, details of which are set out in the rights issue prospectus of the Company dated 21 October 2016.

The rights issue raised additional funds for development of new products and for operational use without incurring further debts and interests arising from additional borrowings. The Company recorded net proceeds of HK$38.5 million from the rights issue. Approximately HK$22 million was assigned for development of Java cards and related payment applications, banking POS terminals and new products for the AFC and ITS markets. Approximately HK$16.5 million was used for general working capital purposes.

Change in Controlling Shareholder

On 9 January 2017, HNA EcoTech Pioneer Acquisition ("HNA EcoTech") entered into a Sale and Purchase Agreement to acquire 61.39% shareholding of the Company. The transaction was completed on 13 January 2017 and HNA EcoTech became controlling shareholder of the Company, details of which are set out in the announcements of the Company dated 12 January 2017 and 13 January 2017.

HNA EcoTech is controlled by HNA Group Co., Ltd. ("HNA Group"), a PRC-based Fortune Global 500 conglomerate encompassing various businesses including aviation, tourism, real estate, logistics and financial services. After the change in controlling shareholder, the Group still continues with its existing businesses. HNA EcoTech may explore other business opportunities for the Group such as acquisitions or investments in assets and/or business divestment and fund-raising, with a view to enhancing its overall growth and future development.

Events

The Group remains active in industry activities. In 2016, it participated in the following industry events:

- TRUSTECH 2016
- 2016 International Internet of Things and Smart China Exhibition
- 2016 China International Smart Cards, RFID and IOT Exhibition & Conference
- Smart Card Alliance 2016 Payments Summit

In addition, the Group was declared a Center of Excellence (COE) for the second year by the Smart Card Alliance. A company becomes declared a COE through outstanding investment in terms of time, talent and resources towards Smart Card Alliance activities. The Group was first declared a COE in 2015.

PROSPECTS

The Electronic Fund Transfer at Point-of-sale ("EFT-POS") Banking Payment Terminal Market

The Group is optimistic about the EFT-POS terminal market. EFT-POS refers to the use of payment terminals to validate and facilitate credit or debit card transactions. The market is fast-growing according to The Nilson Report in 2016. In 2015, manufacturers worldwide shipped 43.5 million payment terminals, an increase of 27.1% from 2014. These devices were used as stand-alone terminals or/and connected to PC-based POS.

The Group is therefore strenghtening its portfolio of payment devices in response to these trends. The Group is preparing to launch the ACR900 EFT-POS banking terminal in 2017.

ACR900 is an all-in-one handheld terminal that supports contact, contactless and magnetic stripe technologies. The device is compliant and certified with international payment standards, including PCI PTS, EMV Level 2, PayPass, and payWave.

The level of security of ACR900, coupled with support for different technology types, make it ideal for organisations in different stages of readiness for technology migration. It is also equipped with a host of features that meet market demands in terms of functionality. In particular, it offers high performance with large memory and portability and supports for wireless communication technologies.

EMV Bank Card Market

Our ACOSJ series has received its China PBOC certification in 2016 and plans to receive other globally recognised Visa and MasterCard certifications in 2017. Considering the growing market for EMV bank cards, ACOSJ is a timely addition to the Group's product portfolio. Global technical body EMVCo reported sustained growth in the worldwide adoption of EMV chip technology. Official figures of aggregated data show that by the end of 2015, the number of EMV payment cards in global circulation increased year-on-year, by 1.4 billion to 4.8 billion.

In addition, EMVCo also reports that 35.8% of all card-present transactions conducted globally between January and December 2015 used EMV chip technology, up from 32% for the same period in 2014.

It is believed that that global adoption of EMV card is imperative to the development of a more secure and interoperable payment industry. The ACOSJ series will enable the Group to penetrate the EMV bank card market.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2016, the Group's cash and cash equivalents amounted to HK$41 million (31 December 2015: HK$39 million). The bank borrowings of the Group amounted to HK$14 million as at 31 December 2016 (31 December 2015: HK$44 million), which are denominated in Hong Kong dollars ("HK$") and United States dollars ("US$"), interest bearing at floating rates and repayable within five years. The gearing ratio as at 31 December 2016, being the total interest bearing debts over the total equity, was 0.10 (31 December 2015: 0.33). Net asset value as at 31 December 2016 was HK$147 million (31 December 2015: HK$131 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 2016, the Group recorded net cash inflow in operating activities of HK$11 million (2015: HK$25 million), the amount decreased significantly as a result of decrease in operating profit. Although the Group recorded a loss before taxation, it still maintained a positive cashflow from operating activities as loss from operations before interest, tax, depreciation, amortisation and impairment loss on intangible assets (EBITDA) of the Group for 2016 was only HK$1.5 million (2015: earnings of HK$39.4 million). The Group recorded net cash outflow in investing activities of HK$14 million (2015: HK$22 million) during 2016. Decrease in net cash outflow was due to the decrease in capital expenditure on development projects of HK$4 million and decrease in payment to acquire business of HK$3 million. The Group recorded net cash inflow in financing activities of HK$14 million in 2016 (2015: outflow of HK$8 million) as a net proceeds of HK$39 million from shares issued under rights issue was received in 2016. In 2016, the Group recorded a net repayment of bank loans of around HK$20 million (2015: HK$1 million).

DISPOSALS AND ACQUISITIONS

During the year ended 31 December 2016, 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$, Philippine Pesos ("PHP"), US$ 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, as at 31 December 2016, no related hedge was made by the Group (31 December 2015: forward contracts to sell EUR300,000).

Under foreign exchange hedging policy of the Group, 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.

PLEDGE OF ASSETS

As at 31 December 2016, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 31 December 2016, the Company had outstanding corporate guarantee of HK$80 million (plus accrued interest thereon) to banks in respect of banking facilities granted to its major subsidiaries. As at 31 December 2016, the Group had available banking facilities of approximately HK$66 million and of which HK$52 million had not been utilised. Save as disclosed herein, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had 190 full time employees. Staff costs recognised in profit or loss amounted to HK$49 million (2015: HK$56 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 any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE CODE

During the year, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code during the year ended 31 December 2016.

Details of the Company's corporate governance principles and processes will be available in the 2016 Annual Report.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, SBS, JP and Mr. Yim Kai Pung.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2016 with the management and recommended its adoption by the Board.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

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 2016 Annual Report will be made available on the respective website of the Company and the Stock Exchange in due course.

By order of the Board
Advanced Card Systems Holdings Limited
WONG Chi Ho
Executive Director

Hong Kong, 31 March 2017

As at the date of this announcement, the Board comprises 4 executive directors, namely, Mr. Peng Fang, Mr. Cui Yijun, Mr. Wang Hao and Mr. Wong Chi Ho; and 3 independent non-executive directors, Ms. Kaung Cheng Xi Dawn, Mr. Lo Kar Chun, SBS, JP and Mr. Yim Kai Pung.